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Kenya
Re-Investing in Stabilization and Growth Through Public Sector Adjustment

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Selected Acronyms and Abbreviations

ASAL	Arid and Semi-Arid Lands
ASAO	Agricultural Sector Adjustment Operation
ASMP	Agricultural Sector Management Project
BRP	Budget Rationalization Program
CBK	Central Bank of Kenya
CLSMB	Cotton Lint and Seed Marketing Board
CMA	Capital Markets Authority
DFCK	Development Finance Corporation of Kenya
DFI	Development Finance Institution
DPM	Department of Personnel Management
EDP	Export Development Project
EEC	European Economic Community
FSAC	Financial Sector Adjustment Credit
GDP	Gross Domestic Product
GNP	Gross National Product
ICDC	Industrial and Commercial Development Bank
ICOR	Incremental Capital Output Ratio
IDA	International Development Association
IDC	Industrial Development Corporation
IDB	Industrial Development Bank
IMF	International Monetary Fund
ISAC	Industrial Sector Adjustment Credit
KCC	Kenya Cooperative Creameries
KGGCU	Kenya Grain Growers Cooperative Union
KNCSS	Kenya National Council of Social Services
KPCU	Kenya Planters Cooperative Union
KTDA	Kenya Tea Development Association
KTDC	Kenya Tourism Development Corporation
MOA	Ministry of Agriculture
MOLD	Ministry of Livestock Development
MPND	Ministry of Planning and National Development
MTTAT	Ministry of Technical Training and Applied Technology
MUB	Manufacturing Under Bond
NBFI	Near-bank Financial Institution
NCPB	National Cereals and Produce Board
NFNS	National Food and Nutrition Secretariat
NSSF	National Social Security Fund
O&M	Operations and Maintenance
PIP	Public Investment Program
PMIS	Personnel Management Information System
PPG	Public and Publicly Guaranteed
PPRS	Project Performance Reporting System
PRFB	Program Review and Forward Budget
PRBC	Parastatal Reform Policy Committee
PSC	Public Service Commission
SONY	South Nyanza Sugar Company
TFP	Total Factor Productivity
TSC	Teachers Service Commission
VAT	Value Added Tax

Preface

The last comprehensive economic memorandum for Kenya, Stabilization and Adjustment: Toward Accelerated Growth (9047-KE), was issued in October 1990. It argued that Kenya can and needs to develop and grow more quickly. The memorandum also noted that the Government has undertaken important adjustment programs in a number of key sectors in recent years. However, the public sector has not faced the need for comprehensive structural adjustment, although this is critical for faster development.

The report develops further the case for public sector adjustment which covers civil service and parastatal reforms. Chapter 1 reviews Kenya's recent growth performance, including the public and private sources of growth, the evolution of per capita incomes and the pace of employment creation, and identifies the challenges ahead. Chapter 2 discusses the indicators, sources, consequences and management of the recent destabilizing macroeconomic pressures. Chapter 3 looks at the evolution of the organizational structure of the Central Government as well as the size, composition and productivity of the civil service. The analysis is supported by data not made available before for calculating the rate of attrition, the age distribution of civil servants and the financial implications of wage creep. The Chapter then makes the case for comprehensive civil service reform and enumerates its elements. Chapter 4 delineates the macroeconomic dimensions of the parastatal sector, including its impact on growth, investment, employment, the external account, external debt and the fiscal deficit. It also evaluates the investment efficiency, total factor productivity and financial performance of the sector using data from a new and ambitious data gathering exercise conducted by the Government and IDA. The argument is then put forward for comprehensive parastatal reform and for adherence to stipulated guiding principles. Finally, Chapter 5 focusses on factors which contribute to successful public sector adjustment. Among them are safety nets for redundant workers, parallel regulatory reforms which promote private sector development, and a stable macroeconomic environment.

The report is based on the findings of a mission which, in the main, visited Kenya from July 10 to August 2, 1991. The mission members were: Colin Bruce (mission leader, Eastern Africa Department), Oladipupo Adamolekun (Africa Technical Department), Gerard Byam (Eastern Africa Department), Sudarshan Gooptu (Cofinancing and Financial Advisory Services Department), Yvonne Jones (Cofinancing and Financial Advisory Services Department), Kathleen Jordan (Eastern Africa Department) and Roger Sullivan (Africa Technical Department). In the field, and later at Headquarters, the team was joined by David Ndii (Regional Mission in Eastern Africa). Other participants in field work were Jamshed Ali (Ministry of Planning and National Development), Santi Chakrabarti (Ministry of Finance), Peter Kiguta (Ministry of Planning and National Development) and Njuguna Mwangi (Ministry of Planning and National Development). Contributions were also made by Jill Armstrong (Eastern Africa Department), Ian Bannon (Eastern Africa Department), Deepak Bhattasali (Eastern Africa Department), Mary Elizabeth Calhoon (Eastern Africa Department), Beatriz Florendo (International Economics Department) and Kazi Matin (Country Economics Department). The peer reviewer was Michael Stevens (Country Economics Department). The document was produced by a team headed by Roboid Covington (Eastern Africa Department). An extended summary of this report was cleared by the Government in October 1991 for submission as a background document for the Kenya Consultative Group Meeting in Paris, November 25-26, 1991. The full report was discussed with and cleared by the Government in December 1991.

TITLE: RE-INVESTING IN STABILIZATION AND GROWTH THROUGH PUBLIC SECTOR ADJUSTMENT

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ABSTRACT: The report discusses Kenya's recent growth and stabilization performance, how it was affected by the Central Government and the parastatal sector and why comprehensive civil service and parastatal reforms are urgently needed. Although economic growth has been close to five percent per year since 1985, it has been insufficient to significantly raise per capita incomes and create enough jobs for Kenya's young and rapidly growing population. In the past, the public sector has absorbed these workers more quickly than the private sector. However, this is unsustainable, partly because it has created destabilizing fiscal imbalances and stifled the private sector's supply response to on-going sectoral reforms. Furthermore, growth has been relatively inefficient depending more on additional resources than increases in productivity. This has been especially true in the parastatal sector where resources are used so inefficiently that if they were transferred to the private sector, the economy could grow faster by about two percentage points a year. To prevent growth from slowing further, the Government needs to stabilize the economy by dealing with the underlying forces which drive Government expenditure. To do so as well as tackle the slower onset problem of deteriorating public sector efficiency, the Government should streamline its functions and organizational structure to eliminate duplication and redundancies, downsize staff in line with its rationalized functions and organizational structure, and reform pay and personnel procedures. The Government should also reform the parastatal sector through measures such as privatization and restructuring, and take direct initiatives--including regulatory reform--to develop the private sector.

KENYA - DATA SHEET

General

Area ('000 sq km)	580.0
Population - 1990 (millions)	24.4
% Annual Growth Rate (1977 - 1989)	3.8
Density (per sq km)	42.1

Social Indicators

Population Characteristics	
Crude Birth Rate (per 1000)	46.1
Crude Death Rate (per 1000)	10.5
Health	
Infant Mortality (per 1000 live births)	68.7
Population per Physician	10103.0
Population per Hospital Bed	600.0
Income Distribution (% of income)	
Highest Quintile	60.0
Lowest Quintile	3.0
Access to Safe Water	
% of Urban Population	61.0
% of Rural Population	21.0
Nutrition	
Daily Calorie Intake per Person	1973.0
Per Capita Protein Intake (g/day)	55.0
Education	
Adult Literacy Rate (%)	59.2
Primary School Enrollment (% of school-age group)	96.0

Gross National Product - 1990

	US$ Mill.	% of GNP	Annual Growth Rate of GNP (% p.a., constant prices) 1978-83	1983-89	1989	1990
GNP at Market Prices	8357.1	100.0	4.1	5.0	4.6	5.5
Gross Domestic Investment	2058.0	24.6	-6.0	6.4	4.6	-6.3
Gross National Savings	1434.0	17.2	7.4	-1.0	7.9	1.3
Current Account Balance	-475.7	-5.7	-	-	-	-
Exports of Goods & NFS	2202.3	26.4	-0.2	3.6	-5.6	5.9
Imports of Goods & NFS	2659.0	31.8	-13.8	7.6	-3.3	4.5
GNP per capita 1/	370.0					

Output, Employment and Productivity - 1990

	Value Added US$ Mill	%	Labor Force Mill.	%	Value Added per Worker US$	% of Average
Agriculture	2115.0	28.3	..	..	..	..
Industry	1580.5	21.1	..	..	..	..
Manufacturing	855.4	11.4	..	..	..	..
Services	3783.7	50.6	..	..	..	..
Total	7479.2	100.0	11.3	100.0	659.1	100.0

Government Finance 2/

(In fiscal years)

	Central Government KL Mill. 1989/90	% of GDP 1989/90	1985/86
Current Receipts	2144.3	23.0	22.2
Current Expenditure	2095.9	22.5	23.7
Current Surplus/Deficit	n.a.	n.a.	-1.5
Capital Expenditures	760.5	8.2	5.6

1/ Calculated in accordance with Atlas methodology.
2/ IMF and staff estimates. In 1989/90, data in row labelled "Current Receipts" is for Total Receipts.

Money, Credit and Prices

	1985	1986	1987	1988	1989	1990
	(millions of KL outstanding, end of period)					
Money Supply	1346.5	1784.3	1983.3	2140.9	2417.6	2900.8
Bank Credit to Public Sector	598.3	883.8	1144.7	1055.4	995.2	1523.4
Bank Credit to Private Sector	970.7	1134.2	1284.4	1535.8	1775.6	1985.7
	(percentage or index numbers)					
Money as % of GDP	26.7	30.4	30.2	28.4	28.1	28.9
Nairobi Consumer PI (1980 = 100)	190.1	200.7	215.0	238.0	263.1	296.4
Annual percentage changes in:						
Nairobi Consumer Price Index	10.7	5.6	7.1	10.7	10.6	12.7
Bank Credit to Public Sector	10.4	47.7	29.5	-7.8	-5.7	53.1
Bank Credit to Private Sector	14.6	16.8	13.2	19.6	15.6	11.8

Balance of Payments

	1986	1987	1988	1989	1990
	(millions of US$)				
Exports of Goods & NFS 3/	1871.4	1698.2	1869.2	1933.3	2202.2
Imports of Goods & NFS 4/	1858.7	2104.1	2306.3	2528.1	2659.0
(of which Petroleum) 5/	300.4	348.4	289.8	343.9	433.7
Resource Gap (deficit = -)	12.7	-405.8	-437.1	-594.8	-456.8
Factor Service Payments (net)	-258.6	-301.7	-365.7	-351.3	-390.9
Net Private Transfers	58.2	71.9	88.7	101.1	166.7
Balance on Current Account excl. Net Official Transfers	-187.7	-635.6	-714.1	-845.0	-681.0
Net Official Transfers	148.9	142.3	256.0	279.8	205.3
Balance on Current Account incl. Net Official Transfers	-38.8	-493.3	-458.1	-565.2	-475.7
Capital Account	128.9	366.7	382.1	643.3	329.2
Long-term (net)	105.2	316.5	330.3	607.0	176.8
Short-term (net)	20.9	56.2	56.6	52.4	146.9
Errors and Omissions	2.8	-6.0	-4.8	-16.1	5.5
Overall Balance	90.1	-126.6	-76.0	78.1	-146.5
Monetary Movements	-90.0	126.6	76.1	-78.0	146.4
Change in Reserves	-24.6	151.1	-59.5	-110.5	21.8
IMF Transactions	-67.1	-62.3	123.0	20.2	101.4
Other	1.7	37.8	12.6	12.3	23.2

3/ Goods,f.o.b excluding aircraft and ships' stores but including re-exports.

4/ Goods,f.o.b including defence imports and excluding cinematographic films, newspapers, periodicals and aircraft leases.

5/ Crude and derivatives.

Merchandise Exports (Average 1986-90)

	Value (mill. US$)	% of Total
Food 6/	141.7	13.3
Coffee	275.7	26.0
Tea	231.0	21.8
Other Beverages and Tobacco	9.0	0.8
Petroleum Products	127.3	12.0
Horticulture	105.7	10.0
Chemicals	49.5	4.7
Manufactures 7/	87.4	8.2
Other Domestic Exports	5.1	0.5
Re-exports	29.5	2.8
Total (incl. re-exports)	1061.9	100.0

Rate of Exchange (Selling)

	Annual Averages				End Period
	1988	1989	1990	Jan-Oct. 1991	Oct. 1991
US$1.00 = KSh	17.81	20.67	23.09	27.35	28.8
KSh1.00 = US$	0.06	0.05	0.04	0.04	0.03

External Debt, December 31, 1990

	US$ mill.
Public Debt, incl. Guaranteed 8/	4809.8
IMF	482.0
Non-Guaranteed Private Debt	577.9
Total Long-Term	5869.7
Short-term	971.0
Total Outstanding & Disbursed	6840.7

Net LT Debt Service Ratio for 1990 9/

	Percentage
Public Debt, incl. Guaranteed 8/	20.6
IMF	5.7
Non-Guaranteed Private Debt	3.3
Total Outstanding & Disbursed	29.7

IBRD/IDA Lending (12/31/90) (US$ mill.)

	IBRD	IDA
Outstanding & Disbursed	871.5	1184.1
Undisbursed	5.2	472.8
Total Outstanding incl. Undisbursed	876.7	1656.9

6/ Includes animal and vegetable oils and fats.
7/ Excludes chemicals and processed foods.
8/ Excludes IMF.
9/ Debt service, net of interest earned on foreign exchange reserves, as a percentage of Exports of Goods & NFS.

KENYA
RE-INVESTING IN STABILIZATION AND GROWTH
THROUGH PUBLIC SECTOR ADJUSTMENT

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Executive Summary

Main Findings

- The Kenyan economy faces a tremendous growth and employment challenge. During the past five years growth has averaged around five percent per annum. Concurrently, about 87,000 jobs were created each year in the modern sector, equivalent to about one fifth of new entrants to the labor force. Generally in the past, employment has been created more quickly in the public sector but this is unsustainable. At the same time, the labor force is expected to increase by about 400,000 each year over the next 17 years. The economy therefore needs to sustain growth above five percent per annum, especially if the rate of unemployment is to be reduced.

- The sectoral adjustment measures which have helped the economy to raise its growth performance over the last five years are being undermined by destabilizing fiscal imbalances and the deteriorating productivity of the public sector. In fact, a new finding of this report is that resource use in the parastatal sector is so inefficient that annual economic growth could be at least two percentage points higher if the resources were transferred to the private sector.

- Another new finding is that ad hoc measures such as attrition and freezes on vacancies in the civil service would not significantly reduce the wage bill and thereby, the fiscal deficit. Nor would they release adequate funds for complementary non-wage operations and maintenance (O&M) expenditures which are needed to improve productivity.

Main Recommendations

- An immediate priority of the Government should be the reduction of the fiscal deficit. This requires tackling the wage bill and the underlying structural factors which drive it.

- Over the medium- and longer-term, comprehensive civil service reform should aim to improve organizational synergy, reduce vacancies at higher levels of the service, reverse wage compression, and raise substantially expenditure on non-wage O&M.

- The parastatal reform program should embrace not only divestiture which is implemented in a transparent way, but also regulatory reform, and the restructuring of strategic enterprises which are expected to remain in the public sector.

Operationalizing the Main Recommendations

- A detailed Action Plan needs to be developed for civil service reform. The Plan should include targets for staff reductions, and a timetable for the completion of the functional reviews of each ministry, the identification of government services which could be privatized, the preparation of staffing and O&M norms, organizational restructuring of ministries, the development of a safety net for redundant workers, comparative studies on compensation packages and the design of a training program for civil servants.

- Work is also required to articulate and operationalize the Government's Action Plan for the strategic enterprises under the parastatal reform program.

- A safety net has to be designed for workers who may be made redundant by public sector adjustment.

Summary

i. *Growth*. Although Kenya's economic growth in 1990 represents only a moderate slowdown relative to the previous 5 years, growth at historical levels has been insufficient to significantly raise per capita incomes and provide enough employment for Kenya's young and rapidly growing population. During 1986-90, for instance, around 87,000 jobs were created annually in the modern wage sector. However, at least 400,000 new positions will be needed annually for new entrants to the labor force over the next 17 years. An even faster rate of employment creation will be necessary to reduce the rate of unemployment. Generally in the past, the public sector has created jobs quicker than the private sector. However, this is unsustainable, partly because the associated fiscal imbalances are creating destabilizing pressures. In any case, growth has also been relatively inefficient depending more on additional resources (including foreign savings) than increases in productivity. In fact, productivity increases contributed less than 10 percent to economic expansion during 1981-90, reflecting a significant productivity deficit in the parastatal sector.

ii. Separately, because of relatively little progress in diversifying the economy, living standards, as measured by the adjusted GDP per capita, remain vulnerable to external shocks. Indeed, after contracting by 1.2 percent per annum during the first half of the 1980s, adjusted GDP per capita growth declined by another 1 percentage point during 1986-90.

iii. Over the near-term, economic growth is likely to slow further as the effects of the Gulf crisis continue to work their way through the economy. Over the longer term, growth would slow even further if destabilizing pressures are not reduced, if the slower onset problem of deteriorating public sector efficiency is not tackled and if the private sector's potential for accelerated, efficient and outward oriented expansion is not developed.

iv. *Stabilization*. At 12.6 percent in 1990 (or 17.7 percent December over December), inflation in Kenya returned to 1980-81 levels, continuing an upward trend which began in 1987. Using a partially revised index, the Government has indicated preliminarily that the rate of inflation in 1990 may have been 4 percentage points higher. Meanwhile, on the external front, the current account improved but the overall balance of payments deteriorated because the capital account weakened. The major single cause of these developments was the worsening of the fiscal deficit from 4.7 percent of GDP (including grants) in FY90 (commitment basis) to 6.8 percent of GDP in FY91. The outturn compares very unfavorably with the target which was originally set at 3.8 percent of GDP (including grants). However, faced with a sharp deterioration in Kenya's external terms of trade in late 1990, the Government reduced its budget deficit target to 2.5 percent of GDP. The tightening of the fiscal stance was to be achieved through revenue-generating and expenditure-cutting measures of almost equal magnitude.

v. Despite implementation of revenue measures, the fiscal outturn in FY91 was very disappointing. Efforts to reduce expenditure were not successful because of unbudgeted spending by a few key ministries, increased interest on domestic debt, the assumption of additional parastatal debt service obligations, and the reversal of some of the additional expenditure cuts which were proposed in October 1990 to tighten aggregate demand. Some of the pressures on expenditure were also associated with the doubling of the university intake.

vi. The government has targeted a substantial reduction in the fiscal deficit to 2 percent of GDP (including grants) for FY92. Some improvements in revenue collection are expected but the crucial test for budgetary policy will be to contain expenditure. At present, the Government proposes to accomplish this through measures such as limiting increases in the number of civil service posts above grade G, and reducing the number of A to G positions by 2.0 percent below the number in post at the end of 1990. However, recent salary increases alone will raise the wage bill by 12.8 percent in FY92, 9.9 percent in FY93 and 8.3 percent in FY94.

vii. *The Need for Comprehensive Central Government Reform.* The prospects for improving the fiscal balance, and thereby reducing the destabilizing pressures, through piece-meal measures are not very good. The financial imbalances are mere indicators of larger problems which originate in the complex organization and functions of the central government, overstaffing and the deteriorating productivity of the civil service. One corollary is that even if there were no fiscal problems, there would still be a need for comprehensive central government reform.

viii. *Complexity of Central Government Organization and Functions.* The central government consisted of 23 ministries and 10 independent non-ministerial departments in FY81. The numbers now stand at 28 and 9 respectively. Equally significant was the increase in functional departments and divisions from 132 and 442 respectively in FY81 to 148 and 550 respectively in FY92. The proliferation of ministries is striking even if allowance is made for the expansion and functional specialization of government over time.

ix. One consequence is that effective coordination has become difficult and jurisdictional disputes between ministries occur from time to time. In addition, Government has become fragmented, complex and multi-layered. Complexity also derives from the existence of numerous British-style advisory committees and boards which metamorphosed into permanent structures with full-time members and secretariats. Meanwhile, under the "district focus" strategy adopted in 1983, central departments and ministries are now represented at the district level. Although this deconcentration has merits, it has caused duplication.

x. In addition, some of the pre-1983 arrangements for providing governmental services at the provincial level are still in place. Over and above these, the Central Government has, over the years, established about half-a-dozen Regional Development Authorities (some of them specifically for river or lake basins and valleys) whose functions duplicate those of some ministries and districts. There is no evidence that this expansion of government has increased access to and the quality of government services nationally. What is clear, however, are indications that staff numbers and the wage bill have increased significantly.

xi. *Unsustainable Employment Growth.* Excluding teachers, there were 270,005 persons in the Kenya's civil service at end-1990. This amount refers to individuals who are paid directly from the budget of the central government but exclude the employees of parastatals and local authorities whose wage bill may be indirectly reflected in the budget. Because of the unreliability of the data, persons filling "works-paid" and temporary positions are not included. Nonetheless, employment in the mainstream civil service has grown by 6.5 percent per annum since FY67 (earliest year for which reliable data is available), faster than GDP and population. In addition, the Government employed 203,031 teachers in 1990, reflecting average growth since 1968 of 7.5 percent per annum.

xii. *Cause of Growth in Numbers.* Three related and pervasive factors mainly explain the accelerated growth of employment in the central government (including teachers). *First*, rapid population growth generated strong pressures to create jobs. It also increased the demand for services provided by the government. *Second*, because of the curricular orientation of the education system and the success in increasing access to education, many graduates from secondary and tertiary-level institutions were suited for and expected employment in the public sector. *Third*, employment creation in the private sector did not keep pace with population growth or with the rising expectations of white-collar employment. Not surprisingly, the public sector was officially the employer of last resort until the publication of Sessional Paper No. 1 of 1986. At that time, the public sector employed some 75 percent of new university graduates. Although data for the period since 1986 is incomplete, there is some evidence that the Government has continued to employ many university graduates, including those who experience difficulty in securing employment elsewhere.

xiii. *Overestablishment and Underemployment.* The combined effect of these pressures for employment generation in the public sector has been to create large numbers of positions in the lower ranks of the service (job groups A to G) where entry-level qualifications are relatively low. At end-December 1990, civil servants in posts in the lower ranks (A-G) constituted 88 percent of the mainstream service, leaving only 12 percent at the middle, senior and top management grades. Accordingly, the Commissions which have reviewed the civil service during the past 11 years unanimously and forcefully argued that the Civil Service was over-established, and many lower-level staff were seriously under-employed. They also reported a shortage of middle-level technical and professional staff.

xiv. *Large Wage Bill But Uncompetitive Pay.* The steady growth in civil service employment has been accompanied by stagnation or regression in the salaries and wages paid to civil servants. This has contributed to the erosion of real wages in the central government and to a deterioration in the ratio of positions filled to establishment in most ministries during the period 1971-90. Furthermore, because of the practice of granting larger percentage wage increases to staff in the lower ranks vis-a-vis staff at higher levels, salary erosion has been more severe at the higher levels. Partly as a result, in July/August 1991 vacancy rates at these levels were as high as 61 percent in the Office of the Controller and Auditor General (for Job Groups K and above), and 68 percent in the Management Consultancy Services Division of the Directorate of Personnel Management (Job Groups H to Q). Comparable vacancy rates, especially in specialized skills areas, are evident across the service.

xv. *Deteriorating Productivity.* Within the broad resource envelope of the government, expenditures on wages and salaries have been maintained without adequate provision for O&M. Little wonder that the Sessional Paper No. 1 of 1986 lamented that because salaries absorbed so much of expenditure, there was not adequate provision for complementary resources such as paper and pencils, that are required to make officers productive.

xvi. Next to the O&M problem, the most commonly cited reason for low productivity in the civil service relates to weak personnel systems and procedures, including the virtual neglect of the merit principle in determining promotions, an inadequate disciplinary machinery and an ineffectual personnel appraisal system. Another factor is the formal approval given to civil servants in the early 1970s to engage in business activities. There is evidence that this creates dual and conflicting loyalties which most often result in officials giving more of their time to those interests that relate directly to their personal benefit.

xvii. *Key Elements of Central Government Reform.* Central Government adjustment should give the highest priority to: (i) streamlining the functions and organizational structure of government to avoid duplication and redundancies, and achieve better organizational synergy; (ii) downsizing staff in line with the rationalized functions .d organizational structure; and (iii) reforming the pay structure and personnel procedures so as to achieve an appropriate mix of staff at all levels, who are motivated and equipped to function effectively and efficiently. Other issues such as improving training, accountability, and capacity utilization are important. Independently, however, none of these would address the immediate and longer-term need to generate budgetary savings, improve productivity and enable government structures to better support the economic and social aspirations of the private and voluntary sectors.

xviii. The case for reducing the complexity of government, eliminating duplication and discontinuing functions made redundant by reforms elsewhere in the economy is self evident. The case for comprehensive pay and employment reform is equally forceful. Without it, budgetary resources would not be available to significantly improve non-wage O&M expenditures or to provide compensation packages which would attract and retain staff in higher job groups. The point cannot be overemphasized. Bank simulations show that when the recently announced salary adjustments are combined with wage creep (net of attrition), the annual wage bill of the mainstream civil service would probably rise during 1992-94 by about 12.2 percent (without replacement), 15.3 percent (with replacement overall), 13.4 percent (with replacement at job group H and above, and 19.9 percent (with vacancy filling at level H and above). Since the underlying average nominal GDP growth rate is assumed to be 14.8 percent, deep cuts would have to be made elsewhere to reduce the overall fiscal deficit.

xix. Staff reductions and wage cuts are not an end in themselves. They can make a significant contribution toward reducing the fiscal deficit and, thereby, enhancing the macroeconomic environment. However, they must go beyond that, redress the imbalance between wages and non-wages O&M and ultimately facilitate sustained increases in the productivity of the Central Government. Without that, the Government is unlikely to be able to provide and maintain the real wage increases that would attract and retain qualified staff at all levels without independently creating destabilizing fiscal pressures.

xx. *The Need for Comprehensive Parastatal Reform.* There are at least four compelling and related arguments for comprehensive parastatal reform. ***First,*** during 1986-90, the productivity of the sector worsened by about two percent annually. In contrast, the productivity of the private sector improved by around five percent annually during the same period. Not surprisingly, Bank estimates show that GDP growth during the period could have been as much as two percentage points higher per year if productivity in the parastatal sector were similar to that of the private sector. This would cut the time for doubling Kenya's per capita income from approximately 35 years (if GDP growth continues at historical levels) to around 17 years. ***Second,*** the net outflows from the Central Government budget to parastatals was equivalent to at least one percent of GDP in FY91, mainly reflecting debt service payments assumed by the Government and taxes collected but not remitted to the Treasury. ***Third,*** by releasing resources which are being used inefficiently and reducing the pressures on the fiscal deficit, comprehensive parastatal reform would itself complement private sector development. ***Fourth,*** the Government's past attempts at reform have focussed on strengthening control mechanisms and the accountability of managers. Lacking an overall policy framework for the parastatal sector, efforts to improve efficiency have tended to follow a case-by-case approach, most often in response to a deteriorating situation in an individual enterprise or the emergence of a crisis which focuses the public's attention or begins to impact noticeably on the Government's budget. In such circumstances, the Government has generally responded by changing management and issuing a set of instructions to deal with the immediate problem. As a result, progress in parastatal reform has been slow and ad hoc. Moreover, because the Government's corrective measures have not dealt adequately with the underlying causes of parastatal inefficiency, reforms have been short term in nature and constantly in danger of being reversed.

xxi. Recently, the Government has come to accept the need for a comprehensive approach to parastatal reform, including a reassessment of the role of the state more in line with Kenya's development strategy and goals. This reassessment has been prompted in part by budgetary pressures but also by growing concern over the low returns to public sector investments.

xxii. *Key Elements of a Public Enterprise Reform Program.* Although privatization should be an important component of a parastatal reform program, it should be viewed as part of a broader effort to promote production efficiency, strengthen competitive forces in the economy, and support entrepreneurial development. Experience shows that divestiture programs that are accompanied by regulatory and institutional reforms have tended to show better results than programs undertaken in isolation from such reforms. Thus, the design of the divestiture component in Kenya should be well synchronized with the removal of economic distortions and the development of a supportive macroeconomic, institutional, managerial, and financial environment.

xxiii. Implementation of the program and its sustainability will depend on the Government's acceptance and adherence to a set of policy principles to guide the reforms. The following are among the most important: (i) the process of divestiture must be transparent and must provide equal opportunities to all potential investors to ensure sustainability and efficiency; (ii) the Government should eliminate all subsidies, explicit or implicit, except for those enterprises or activities which are of a strategic, social or developmental nature, and operate at the explicit request of the Government. When granted, subsidies should be transparent and explicitly recognized in the Central Government budget; (iii) necessary Government regulatory and marketing interventions (e.g., for health and safety, competition, price stabilization in agriculture) should be institutionally separate from commercial activities; and (iv) for commercially oriented enterprises which remain in the public domain for strategic reasons, the government should improve the balance between autonomy and accountability by setting the basic objectives for the enterprise (e.g. maximize profits or return on equity) and should assess performance against them.

xxiv. *Ensuring Successful Public Sector Adjustment.* Apart from strong political commitment, two other elements appear to contribute significantly to successful public sector adjustment. The first is the provision of safety nets for workers who are made redundant. The second element has two related components: a strong private sector and a healthy macroeconomic environment.

xxv. *Retrenchment and Safety Nets.* In the short-run, reform of the central government and parastatal sector is likely to entail some retrenchment of workers. At this stage, however, it is unclear exactly how many persons could be affected or how quickly a less constrained private sector would be able to absorb them. Such details would depend, among other things, on the phasing of reform efforts and would have to be worked out on a ministry-by-ministry, firm-by-firm basis.

xxvi. Still, experience in several countries offers a number of general lessons for dealing with employment reform in the specific context of public sector adjustment. ***First***, enforcement of retirement age, perhaps the least politically sensitive approach, usually does not substantially reduce the wage bill. Significant savings in the wage bill, in net present value terms, accrue only with the removal of younger workers. In any case, removal of the senior cadre of workers, even if they are within a few years of retirement, could rob the public sector of its most experienced, productive and difficult-to-replace personnel. Not that younger workers are readily dispensable. In many countries they are concentrated in urban areas and are politically vocal. Voluntary retirement would not independently solve this problem because it may result in the exodus of the most able personnel. Left behind may be the vast majority who are less mobile, and still politically vocal and costly to the public sector.

xxvii. *Second*, severance packages could be the single most important factor which determines the willingness of workers to accept redundancies. The severance payments in many cases are decreed by law and are calculated on the basis of age and length of service. Additionally, in the interest of protecting the standard of living of workers, it may be appropriate to go beyond the legal requirement linking severance payments to salary only, and to impute some value for other allowances such as housing and medical insurance. This may even be imperative in instances where the ratio of salary levels to allowances is particularly low.

xxviii. *Third*, direct payments to workers are generally better than special credit schemes. Where such schemes were tried, it was often difficult to interest banks in extending credit to relatively small and potentially high risk borrowers. Moreover, many retrenched employees who received credit considered them as merely grants or as a part of their termination package. As a result, defaults on repayments and the administrative costs of such schemes were high. ***Fourth***, training programs for redundant public employees should be flexible and afford them a range of new and marketable skills. ***Fifth***, there was also little success when employment creation was attempted through massive public works. Apart from being temporary and costly, the work usually involved hard manual labor, paid minimum wages, and was unattractive to more skilled personnel. ***Sixth***, the design of safety nets should be supported by reliable data on staffing levels including 'ghost workers,' and on variables such as age and length of service which may help to determine their eligibility for retirement. Reliable information should also be obtained on the wage bill, including benefits and allowances.

xxix. *Private Sector Development.* Where the private sector is strong and growing, it is able to acquire divested assets, absorb some of the public sector redundancies, generate additional revenues to finance pay reforms, and generally respond to the incentives in the enhanced competitive environment. In Kenya, there are additional reasons why a strong private sector should be developed in parallel with and in support of public sector adjustment. ***First***, because of budgetary constraints and the destabilizing influence of fiscal imbalances, the public sector cannot continue to absorb significant amounts of Kenya's rapidly growing labor force. ***Second***, as noted earlier, measurement of productivity in the public and private sectors in Kenya show that there would be distinct payoffs to growth if resources were shifted to the latter. ***Third***, to grow rapidly, the Kenyan economy will have to continue to be re-oriented toward the much bigger, but extremely competitive, world market. Players in that market require a level of adaptability and skills that is very scarce within the public sector. Over time, therefore, a broader range of private sector expertise, both domestic and foreign, will need to be cultivated and utilized.

xxx. The Government has been tackling many of the first-order constraints on the development of major sectors through the agricultural, industrial, financial and export adjustment programs. Kenya now needs a second phase of direct actions to promote the private sector. These actions should focus on reducing: (i) uncertainty which arises from factors such as macroeconomic imbalances, unequal case-by-case treatment of individuals and firms, poor implementation of commercial legislation and economic regulations, and insufficient dialogue and information flows between policy makers and the private sector; and (ii) high operating costs associated with inefficient domestic parastatal suppliers of basic inputs, and pervasive ex ante government controls which allow considerable bureaucratic discretion, wasteful rent-seeking activity and corrupt practices.

xxxi. *General Medium-Term Macroeconomic Considerations.* The macroeconomic environment is also important because of its impact on private sector development, and independently, on the efficiency of resource allocation nationwide. This underscores the importance of reducing the fiscal deficit, the major source of destabilizing pressures, improving the regulatory environment, and continuing reforms in the agricultural, industrial, financial, export and educational sectors.

Chapter 1

Growth: Performance and Challenges

"Several countries [which] have achieved rapid development in the postwar period ... have invested in the education of men and women and in physical capital; and .. have achieved high productivity from these investments by giving markets, competition, and trade leading roles" (World Bank, 1991b, p 31)

Introduction

1.1 In this opening chapter, the report notes that although Kenya's economic growth in 1990 represents only a moderate slowdown relative to the previous five years: (i) growth at historical levels has been insufficient to significantly raise per capita incomes and create sufficient jobs for Kenya's young and rapidly growing population; (ii) because of relatively little progress in diversifying the economy, living standards, as measured by the adjusted GDP per capita, remain vulnerable to external shocks; (iii) growth has also been relatively inefficient depending more on additional resources (including foreign savings) than increases in productivity; (iv) private investment, which is an important engine of growth, dropped markedly in 1990 after some stagnation during the previous two years; and (v) growth in the near-term is likely to slow further as the effects of the Gulf crisis continue to work their way through the economy. Over the longer-term, growth would slow even further if destabilizing pressures linked to the fiscal deficit are not reduced (Chapters 2 and 3), if the slower onset problem of deteriorating public sector efficiency is not tackled (Chapters 3 and 4) and if the private sector's potential for accelerated, efficient and outward oriented expansion is not developed (Chapter 5).

1.2 This chapter is organized as follows: Section A reviews recent economic and per capita income growth. Section B discusses sectoral developments and highlights the factors, including those associated with recent sectoral reforms, which affected growth in 1990. Section C provides the analytical basis for concluding that although an improvement over first half of the decade, growth has been insufficient and inefficient in longer-term perspective.

A. Real GDP and Per Capita Income Growth

1.3 **Economic Growth.** In Kenya, when GDP at factor cost grew by 5.1 percent in 1985 (Table 1.1), it was due largely to the return of the rains after the drought of 1984. During 1986-87 growth averaged 5.3 percent per year, but it was partly driven by a mini-coffee boom in 1986 (due to frost in Brazil), lower international oil prices and fiscal expansion. In 1988-89, the Central Government contained its spending and coffee prices collapsed toward the end of the period but the economy as a whole benefitted from significantly higher inflows of policy-based donor assistance.

1.4 Growth of GDP at factor cost slowed to 4.5 percent in 1990, the lowest since 1985, amid difficult internal circumstances and a worsening external environment (Figure 1.1). At home, the economy faced high inflation induced in part by the fiscal deficit, and later, the Gulf crises.

On the external front, the terms of trade deteriorated, reflecting the further deterioration in coffee prices and the Gulf crisis.

Table 1.1
GDP Growth
(In Percentages)

	1981-85	1986	1987	1988	1989	1990
Growth rates (%):						
GDP market prices	2.5	7.2	5.9	6.0	4.6	5.1
GDP factor cost	3.7	5.6	4.9	5.2	5.0	4.5
Agriculture	3.1	4.9	4.2	4.7	4.0	3.5
Manufacturing	3.8	5.8	5.7	6.0	5.9	5.2
Services	4.4	6.7	5.1	5.4	5.3	4.9
GDP per capita	-0.2	1.9	1.2	1.6	1.3	1.1
Adj. GDP per capita a/	-1.2	5.8	-5.4	3.0	-2.8	-4.6

Source: Statistical Appendix, Tables 2.2 and 2.4; and Economic Survey, various years.

a/ Real GDP per capita at factor cost adjusted for changes in Kenya's terms of trade.

1.5 **Per Capita Income.** Real per capita incomes contracted by 0.2 percent during 1981-85, then grew by 1.4 percent during 1986-90 to reach K£173.5. However, when adjusted for movements in the terms of trade, per capita incomes declined by 1.2 percent during 1981-85 and by a further 0.8 percent during 1986-90. [1/] Three factors explain these trends. **First,** population growth averaged 3.8 percent during the 1980s, and was exceeded by only 2 countries in Sub-Saharan Africa and 4 Middle Eastern countries. It also exceeded Kenya's own economic growth during the first half of the decade. **Second,** because of high fertility and declining mortality, Kenya's dependency ratio--the total population under 15 and over 64 years of age as a percentage of the population between those ages--is 117, the highest in the world (World Bank, 1991b). Such a high dependency ratio suggests that a relatively smaller proportion of the population is engaged in GDP generating activities, compared to a situation in which the dependency ratio is lower. **Third,** the terms of trade, which captures Kenya's export value relative to import cost, improved in 1986 as the international price of coffee prices rose, returned to more normal levels in 1986 and 1987, but deteriorated thereafter following the collapse of the quotas under International Coffee Agreement. In late 1990, oil prices increased as the Gulf crisis

1/ In precise mathematical terms, the terms of trade adjustment is given by:

$$EXP/MPI - EXP/XPI,$$

where EXP is exports at current prices, MPI is the index of import prices, and XPI is the index of export prices.

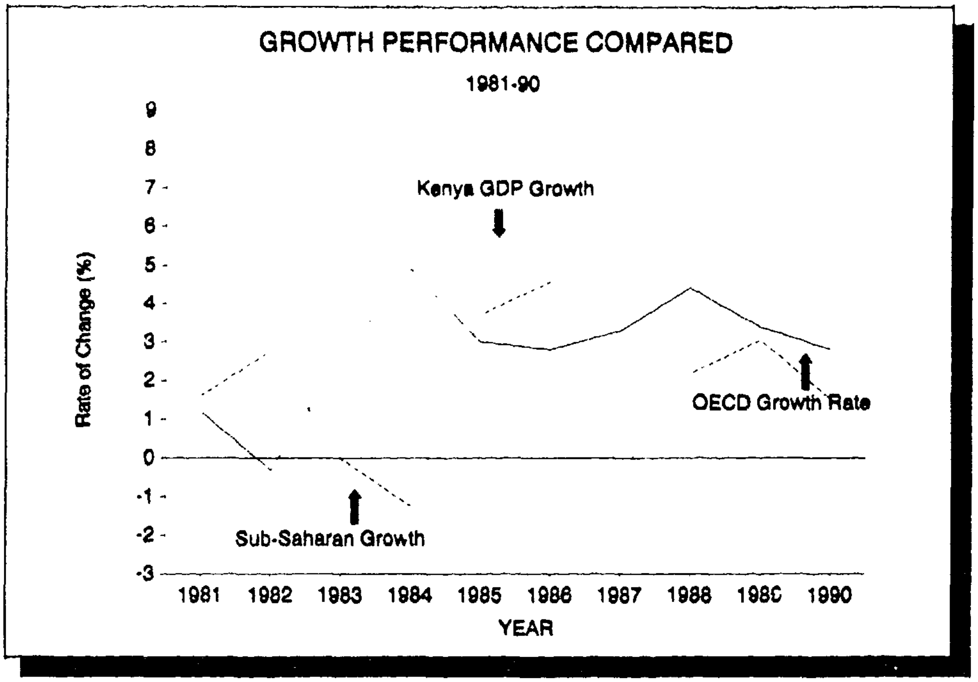

Figure 1.1

unfolded. Since coffee is a major export and oil is a key import, their prices have a significant combined effect on the terms of trade. Accordingly, when the terms of trade were used to adjust GDP on the grounds that the latter is a quantity-based measure which needs to reflect some changes in value, GDP and, derivatively, GDP per capita, fell significantly in 1987, 1989 and 1990.

1.6 There are indications that population growth in Kenya is beginning to decline as fertility rates fall. As a result, population growth could slow to about 3.3 percent by 2000 (World Bank, 1991b). However, for GDP per capita to rise substantially over the period, growth would have to accelerate significantly. At 1986-90 growth rates, GDP per capita would double only after approximately 50 years. In addition, greater diversification of exports would be required to insulate income from adverse movements in the international prices of exports and imports.

B. Sectoral Developments

1.7 **Sectoral Growth.** In general, GDP growth in Kenya reflects the outturn in agriculture (31.0 percent of GDP), and manufacturing (approximately 11.6 percent of GDP), most of which is agro-based. In 1990 the performance of **agriculture** was affected by inadequate and uneven rains in the main agricultural areas, including Western, Nyanza, Central and Eastern provinces, and low coffee prices. Maize production, which comprises about 7 percent of the value of marketed agricultural production, declined by 13 percent. In an unrelated development during the period, the amount of maize not subject to movement control was raised to 4 tons (December 1990) as part of a program for the phased deregulation of inter-district maize movement. At the same time, the monopoly of the National Cereals and Produce Board in the secondary maize market (sales to millers) was reduced to 73 percent. Likewise, its share of the primary market was contained to 20 percent in 1989/90, in keeping with the commitment of the Government to substantially privatize grain marketing. But heavy rains, not these policy reforms, caused maize production to fall. In other areas, the heavy rains caused localized waterlogging and impeded land preparation. This had a particularly adverse impact on wheat production which fell by 22.1 percent in 1991, compared with an increase of 4.4 percent during the previous year.

1.8 In the coffee subsector, which contributes about 26 percent of the value of marketed agricultural production, the volume of sales contracted by 1 percent as dollar prices fell for a second year, following the collapse of the International Coffee Agreement and the abolition of quotas. During the year, a probe team was set up by the Government to investigate the problems of the industry which include delays in payments to farmers and duplication of functions among key organizations in the industry. The persistence of low prices and late payments are leading to the neglect of coffee trees, indicating that production would take a long time to recover, even if prices were to improve.

1.9 For tea, which accounts for about 27 percent of the value of marketed agricultural production, prices were strong and the weather was favorable. At the same time, output from the Nyayo Tea Zones came on stream, and improved crop husbandry and new high yielding clones raised the output of green leaves. As a result, the volume of tea sold rose by 9.1 percent to 197,000 metric tons (Statistical Appendix, Tables 7.2 and 7.4). The livestock subsector, with a 21 percent share of the value of marketed agricultural production, also performed well: the quantum index of livestock and livestock products increased by 6.6 percent in 1990 compared with 0.9 percent in 1989. This improvement followed a 9.2 percent increase in the index of livestock prices in 1989 and corresponds to a further 15 percent increase in the price index in 1990. Meanwhile, cotton sales to the Cotton Lint and Seed Marketing Board were 26.6 percent higher in 1989 and 36 percent higher in 1990. The stagnation of previous years was reversed by price incentives, timely availability of key inputs, and revisions to the payment system.

1.10 Apart from adverse weather conditions which culminated in a drought in 1984, Kenya's agricultural sector has been constrained by factors such as the inadequate availability and application of key inputs, as well as inadequate production incentives. Support services in extension, research, credit and marketing were also unsatisfactory because of institutional weaknesses in the parastatal and governmental bodies which provide them. Since 1987, some progress has been made toward alleviating some of these constraints. To encourage fertilizer use, the pricing formula for domestic marketing of fertilizers was revised, more private importers and distributors were allowed to operate, smaller packages (25 kg and 10 kg, in addition to the 50 kg bags) were provided, prices were decontrolled in January 1990, and the quota allocation system for commercial imports was abolished in November 1990 (Annex I). At the same time, production incentives were enhanced by adjustments in farm-gate prices and more timely payments, which in the case of maize occurred within 1-2 weeks following delivery as opposed to the previous delays of between 4-9 months. However, several real price incentives are being eroded by higher inflation (Table 1.2).

Table 1.2
Gazetted Commodity Prices, 1985/86 - 1990/91
(Indices, 1982/83=100)

		1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Maize:	nominal	134.6	144.7	144.0	154.6	170.1	192.3
	real	98.4	97.1	96.3	91.7	96.1	94.4
Wheat:	nominal	156.2	169.4	169.4	181.6	182.8	217.1
	real	114.2	113.7	112.7	107.5	103.3	106.7
Sugar cane:	nominal	158.8	174.7	176.5	210.6	216.5	261.9
	real	116.1	117.2	117.4	124.8	122.3	128.7
Rice:	nominal	232.0	248.0	258.7	258.7	258.7	279.4
	real	169.6	166.4	172.1	153.3	146.1	137.2
Milk:	nominal	142.8	137.2	151.2	167.4	174.4	192.0
	real	104.2	92.1	100.5	99.1	94.4	94.3
Seed cotton:	nominal	131.6	131.6	131.6	157.9	157.9	157.9
	real	96.2	88.3	87.5	93.6	89.2	77.6

Sources: Ministry of Agriculture, and staff estimates

Nominal prices adjusted by the Nairobi CPI to obtain real prices

1.11 A particularly worrying trend in the agricultural sector is the low level of fertilizer use in spite of the relaxation of government controls on procurement, distribution and pricing. Table 1.3 shows that fertilizer availability and usage fell for the second successive year in 1990/91. While the slowdown of the coffee sub-sector, the largest consumer of fertilizer, is partly responsible for low fertilizer use, there are other, perhaps more significant reasons. They include distribution problems arising from congestion at the port and the limited capacity of the railways; a mismatch between the available fertilizers, the nutrient deficiencies of the land and extension support; and difficulties in recruiting agricultural labor.

1.12 Bank staff estimate that the agricultural sector in Kenya has the potential to sustain growth above 4 percent per year. But this is predicated on steady movement toward market-driven input and output prices, more timely payments for goods such as coffee and cotton, and accelerated deregulation of the marketing system. More spending on research, extension and animal health, and the reform and restructuring of agricultural parastatals would also contribute to this growth.

Table 1.3
Fertilizer Availability and Usage, 1981/82 - 1990/91
(In Thousand Metric Tons, and Percentages)

Crop Year	Stocks Forward	Imports	Available	Stocks Carried	Estimated Usage	Annual % Change
1981/82	40.7	206.7	247.4	110.9	136.4	5.6
1982/83	110.9	129.6	240.5	97.7	142.8	4.7
1983/84	97.7	120.0	219.7	19.2	198.5	39.0
1984/85 a/	19.2	184.4	203.6	28.3	175.3	-11.7
1985/86 a/	28.3	345.1	373.4	101.8	271.6	54.9
1986/87	101.8	230.1	331.9	104.8	227.1	-16.4
1987/88 b/	104.8	225.3	330.3	92.4	237.9	4.7
1988/89	92.4	213.1	405.5	120.7	284.8	19.7
1989/90	120.7	210.9	331.6	94.2	237.4	-16.6
1990/91 c/	94.2	220.6	314.8	92.1	222.7	-6.2

Source: Ministry of Agriculture

a/ Estimated usage was greatly affected by the 1984 drought.
b/ The number for stocks forward has been changed for consistency with the stocks carried in 1986/87.
c/ Preliminary.

1.13 **Manufacturing**. In 1990, growth in the manufacturing sector slowed to its lowest level over the 1986-90 period (Table 1.1). Within the manufacturing sector, however, the outturn varied. Volume increases of between 13 and 15 percent were recorded for textiles, petroleum and other chemicals, metallic products and cement products. The output of transport equipment also increased (5.6 percent) in response to the reduction in sales taxes on several types of motor vehicles. Food processing increased in volume terms by only 1.3 percent, due largely to the decline in the sugar industry, while the output of wheat dropped by 9 percent. In the miscellaneous food manufacturing sub-sector, the output of black tea rose (8.8 percent) because of buoyant demand, but the production of milled coffee declined by 5 percent. Because of better prices and strong demand from the Preferential Trade Areas, the output of tobacco and beverages rose by 3.2 percent.

1.14 Inflationary pressures, the weakening of agricultural growth and latterly the Gulf crisis, constrained the manufacturing sector in 1990 relative to 1989. On the positive side, more prices were decontrolled, corporate tax rates were reduced and export incentives were strengthened. Import liberalization also assured the more timely availability of inputs and introduced greater competition. The regulatory framework is also being improved by the rolling back of some redundant administrative interventions and discretion. In June 1990, to further reduce average protection, restricted imports amounting to about 35 percent of items previously in Schedule IIIC were transferred to IIIB [2] The average tariff on all Schedules except the current IIIC was also lowered by 5 percentage points and action was taken to limit the dispersion of tariffs. Additionally, the highest rate category (135 percent) in all Schedules was eliminated, the next highest category (100 percent) was scrapped in all Schedules except the current IIIC, and several items which enjoyed a "zero" tariff rate were moved to the next highest level (Annex I). In June 1991, the programmed elimination of quotas reached its final stage. Remaining quotas were lifted on all items (and replaced by equivalent or lower tariffs) except those which are restricted for health, environmental or security reasons. Simultaneously, average tariffs were dropped by a further 5 percentage points, and the number of tariff categories was reduced. One consequence of these measures has been a marked reduction in effective protection (Box 1.1).

1.15 Measures which specifically targeted exports were also taken. The manufacturing-under-bond scheme, for firms exporting 100 percent of their output, was extended to three new urban areas. The cost of operating the scheme was also reduced by simplifying bonding requirements and permitting the sale of rejects in the domestic market. However, no new enterprises have entered the scheme. This is mainly because there has been insufficient publicity of the new arrangements, apprehension by entrepreneurs given the previous problems of the scheme, and uncertainty about the future of manufacturing-under-bond in the face of the much publicized development of export processing zones. At the Jomo Kenyatta International Airport, Kenya's major exit point for high value exports such as horticulture, steps were taken to improve the quality of cargo handling. Further, in November 1990, an import duty/value added tax (VAT) exemption scheme was introduced for imported inputs into eligible exports and the export compensation system was amended with a view to accelerating payments to exporters and widening coverage.

1.16 Manufacturing, especially, export-oriented manufacturing, has been the target of much policy action in Kenya in recent years. For this reason, as well as the experience of other developing countries, it would be reasonable to look to this sector for evidence that the economy is responding favorably to sectoral adjustment measures even when the external environment and other factors are unfavorable. However, the evidence at this early stage of the reform process is sketchy and tentative. Consistent with the reduction in protection, preliminary empirical work suggests that trade liberalization may be weeding out a number of inefficient local producers as competition from foreign producers increases. On the other hand, there are indications that the sector is responding to reforms which alleviate the institutional constraints to exports (Ndii, 1991a).

1.17 **Building and Construction**. The visibility of building and construction activities, especially in large urban centers such as Nairobi and Mombasa, makes the sector an easy, though potentially misleading indicator of economic performance country-wide. Value-added in the sector expanded at an encouraging rate: 4.7 percent in 1988, 5.4 percent in 1989 and 5.3 percent in 1990. During the same period cement consumption, a leading proxy for construction activity, rose by 19 percent, 7.7 percent and 18 percent respectively. Activity in the private sector included the Harambee projects for schools and Nyayo wards, and a strong demand for residential

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2/ Schedule IIIB comprises items which compete with domestic production and are restricted only by tariffs. The items in Schedule IIIC are protected by quantitative restrictions and include competing goods which are not covered elsewhere, luxury goods, and goods which are restricted for public health and safety reasons.

Box 1.1
Progress In Trade Liberalization

During most of the post-Independence period, Kenya's trade regime was oriented toward import substitution. Domestic industries were protected by tariffs and import quotas, and several public sector enterprises enjoyed monopoly status in commercial activities which included international trade. Not surprisingly, manufacturing exports declined significantly as a share of total exports, even though external circumstances were generally favorable to these goods. Recent reforms have sought to encourage export development and improve the efficiency of domestic production by exposing domestic producers to foreign competition (Ndii, 1991).

Under the Industrial Sector Adjustment Program and the Export Development Program, protection has become more transparent by replacing quantitative restrictions with tariffs. There has also been a lowering of tariff rates, a reduction in tariff dispersion and consequently, a fall in protection. The table below shows the decline in economy-wide average tariffs. The reform-induced declines in average tariffs are greater when imports previously protected by quotas are excluded.

Economy-Wide Average Tariffs

All Schedules	1984/85	1987/88	1988/89	1989/90	1990/91	1991/92
Unweighted	40.0	39.6	41.3	41.0	38.8	34.0
Import-Weighted	..	29.6	27.3	24.5	22.0	20.4
89/90 Schedules I,II, IIIA & IIIB						
Unweighted	..	..	..	34.5	29.5	25.9
Import-Weighted	..	..	..	28.9	20.2	18.7

Source: Kenya: Challenge of Promoting Exports *A Trade Expansion Report. Washington, D.C. World Bank, (forthcoming).*

Though maximum tariff rates have fallen substantially, most of the reduction in the level of manufacturing protection has been accomplished through a reduction in the production coverage of quantitative import controls. For instance, the quantitative controls (Schedule IIIC) covered most of manufacturing production in 1985/86. This coverage fell to 79 percent in 1987/88, 45 percent in 1989/90 and 28 percent in 1990/91. The reduction in protection was not uniform across the manufacturing sector: in June 1989 they occurred mainly in the paper and iron/steel subsectors; in June 1990 they focussed on food manufacturing; in June 1991 they were concentrated in textiles and automobiles. However, these numbers understate the actual change in nominal protection relevant to domestic manufacturing. Tariffs on competitive imports fell by much more than the average. This is evident from the larger reductions in production-weighted tariffs which fell from 61.8% in 1989/90 to 55.5% in 1990/91 and to 45.5% in 1991/92.

Future reform should focus on removing the licensing system and on further reducing tariff dispersion. At present, dispersion in tariffs and thus nominal and effective protection is still significant and the licensing system could be used to enlarge such dispersion. Inappropriate demand management is likely to be accommodated through increased "queuing-time" for import licenses instead of changes in the explicit restricted list. This would raise protection and lower access to imported inputs. Therefore, removal of the licensing system is warranted on efficiency grounds and as a confidence building measure.

Removal of the licensing system would make the flow of imports much more sensitive to macroeconomic policies and tariffs, and would require an early warning system that would alert policy makers to any inconsistency between the macroeconomic and the trade stance. Much of Kenya's quarterly economic data can be used to develop such indicators. They include data on domestic credit, import inventories and reserves.

and non-residential buildings. In the public sector, there was work on grain silos, roads, national universities and teacher colleges in 1987-88, much of which was associated with the adoption of the 8-4-4 educational system. This gave way to the construction of new lecture halls, libraries, hostels and staff houses associated with the unusually large university enrolment in 1990.

1.18 **Energy.** Petroleum accounts for 68.6 percent of Kenya's commercial energy consumption, and all of it is imported. Imports of crude and petroleum products increased by 6.7 percent in volume terms and 26.7 percent in dollar terms in 1990. Meanwhile, exports of petroleum (mainly to Uganda, Zaire and Rwanda) increased by 3.6 percent to 534 thousand tons, after falling by 24 percent in 1989. Kenya is still unable to recapture and penetrate the regional market because of competition from more efficient extra-regional refineries.

1.19 The Government usually adjusts wholesale and retail domestic petroleum prices in line with international prices. Thus, wholesale price increases (at Mombasa) averaged 20.6 percent in February 1990. As the Gulf crisis unfolded, there were additional increases in September 1990, which ranged from 21.5 percent (liquefied petroleum gas) to 54.0 percent (fuel oil). At the retail level, price increases in February 1990 were as low as 4.8 percent (premium motor spirit and gasohol) and as high as 13.2 percent (gas oil). In September 1990, retail price increases averaged 34.8 percent. In mid-February 1991, the Government decided not to adjust the domestic prices of petroleum products in line with lower international prices for crude. Instead, in an attempt to raise additional revenue, the increased differential is being absorbed through a higher VAT.

1.20 The generation of hydro-electricity and geothermal electricity was respectively 2.8 percent and 4.4 percent higher than in 1989. Electricity sales rose by 6.3 percent in 1990, following a 7.5 percent rise in demand from large commercial and industrial consumers, and the expansion of the Rural Electrification Program. To partly satisfy this higher demand, imported electricity increased by 55 percent to 174 KWH, equivalent to 5.5 percent of supply. Work is on schedule for the commissioning of the Turkwell Gorge multipurpose project in 1991, and this will increase the hydro-power capacity by 106 MW.

1.21 **Tourism.** In 1990, foreign exchange earnings from tourism rose by 11.3 percent in dollar terms to $465 million, reflecting a 9 percent increase in international arrivals and a 5.2 percent rise in the average number of days stayed. These improvements were not uniform across all groups of international arrivals. Business and transit arrivals, who comprise 8.2 percent of the international traffic, dropped by 21.2 percent and 33 percent respectively Similarly, tourist arrivals from North America, representing 11.2 percent of departures and 8.7 percent of hotel bed-nights, were 12.6 percent fewer. Nonetheless, the sector as a whole performed well because tourist arrivals from Europe, who accounted for 61 percent of total arrivals and 66 percent of hotel bed-nights, increased by 14.9 percent (Figure 1.2).

1.22 **The External Sector**. After worsening to 6.8 percent of GDP (including grants) in 1989, the current account deficit narrowed to [illegible].5 percent of GDP in 1990 (Table 1.4). This improvement reflected the encouraging performance of horticultural exports, exchange rate adjustments, and policies which specifically limited parastatal imports. Nonetheless, the overall **balance of payments** deficit in 1990 was $146 million. In fact, over the last five years the external account was in surplus only in 1986 (partly due to the mini-coffee boom) and 1989 (when there were significantly larger inflows of policy-based lending). With the drawdown, the

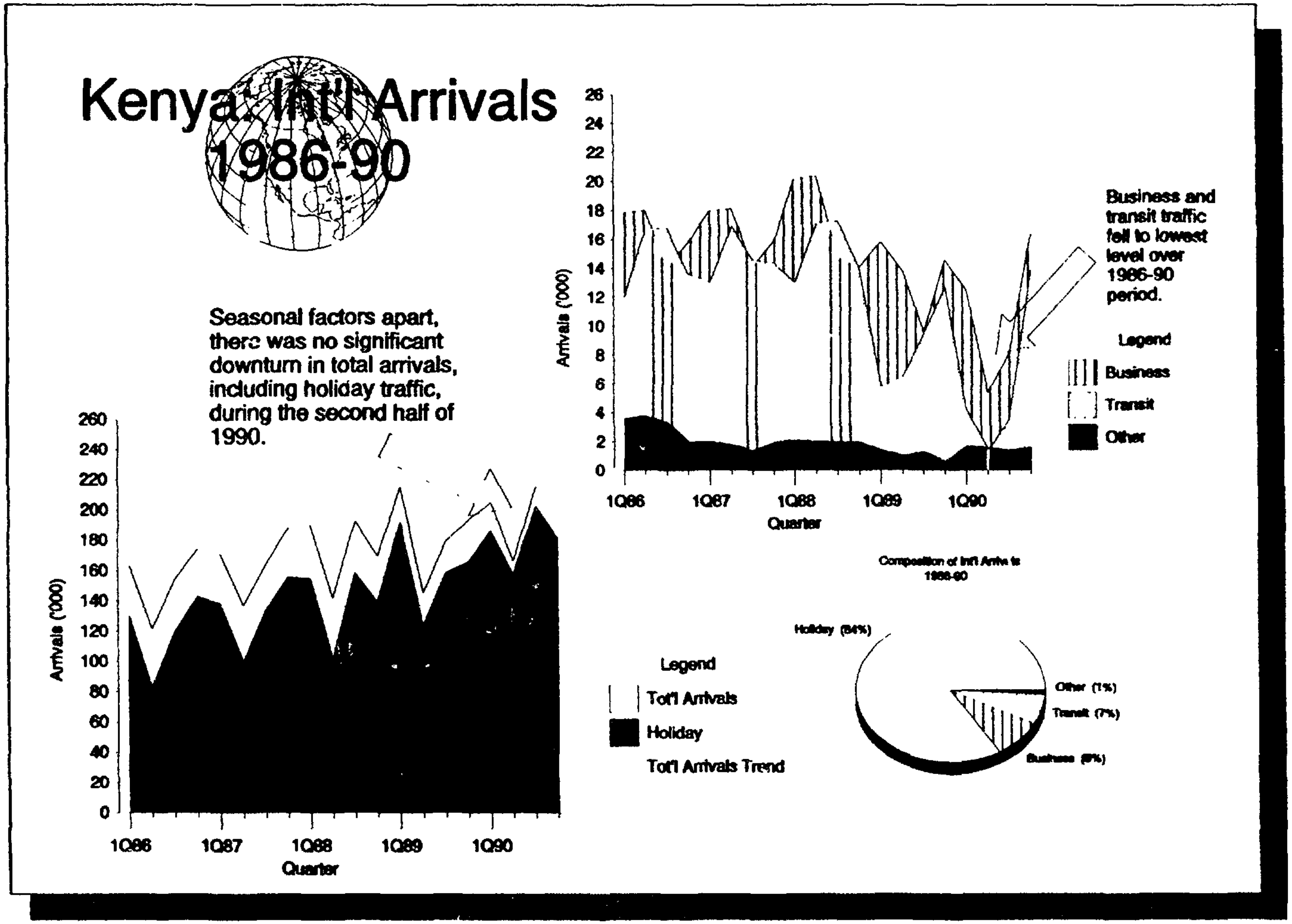
Kenya: Int'l Arrivals
1986-90
Seasonal factors apart, there was no significant downturn in total arrivals, including holiday traffic, during the second half of 1990.
Arrivals ('000)
Quarter
1Q86
1Q87
1Q88
1Q89
1Q90
Legend
Tot'l Arrivals
Holiday
Tot'l Arrivals Trend
Business and transit traffic fell to lowest level over 1986-90 period.
Legend
Business
Transit
Other
Other (1%)
Transit (7%)

Figure 1.2

Table 1.4
Summary of Balance of Payments, 1986-90
(In Millions of US Dollars)

	1986	1987	1988	1989	1990
Trade balance	-285	-713	-782	-1033	-992
Exports	1171	907	1014	922	999
Imports	1456	1620	1795	1954	1990
Services (net)	39	5	-21	86	144
Transfers (net)	207	214	345	381	372
Current account balance	-39	-493	-458	-565	-476
Capital account	129	367	376	643	330
Long-term (net)	105	317	330	607	177
Short-term (net)	21	56	57	52	147
Errors and omissions	3	-6	-5	-16	6
OVERALL BALANCE	90	-127	-76	78	-146
Monetary movements	-90	127	76	-78	146
Change in reserves	-25	151	-60	-111	22
IMF transactions	-67	62	123	20	101
Other	2	38	13	12	23
Memo items:					
Import cover (months GNFS)	3.1	1.9	1.9	2.0	1.6
Current account deficit as % of GDP: incl. grants	0.5	6.2	5.4	6.8	5.5
excl. grants	2.6	8.0	8.4	10.1	7.8

Source: Statistical Appendix, Tables 2.3, 3.2, 3.10 and 3.11

foreign exchange reserves at end-1990 were equivalent to 1.6 months of merchandise imports of goods and nonfactor services, compared with 2 months at end-1989.

1.23 Over the past two years, Kenya's external position has been affected by adverse terms of trade. In 1990, the external terms of trade dropped by 9.9 percent after falling by 10.9 percent in 1989 (Figure 1.3). In the merchandise account, the overall quantum index of non-oil exports increased by 12.6 percent (all exports by 6.1 percent) in 1990. Volume growth was especially encouraging among non-traditional items such as horticulture (40.7 percent) and meat and meat products (almost 3-fold). Coffee exports increased by 16.7 percent in volume terms as the Coffee Board drew down its considerable stocks. Largely reflecting higher petroleum prices which added approximately $116 million to the import bill (Table 1.5), [3] and a doubling of food imports, total imports increased by 13.7 percent in dollar terms in 1990. The overall quantum index of total imports increased by 4.8 percent in 1990.

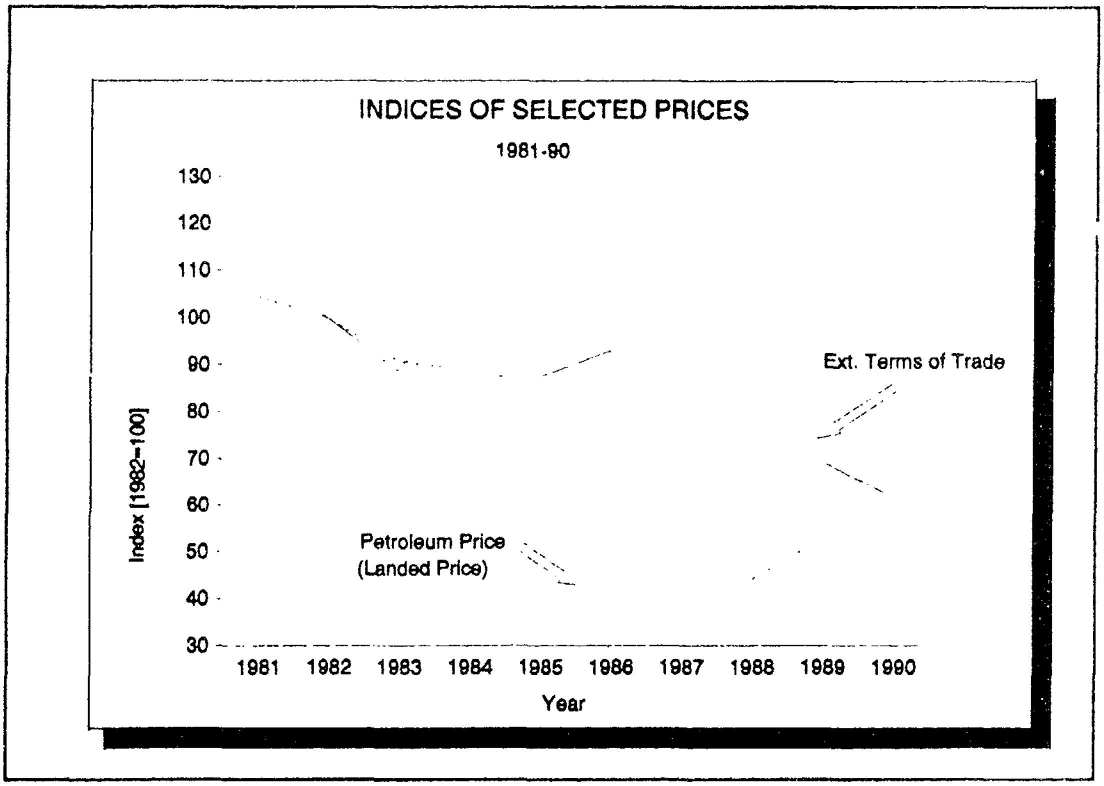

Figure 1.3

1.24 The destination of Kenyan goods has remained largely unchanged in recent years. The European Economic Community (EEC) received 44 percent of domestic exports during 1985-89, compared with 45 percent in 1990. African countries received 24 percent and 25.8 percent during the same periods. One notable development was the doubling of the share of exports to

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3/ The assumption here is that the same volume of oil would have been imported had oil prices not risen significantly. This is not unreasonable given the low price elasticity of demand for petroleum in Kenya.

Table 1.5
The Gulf Crisis and Oil Imports
July-December 1990

	July	August	September	October	November	December
Price ($/bl) a/	16.3	21.3	29.0	34.0	34.9	35.2
Quantity (bls)	1,369,993	1,007,200	2,145,798	1,100,000	1,722,800	1,672,315
Value (million$) b/	25.6	21.7	62.3	37.4	60.2	58.8
Simulated Value c/ (million$)	25.6	16.4	34.9	17.9	28.0	27.2
Memo Item:						
Diff. costs/Imports (%) d/	5.3					

Source: Central Bank of Kenya, and staff estimates

a/ Cost including freight but excluding insurance.
b/ Includes insurance.
c/ Price and insurance as at July 1990.
d/ Difference between the value and simulated value of imports during July-December as a percentage of merchandise imports (excluding leases) during the entire year.

Eastern Europe to 2 percent in 1989-90 relative to 1985-88. Regarding merchandise imports, 46.1 percent originated in the EEC during 1986-89 (45 percent in 1990), while Africa accounted for 3 percent in both periods, the Far East and Australia for 21 percent (18.2 percent in 1990) and the Middle East for 16.4 percent (20.6 percent in 1990). The increase of the Middle East's share and the reduction of the share of goods from the Far East and Australia are attributable to the Gulf Crisis.

1.25 **Services and Transfers**: Apart from 1988 when there were large outflows of investment income, there was a surplus in Kenya's service account during 1986-90. In 1990, the dollar value rose and the surplus reached its highest value for the decade ($144 million). This improved performance in the services account, however, has been assisted by the fact that since 1988, the Government has limited the repatriation of investment income. The growth in tourism earnings, which had been steadily falling since 1986, rebounded in 1990. This improved performance occurred in spite of a difficult external environment and concerns about personal security in Kenya. For the first time in 1990, tourism earnings almost matched coffee and tea exports combined. Private transfers grew impressively by 52 percent in dollar terms to reach $219 million in 1990.

1.26 **Capital Account**. The nominal dollar value of net capital inflows in 1990 was a little more than half the 1989 amount--$330 million compared with $643 million. The unusually large inflows in 1989 comprised substantial amounts of concessional loans under the industrial sector adjustment program, the financial sector adjustment program and IDA reflows.

C. Employment, Savings, Investment and Total Factor Productivity

1.27 **Employment.** Tables 1.6 and 1.7 report official data on employment which cover wage and salary earners in the modern sector, and in urban and rural small-scale enterprises (previously called the informal sector). Together they comprise less than 20 percent of Kenya's total labor force. Three trends should be noted. **First**, the public sector accounts for almost half of wage employment and in general has been creating jobs faster than the private wage sector. **Second**, wage employment creation grew more slowly than the working age population during 1981-90. Furthermore, on average only 87,000 new jobs were created by the wage employment sector during 1986-90. **Third**, employment grew fastest in the small-scale enterprises.

Table 1.6
Recorded Employment, 1986-90 a/

	1986	1987	1988	1989	1990	1986-90 (%)
Wage Employment	1,227	1,285	1,342	1,373	1,408	3.7
Agriculture	248	253	265	262	268	2.1
Manufacturing	166	175	181	183	188	3.4
Building & Cons.	56	58	64	69	71	7.5
Other	756	799	833	860	881	4.0
Private	621	658	682	687	714	3 6
Agriculture	193	199	198	195	202	1.7
Manufacturing	130	138	142	142	146	3.3
Other	298	321	342	350	366	4.8
Public	606	627	660	686	694	3.8
Central Govt.	260	274	267	277	270	1.4
TSC	164	173	185	195	204	6.2
Other	182	180	208	214	220	5.2
Small-Scale Enterprises	281	312	346	390	443	11.7
Self-Employed	35	38	44	44	48	7.0
TOTAL	1,543	1,635	1,732	1,807	1,899	5.4

Source: Statistical Appendix, Tables 1.3 and 5.8

a/ In thousands, unless otherwise specified.

Table 1.7
Private and Public Sources of Wage Employment Growth, 1981-90
(In Percentages)

Period	<-- Average Annual Growth Rate --> Working Age Population	<---- Employment ----> Private l_p	Public l_g	Total L	Public Sector Share of Wage Empl. z	Contribution to Modern Sector <--Employment--> Private Sector E_p a/	Public Sector E_g a/
1981	3.4	1.1	2.7	1.8	47.3	32.4	67.6
1982	4.2	0.0	4 4	2.1	48.3	0.9	99.1
1983	4.2	4.6	4.4	4 5	48.3	52.8	47.1
1984	4.3	2.2	2.6	2.4	48.4	48.3	51.7
1985	4.3	3.8	6.2	4.9	48.9	39.5	60.5
1986	4.2	3.5	5.4	4.5	49.4	40.5	59.5
1987	4.3	6.0	3.6	4.8	48.8	63.2	36.8
1988	4.2	3.6	5.3	4.4	49.2	41.9	58.1
1989	4.3	0.8	3.8	2.3	49.9	17.6	82.4
1990	4.3	3.9	1.2	2.5	49.2	76.2	23.8
1981-85	4.1	2.4	4.0	3 2	48.2	34.8	65.2
1986-90	4.3	3.6	3.9	3.7	49.3	47.9	52.1
1981-90	4.2	3.0	3.9	3.4	48.8	41.3	58.7

Source: Staff estimates using data in Statistical Appendix, Tables 1.1 and 1.3.

a/ $E_p = (1-z_{t-1})(l_p)/L$ $E_g = z_{t-1}(l_g)/L$

1.28 Estimates suggest that an estimated 400,000 new jobs will have to be generated annually to accommodate Kenya's growing labor force over the next two decades. This estimate is based on the expectation that: (i) the population will double in about 17 years; (ii) even though fertility rates recently began to decline, this will have no effect on Kenya's labor supply over the next 15 years since all those who will have joined the labor force by then are alive today. An even larger number of new jobs will be needed to reduce urban unemployment below the current level of around 16 percent.

1.29 In the face of budgetary pressures and inefficiency, the public sector is not likely to be a source of significant new jobs in the foreseeable future. However, rapid employment growth in small-scale enterprises is occurring. A recent report attributes this performance to policies which have supported agricultural growth, especially by smallholders, and have stimulated the demand for non-farm activities. Many of these activities are in the informal sector which is relatively unencumbered by government interventions. The report concluded that economic growth above 5 percent, combined with a strategy of rural and small-scale urban industrialization, and the promotion of rural nonfarm and urban informal activities, would permit Kenya to meet its employment targets over the coming decade (World Bank 1988).

1.30 **Savings.** Domestic savings as a share of GDP fell from 18.8 percent in 1989 to 18.4 percent in 1990, well-below the 5-year peak of 21.9 percent of GDP in 1986 (Table 1.8). The downward trend reflects falling private sector savings in relation to GDP since 1985 and a worsening of central government savings in 1990. The persistence of dissavings resulted from rising debt service payments, difficulties in containing wage expenditure, especially in the education sector, and transitional problems in administering the new VAT. The reasons for the

Table 1.8
Investment and Savings, 1986-90
(As Percentages of GDP at Market Prices)

	1986	1987	1988	1989	1990
Gross Investment	21.8	24.3	25.0	24.6	23.7
Fixed Investment	19.6	19.6	20.1	19.2	20.2
Public	8.1	7.1	8.3	8.1	9.5
Private	11.5	12.5	11.8	11.2	10.7
Change in Stocks	2.2	4.7	4.9	5.3	3.4
Financed by:					
Foreign Savings	-0.2	5.1	5.2	5.7	5.3
Grants	1.0	1.7	2.3	2.3	3.2
Net Borrowing	-1.2	3.4	2.9	3.4	2.1
Domestic Savings	21.9	19.2	19.8	18.8	18.4
Central Government	-1.7	-1.9	-1.3	-0.9	-1.6
Private	23.6	21.1	21.1	19.7	20.0
Memo Items:					
Real Growth in Fixed Investment	9.3	6.0	8.3	-0.9	0.1
Public	14.2	-6.7	22.3	1.8	13.6
Private	6.1	15.2	0.1	-2.8	-10.0

Source: Statistical Appendix, Tables 2.3, 2.6 and 5.1

decline in private savings are less apparent. The drop in coffee prices was a major cause during 1989-90. Indeed, a recent study concluded that the behavior of private savings in Kenya during 1968-89 was best explained by changes in income; changes in real interest rates and inflation appeared to be inconsequential (Sulemane, 1991). These empirical findings are consistent with research in several countries which suggests that once the real interest rate becomes positive, further increases appear not to affect savings. The reasons are two-fold. **First,** target-savers--

persons wishing to reach a certain level of savings--would not need to increase their savings because of rising interest income from a given level of savings. This income effect may actually lower savings at higher interest rates **Second**, and in contrast to the first, higher real interest rates raise the opportunity cost of consumption in the form of savings and interest income. Consequently, savers may switch from consumption to savings when real interest rates rise.

1.31 **Investment.** At 23.7 percent of GDP in 1990, gross investment was below the 1989 figure of 24.6 percent of GDP. The public sector increased its real gross fixed capital formation but this was insufficient to offset the decline in real stocks and the contraction in real fixed private investment. Fewer transport, machinery and other equipment were acquired in 1990 because domestic borrowing became more expensive as competition with Government paper intensified. Costs also escalated with the steady depreciation of the Kenya shilling while incomes in a key income-generating sub-sector, coffee, fell.

1.32 The drop in real private fixed investment followed a fall of 2.8 percent in 1989 and virtual stagnation in 1988. This is a source of concern, given that in recent years the Government's sectoral adjustment efforts have focused on improving incentives and removing obstacles to private sector activity. Without a more dynamic response from the private sector, domestic and foreign, it is difficult to see how Kenya's economy can accelerate growth over the medium-term or even sustain the performance of the last four years. Although more detailed analysis of the determinants of investment would be required, it is likely that falling private investment levels may be the result of a number of interrelated factors. **First**, faster economic development and dynamic private sector growth is more likely to take place if policies produce a stable macroeconomic environment, which ensures reasonably low inflation, an appropriately valued exchange rate, sustainable fiscal and current account deficits, and the avoidance of foreign exchange crises. As discussed in Chapter 2, in recent years the Government's stabilization record has been disappointing, especially in terms of dampening inflationary pressures and containing the growth of public spending. **Second**, while in recent years the Government has made considerable progress in reforming incentives and policies, a more targeted reform effort is required directed specifically at improving the enabling environment for the private sector and removing some of the bottlenecks that impede a stronger supply response. In this respect, excessive government regulations and lack of transparency in their application appear to be a major constraint on new private sector initiatives. **Third**, although adjustment programs have focused on reforming incentives and policies affecting the private sector, little structural adjustment has taken place thus far in the public sector itself. An effective and streamlined public sector, capable of efficiently delivering infrastructure and social services, without crowding out private activity, is as important for high and sustained output growth as improved economic incentives.

1.33 **Total Factor Productivity (TFP).** Also of concern is the fact that growth in Kenya has depended more on the use of additional resources than on productivity gains. The data in Table 1.9 underscore this point: during 1981-90, the contribution of TFP to economic growth was 6.1 percent.

1.34 Apart from the drought of 1984, factors which may have contributed to low productivity include: (i) pervasive administrative controls which limited the role of markets in the allocation of resources; (ii) the high levels of protection from foreign competition which were accorded domestic industries during most of the decade; (iii) socio-political pressures to create jobs for Kenya's rapidly growing population and the significant role played by the public sector in this

Table 1.9
Sources of Economic Growth in Kenya, 1981-90
(In Percentages)

	<------ Average Annual Growth Rate -------->							Contribution of Total Factor Productivity
				<- Factor Productivity -> a/			Labor Income Share	
Period	Output g_Y	Employment g_L	Capital g_K	Labor g_{YL} a/	Capital g_{YK} a/	Total g_{YT} a/	z	g_{YT}/g_Y a/
1981	6.0	1.8	5.9	4.2	0.1	1.8	41.3	29.8
1982	3.9	2.1	5.8	1.8	-1.9	-0.4	41.5	-9.9
1983	2.5	4.5	3.1	-2.0	-0.6	-1.2	41.3	-48.0
1984	0.9	2.4	1.9	-1.5	-1.0	-1.2	41.3	-132.6
1985	5.1	4.9	2.0	0.2	3.1	1.9	42.1	36.7
1986	5.6	4.5	1.8	1.1	3.8	2.7	40.9	48.8
1987	4.9	4.8	2.9	0.1	2.0	1.2	42.5	24.2
1988	5.0	4.4	2.9	0.5	2.1	1.4	42.0	28.7
1989	5.0	2.3	3.3	2.7	1.7	2.1	42.0	42.1
1990	4.5	2.5	2.7	2.0	1.8	1.9	43.1	41.8
1981-85 b/	3.7	3.2	3.7	0.5	-0.1	0.2	41.5	-24.8
1986-90 b/	5.0	3.7	2.7	1.3	2.3	1.9	42.1	37.1
1981-90 b/	4.3	3.4	3.2	0.9	1.1	1.0	41.8	6.1

Source: *Staff estimates. Capital stock numbers based on information from the Ministry of Planning and National Development.*

a/ $g_{YL} = g_Y - g_L$, $g_{YK} = g_Y - g_K$ $g_{YT} = g_Y - (zg_L - [1-z]g_K)$
b/ Simple period averages from annual data in each column above.

regard (Chapter 3); and (iv) the inefficiency of the public enterprises which engaged in commercially-oriented activities (Chapter 4).

1.35 Table 1.9 indicates an improvement in the contribution of TFP to growth during the latter half of the decade. This turnaround has been greatly assisted by the Government's reform programs in key productive sectors. The task ahead is to not merely sustain recent economic gains but to accelerate productivity increases and economic growth. In pursuing this objective, the Kenyan economy faces a number of interrelated challenges. **First**, with rising and competing claims on limited aid budgets, Kenya must increasingly strive to reduce its dependance on foreign savings to finance its development effort and enhance the effectiveness with which aid flows are utilized. **Second**, to reduce Kenya's dependance on aid and its vulnerability to external shocks, greater emphasis needs to be placed on diversifying the economy. Expanding and diversifying Kenya's export base will be critical. **Third**, in addition to laying the foundation for faster economic growth, the Government needs to ensure that growth is more equitable and environmentally sustainable. **Fourth**, aggregate demand pressures, unless contained, threaten Kenya's prospects for faster economic growth. **Fifth,** structural adjustment in the public sector will be necessary, not only because of the linkage with fiscal policy, but also because currently the sector absorbs resources which the private sector can use more efficiently. **Sixth,** in addition to improving the efficiency of the public sector and reducing the size of the parastatal sector, greater efforts will be required to enhance the enabling environment for private sector activity. The last 3 points are developed sequentially in the rest of the report.

Chapter 2

Stabilization: Targets, Hits and Misses

"The benefits of structural reforms that aim at improving resource allocation through changes in incentives, generally transmitted through relative price changes, are reduced by macroeconomic instability in the form of high and variable inflation and balance of payments crises" (Corbo and Fisher, 1991, p. 3).

Introduction

2.1 The chapter argues that renewed stabilization problems constitute a serious threat to growth in Kenya. Sustained growth usually requires reasonably low inflation, an appropriately valued real exchange rate, sustainable fiscal and current account deficits, and the absence of foreign exchange and debt crises. In Kenya, as in most countries, the key to stabilization is fiscal policy. The fiscal deficit reported in July 1991 was 5.4 percent of GDP (including grants), higher than the level recorded when recent stabilization efforts began in earnest in 1988. Worse still, there are some indications that the revised fiscal deficit for FY91 · ll exceed 6 percent of GDP (including grants). The crucial test for stabilization and budget·ry policy will be to contain government expenditure.

2.2 This chapter identifies the indicators of renewed instability in 1990 (Section A) and links them to the sources of the destabilizing pressures (Section B). Next, . demonstrates that the resurgence of stabilization problems threatens the hard won gains of recent sectoral adjustment programs (Section C). In its final section, the chapter reviews the policies which currently seek to redress these problems and comments on their prospects (Section D).

A. Selected Indicators of Recent Instability

Inflation

2.3 In 1990 inflation in Kenya returned to 1980-81 levels, continuing an upward trend which began in 1987. At 12.6 percent (or 17.7 percent December over December) 4/, it was well above the Government target of 7.5 percent. Even prior to the Gulf-crisis (January-August 1990), price increases averaged 10.1 percent, indicating that a significant deceleration in prices would have been necessary during the last four months of the year to bring inflation within reasonable range of the target. Instead, the rate accelerated.

2.4 Furthermore, the Government's 1991 Economic Survey indicates that the old indices may have underestimated inflation by about 4.5 percentage points. This preliminary conclusion is based on on-going but incomplete revisions of the CPI methodology. Among the more important revisions are the adjustments to the income groups, updating the list of retail outlets from which

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4/ This figure (17.7 percent) is derived by the application of IMF weights to the Nairobi CPI series for the lower, middle and upper income groups (World Bank, 1991c, p. 1). When simple averages are used, the figure is 18.5 percent for December on December 1990. See Statistical Appendix, Table 11.2.

Box 2.1
Inflation in Kenya: Three Persisting Questions and Their Four Emerging Answers

Recent debate over inflation in Kenya has centered around three questions.

Does the official measure, the CPI, understate inflation? Several constituents who use the CPI have said yes. They point to measurement bias arising from a) use of dated (1974) consumption basket; b) inclusion of price controlled items; and c) inadequate coverage of housing costs. In its 1991 Economic Survey, the Government also said yes and indicated a preliminary underestimate of 4.5 percentage points, based on revisions dating back to February 1990 (p. 49). This conclusion was reached after a partial revision of the CPI (Annex II). It must be emphasized, however, that the basis for the revised consumption baskets and expenditure weights used was the urban household budget survey which was administered in 1982. But since this survey does not capture the effects on expenditure of the significant price decontrols and other policy measures which were implemented after 1985, its results must be interpreted with caution. In this sense, therefore, the answer to the question raised is still not known.

If the CPI is underestimated, is the real growth of GDP at factor cost overestimated? The brief answer is no. The question arises in the first place because of the misconception that, as a rule, GDP is first calculated in nominal terms and is then deflated by the CPI to obtain real values. This is not the case. Consistent with United Nations guidelines, real GDP is calculated directly, in most instances--forestry, manufacturing, mining and quarrying, electricity and water, key aspects of wholesale and retail trade, and several aspects of tourism--from changes in the volume of output. For instance, to obtain the (real) 1990 output of salt in constant 1982 prices, the volume of salt in 1990 is multiplied by the prices which prevailed in 1982. Estimates of real growth in other sectors and subsectors may use deflators but never the CPI. Some sub-sectors within agriculture use price indices derived from sales to purchasing agencies. In parts of the building and construction sector, deflators are based on the Building Cost Index, the Non-Residential Cost Index and the Civil Engineering Cost Index. Transport uses a price index which is a weighted average of revenue per ton mile and revenue per passenger mile while ownership of dwellings is deflated by an index of rents derived from the annual Rent Survey. Banking, insurance and real estate uses the implicit deflator emerging from the relationship between the estimated GDP at current prices for all other sectors in the monetary economy and the corresponding GDP at constant prices.

What are the most important causes of inflation in Kenya? Regression analysis confirms the conventional wisdom that, other things remaining the same, inflation rises when any one or more of the following happen: the money supply increases, prices rise abroad, the budget deficit expands, the exchange rate depreciates, the domestic prices of petroleum products increase, the average wage rate rises, labor productivity falls, and some consumer prices are decontrolled. In contrast, a rise in output reduces price inflation. Regressions also indicate that: a) changes in the quantity of money affect prices most strongly after a lag of six months; b) the broad money stock (M2) is a more important determinant of prices than narrow money (M1); c) decontrol of prices in recent years has raised the rate of inflation, but the effect has been small, presumably because controlled prices have been periodically revised to follow the trend of free-market prices; and d) changes in the prices of domestic petroleum products have had a significant impact on consumer prices (Annex III). However, quantifying the (relative) importance of the factors is difficult and requires the 'other things remaining equal' proviso. For example, between 1987 and 1988 the CPI in Kenya increased by 16.7 points. At the same time, the manufacturing unit value (MUV) index rose by 9 points. Using the estimated coefficient of 0.6763 (Annex III, equation [4]), this rise in MUV will have contributed 9.0x.6763 = 6.11 points to the rise in Kenyan CPI. In other words, 6.11/16.7 = 36.7 percent of Kenya's inflation in 1988 may be regarded as having been imported from abroad But this requires that other things, including the exchange rate, remain constant. In addition, since changes in other things like income and the interest rate are not isolated, their impact is captured jointly by the coefficients of MUV and the exchange rate, and by the residuals. On-going work will overcome this problem by using a more complete model in which variables like money, output, deficit and interest are endogenously determined in terms of exogenous variables such as the world price level and a range of policy instrument variables.

prices are collected to reflect the changes in shopping patterns, and changes to the basket and weights of goods based on the findings of the 1982 Urban Household Budget Survey (Annex II). Since the results of this Survey are now almost 10 years old and given the changes the economy has since undergone, the Government plans to administer a new household survey in 1992. The results will be used to further revise the CPI. Until then, the old and revised estimates of inflation should be interpreted with caution (Box 2.1).

External Viability

2.5 In Kenya, the issue of external viability--the sustainability of the balance of payments--concerns not only the performance of exports and imports, but also the volume and reliability of aid flows to finance the budget and the external deficits, and the underlying macroeconomic posture. All this is not readily captured by a single number or by a collection of numbers. Instead, an assessment of external viability requires some judgment about whether or not the basis for a healthy overall balance of payments performance was further strengthened.

2.6 On the positive side, Kenya continued in 1990 to implement adjustment policies aimed at diversifying the export base, accelerating export growth, and liberalizing and improving the efficiency of import rationing. In 1989, donor funding associated with these on-going reforms helped to improve Kenya's reserve position expressed in months of imports. These inflows tapered off in 1990, partly because only one new policy-based adjustment operation, the main vehicle for such funds, was finalized late in the year. The reserve position with respect to imports also deteriorated. Separately, in an attempt to reduce the burden of future external debt service payments, external borrowing on commercial terms by the public sector was limited. Another positive development, but with only limited short-term benefits, was the decision in October 1990 to limit government and parastatal imports.

2.7 However, external viability was significantly compromised by the expansionary fiscal stance which increased aggregate demand pressures, pushed up inflation, eroded real production incentives and undermined confidence in Kenya's economic management. The next section elaborates on this fiscal stance.

Sources of Instability

2.8 **First**, the major cause of renewed instability was the worsening of the budget deficit from 4.7 percent of GDP including grants in FY90 (commitment basis) to 6.8 percent of GDP in FY91 (Table 2.1). The deficit was partly financed by borrowing from the domestic banking system preliminarily estimated at 4.1 percent of GDP. In 1988 and 1989, Central Government borrowing from the banking system contracted by 8.7 percent and 3 percent respectively. That of public enterprises also declined by 2.8 and 19.8 percent during the same period. In 1990, however, Central Government borrowing grew by 58.9 percent while borrowing by other public enterprises rose by 17.1 percent. Largely as a result, broad money grew by 20 per cent during 1990 (Table 2.2), the highest rate since 1986 when it increased by a record 32.5 percent. Annex III confirms that the fiscal imbalances and the related monetary movements are important causes of recent inflation in Kenya. It also suggests that an average lag for the transmission of monetary factors to prices is two quarters.

Table 2.1
Summary of Central Government Finances, FY86-91
(In Millions of Kenya Pounds)

	FY86	FY87	FY88	FY89	FY90	Prel. FY91
Revenue and grants	1,269	1,461	1,796	2,056	2,413	2,660
Revenue	1,215	1,398	1,637	1,869	2,144	2,452
Grants	55	63	159	187	269	208
Expenditures	1,597	1,872	2,004	2,441	2,856	3,230
Recurrent	1,293	1,509	1,599	1,958	2,096	2,457
Development and net lending	304	363	405	483	761	773
Deficit	-328	-411	-208	-385	-443	-570
Adjustment	37	3	-92	-11	63	-154
Cash Deficit (incl. grants)	-291	-408	-300	-396	-380	-724
Financing:						
Foreign (net)	-48	2	71	200	312	207
Domestic	399	406	228	196	69	517
Bank	97	251	4	119	-16	437
Nonbank	243	155	232	77	85	80
Memo items: (% of GDP)						
Expenditures	29.3	30.1	28.4	30.2	30.6	30.2
Deficit:						
Including grants	5.3	6.6	4.3	4.9	4.1	6.8
Excluding grants	6.3	7.6	6.5	7.2	7.0	8.7
Nominal GDPmp (est.)	5,456	6,217	7,055	8,084	9,324	10,709

Source: IMF estimates; Statistical Appendix, Table 2.3; and staff estimates.

The cash deficit for FY89 was increased by K£91.3 million to reflect the increase in the stock of unpresented checks at the end of June 30, 1989, which was largely liquidated through bank financing in early July 1989. The figure for domestic bank financing was adjusted accordingly. Nominal GDP on a fiscal basis is an average of calendar years.

2.9 **Second,** in nominal terms, the shilling depreciated by 17.8 percent against the SDR and by 11.2 percent against the US dollar in 1990. The figures for 1989 were 10.5 percent and 16.4 percent respectively (Statistical Appendix, Table 6.5). Set against increases in international prices and imports equivalent to 23.9 percent of GDP at market prices, the immediate impact of the depreciation was to raise the domestic price level. This conclusion is supported by the empirical analysis in Annex III which also cautions that the subsequent impact of the exchange rate depreciation may be to lower domestic prices as export growth and GDP growth accelerate.

Table 2.2
Growth of Selected Components of the Money Supply, 1987-90
(Percentages)

	1987	1988	1989	1990
Total Money Supply	11.2	7.9	12.9	20.0
Money	9.7	5.9	8.6	27.5
Quasi Money	13.3	10.8	18.6	11.0
Domestic Credit	20.4	6.7	6.9	26.6
Central Government	30.0	-8.7	-3.0	58.9
Other Public	26.9	-2.8	-19.8	17.1
Private Sector	13.2	19.6	15.6	11.8

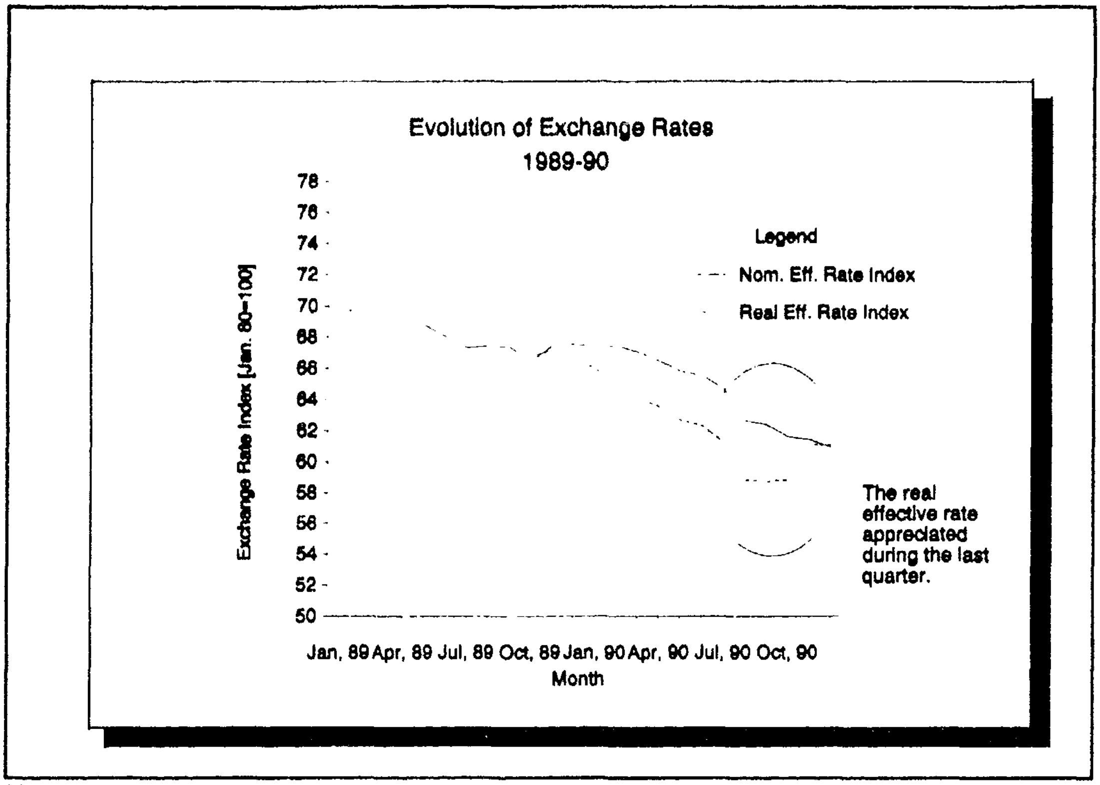
Source: Statistical Appendix, Table 6.1

Third, price decontrol, which started in 1984, gathered momentum around the end of 1986 and continued into 1990. This partly explains why the weight of price controlled items in the CPI fell from around 40 percent in 1977 to under 25 percent by 1990 (Annex II). However, estimates also suggest that every one percent fall in the weight of price controlled items (in the CPI) as a result of price decontrol raises (suppressed) inflation by a mere 0.07 percent, other things being equal (Annex III). **Fourth**, the Gulf crisis also contributed to higher prices but its full effect is being felt in 1991. In any case, the fiscal imbalance and the monetary expansion which financed it appear to have been enough to sustain the rate of general price increases at the elevated 1989 level.

B. Consequences of Instability

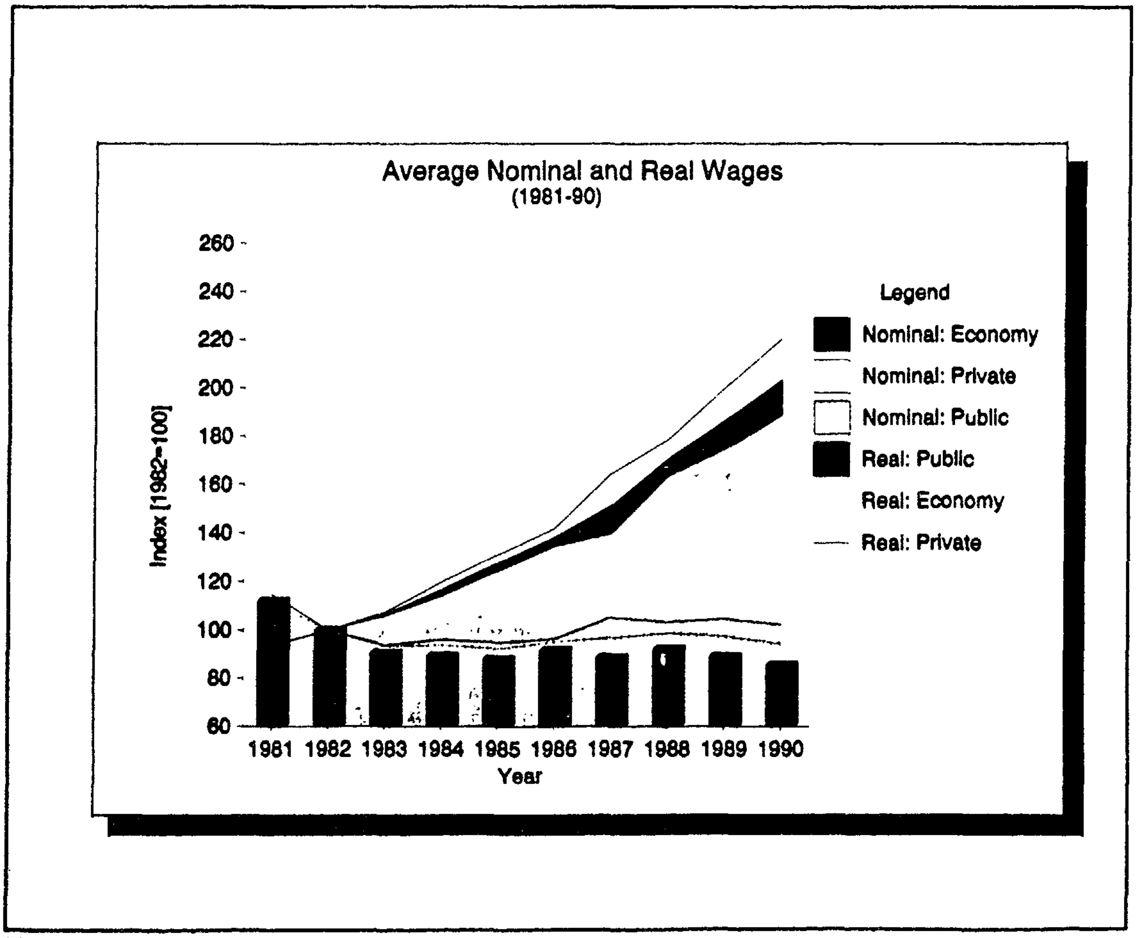
2.10 Two sets of consequences are of primary concern here. The first is the impact of inflation on real incentive indicators shown in Table 2.3. By the end of the year, the real effective exchange rate had fallen by 11 percent, in line with the nominal target of the stabilization program. However, because of higher inflation, the rate actually appreciated during the last quarter of the year (Figure 2.1). Table 2.3 also indicates that because nominal wages were kept from rising commensurately with prices, real wages also deteriorated (para. 2.26 and Figure 2.2). Higher inflation also eroded real prices in sectors such as agriculture (Table 1.3). By extension, it may have also undermined other real price incentives which were created by reforms in the industrial, agricultural and financial sectors, and which give impetus to higher levels of sustained growth. Also by extension, inflation that was 4.5 percentage points higher, as preliminarily suggested by the revised CPI, would have had an even more damaging effect on real incentives and on the prospects for sustained growth.

2.11 The second concern is that any deterioration in external viability would introduce uncertainty to the Government's import liberalization efforts. In October evidence emerged that



Evolution of Exchange Rates
1989-90
Exchange Rate Index [Jan. 90=100]
78
76
74
72
70
68
66
64
62
60
58
56
54
52
50
Legend
Nom. Eff. Rate Index
Real Eff. Rate Index
The real effective rate appreciated during the last quarter.
Jan, 89 Apr, 89 Jul, 89 Oct, 89 Jan, 90 Apr, 90 Jul, 90 Oct, 90
Month

Figure 2.1



Average Nominal and Real Wages
(1981-90)
Index [1982=100]
260
240
220
200
180
160
140
120
100
80
60
Legend
Nominal: Economy
Nominal: Private
Nominal: Public
Real: Public
Real: Economy
Real: Private
1981 1982 1983 1984 1985 1986 1987 1988 1989 1990
Year

Table 2.3
Key Incentive Indicators, 1984-90
(Percentages and Indices [1980=100])

	1984	1985	1986	1987	1988	1989	1990
Exchange rate							
(%) change							
Nominal effective	6.0	-4.4	-11.0	-7.0	-4.5	-0.3	-5.5
Real effective	7.5	-1.4	13.3	-9.6	-7.9	-4.2	-11.0
Real interest rates a/							
Savings	2.0	0.3	5.4	3.9	-0.7	2.4	0.9
Lending	5.0	3.3	8.4	6.9	4.3	4.9	6.4
Index of real wages b/							
Private sector	83.8	82.5	83.9	91.8	90.2	91.2	89.3
Public sector	85.3	84.1	87.5	84.9	88.3	85.3	81.9
Inflation c/							
Nairobi CPI index	171.8	190.1	200.8	215.1	238.1	263.4	296.5
Annual increase (%)	9.1	10.7	5.6	7.1	10.7	10.6	12.6

Source: Statistical Appendix, Tables 6.4, 6.5 and 11.4

Notes:
a/ Commercial banks' savings rate and maximum rates on loans for less than three years.
b/ Nominal average wage earnings per employee adjusted by the Nairobi CPI.
c/ Average Nairobi CPI for all income groups.

the processing of import licenses was taking 10 or more weeks instead of the earlier average of 5-6 weeks. The delays were partly a precautionary measure against further claims on reserves at a time of escalating oil prices and growing uncertainty about the course of the Gulf conflict. One reaction of importers was to submit multiple applications for licenses in the hope of preserving their position in the queue. Responding in February 1991, the Government decided to return all applications for licenses for resubmission and promised to process and issue them within a week. Although the import liberalization and export development programs were not rolled back, this episode created much concern, especially among manufacturers.

C. Management of Instability

Budgetary Policies

2.12 The Government initially set its FY91 budget deficit target at 3.8 percent of GDP (including grants). Faced with a sharp deterioration in Kenya's external terms of trade in late 1990, the Government reduced its budget deficit target to 2.5 percent of GDP. The tightening of the fiscal stance was to be achieved through revenue-generating and expenditure-cutting measures of almost equal magnitude.

2.13 Despite implementation of revenue measures, the fiscal outturn in FY91 was very disappointing. Efforts to reduce expenditure were not successful because of unbudgeted spending by a few key ministries, increased interest on domestic debt, the assumption of additional parastatal debt service obligations, and the reversal of some of the additional expenditure cuts which were proposed in October 1990 to tighten aggregate demand. Some of the pressures on expenditure were associated with the doubling of the university intake, and the impact on the Government's domestic debt service caused by the liberalization of the financial system.

2.14 **The FY92 Budget.** The FY92 Budget targets a substantial reduction in the deficit to 2 percent of GDP (including grants). This will correspond to external grant receipts equivalent to 2.2 percent of GDP, an increase in revenue to 23.7 percent of GDP, from 22.9 percent in FY91, and a reduction in the level of expenditures as a percentage of GDP to 27.9 percent, from 30.2 percent in FY91. No borrowing from the domestic banking system is anticipated.

2.15 **Revenues.** The revenue target is to be attained through the adoption of discretionary measures announced in the FY92 budget, the full fiscal-year effect of tax measures adopted in November 1990 and February 1991, and improvements in tax administration. Based on the expected improvements in tax collections and allowing for the full fiscal-year impact of the VAT on petroleum products, the Government projects that revenues will increase to roughly 95 percent of the targeted level. The remainder will accrue from the discretionary measures announced in the FY92 budget. These include: increased revenues from the extension of excise duties to an additional range of domestic goods and to imported goods; a minimum import duty of 2 percent on many previously duty-free items; the elimination of import duty exemptions except those provided by treaties and specific international agreements; and the introduction of a uniform VAT rate of 18 percent on both outputs and inputs of a large number of items, and increased VAT rates on a number of low tax rate items. Additional revenues are also expected from the introduction of user charges at universities, and the reintroduction of outpatient fees for health services. The Tax Modernization Program, which was introduced in 1990, seeks to improve tax collection and administration. The 3 planks of the program are modernizing the structure of taxation in Kenya, strengthening the analytical capacity and operational efficiency of the tax departments, and computerizing the tax systems.

2.16 The revenue target takes into account the Government's ongoing rationalization of the tax structure which is aimed in part at enhancing production incentives. The corporate rate declined from 40 percent in FY91 to 37.5 percent in FY92. The lowering of tariff rates, which began in 1989 as part of the Government's industrial sector reform program, is continuing in FY92 with the reduction of the maximum tariff rate to 70 percent. The Government also announced, as part of the FY91 budget speech, the removal of the 50 percent tariff and VAT on air freight charges on imported cargo, and duty exemptions for the import of equipment for externally-financed new hotel construction. The number of VAT rates was also reduced from 15 to 8 while the maximum rate was lowered from 150 percent to 100 percent.

2.17 **Expenditure.** The crucial test for budgetary policy will be to contain expenditure. This is to be accomplished through approximately equal reductions in recurrent and development expenditures as shares of GDP. In the FY92 recurrent budget, the Government has undertaken to limit the increase in the number of posts above grade G, and to reduce the number of A to G positions by two percent below the number in post at the end of 1990. In addition, expenditures on defense, security and public administration are to be reduced in real terms. In the education sector, savings will be achieved by limiting new university enrollments to 10,000, as compared to 21,488 in FY91 (an extraordinary year), and by increasing the pupil-teacher ratio to a level that would allow zero growth in the employment of primary teachers. The Government is also phasing in, over three years, the recommended wage increase for civil servants (Chapter 3). On the development side, the Government does not intend to finance any new projects which are not funded by donors in FY92. Furthermore, in FY92 the Government will review the major projects in the Public Investment Program, especially in Energy, Transportation, Telecommunications, and Health. It is also committed to reforming the parastatal sector in an attempt to reduce the burden on the budget. The performance of large parastatals, which in the recent past has forced the Government to meet a substantial amount of their debt servicing obligations, will be critical in meeting the budget deficit target.

2.18 It is becoming increasingly uncertain that the budget deficit of two percent of GDP (including grants) will be met in FY92. Even if the revenue target were reached, the Government would need to compress expenditure by over four percentage points at time when GDP growth is expected to slow further. Achieving this is uncertain for three main interrelated reasons. **First**, the scope for cutting development expenditure, which in FY91 was about 7.5 percent of GDP is limited. If all own-funded projects were eliminated, the development budget would probably be lower by only about two percentage points, given the number of externally funded projects and the programmed external financing. As such, recurrent expenditure would have to absorb the rest of the cuts necessary for reaching the deficit target. **Second**, several large components of recurrent expenditure are set to rise at least in nominal terms. They include the wage bill, following the recent salary adjustment (Chapter 3) and domestic debt service, due in part to the liberalization of interest rates. **Third**, given the timetable for parastatal reform, public enterprises will continue to require large transfers and some may need additional amounts to cover debt service obligations. Under these circumstances, it is likely that non-wage operations and maintenance expenditures would be cut but the room for doing so without downsizing the civil service is also limited. Indeed, success at stabilization is increasingly dependent on containing the public sector wage bill and improving the financial independence of parastatals. This is as necessary as it may be difficult, and should be pursued aggressively until the appropriate targets are reached.

Monetary and Interest Rate Policies

2.19 Although the Government is attempting to improve the efficiency of monetary policy instruments, monetary policy in Kenya is essentially driven by fiscal policy. With limited autonomy to set an independent monetary course, the Central Bank of Kenya (CBK) has no option but to accommodate the domestic borrowing requirements of the Central Government. In Kenya, borrowing from the banking system serves as residual financing for the budget deficit. Furthermore, Central Government borrowing from the banking system in recent years has exerted a more significant influence on the money supply than the combined effect of the other monetary aggregates. Unless the Government can succeed in substantially reducing the budget deficit, monetary policy is likely to continue adding to inflationary pressures.

2.20 The CBK has a number of monetary policy instruments at its disposal to regulate expansion of domestic credit. The daily cash reserve requirement (which has been 6 percent for commercial banks since December 1986) and the liquid asset ratios (20 percent for commercial banks and 24 percent for NBFI's since 1983) have not been used by CBK to regulate credit expansion. Although these mandatory requirements have been, on average, less than what financial institutions as a group maintain voluntarily, there are a number of individual institutions which are not meeting these minimum requirements. Concern over the status of these weak financial institutions has prevented CBK from either enforcing minimum liquidity requirements or adjusting them to control credit expansion.

2.21 These instruments have been supplemented since December 1987 by quantitative ceilings on the growth of domestic credit. But until May 1990, when a new system was introduced whereby 20 percent of any excess credit extended had to be placed in a non-interest bearing account, banks violated the ceilings. It should be of concern, however, that the burden of adjustment has fallen almost entirely on the private sector and escaped the parastatal sector. Moreover, the deceleration of private sector borrowing was completely offset by growth of Central Government borrowing from the banking system.

2.22 As part of the Government's financial sector reform policies, attempts are being made to abandon inefficient monetary policy instruments and strengthen monetary control. In 1990, CBK removed controls on lending-related fees and charges, effectively freeing interest rates. In late 1990, the Central Bank improved the T-bill auction system and in July 1991, interest rates were fully deregulated. Earlier, in June 1991, CBK converted about K Sh 4.5 billion of its claims on the Central Government (bank overdraft) into a trading portfolio of Treasury Bills. In principle, CBK can use this portfolio to stabilize both monetary expansion and interest rates. By discounting its Treasury Bills at rates higher than the prevailing interest rate, CBK should be able to withdraw excess liquidity from commercial banks. This contractionary policy would raise interest rates to a level consistent with tighter liquidity and diminish the demand for credit.

Wage Policies

2.23 Wages in Kenya, particularly among unionizable workers, are influenced to a large degree by the wage guidelines which are recommended by the General Wages Advisory Board. The latter comprises representatives from the Ministries of Labour, Manpower Planning, Finance, and Planning and National Development, and Trades Unions. It is empowered by the Regulation of Wages and Conditions of Employment Act 1989 (1980) to: (i) specify the basic minimum wages, which in the opinion of the Board, should be paid to all or any of the employees coming within its terms of reference; (ii) propose regulation of wages and other conditions of employment of all or any of such employees; and (iii) recommend that a wages council be established in respect of such employees, to consider any matter affecting the industrial conditions of employees and employers within its purview. 5/

2.24 When necessary, the wage guidelines are enforced on collective bargaining agreements through the rulings of the Industrial Court. In fact, in matters of wages and salaries, the Court is bound by the wage guidelines. The relevant powers of the Court include: (i) accepting collective bargaining agreements for registration; (ii) refusing to accept such an agreement for registration and referring it back to the parties for further negotiation; and (iii) ruling on matters related to the interpretation of such agreements (Republic of Kenya, 1989c, Chapter 234, pp. 12-17). Its decisions are final. Here it should also be mentioned that strikes are deemed unlawful unless a report of a trade dispute has been made in writing to the Minister of Labour and 21 days

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5/ The police, members of the armed forces, the National Youth Service and civil servants are exempted. Workers in agriculture are also excluded, falling instead under the Agricultural Wages Advisory Board have elapsed since the date on which the report was submitted, and unless the lead time for such action expires as per the collective bargaining agreement. 6/

2.25 The wage guidelines have two explicit primary goals. The **first** is to encourage the expansion of employment by ensuring that wage settlements do not exceed productivity increases. The **second** and related goal is to dampen inflationary pressure by holding increases in the total wage bill below the rate of general price increases. The latest guidelines, which were issued in February 1987, stipulated that: (i) wage increases should not exceed three quarters of the rise in the cost of living excepting for lower paid workers (who could receive the full amount of the cost of living increase); (ii) where applicable, additional compensation for housing should be allowed provided it did not exceed one-half of the permissible percentage compensation due to the workers; (iii) the Industrial Court should seek to limit increases in wages in one industry if this would force wages up in other industries which "... are less able to afford ..." them; (iv) special efforts should be made to ensure that "higher wages do not lead to higher prices whether in export industries or industries producing primarily for the local market" (Republic of Kenya, 1987); and (v) ultimately, awards received by one group of workers should not be significantly out of step with those given to workers with similar skills. For the first time, the guidelines urged the Court to ensure that salary awards did not make parastatals more dependent on the Exchequer.

2.26 Not surprisingly, Figure 2.2 shows that in the private and public sectors, real wages were lower in 1990 than in 1981. The most significant decline was in real wages in the public sector. In the private sector, real wages were eroded more during the first half of the decade but recovered somewhat during the latter half. The pattern was similar for the public sector but was less pronounced. Thus it appears that wage policies have been successful in minimizing the negative impact of salary increases on inflation. One caveat though is the impact of salary increases in the Central Government on the fiscal deficit and monetary expansion, and thereby on inflation.

2.27 Apart from limiting the inflationary impact of wage increases, wage guidelines and the related labor regulations, appear to have limited disruptive disputes between workers and employees. However, until further investigation is undertaken into the adverse consequences of these guidelines, it would be reasonable to speculate that they may have: (i) created greater inequity between the wages of unionized and non-unionized workers; (ii) distorted the relationship between productivity and pay, and thereby undermined efficiency; (iii) in addition, compressed relativities between more skilled and less skilled workers; and (iv) undermined the incentives for creating employment by limiting the flexibility with which employers can hire, reward and fire workers.

Exchange Rate Policy

2.28 While exchange rate depreciation can be inflationary in the short-run, it has an important role in the long-run evolution of the economy. The level of the real exchange rate helps to determine the market incentives for export development and the level of protection afforded import-competing activities. Since 1982 the Government has essentially followed a flexible

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6/ ibid., p. 20. A strike would also be deemed unlawful if the Minister refuses to accept the report, unless the Industrial Court revokes that refusal.

exchange rate policy. The real effective exchange rate depreciated by 11 percent in 1990 (Table 2.3). Over the period 1982-90, the real effective exchange rate depreciated by 38.2 percent. Against the US dollar, the shilling depreciated by 47.3 percent over the same period.

External Debt

2.29 Kenya owed its external creditors an estimated total of $5.3 billion (including IMF) as of December 31, 1990 on medium- and long-term public and publicly guaranteed debt (PPG) (Table 2.4). Approximately 56 percent of Kenya's long-term PPG debt (excl. IMF) at end-1990 was concessional in nature compared with 54 percent at end-1989. Nevertheless, the average interest rate on new commitments of this debt rose from 2.9 percent in 1989 to 4.4 percent in 1990. At the same time, the average maturity decreased from 28.4 years to 22.6 years while the average grace period decreased from 7.9 years to 5.6 years. The grant element was 41.6 percent in 1990 as opposed to 57.1 percent in 1989.

2.30 Kenya paid its creditors $601.8 million in debt service (including IMF) during 1990, equivalent to 27.2 percent of exports of goods and services (Table 2.4). Commercial creditors,

Table 2.4
Public and Publicly Guaranteed External Debt, 1986-90
(In Millions of US Dollars)

	1986	1987	1988	1989	1990
Debt Outstanding and Disbursed	3,926.1	4,723.1	4,621.5	4,532.9	5,291.9
Multilateral (excl. IMF)	1,615.2	1,971.2	1,919.3	2,126.5	2,472.1
Bilateral	1,312.6	1,683.4	1,648.1	1,328.1	1,431.6
IMF (incl. Trust Fund)	459.8	401.3	455.4	415.4	482.1
Other a/	538.5	667.9	598.7	662.9	906.1
Total Debt Service (incl. IMF)	530.7	562.3	553.9	643.6	601.8
Amortization	331.7	355.2	346.2	448.4	387.5
Interest	199.0	207.1	207.7	195.2	214.3
Total Debt Service Ratio (%) b/	27.8	32.4	29.3	33.1	27.2

Source: Debt Reporting System

a/ Suppliers' credits, financial institutions and export credits.
b/ PPG debt service as a share of exports of goods and services.

who account for 8.0 percent of the debt stock, received 11.2 percent of these payments. Multilateral and bilateral creditors are owed 82.9 percent of PPG debt but their debt service payments equalled 77.0 percent of PPG debt service.

2.31 Although Kenya's debt service burden is large, it has been manageable partly because sectoral reform efforts have been supported by debt forgiveness from creditor governments such as France, Germany, the United States and the United Kingdom. Also, Kenya's debt management strategy has basically been sound, involving:

- centralized coordination, approval, recording and monitoring of debts contracted and guaranteed by the public sector;
- strengthening of debt recording and improvement of the quality and coverage of debt service projections;
- limits on the amount of non-concessional public and publicly guaranteed loans and preference for long-term over short-term borrowing;
- minimizing the exchange and interest rate risk borne by the Government; and
- maintaining creditworthiness by full and timely payment of debt service payments. This is facilitated in part by foreign exchange budgeting.

2.32 However, some weaknesses exist, including:

- resort to informal loan guarantees which do not require parliamentary approval and could circumvent the prudent debt limits set by Parliament;
- institutional weaknesses which point to the need to clarify the role of the Government Investment Division in enforcing the collection of parastatal debt service payments, and closer coordination between the Central Bank and the Treasury to avoid delays in externalizing of parastatal debt which attracts penalties;
- procurement by some parastatals of external debt outside the debt management system;
- non-payment of debt service by parastatals; and
- limited scope for 'managing' international reserves due in part to their extreme scarcity and the need to provide foreign exchange liquidity for day-to-day transactions.

2.33 Another weakness lies in the potential fiscal burden arising from the recently established Exchange Risk Assumption Fund, under the Financial Secretary in the Treasury. The purpose of the Fund is to cover foreign exchange losses associated with external loans directly acquired by or on-lent by the Government to three Development Finance Institutions (DFIs), namely, the Development Finance Company of Kenya (DFCK), the Industrial and Commercial Development Corporation (ICDC), and the Industrial Development Bank (IDB). The Fund became operational in February 1991. It requires that these DFIs each deposit two-and one-half percent per year of the external amounts owed in K Sh (in addition to the contractual debt service payments in K Sh) into the Fund. From these deposits, the Fund would then meet the K Sh equivalent of the debt service payments falling due. The amount owed on the basis of which the K Sh contribution of each DFI is calculated by converting the external loans of the DFIs as of July 1, 1989 into K Sh equivalent amounts using the exchange rate that prevailed on that d y. For loans contracted thereafter, conversion into K Sh is computed at the prevailing exchange rate on the day the loan is disbursed. A contract of this K Sh amount owed is drawn up to stipulate the amount to be paid each year into this Fund. The extra two and one half percent of the amount owed which is paid into the Fund (over and above the approximate debt service obligations in K Sh calculated on the basis of the exchange rate prevailing at the time of loan disbursement) is meant to cover the foreign exchange risk of the debt service falling due.

2.34 As it stands, the Fund effectively caps the exchange rate losses which DFIs can incur directly through foreign exchange risks. Derivatively, if the foreign exchange loss is greater than two-and-one half percent, the Government would assume its liability. The illustration in Table 2.5 makes these points. It shows a US dollar denominated debt of $100 million at end 1989, with fixed annual amortization payments of $20 million and interest of $10 million. At the average 1989 exchange rate, the debt stock would be equivalent to K Sh 2.1 billion. The amount contributed to the Fund would therefore be the debt service plus K Sh 51.7 million in 1989, K Sh 41.4 million in 1990, and so on. If it is assumed that the exchange rate (K Sh per US$) depreciates as shown, the Government via the Fund would be required to provide cumulatively K Sh 570 compared with a contribution by the DFIs of K Sh 144.9. If there is no scope for increasing the DFIs' contribution to the Fund, the Government should make explicit the implied subsidy to these institutions, given their developmental role and the overall thrust of recent reforms in the financial sector.

2.35 The ability of the Government and the economy to bear this financial burden and the overall foreign exchange requirements of servicing external debt is strongly linked to the speed and effectiveness with which the destabilizing pressures on the fiscal deficit are brought under control. Here there is a short-term issue of stabilization as well as the longer-term challenge of raising export growth.

2.36 In the short-term, Kenya faces some difficult but necessary policy choices and these will either help or hinder the immediate and medium- to long-term course of the economy. In discussing the consequences of renewed destabilizing pressures, this chapter has emphasized that inflation is eroding the real incentives which are needed to sustain and accelerate growth. It is also compromising the balance of payments. The main remedy, and one to which the highest priority should be given, is expenditure reduction. This will test the Treasury's ability to impose discipline on key line ministries and to correct the structural deficiencies which are driving expenditures. A major deficiency discussed in Chapter 3 is the size of the civil service and the associated wage bill. Chapter 4 also links poor parastatal performance to the fiscal problem but its main purpose is to demonstrate that economic growth would be enhanced if comprehensive parastatal reform were also undertaken. Chapter 5 then illustrates why, ultimately, no other policy choices will serve the Kenyan economy better.

Table 2.5
Illustration of Government Exposure to Foreign Exchange Risk Under the Exchange Risk Assumption Fund

	1989	1990	1991	1992
End year debt stock (US$ million)	100.0	80.0	60.0	40.0
Debt service due (US$ million)	30.0	30 0	30.0	30.0
Amortization	20.0	20.0	20.0	20.0
Interest	10.0	10.0	10.0	10.0
End year debt stock for calculating contribution to the Risk Assumption Fund (KSh million) a/	2,070.0	1,656.0	1,242.0	828.0
Cumulative contribution to Risk Assumption Fund (KSh million) b/	51.7	93.1	124.2	144.9
Debt service due (KSh million)	621.0	693.0	804.0	936.0
Amortization	414.0	462.0	536.0	624.0
Interest	207.0	231.0	268.0	312.0
Debt service paid as per provisions of the Assumption Fund (KSh million) c/	621.0	621.0	621.0	621.0
Amortization	414.0	414.0	414.0	414.0
Interest	207.0	207.0	207.0	207.0
Cumulative difference between debt service due and debt service paid as per provisions of the Assumption Fund (KSh million)	0.0	72.0	255.0	570.0
Cumulative risk assumed by the Government (KSh million)	0.0	0.0	130.8	425.1
Memo items:				
Exchange rate (KSh/US$)	20.7	23.1	26.8	31.2

Source: Staff estimates

a/ End-year US$ stock converted at the 1989 exchange rate. Exchange rate (KSh/US$) in 1991-92 are illustrative.

b/ Equivalent to 2.5 percent of debt outstanding, where the debt is calculated at the 1989 exchange [illegible]

c/ Debt service payments converted at the 1989 exchange rate.

Chapter 3

Re-investing in Stabilization and Growth Through Central Government Adjustment

"The important thing for government is not to do things which individuals are doing already, and to do them a little better or worse; but to do those things which ... are not done at all." (Keynes, 1926)

Introduction

3.1 Two sets of concerns converge in this Chapter. The first arises from the central message emerging from Chapters 1 and 2: although the economy has grown by around 5 percent per year since 1985, the incentives necessary for sustaining this performance are being eroded by destabilizing pressures which originate primarily in fiscal imbalances. The second and related concern is the need to better understand the factors which limit the effectiveness of recent attempts to correct systemic problems of government expenditure.

3.2 With this in view, Section A reviews the implementation and evaluates the accomplishments of two recent efforts, the Budget Rationalization Program (BRP) and the Public Investment Program (PIP). It concludes that each has achieved a measure of success in refining the process of expenditure allocation but neither has, or indeed can, alleviate the underlying forces which limit the scope for using expenditure more efficiently. To identify and understand the origin of these forces, Section B looks at the organization and functions of the Central Government while Section C focusses on its employment, pay and productivity. Both sections conclude that there are pressing issues of efficiency and effectiveness which require urgent policy reform. At the end of the chapter, Section D makes the case for broader reforms which reduce the complexity of government, eliminate duplication and discontinue functions which can be better left to the private sector. The forceful case for comprehensive pay and employment reform is also noted. Without it, budgetary resources will not be available to increase allocations to non-wage operations and maintenance (O&M) or to provide compensation packages which can attract and retain staff in higher job groups.

A. Some Attempts at Limited Central Government Reform

The Budget Rationalization Program

3.3 The Government introduced the BRP in 1985 with the primary aim of increasing the productivity of Government expenditures. This was to be achieved, in part, by ensuring the provision of adequate resources for O&M, and by concentrating financial and managerial resources on a smaller number of high-priority projects. The need for the BRP stemmed from the Government's recognition of the principal limitation of the budgetary process, namely, the absence of a clear prioritization of expenditures. One consequence was that ministries frequently violated expenditure ceilings set by the Treasury. Another was a blurring of the distinction between recurrent and development estimates, with Ministries attempting to finance underfunded items in the former through the latter. [7]

7/ For a more detailed discussion of the rationale for the BRP, see World Bank (1989a).

3.4 The Forward Budget has been the principal instrument for implementation of the BRP. It was introduced as a link between the Development Plan and the Annual Budget, which would achieve an appropriate balance between current and capital expenditures. But initial attempts to implement the BRP did not really begin until the Treasury Forward Budget Circular of July 1985 was issued. That circular required: (i) the preparation of policy statements on expenditure priorities by line ministries; and (ii) the identification of high priority projects as well as lower priority projects which could be deferred, redesigned or even canceled in favor of more important expenditures.

3.5 To date the BRP has achieved some success in process issues but this has not translated into a more efficient allocation and utilization of expenditure. Specifically, ministries are now issued a Forward Budget Circular calling for submissions well in advance of the Forward Budget period. The circulars are comprehensive and provide each ministry with overall ceilings, as well as ceilings on wages and salaries. An element of discipline and planning has been introduced in that the circulars emphasize that "projects and programs not included in the first year of the forward budget will not be considered for inclusion in the draft estimates [for the next fiscal year]." The whole process now unfolds within parameters set by the broader macroeconomic framework, including targets for the budget deficit, domestic and external borrowing, and Central Government expenditures. With these targets in mind, ministries now attempt to prioritize their budget submissions to the Treasury. In turn, the Treasury has improved its monitoring of Central Government expenditures.

3.6 These improvements in the budgetary process have not achieved a reallocation of expenditures to non-wage O&M, or a concentration of limited resources on high priority projects. On the contrary, the ratio of O&M expenditures to personnel expenditures continued to decline even after the BRP was introduced. For instance, between FY81 and FY86, non-wage O&M declined as a percentage of total recurrent expenditures from 36 percent to 26 percent. However, since FY86, when the BRP was introduced, it declined even further to 22 percent. The decline was even more pronounced in some sectors. One example is the expenditure on transport in the Ministry of Agriculture (Peterson, 1991). It fell as a percentage of emoluments from 18 percent in FY81 to 14 percent in FY86 and 12 percent in FY90. Over the same period, maintenance declined from 22 percent to 14 percent and 9 percent. Bank experience across regions indicates that wherever O&M allocations have become seriously deficient, the productivity of the public sector has deteriorated (World Bank, 1991g, p. 9). Furthermore, when this particular case is judged by independent estimates of the O&M requirements of these ministries, the revised budgetary allocations for FY91 provided only 12 percent of the Ministry of Agriculture's requirements for effective transport, and a mere 13 percent and 18 percent respectively of the requirements for travelling and maintenance. In the Ministry of Livestock Development, only 8 percent of transport's requirements was met, and 9 percent and 7 percent respectively for travelling and maintenance. These shortfalls amounted to K£52 million and K£91 million for the Ministries of Agriculture and Livestock respectively in FY91, and were equivalent to 82 percent and 167 percent of their development and recurrent budgets for FY91.

3.7 Three related factors explain the failure of BRP to achieve its targets. **First**, personnel emoluments were a significant and seemingly intractable amount of recurrent expenditure while the share of interest payments doubled. **Second**, because the burden of expenditure cuts fell primarily on nonwage recurrent expenditure, ministries depended on the development budget to finance O&M. Subsequently, releases from the development vote became more erratic. Ministries have reacted to this by turning more and more to the donor-financed portion of the development budget for the funding of their non-wage O&M. Consequently, they have been reluctant to reduce the number of projects in their portfolios as this would limit the number of candidates for aid funds. But since these too became erratic, many Government funded projects in the development budget became a pool of discretionary resources from which resources were reallocated during the course of the year to meet more urgent needs. **Third**, the political imperatives of the District Focus strategy coupled with the requirement that district projects should be shown as a separate sub-head in the budget, led to the application of geo-political criteria in the selection of Government financed projects. In turn, this resulted in a proliferation of many small and seriously underfunded projects. In essence, the uncertainties caused by delays and unexpected cuts in budgetary resources along with political imperatives have created an incentive structure which operates contrary to the objectives of financial management embodied in the BRP.

3.8 The challenge for the Government is to reintroduce elements of financial planning and discipline into the budgetary process. This will require adherence to expenditure ceilings on the part of even the most politically powerful ministries and better monitoring of state owned enterprises to avoid unplanned assumption by the Central Government of parastatal debt obligations. Line ministries which submit carefully prioritized budget requests should be afforded greater flexibility within their approved expenditure ceilings. Simultaneously, norms should be developed within ministries for O&M expenditures required for increased capacity utilization. This has been attempted in the Ministries of Agriculture and Livestock Development, and is planned for Education and Health.

3.9 However, refinements of the BRP alone will not result in any increases in the productivity of Government expenditures. Broader reforms are required to significantly reduce the wage bill from which funds could then be reallocated to the non-wage O&M expenditures and the development budget. But the BRP is also not geared to achieve the higher level of strategic forward investment planning which should precede and feed the Forward and Annual Budgets. The PIP is meant to fill this gap.

The Public Investment Program

3.10 At present, the PIP in Kenya consists of three main elements: (a) policy statements and lists of priority activities prepared by ministries and 10 state corporations; (b) an enumeration of projects together with information on their total estimated costs, cumulative expenditures, and the balance required for completion; and (c) expenditure phasing for each project.

3.11 In Government's view, the PIP differs substantially from the Forward Budget because it:

- explicitly requires the application of standard criteria to the selection of public investments;
- includes project data which form the basis for a more rational allocation of available funds for completing ongoing projects;
- covers investments of (a limited number of) state corporations, thereby providing early warning of their budgetary impact;
- provides data on project financing, including domestic and external borrowing;
- estimates the recurrent cost implications arising from public investments; and

- improves project selection, preparation and programming, and re-establishes the discipline of the project cycle.

3.12 For Kenya, the PIP represents an important step toward effective investment programming, with some potential for improving expenditure planning. [8] The work done so far constitutes the first attempt to compile very basic project data (including total cost estimates and cumulative expenditure) for so many projects in the public sector and will facilitate better estimates of the expenditures required for project completion. At present, however, there is no evidence that the designation of projects as high priority is based on any economic analysis or sectoral strategy Instead, items and data from the Forward Budget have been reproduced as the PIP, with supplementary information and narrative. The absence of recurrent cost estimates for projects is another major deficiency.

3.13 This outcome is not surprising, given that the PIP was driven by the Forward Budget. The latter was coordinated by the Ministry of Finance which required that each ministry submit short project briefs as part of the Program Review and Forward Budget (PRFB). There was little if any input from the Ministry of Planning and National Development which found itself dependent on these briefs for information on the PIP. However, if investment programming in Kenya is to be improved and sustained, there are some institutional issues concerning the role of the Ministry of Planning and National Development (MPND) which will have to be addressed urgently.

3.14 The Government will need to strengthen its planning systems. During the 1960s and 1970s, Kenya had a reasonably well functioning planning system, based on a clearly defined project cycle and regularly produced 5 year plans. The latter consisted of a review of the previous plan, and a macroeconomic discussion with GDP and balance of payments projections for the next 5 years. This was followed by sectoral chapters describing Government policies and an outline of the projects and programs which the Government intended to pursue in each sector. Sectors broadly coincided with ministerial portfolios, a format that lent itself well to setting out the programs and policies of each ministry.

3.15 During the 1980s, the planning mechanisms changed. Plans became shorter, dropped much of the details about projects, and focussed instead on cross-sectoral issues such as regional development and poverty. This coincided with the separation of the Ministry of Planning from Finance, with Planning becoming more and more remote from the annual budgetary process. MPND is responsible for staffing the planning cells in the line ministries and is in charge of the Economists Scheme of Service (currently consisting of 350 to 400 Economists). Hence, it is well placed to coordinate the policy analysis and project screening essential to investment programming. However, its role will have to be clarified and its leadership re-invigorated.

3.16 To be useful as a planning tool, the PIP should be located in and used by the planning units of the line ministries. This suggests a decentralized approach but with coordination from the center by MPND and the Ministry of Finance. MPND would be in charge of the project cycle and have primary responsibility for approving Project Briefs and Project Memoranda (though the Treasury would retain a voice and a veto power). MPND would also have responsibility for resuscitating the Sector Planning Groups which would periodically review ministerial programs for consistency with

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8/ This is not the first publication of a PIP by the Government. PIPs were produced in the early 1980s but the emphasis was on resource mobilization and the presentation of new projects for donor financing. The current PIP is the first attempt to "program" investments in Kenya.

sector strategies, and approve new projects. The Ministry of Finance, as aid coordinator, would prepare the annual summary of the PIP as part of the PRFB and also when Consultative Group (CG) meetings of donors are imminent. It would also continue to chair the Estimate Working Groups engaged in the PRFB.

3.17 Developing the PIP in the manner suggested above should entail only modest staff reallocation. Ministerial planning divisions would not require extra staff, since the PIP would effectively simplify the programming of departmental projects. MPND would need strengthening, but this is likely to be less a question of additional staff and more one of staff training and redeployment within the Ministry. In the Treasury the workload is likely to be heavier, particularly during the PRFB and prior to CGs. Accordingly, a small PIP coordination unit in the Budget Department consisting of 2 or 3 people might be needed. Alternatively, the task could be absorbed into the general PRFB workprogram of the Department (though this seems less likely, given the apparent budget workload). Additionally, staff would require training in project evaluation, and in the preparation, implementation and monitoring of the PIP.

3.18 To assist the planning units within ministries in preparing the PIP, a manual on PIP management should be prepared. It should be explicit about the information requirements, including priority rankings, estimates of recurrent and capital costs, and expenditures in relation to budgetary ceilings set by the Treasury. In due course, guidelines defining the project cycle documentation will need to be updated or replaced. These should distinguish between project briefs and more detailed project memoranda. The former should be a pre-requisite for inclusion in the PIP, and their clearance should involve the MPND and Treasury. In this phase, MPND's role should be to assess whether the proposed project fits into the sector strategy. The Treasury's role should be to review the financial aspects (perhaps on a no objections basis, subject always to compliance with annual budget and forward budget ceilings).

3.19 At present, the Government plans to prepare the PIP alongside the Forward Budget. The former would be delegated to the ministerial planning divisions but would be an input into the PRFB process. In the longer term, consideration should be given to replacing the Development Budget component of the Forward Budget with the PIP. The fact remains however, that even if the BRP and PIP achieve all of their objectives for public investment efficiency, they would not deal with the problems which beset expenditures as a whole (Box 3.1). Those problems are rooted in the organizational complexity and payroll of the civil service to which the next sections turn.

B. Organization and Functions of Central Government

3.20 The Central Government consisted of 19 ministries and 10 independent non-ministerial departments in FY71. By FY81, they had multiplied to 23 and 10, and now stand at 28 and 9 respectively. Equally significant was the increase in the number of functional departments and divisions from 132 and 442 respectively in FY81 to 148 and 550 respectively in FY92. The majority of these ministries and departments are responsible for the governmental functions common to modern states: (i) sovereignty, and law and order (ministries/departments responsible for foreign affairs, defense, home affairs, and judicial administration); (ii) economic including infrastructure (ministries responsible for finance, agriculture, public works, transport, energy, industry and commerce); and (iii) social development (ministries/departments responsible for education, health and manpower development). The proliferation of ministries is striking even if allowance is made for the expansion and functional specialization of Government during the past two decades.

Box 3.1
Collective Experiences of What Reform of Public Investment Programming Can Achieve [1/]
(and What it Cannot)

Frequently, the setting of reform is one in which the PIP exceeds the available domestic and external finances, and insufficiently analyses its macroeconomic linkages and implications. Resources are spread thinly over too many projects and, as a result, they are implemented poorly and perform below potential. Reform usually seeks to impose the discipline of the project cycle, and to concentrate scarce recurrent and capital resources on a smaller number of viable, high priority projects which are chosen on the basis of more selective screening criteria. As part of the reform efforts in many countries, a sub-group of "core" key projects is identified. The objective is to accord this "core" the highest priority for prompt donor funding and protection from any subsequent general cutback in government expenditure.

Generally, reform has succeeded in reducing the number of projects in the PIP but further reductions are desirable. However, governments are usually reluctant to do so because of the lure of potential aid funding, some of which covers O&M expenditures. The antidote is greater discipline on the part of the donor community and better aid management by recipient countries.

Selection criteria usually succeed in eliminating the worst of the lower priority and bad projects. Greater success would require application of the criteria earlier in the project cycle and increasing the number of staff skilled in project preparation and analysis. But even when such analysis is undertaken, there are still methodological problems in comparing rates of return across sectors. The pragmatic solution is to strengthen capacity to prepare sector strategies, build consensus around such strategies, estimate sectoral resource envelopes and improve the overall quality of policy analysis.

In some countries, "core" programs have helped governments to focus domestic counterpart resources on priority projects. In other countries, projects in the PIP have attracted more of the scarce resources. The first best solution, therefore, remains an appropriately sized and prioritized PIP which represents the "core" of critical investments.

Capacity constraints sometimes prevent governments from updating and rolling-over PIPs except when CG meetings are imminent but lack of enthusiasm for greater transparency in public spending can also be an obstacle.

As with O&M expenditure, experience has shown that it is necessary to go beyond PIPs and look at the composition of expenditures as a whole including major components such as the wage bill, debt, transfers and subsidies, military expenditure and development projects. Otherwise, the impact of better public investment programming on the efficiency and effectiveness of overall expenditure management will be modest.

1/ World Bank (1991h).

3.21 One consequence of this is that effective coordination has become difficult and jurisdictional disputes between ministries occur from time to time. In addition, the Government has become fragmented and multi-layered. As an example, an investor with an agricultural project in an arid area of the country may have five ministries to deal with: the Ministry of Agriculture, the Ministry of Reclamation and Development of Arid, Semi-Arid and Waste Land, the Ministry of Regional Development, the Ministry of Livestock Development, and the MPND Similarly, a research project in the agricultural sector may require contacts with the Ministries of Agriculture, Reclamation and Development of Arid, Semi-Arid and Waste Lands, Livestock, Water Development, Cooperatives, and Supplies and Marketing. And if either project touches environment-related matters, visits may also be required to the Ministries of Environment and Natural Resources, the permanent Presidential Commission on Soil Conservation and Afforestation, and any number of the 42 districts, each of which has a District Officer responsible for the environment. But these District Officers are usually not trained to deal with environmental matters.

3.22 Another example of the complexity of Government is the 6 ministries and departments responsible for various (or the same) aspects of manpower development and employment: DPM, PSC, the Ministry of Labour, the Ministry of Manpower Development and Employment, MPND, and the Ministry of Technical Training and Applied Technology (MTTAT). Prior to the creation of the last 2 ministries in 1988, employment issues were handled by the Ministry of Labour and the Department of Industrial Training. The latter is now in MTTAT. What is worse is that although manpower planning and the coordination of manpower development programs have been stressed in successive Five-year Development Plans and in some reports of ad hoc committees and commissions, there is no evidence that these overlapping structures have assured better performance of these tasks (Republic of Kenya, 1988b).

3.23 Complexity also derives from the existence of numerous British-style advisory committees and boards. While in Britain these bodies are small and have part-time members, in Kenya they have metamorphosed into permanent structures with full-time members and secretariats. Their staffs are also paid regular salaries from the state budget. Examples include the Presidential Commission on Soil Conservation which coexists with the numerous structures dealing with the environment, and the Presidential Commission on Music which coexists with the Ministry of Culture.

3.24 Outside of headquarters, the work of the Central Government is organized within 8 provinces and 42 districts. [9] Under the district focus strategy adopted in 1983, central departments and ministries should be effectively represented at the district level. Although this deconcentration has merits, it has caused duplication. A recent report found, for instance, that it was common to find a situation whereby the same farmer is visited on different days by several extension officers from various ministries who may give either conflicting advice or the same advice with different emphasis. There is also evidence that the district has become, in many cases, a new focus of centralized management, especially in respect of the relationship between the Central Government, local authorities and non-governmental organizations (Oyugi, 1988).

3.25 Another complication of the district focus is that some of the pre-1983 arrangements for providing Governmental services at the provincial level are still in place. Over and above these, the Central Government has, over the years, established about half-a-dozen Regional Development Authorities (some of them specifically for river or lake basins and valleys) whose functions duplicate

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9/ A new district was created in July 1991 and two more are reported to be in the pipeline.

those of some ministries and districts. These quasi-parastatals add to the problem of coordinating Government work in the field and increase the cost of running the Government machinery. There is no evidence that the expansion of government has increased access to and the quality of Government services nationally. What is clear, however, are indications that staff numbers and the wage bill have increased significantly.

C. Employment, Pay and Productivity

3.26 This section (a) reviews the general growth in civil service employment and its underlying causes; (b) assesses the overall staff composition and its impact on the quality of the service; (c) comments on the structure of civil service wages and the size of the wage bill; (d) discusses the augmentation of civil service pay through allowances and subsidies; and (e) ascertains the scope for simultaneously reducing the wage bill and attracting, retaining and motivating qualified staff.

3.27 **Growth in Numbers.** Excluding teachers, there were 270,005 [10] persons in the Kenyan civil service at end-1990 (Figure 3.1). These amounts refer to individuals who are paid directly from the budget of the Central Government but exclude the employees of parastatals and local authorities whose wage bill may be indirectly reflected in the budget. Because of the unreliability of the data, persons filling temporary positions are not included.

3.28 Employment in the mainstream civil service has grown by 6.5 percent per annum since FY67 (earliest year for which reliable data is available), faster than GDP and population. The fastest growth was registered during the 1970s when the rate averaged 10 percent per year. Growth slowed in the 1980s to an average of 4.8 percent per year, but from a base that was much larger than a decade earlier. Steep increases above 10 percent occurred in some years but growth in most other years was comparatively moderate (Figure 3.1).

3.29 Teachers are employed by the Teachers Service Commission (TSC) which was established in 1970 to unify the system for teachers and trainers. In 1990, they numbered 203,031 (Figure 3.2). TSC's responsibilities include the registration of all teachers, and the recruitment, deployment, remuneration and discipline of teachers who come under the Ministry of Education and MTTAT. At present, it employs teachers for primary and secondary schools, teachers colleges, institutes of technology, technical training institutes and national polytechnics. During 1968-90, the number of teachers increased by 7.5 percent per annum. However, the pattern of growth was uneven. In 1974 there was a 38.5 percent increase in primary school teachers and this raised the overall growth rate of teachers to 34.4 percent that year. The increase was explained by the surge in student enrollments by about 50 percent (890,000) following the abolition of school fees for Standards 1 to 4 (World Bank, 1991b, pp. 77-80). Over the next two years the growth of secondary school teachers jumped to around 23 percent per annum. With the adoption of the 8-4-4 system in 1985, the number of primary and secondary school teachers increased by 12.7 percent and 12.1 percent respectively (Figure 3.2).

3.30 **Causes of Growth in Numbers.** Three inter-related and pervasive factors mainly explain the accelerated growth of employment in the Central Government (including teachers). First, rapid

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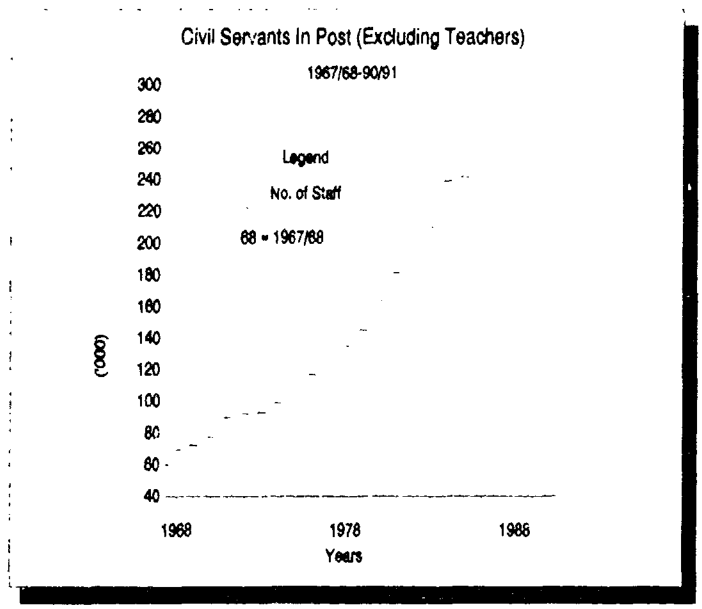
10/ There is a minor discrepancy between this number and the one from the Central Bureau of Statistics (269,700) which is reported in Statistical Annex II, Table 5.8.


Civil Servants In Post (Excluding Teachers)
1967/68-90/91
300
280
260
240
220
200
180
160
140
120
100
80
60
40
('000)
Legend
No. of Staff
68 = 1967/68
1968
1978
1988
Years

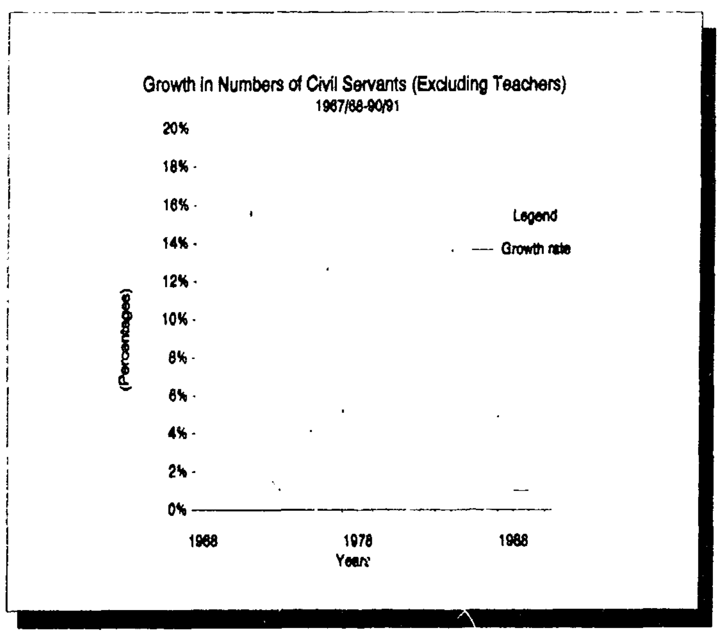

Growth in Numbers of Civil Servants (Excluding Teachers)
1967/68-90/91
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
(Percentages)
Legend
Growth rate
1968
1978
1988
Years

Figure 3.1

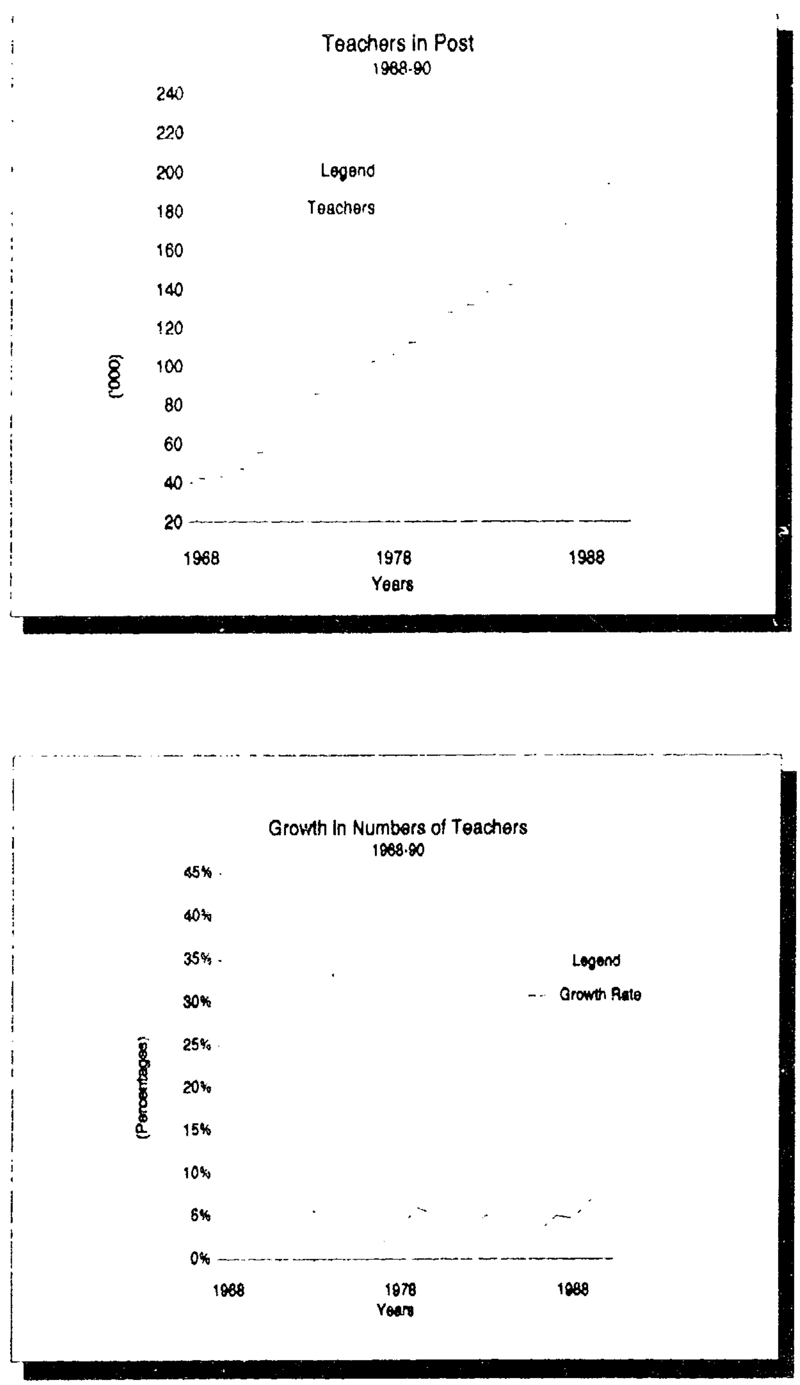

Teachers in Post
1968-90
240
220
200
180
160
140
120
100
80
60
40
20
('000)
Legend
Teachers
1968
1978
1988
Years
Growth in Numbers of Teachers
1968-90
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
(Percentages)
Legend
Growth Rate
1968
1978
1988
Years

Figure 3.2

population growth generated strong pressures to create jobs. It also increased the demand for services provided by the Government. One of the most striking examples of this is education which came to be recognized as the most reliable avenue for social and economic mobility in the modern sector of the economy. Consistent with this view, the Government sought to provide universal and free access to primary education (in practice there has been de facto cost sharing), increase its financial support for secondary schools, expand technical and vocational training beyond the manpower needs of public administration, and upgrade and increase the number of universities. As a result, the number of primary school students increased from about 890,000 in 1963 to over 5 million in 1991 while the gross enrollment rose from 50 percent to over 90 percent. At the secondary school level, numbers rose from around 30,000 to over 600,000. Meanwhile, university enrollment went from 600 to 40,000 (an additional 10,000 are at universities abroad). All this has meant significant increases in the number of teachers (especially at the primary and secondary levels) as well as other staff in the public education sector. Many more teachers are also being trained at the graduate level, whereupon they are hired at higher wages. Not surprisingly, the share of personnel costs in the voted budget of the Ministry of Education reached 81.3 percent in FY92. At the same time, the overall share of the Ministry of Education in recurrent government expenditure was 40.7 percent (Republic of Kenya, 1991b, pp 16-18).

3.31 **Second**, because of the curricular orientation of the education system and the success in increasing access to education, many graduates from secondary and tertiary-level institutions were suited for and expected employment in the public sector. In fact, during the 1960s and most of the 1970s, this was encouraged by the Government in its efforts to Kenyanize public administration. With the introduction of the 8-4-4 educational system in 1985, there was a major shift in the philosophy and structure of education from a purely academic emphasis toward a more practical orientation. But the new system demanded accelerated increases in the number of teachers at the primary and secondary levels. Parenthetically, it also led to a double intake into public universities of 21,488 in 1990 compared with 7,036 in 1989, with the associated pressures to increase staff. In any case, it will be several years before the new 8-4-4 system makes a significant impact, for instance, on the skills composition of university graduates. Indeed, the Government estimated that of students graduating from public universities between 1987 and 1992, 65.4 percent will have pursued general degrees which have traditionally prepared them mostly for public sector employment (The Weekly Review, Feb. 22, 1991, p. 9).

3.32 **Third**, employment creation in the private sector did not keep pace with population growth or with the rising expectations of white-collar employment. For example, modern private sector employment grew annually by 2.6 percent during 1981-86, compared with 4.3 percent in the public sector (including local government) and a population growth rate of about 4 percent. Accordingly, the public sector was officially the employer of last resort until the publication of Sessional Paper No. 1 of 1986. At that time, the public sector employed some 75 percent of new university graduates. Although data for the period since 1986 is incomplete, there is some evidence that the Government has continued to employ many university graduates, including those--such as veterinarians--who experience difficulty in securing employment elsewhere.

3.33 Tripartite agreements were one of the mechanisms which brought together the Government, Trades Unions and the private sector to alleviate unemployment in the short-run (Bigsten, 1984). The first agreement was finalized in 1964 and called for the creation of 40,000 jobs quickly. Consistent with this, the public and private sectors were to increase their employment by 15 percent and 10 percent respectively. In turn, workers accepted a twelve month wage freeze and gave up the right to strike during that period. The Second Tripartite Agreement ('The Unemployment Scheme') was reached in 1970. It stipulated that employers, including the Government, should increase the number of permanent jobs, as at May 31, 1970, by 10 percent over the next 4 months. Once again workers accepted a twelve-month wage freeze and agreed to avoid strikes or lock-outs during the ensuing twelve-month period. The growth in civil servants jumped by 16 percent in FY71, compared with 7 percent one year earlier and 2 percent one year later (Figure 3.1). Under the Third Tripartite Agreement of 1979-81, the public and private sectors were told to increase their employment by 10 percent but workers were not required to agree to a wage freeze. As a result, civil servant numbers (including teachers) grew on average by 12 percent per annum during FY80-81. However, there is no evidence that the private sector complied with any of these Agreements.

3.34 Special occurrences also contributed to the growth in civil service employment. In FY76 the Government absorbed Kenyan employees of the East African Income Tax Department, an agency of the East African Community. During the same period, the Government also absorbed into the service a large number of clerks, drivers and subordinate staff who had been employed during the Annual Meetings of the IMF and the World Bank in Nairobi. Later, the Government absorbed employees from other agencies of the defunct East African Community together with a large number of enumeration clerks who were employed during the 1979 census. In FY84 a large number of "works paid" employees hired under development projects were absorbed into the service. In the Ministries of Environment and Natural Resources and Works, Housing and Physical Planning alone, 11,482 such employees took up staff positions during this period. In most cases, however, such employment is not well documented.

3.35 **Composition of Civil Service Employment by Job Groups.** Because of changes in the definitions of job groups, meaningful comparisons with the present grade structure can only be made from 1979. Calculations based on Table 3.1 show that in that year, job groups A-G accounted for 88.8 percent of the establishment and 89.8 percent of the positions filled. In 1990, the numbers were 86 percent and 87.7 percent respectively. This distribution of establishment and staff raises three related questions: Is the entire Central Government overstaffed, given the services it provides? Is there overstaffing at lower levels relative to higher level positions, given the services to be delivered? Is there overstaffing--either throughout the service or at particular grades--given available financial resources?

3.36 There is a paucity of research and comparative analysis on appropriate levels of staffing and suitable ratios of lower level staff to higher level personnel in civil services in developing countries. Of course, comparisons across sectors and countries would need to take account of differences such as those arising from the nature and coverage of government services, demographic and spatial factors, and technology. Nonetheless, answers about Kenya may be found in scattered evidence and in the circumstances under which recruitment took place.

3.37 Primary education is one subsector in which research has been done on appropriate overall teacher staffing levels. That research suggests that class sizes up to around 45 students are possible without sacrificing the level of academic achievement. That's because the most significant influence on such achievement is the availability of textbooks, teaching material for students and teacher quality. At present, the average teacher-student ratio in Kenya stands at 33. In 1986, it was 34 for

Table 3.1
Central Government Establishment
and Employment by Job Group
(Excluding Teachers)
1979, 1990

	1979		1990	
Job Group	**Establishment**	**In-Post**	**Establishment**	**In-Post**
A	40,365	45,970	78,150	51,733
B	28,084	23,122	7,003	11,259
C	18,703	23,429	16,517	23,170
D	35,657	29,219	43,749	34,526
E	7,484	6,174	16,949	17,469
F	5,804	5,925	74,933	76,204
G	13,228	8,965	32,490	22,457
H	6,845	4,862	12,686	11,954
J	5,291	3,554	8,677	6,118
K	2,060	1,450	8,714	5,698
L	972	685	3,823	3,099
M	392	295	2,072	1,344
N	142	106	927	619
O	28	46	.	..
P	98	97	371	284
Q	3	7	149	143
R	..	..	83	83
S	..	..	15	15
T	..	..	3	4
Others	2,959	5,071	6,370	..
Totals	168,115	158,977	313,681	270,005

Source: DPM

Kenya compared with 63 for Malawi, 48 for Ethiopia and 40 for Sub-Saharan Africa as a whole. Primary education, therefore, is one concrete example of overall overstaffing in government. 11/

11/ The government recently initiated structural reforms in the educational sector which include containing the size of primary school teaching force, and thereby raising the teacher-student ratio over time (World Bank, 1991d, p. 20).

3.38 Within the mainstream civil service, employment under the Tripartite Agreements and other special circumstances swelled the lower ranks of the service. Employees of the East African Community were one exception. In part, large recruitment at the lower levels reflected the abundant supply of young and relatively unskilled workers. From the perspective of ministries, these job groups were easier to fill because: (a) they were covered by the Tripartite Agreements; (b) required no specialized skills; and (c) were hired by ministries (not by the PSC as are most other employees). Thus, by 1990, about 34 percent of total employees were 30 years of age or younger, and 92.9 percent of them were junior staff, below job group H (Table 3.2). [12/] Additionally, aggregate data in Table 3.3 indicate that under 5 votes--the Ministry of Home Affairs and National Heritage, the Police Department, the Ministry of Reclamation and Development of Arid, Semi-Arid and Wasteland, the Judicial Department and the National Assembly--posts filled exceeded the establishment total. A large number of the excess occurred at grades A-G.

Table 3.2
Age Distribution of Civil Servants (Excluding Teachers)
by Job Groups, 1990
(In Percentages)

	Age Range in Years								
Job Group	Above 55	51-55	46-50	41-45	36-40	31-35	26-30	18-25	Total
A	0.1	1.2	1.8	3.5	4.6	5.2	3.3	0.9	20.5
B	0.0	0.6	0.8	1.1	1.0	0.4	0.1	0.0	3.9
C	0.0	0.5	0.6	1.1	1.5	2.3	2.0	0.7	8.7
D	0.0	0.5	0.7	1.5	1.9	3.0	3.4	2.5	13.5
E	0.0	0.5	0.6	1.2	1.2	1.8	0.8	0.1	6.2
F	0.0	0.5	0.8	1.6	3.1	6.3	10.2	5.3	27.9
G	0.0	0.3	0.5	1.2	1.8	2.0	2.1	0.4	8.3
Sub-Total	0.2	4.2	5.7	11.1	15.1	21.0	21.8	9.8	89.0
H & Above	0.0	0.7	1.2	2.1	2.2	2.5	2.1	0.2	11.0
Total	0.2	4.9	7.0	13.2	17.3	23.5	23.9	10.1	100.0

Source: DPM

12/ Civil service employees in Kenya are categorized as follows

Analogous/Technical Cadres	Job Groups A-G
Middle Management Cadre	Job Groups H-L
Senior Management Cadre	Job Groups M-Q
Top Management Cadre	Job Groups R-T
Political Appointees	Job Groups U-Z

Table 3.3
Central Government Establishment and Employment by Vote, 1971, 1990

	1971			1990		
	Establishment	In-Post	In-Post / Establishment (%)	Establishment	In-Post	In-Post/ Establishment (%)
Office of the President	18,797	18,213	96.9	47,789	43,230	90.5
Directorate of Personnel Management	52	53	101.9	230	166	72.2
Ministry of Foreign Affairs and International Cooperation	257	240	93 4	817	728	89.1
Ministry of Home Affairs and National Heritage a/	7,639	7,442	97.4	13,567	13,635	100.5
Ministry of Planning and National Development and Office of the Vice President and Ministry of Finance	988	484	49.0	10,761	9,025	83.9
Police Department	16,361	14,934	91.3	33,341	33,357	100.1
Ministry of Reclamation and Development of Arid, Semi-Arid and Wasteland	..	..	..	233	244	104.7
Ministry of Agriculture and Ministry of Livestock Development	14,758	13,867	94 0	32,416	28,082	86.6
Ministry of Health	11,680	12,925	110.7	43,066	42,405	98.5
Ministry of Local Government	108	145	134.3	903	622	68.9
Ministry of Public Works b/	3,286	3,091	94 1	32,019	26,049	81.4
Ministry of Transport and Communications	736	736	100.0	8 615	5,498	63.8
Ministry of Labour and Ministry of Manpower Development and Employment	1,048	1,058	101.0	2,039	1,624	79.6
Ministry of Tourism and Wildlife	865	1,614	186.6	5,674	484	8 5 c/
Ministry of Culture and Social Services	639	475	74 3	7,585	6,472	85.3
Ministry of Information and Broadcasting	1,515	1,090	71.9	3,803	1,935	50.9
Ministry of Water Development				16,038	11,994	74.8
Ministry of Environment and Natural Resources	2,236	2,229	99.7	22,547	18,074	80.2
Ministry of Cooperative Development	690	584	84.6	2,696	2,198	81.5
Ministry of Industry and Ministry of Commerce	369	305	82.7	2,166	1,645	75.9
Ministry of Supplies and Marketing	..	..	..	320	215	67.2
Office of the Attorney-General	329	271	82.4	1,873	719	38.4
Judicial Department	1,458	1,431	98.1	2,387	2,413	101.1
Public Service Commission	52	53	101.9	230	166	72.2
Office of the Controller and Auditor-General	230	229	99 6	1,069	556	52.0
National Assembly	260	325	125.0	350	436	124.6
Ministry of Energy	..	..	..	822	570	69.3
Ministry of Education d/	..	.	..	4,952	4,516	91.2
Ministry of Technical Training and Applied Technology	..	..	..	1,024	885	86.4
Ministry of Research, Science and Technology	..	..	..	909	279	30.7
Ministry of Lands and Housing	4,113	3,879	94.3	10,932	9,230	84.4
Ministry of Regional Development	..	..	..	2,738	2,719	99.3
Total				313,681	270,005	86.1

Source: DPM

a/ In 1971, was office of the Vice President and Ministry of Home Affairs

b/ In 1971, was Ministry of Works, Housing and Planning

c/ May reflect staff seconded to the Wildlife Services Department

d/ Employment of teachers is done by the TSC.

3.39 The excess of filled positions over establishment within ministries is far greater than aggregate numbers show. This is partly because ministries are generally careful when submitting their budgetary proposals to ensure that the total number of filled positions shown is not greater than the authorized establishment. They also ensure that the personnel expenses budgeted correspond to the authorized establishment and the number of filled positions shown for each job group. In reality, however, the number of people hired, especially at lower grades, is significantly greater than establishment in a large number of ministries (Table 3.4). But this is not obvious in the aggregate

Table 3.4
Excess of Positions Filled Over Establishment
Within Ministries, 1990

Grade Level	Posts Approved	Posts Filled	Posts Excess
A	25	47	22
B	4,633	9,824	5,191
C	12,419	20,996	8,577
D	4,707	4,934	227
E	6,818	9,941	3,123
F	48,308	54,146	5,838
G	108	123	15
H	6,367	8,460	2,093
J	301	367	66
K	449	803	354
L	1,025	1,217	192
M	93	212	119
N	46	72	26
P	62	79	17
Q	44	58	14
R	3	7	4
S	0	1	1
T	1	2	1
Unclassified	119	457	338
TOTAL	85,528	111,746	26,218

Memo Items: (%)

Excess/total employment (excluding teachers)	9.7
Gross wage bill of excess employment/ Gross wage bill of civil service (excluding teachers)	8.7
Gross wage bill of excess employment/ GDP at market prices	0.5

Source: DPM

data because of the prevalence of vacancies at higher grades within many of these ministries and because of the relatively free hand with which ministries use emoluments allocated for one grade of workers for another, without reporting this practice.

3.40 The data in Table 3.4 was compiled on a ministry-by-ministry basis then aggregated for the civil service as a whole. Employment in the mainstream civil service in excess of the establishment by grade level by ministry stood at 26,218 in December 1990, equivalent to 9.7 percent of positions filled, 8.7 percent of the gross wage bill and 0.5 percent of GDP at market prices. Most of this overstaffing (87.7 percent) occurred in job groups A-G and reflected the freedom ministries have to fill vacancies at these levels, the limited role of the Public Service Commission (PSC) in the hiring of civil servants, the inability of the Department of Personnel Management (DPM) to limit recruitment and the ineffectiveness of the Budget Department in adequately monitoring the expenditures of line Ministries and Departments.

3.41 DPM has primary responsibility for personnel issues and authorizes establishment for ministries by job group. Meanwhile, PSC is responsible for interviewing and hiring staff above job group G and must ultimately ratify the hiring of staff at lower levels. Direct responsibility for approving the filling of positions at these lower levels rests with principal finance and establishment officers within each ministry. In principle, approval should be given to hire such persons only if the post is authorized and provided for in the budget. Years ago, there was also a joint DPM/Treasury committee which was responsible for authorizing recruitment in excess of establishment. But that committee has not functioned for some time with the result that the Treasury's role in employment and recruitment has become limited to processing the annual budget. Not surprisingly, the impressive list of committees which have reviewed the civil service during the past 11 years unanimously and forcefully argued that "... the Civil Service [was] over-established, and many lower-level staff [were] seriously under-employed." [13] They also reported a shortage of middle-level technical and professional staff.

3.42 Arguably, under-employment need not arise from overestablishment but could be linked to problems such as insufficient supervision (stemming from a shortage of higher level staff), inappropriate supervision and lack of delegation (associated with the orientation of higher level staff toward administration rather than management). Nonetheless, examples documented for Bank staff include cleaners who are assigned to areas that are so small that each can spend little time cleaning and much more time socializing with the endless traffic of passersby. In the case of secretarial staff, pool-typing is often necessary because of the shortage of typewriters. Within such pools, accountability to higher level staff and responsibility for well-defined outputs are sometimes lost, even when a typewriter is available and there is work to be done. Among the examples are also references to staff at higher grades who often move, upon promotion, from a professional scheme of service into administration. With this, many of them transfer from field positions to senior administrative posts in headquarters. Horizontal transfers to headquarters also take place from time to time. However, there is usually no corresponding transfer from headquarters to the field. As a result, many of these officers are under-employed while others have to be assigned clerical duties.

13/ Between 1980 and 1991 these included: the Civil Service Review Committee (chairman - S N Waruhiu), 1980, Working Party on Government Expenditures (chairman - P. Ndegwa), 1982; Civil Service Salaries Review Committee (chairman - T.C.J Ramtu), 1985, Presidential Committee on Employment (chairman - P Ndegwa), 1991; and Civil Service Salaries Review Committee (chairman - P. Mbiti), 1991. The most influential report on the civil service to date is the Report of the Commission of Inquiry (Public Service Structure and Remuneration Commission), 1970/71, (chairman: D.N. Ndegwa). The subsequent committees and commissions make copious references to the recommendations of this Commission's report See also World Bank (1989a)

3.43 **Wages, Salaries and Allowances.** On the general civil service employment front, what is of further concern is whether there is overstaffing given the resources available for wages and supporting expenditures on O&M. Commissions are set up from time to time to review salaries and recommend adjustments. At Independence in 1963, the Pratt Commission made recommendations which resulted in considerable salary increases. In fact, public sector wages rose by 48 percent in real terms during 1963-65 compared with 6 percent in the private sector as the Government sought to Africanize the public sector (Bigsten, 1984). Next was the Millar-Craig Commission which in 1967 argued for wage increases only for civil servants in lower job groups. The Commission was concerned that salary increases for personnel at higher levels would create cost-push inflation. It therefore accepted as inevitable "the loss of some high-level manpower to the private sector because of higher salary levels there ..." (Millar-Craig, 1967, p. 24). The subsequent Commission of 1971 recommended salary increases for all grades of civil servants and successfully argued that these staff be permitted to engage in private business.

3.44 The next commission met in 1979 and, like all other commissions since then, has echoed three main points. **First**, the steady growth in civil service employment has been accompanied by stagnation or regression in the salaries and wages paid to civil servants. Although the Government has acknowledged the need for higher remunerations, salary increases have been held below increases in the cost of living, partly because of budgetary constraints. This has contributed to the erosion of real wages in the Central Government and to a deterioration in the ratio of positions filled to establishment in most ministries during the period 1971-90 (Table 3.3). **Second**, because of the practice of granting larger percentage wage increases to staff in the lower ranks vis-a-vis staff at higher levels, salary erosion has been more severe at the higher levels. Partly as a result, in July/August 1991 vacancy rates at these levels were as high as 61 percent in the Office of the Controller and Auditor General (for Job Groups K and above), and 68 percent in the Management Consultancy Services Division of the Directorate of Personnel Management (Job Groups H to Q). Comparable vacancy rates, especially in specialized skills areas are evident across the service. Some of these positions are not filled because of the acute shortage of personnel country-wide. For instance, the Government recently estimated that each year Kenya needs an additional 89 civil engineers, 228 physicians and 47 pharmacists. During 1987-1992, however, the Kenyan universities will have graduated annually about 69 civil engineers, 142 physicians and 31 pharmacists. (Weekly Review, Feb. 22, 1991, p. 9). However, most positions are not filled because of uncompetitive conditions of employment, including compensation, in the civil service.

3 45 **Third**, each commission worried that the wage bill was squeezing O&M expenditures and thereby, was impacting negatively on the productivity of the civil service. The intractability of the wage bill is explained not only by the sheer size and growth in numbers but also by wage creep, low attrition rates and a complex system of benefits and allowances. By wage creep is meant the progression of salaries within grades (and sometimes across grades) largely because merit increases are awarded routinely rather than on the basis of performance. Table 3.5 shows the salary ranges and increments within ranges. This information, along with data on the age distribution of the civil service (Table 3.2), is used in Table 3.6 to estimate the impact of wage creep on the total wage bill during 1992-96 after adjustments are made for retirements. Notice that the attrition rate is low because of the high concentration of younger workers in the civil service. Notice also that the majority of those retiring come from lower grades, so that the savings per retiree are small. Not surprisingly therefore, the wage bill would still increase by 2.6 percent per annum during 1992-96 even if there were no revisions of the salary scales and retiring staff were not replaced. With replacement of all retiring staff but no salary revisions, wage creep alone raises the annual wage bill by 5.2 percent per annum. Worse still, if vacancies in management positions (H and above) were

filled, wage creep would expand the wage bill by 10.3 percent per annum (Table 3.6). All this occurs before any revision of salaries (Boxes 3.2 and 3.3).

3.46 Apart from their basic salaries, civil servants in Kenya receive housing and other benefits, and participate in a non-contributory pension scheme (except for staff at grades A and B). Benefits appear to be one way of significantly topping up the compensation packages of staff in the highest grades (Figure 3.3). With regard to pensions, possible advantages of a contributory scheme may be to lower cost to the Government and greater mobility for workers wishing to leave the public sector, provided that their pension contributions are transferable. What is of greater concern, however, are the housing benefits which are widely acknowledged as creating anomalies in the wage structure and distorting the housing market.

Table 3.5
Civil Service Salary Scales
1990

	Basic Pay Scales (K£)		No. of Increments	Average value of increment (K£)	Average value of increment as % of minimum salary (%)
	Min.	Max			
A	477	759	12	24	4.9
B	558	885	12	27	4.9
C	678	1,068	12	33	4.8
D	819	1,275	12	38	4.6
E	1,068	1,569	11	46	4.3
F	1,275	1,866	11	54	4.2
G	1,674	2,514	11	76	4.6
H	1,938	2,820	10	88	4.6
J	2,334	3,408	10	107	4.6
K	2,820	4,116	10	130	4.6
L	3,408	4,770	9	151	4.4
M	4,272	5,946	9	186	4.4
N	4,770	6,594	9	203	4.2
P	5,730	7,098	6	228	4.0
Q	6,594	7,854	5	252	3.8
R	7,602	9,006	5	281	3.7
S	8,430	10,302	6	312	3.7
T	10,302	12,066	5	353	3.4

Source. DPM

Table 3.6
The Arithmetic of the Central Government Wage Bill
Historical and Prospective, 1986-95

Historical	1986	1987	1988	1989	1990
Growth (%)					
Civil servants a/	3.1	5.7	-2.6	3.8	-2.8
Nominal Wage bill	16.0	10.4	28.8	7.2	22.2
Memo:					
Retirement as % of employment	2.4	1.9	2.6	2.4	0.9
Growth (%)					
Recurrent expenditure b/	19.0	10.9	14.4	14.0	10.7
Recurrent revenue b/	16.6	16.2	14.6	15.1	14.3
Nominal GDPmp	16.6	11.7	15.1	14.1	16.4
Prospective (without reform)	**1992**	**1993**	**1994**	**1995**	**1996**
Growth (%)					
Civil servants c/					
Without replacement	-0.9	-1.0	-1.3	-1.6	-1.1
With replacement overall	0.0	0.0	0.0	0.0	0.0
With replacement (H & above)	-0.6	-0.9	-1.1	-1.4	-0.9
With vacancy filling (H & above) d/	2.5	-3.9	-1.1	-1.4	-0.9
Wage bill e/					
Without replacement	3.0	2.7	2.5	2.0	2.7
With replacement overall	6.1	6.0	5.3	4.2	4.2
With replacement (H & above)	4.1	4.0	3.6	2.8	3.3
With vacancy filling (H & above)	10.7	10.7	10.3	9.6	10.3
Nominal wage bill f/					
Without replacement	18.0	17.7	16.0	14.0	13.9
With replacement overall	22.1	21.0	18.8	16.2	15.4
With replacement (H & above)	20.1	19.0	17.1	18.8	14.5
With vacancy filling (H & above)	26.7	25.7	23.8	21.6	22.5
Memo:					
Retirement as % of employment g/	0.9	1.0	1.2	1.6	1.0
Nominal GDPmp growth (%) h/	16.0	15.0	13.5	12.0	11.2
Domestic inflation h/	12.0	7.0	6.0	5.0	5.0

Sources: Statistical Appendix, Tables 2.3 and 5.8; Pensions Department; DPM, and staff estimates

Notes:

a/ Excludes TSC, local government and parastatals.

b/ Calendar year data are simple averages of fiscal year data as shown by IMF staff.

c/ Where applicable, replacement at grade level of position vacated.

d/ All establishment positions filled in year 1990. Establishment positions assumed to be constant thereafter.

e/ Wage creep, and where applicable, replacement.

f/ Assumes full indexation to inflation.

g/ Assumes the enforcement of mandatory retirement at age 55 and no replacement.

h/ As per the enabling scenario in Chapter 5.

Box 3.2
Salary Increases Announced in September 1991

In September 1991, the Government announced the following adjustments to the salary scales of mainstream civil servants. The associated salary increases will be phased over 3 years, commencing July 1, 1991. The salary scales of teachers were adjusted in a similar manner The implications of these changes for the wage bill of the central government and the fiscal deficit are explored in Box 3.3.

New Salary Scales for Mainstream Civil Servants				
Effective July 1, 1991			% Change	
Job Group	Minimum K£	Maximum K£	Minimum	Maximum
A	555	873	16.4	15.0
B	648	1,011	16.1	14.2
C	783	1,200	15.5	12.4
D	939	1,413	14.7	10.8
E	1,200	1,719	12.4	9.6
F	1,413	2,022	10.8	8.4
G	1,833	2,880	9.5	14.6
H	2,172	3,198	12.1	13.4
J	2,688	3,807	15.2	11.7
K	3,198	4,545	13.4	10.4
L	3,809	5,223	11.8	9.5
M	4,707	6,435	10.2	8.2
N	5,223	7,101	9.5	7.7
P	6,213	7,617	8.4	7.3
Q	7,101	8,391	7.7	6.8
R	8,133	9,543	7.0	6.0
S	8,967	10,851	6.4	5.3
T	10,851	12,618	5.3	4.6

Source: DPM

Box 3.3
Some Implications of the September 1991 Salary Adjustments

The salary increases for mainstream civil servants and teachers will be phased over 3 years beginning July 1, 1991 as shown below. Earlier simulations reported in Table 3.6 focussed on scenarios in which there were no salary adjustments. Now that this assumption no longer holds, the prospects for containing the wage bill and achieving the target fiscal deficit of 2 percent of GDP (excluding grants) in FY92 and beyond are even worse. The obvious corollary is that the case for Central Government adjustment along the lines of para 3.50 becomes even stronger.

Impact of Salary Adjustment on the Central Government Wage Bill			
Job Groups in the Mainstream Civil Service	FY92	FY93	FY94
	Annual % Change		
A-C	26.3	12.4	13.6
D-F	21.4	10.7	8.1
G-J	15.0	10.2	8.6
K-M	9.9	8.7	7.1
N-Q	8.1	7.1	5.6
R-T	5.7	5.0	4.2
Annual % Change in Total Wage Bill			
Mainstream Civil Servants	14.7	10.0	7.3
Teachers	10.7	9.8	9.5
Total	12.8	9.9	8.3
Source: DPM and staff estimates.			

When the salary adjustments are combined with wage creep (net of attrition), the annual wage bill of the main stream Central Government would probably grow annually during 1992-94 on a calendar basis by about 12.2 percent (without replacement), 15.3 percent (with replacement overall), 13.4 percent (with replacement at job group H and above) and 19.9 percent (with vacancy filling at level H and above) (Table 3.6 and Box 3.2). The underlying average nominal GDP growth rate is 14.8 percent. These simulations assume that benefits are not adjusted in line with the salary revisions. The implication is that even if revenues were to keep pace with nominal GDP growth, other expenditures would have to be reduced significantly (in all scenarios) to achieve the fiscal deficit target of 2 percent (fiscal or calendar basis) of GDP including grants. Since the scope for cutting debt service obligations is limited, the burden of the cutback would have to be borne by transfers and O&M expenditures. For the former to occur, parastatals would have to exercise much greater financial discipline, and this would be unlikely in the absence of comprehensive parastatal reform. Reduction in O&M expenditures would worsen an already bad productivity record.

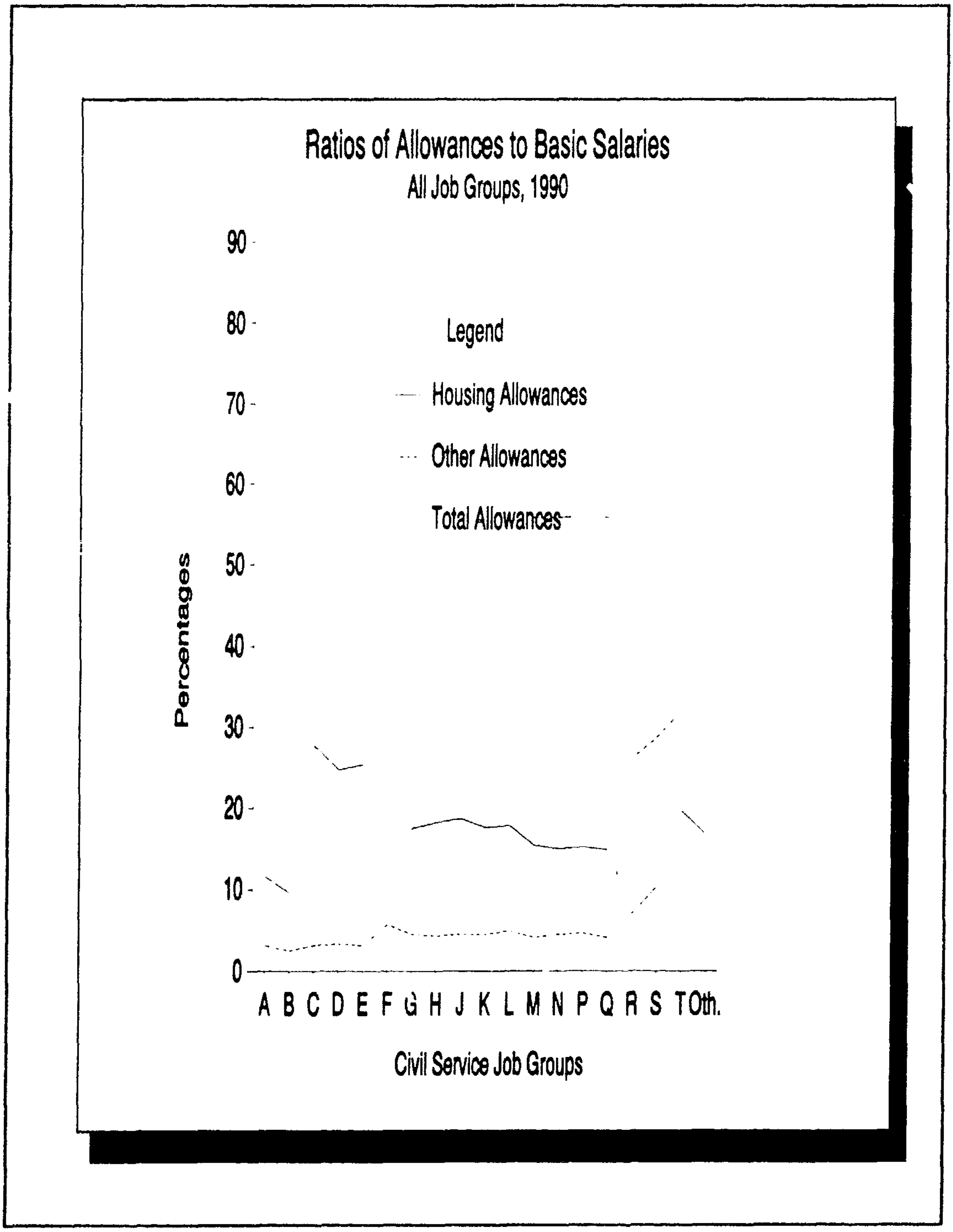

Ratios of Allowances to Basic Salaries
All Job Groups, 1990
Legend
Housing Allowances
Other Allowances
Total Allowances
Percentages
90
80
70
60
50
40
30
20
10
0
A B C D E F G H J K L M N P Q R S T Oth.
Civil Service Job Groups

Figure 3.3

3.47 Housing benefits received by civil servants include any one of: (i) rental of government-owned housing at subsidized rates; (ii) rent-free housing in government institutional housing; (iii) rental of housing which the government leases at market rates but subsidizes for the occupants; (iv) allowances for renting accommodation outside of the public sector; and (v) owner-occupied housing allowance. There is evidence that the system of housing benefits is abused. Only a few of the eligible civil servants have access to government owned or rented housing, and allocation of these units is not always transparent. Some home-owners in the civil service have been known to give up their own accommodation for rented property while they continue to claim the higher owner-occupied allowance. Yet others collude with their landlords to defraud the Government by inflating rental charges. Altogether, housing allowances add up to amounts which were equivalent to 15.8 percent of the basic wage bill in 1990. Equally disturbing are the anomalies in the compensation packages of workers at similar grade levels and the distortions which this system has created in the urban housing market.

3.48 **Productivity.** Within the broad resource envelope of the Government, expenditures on wages and salaries have been maintained without adequate provisions for O&M. In fact, the shares of subsidies, transfers (including those provided to TSC for teachers salaries) and wages and salaries--personal emoluments, gratuity and pensions contributions, and allowances--have been fairly constant (Figure 3.4). However, increasing debt service obligations appear to have displaced goods and services (O&M). Figure 3.5 nets out debt service obligations and then shows what share of the remaining recurrent expenditure is allocated to cover labor costs. Notice the high share of expenditure going to labor costs in all sectors. Not surprisingly, Sessional Paper No. 1 of 1986 lamented that "[w]ith salaries absorbing so much of expenditure, there is not adequate provision for complementary resources such as transport, typewriters, even paper and pencils, that are required to make officers productive" (Government of Kenya, 1986, p. 32).

3.49 Next to the O&M problem, the most commonly cited reason for low productivity in the civil service relates to personnel systems and procedures. The results are universal when there is virtual neglect of the merit principle in determining promotions, weak disciplinary machinery and an ineffectual personnel appraisal system. Another factor that has been cited as a cause of inefficiency is the formal approval given to civil servants in the early 1970s to engage in business activities. One Kenyan researcher concluded that since then "... the efficiency of individual civil servants who took uncontrolled advantage of this relaxation of tradition was .. affected somewhat adversely." The different reports on the civil service issued between 1980 and 1991 repeated the same point, explaining that the involvement of civil servants in business distracts them from their primary responsibility. It also creates dual and conflicting loyalties which most often result in officials giving more of their time to those interests that relate directly to their personal benefit. Officials may even give undue weight to their personal business interests when making public policy.

D. The Need for Broad Adjustment

3.50 Given the structural problems driving expenditure and undermining productivity, Central Government adjustment needs to be broad in its vision and reach, with the highest priority going to:

- streamlining the functions and organizational structure of government to avoid duplication and redundancies and achieve better organizational synergy;

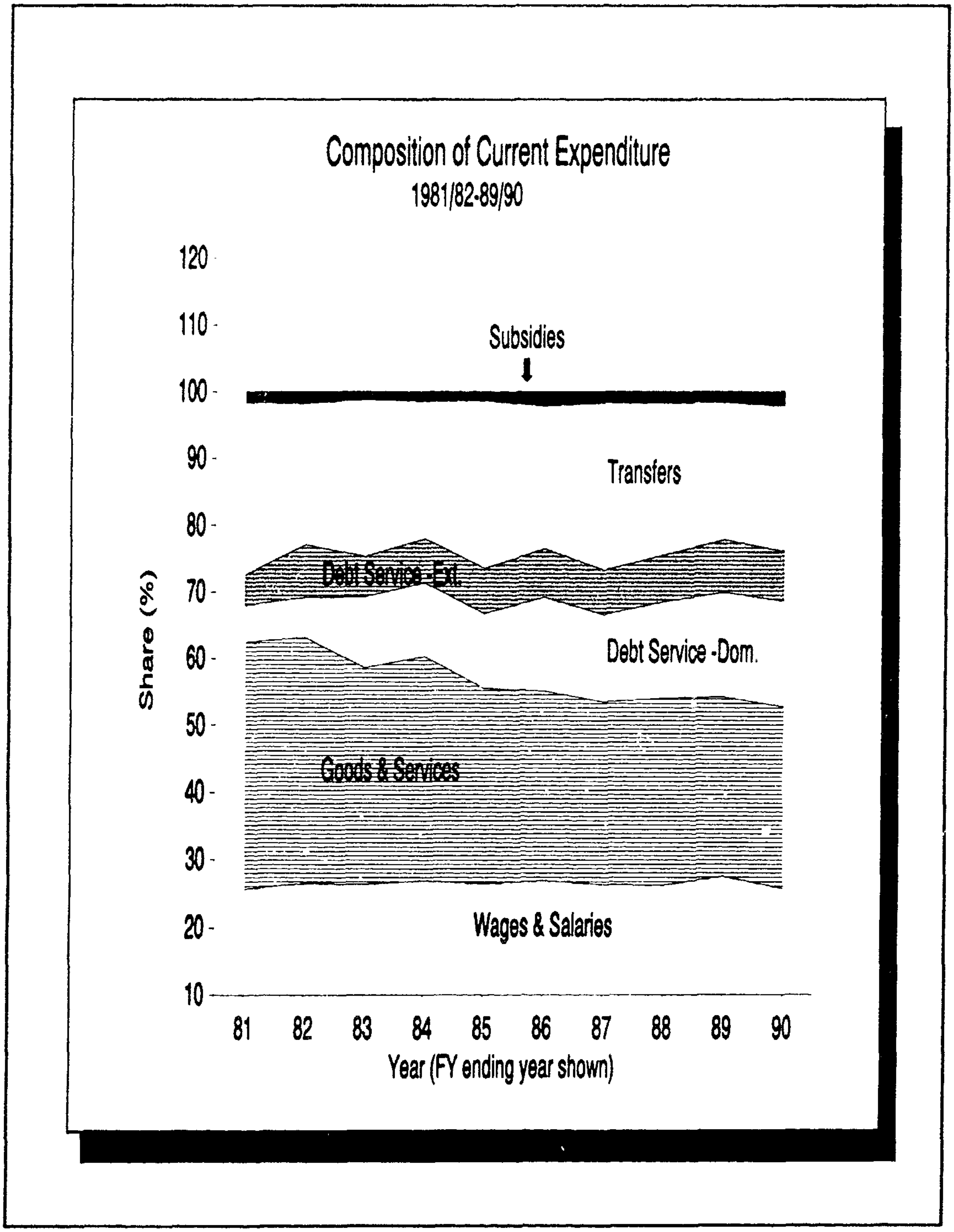

Composition of Current Expenditure
1981/82-89/90
Subsidies
Transfers
Debt Service -Ext.
Debt Service -Dom.
Goods & Services
Wages & Salaries
Share (%)
120
110
100
90
80
70
60
50
40
30
20
10
81
82
83
84
85
86
87
88
89
90
Year (FY ending year shown)

Figure 3.4

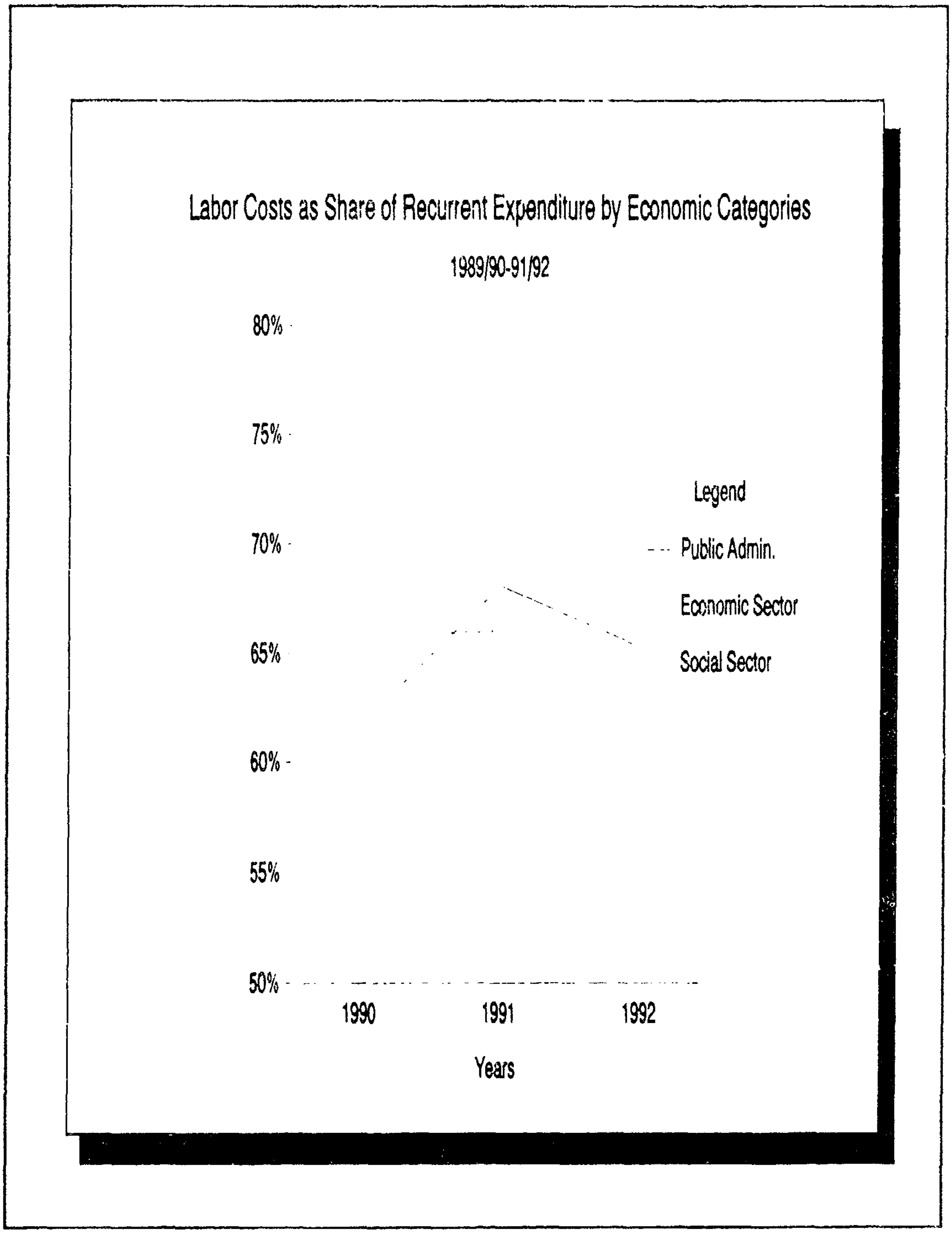

Labor Costs as Share of Recurrent Expenditure by Economic Categories
1989/90-91/92
80%
75%
70%
65%
60%
55%
50%
1990
1991
1992
Years
Legend
Public Admin.
Economic Sector
Social Sector

Figure 3.5

- downsizing staff in line with the rationalized functions and organizational structure; and
- reforming the pay structure and personnel procedures so as to achieve an appropriate mix of staff at all levels who are motivated and equipped to function effectively and efficiently;

Other issues such as improving training, accountability, and capacity utilization are important. However, independently, none of these would address the immediate and longer-term need to generate budgetary savings, improve productivity and enable government structures to better support the economic and social aspirations of the private and voluntary sectors.

3.51 The case for reducing the complexity of government, eliminating duplication and discontinuing functions made redundant by reforms elsewhere in the economy is self evident. The case for comprehensive pay and employment reform is equally forceful. Without it, budgetary resources would not be available to significantly improve non-wage O&M expenditures or to provide compensation packages which would attract and retain staff in higher job groups. The point cannot be overemphasized. Consider again Table 3.6. Next, postulate that the lower cadres of the civil service are not overstaffed and that their underemployment would disappear if management and supervision of their work is improved. Make the reasonable assumption that all vacancies at grade H and above (middle and senior management) would have to be filled. Account for wage creep but appropriate all savings from attrition and maintain real wages at their current level. The result is still unsustainable nominal annual increases in the overall wage bill during 1992-96 which are well above a reasonable level of nominal GDP growth (24.6 percent compared with 13.5 percent).

3.52 One avenue that could provide preliminary budgetary savings and re-establish discipline would be to roll back employment in excess of establishment at each grade within each ministry. This could cut the wage bill by 8.7 percent (Table 3.4). A more reasonable expectation would be for this amount to be used to finance more competitive compensation packages, especially for staff at higher job grades. But even if there was a one-time cut in the wage bill by the elimination of these excess workers, other steps would still have to be taken to prevent the wage bill from growing as quickly as in Table 3.6 or quicker (albeit from a lower base). Merit increases would need to be granted more selectively on the basis of performance, vacancies would have to be frozen and eliminated except in areas which are critical to the proper functioning of the government, and an effective system would be required for more effective establishment control. Independent of these developments, streamlining the functions and organizational structure of government would create redundancies in some parts of the structure and entail retrenchment of workers. Figure 3.6 illustrates that even if the retrenched civil servants were to receive pensions based on their years of service, there would still be savings for the government. This is because the maximum pension entitlement is limited to 70 percent of the basic wage but this maximum only accrues to those who have worked for at least 27 years and 9 months. Since the vast majority of those currently in the civil service have given fewer years of service (Table 3.2), their pension would be well below 70 percent of their basic wage. The savings for the Government could therefore be correspondingly greater. Of course, an appropriate safety net for redundant workers would need to be designed (Chapter 5).

3.53 It must be emphasized that staff reductions and wage cuts are not an end in themselves. It is true that they can make a significant contribution toward reducing the fiscal deficit and thereby, reducing inflationary pressure. However, they must go beyond that, to redress the imbalance between wages and non-wages O&M and ultimately facilitate sustained increases in the productivity of the Central Government. Without that, the Central Government is unlikely to be able to provide real

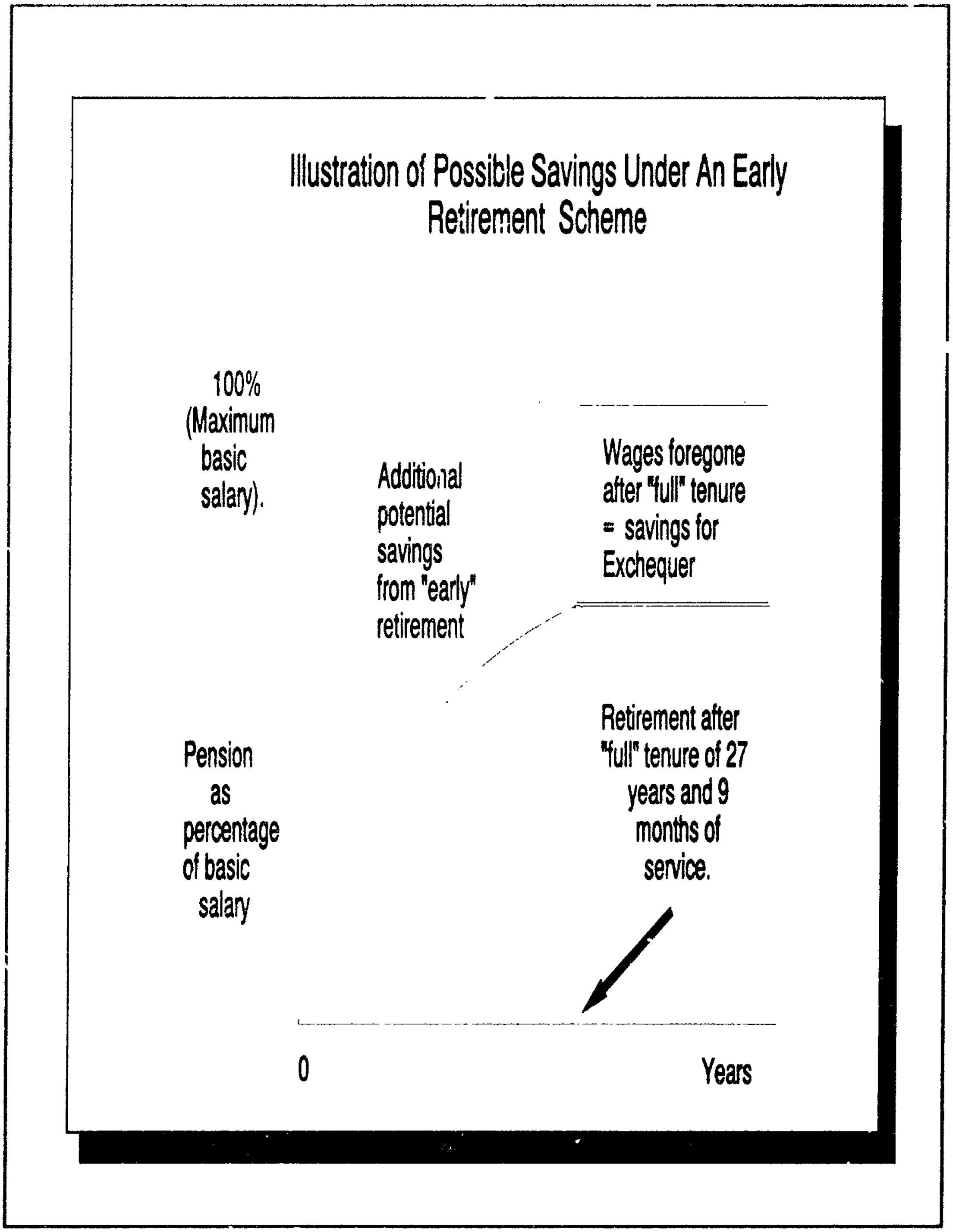


Illustration of Possible Savings Under An Early Retirement Scheme
100% (Maximum basic salary).
Additional potential savings from "early" retirement
Wages foregone after "full" tenure = savings for Exchequer
Pension as percentage of basic salary
Retirement after "full" tenure of 27 years and 9 months of service.
0
Years

Figure 3.6

wage increases that would attract and maintain qualified staff at all levels without independently creating destabilizing fiscal pressures.

3.54 A recent World Bank study points out that the task of civil service reform in a difficult macroeconomic environment "must rank as the most difficult development challenges ever to be faced by governments and donors. Yet ... the task cannot be assumed away nor can it be delayed." [14/] Experience with civil service reform suggests that although the process can be approached in a number of different ways, it is likely to be a long-term undertaking and the benefits will take time to materialize, especially when undertaken within a constrained fiscal environment. While downsizing tends to have a beneficial effect on the budget, cumulative budgetary savings can take a number of years to exceed initial costs. Moreover, net savings from downsizing leave very little margin for short-term improvements or increased allocations to O&M. This feature of most reform programs suggests the need to focus on the sequencing between pay and employment reforms. Given the seriousness of the stabilization problems, there is a strong case for focussing initially on downsizing staff and reducing expenditure. Since pay improvement is likely to be slow, there may also be a case for an initial emphasis on decompression rather than overall pay improvement. Experience also suggests that the benefits to civil service reform can be considerably enhanced when complemented by policies that seek to improve the enabling environment for private sector activity. A vibrant and dynamic private sector will not only help to strengthen the Government's budgetary position, but can also play a key role in absorbing displaced civil servants and thus mitigating the social and political costs of reform (Chapter 5).

14/ de Merode (1991).

Chapter 4

Re-investing in Stabilization and Growth Through Parastatal Reform.

There is a growing consensus that [in] post-independence ... state-led industrialization . . the state proved to be an uninspired entrepreneur and a bad manager (World Bank, 1989b, p. 38). Properly guided, it is predominantly the private sector that has the incentives to use resources more productively, to make investments that yield higher growth and development, and to make more jobs at decent incomes on a sustainable basis (Republic of Kenya, 1991a).

Introduction

4.1 Like many of its compatriots, the Kenyan Government followed a policy of direct participation in productive activities during most of its post-independence period. This strategy was driven more by pragmatic social, economic and political objectives than by a singular ideological commitment to control "the commanding heights of the economy." Among the immediate post-independence challenges was the need to promote and strengthen local entrepreneurship, encourage broad-based economic participation, achieve regional balance, intensify development and sustain growth. Accordingly, many fully-owned Government enterprises were established in a variety of sectors and locations. Others were joint ventures with local and foreign investors. A number of partially or fully privately-owned enterprises became state corporations after the Government intervened to rescue them from collapse. Development finance corporations (DFIs) were also created to provide funds for promising enterprises in the private sector.

4.2 In time, however, the multiplication of state enterprises, several of which were sheltered from domestic and foreign competition, began to conflict with the transitional developmental role envisaged for most of these enterprises in post-independence development and industrialization. Generic problems of mismanagement and financial indiscipline began to emerge across a number of sectors. In 1982, a report found that the Government's investment in state enterprises (about \$1.4 billion) had earned an average rate of return of only 0.2 percent. When another 12 enterprises came under scrutiny 2 years later, they were found to be unable to meet their full overhead costs. A subsequent review of 16 major agricultural and agro-based state corporations estimated aggregate losses during 1977-84 equivalent to \$183 million at 1986 exchange rates. Indeed, other studies of selected groups of state enterprises echoed findings of economic inefficiency and financial weakness.

4.3 The challenge of this chapter is to speak to the recent performance--both economic and financial--of the parastatal sector as a whole and, likewise, to its impact on the overall economy. Information not available before is provided on the present composition and structure of the sector (Section A), its contribution to GDP growth, employment (Section B) and investment (Section C), its use of resources such as imported imports (Section D) and domestic credit (Section E), its impact on the fiscal accounts (Section F), its accumulation of external debts (Section G), and its overall productivity, investment efficiency (Section H) and financial performance (Section I). Readers who are not interested in such details should proceed to Section J where the parameters and performance of the sector are summarized. The findings are arresting and disturbing when compared with the performance of the private sector, and pave the way for the discussion in Sections K and L of the need for and elements of comprehensive parastatal reform. A summary of the chapter is provided in Section M. Although parastatals as a group are of primary interest, the discussion in Sections A-I identifies parastatals by majority and minority ownership. The origin of the data used is explained in Box 4.1.

A. Structure and Composition of the Parastatal Sector

4.4 There are 255 15/ commercially-oriented enterprises--producing goods and services for a profit--in which the Government of Kenya has held equity over the last 6 years (Figure 4.1). In just over half of these the Government is the majority equity holder. Equity is held either directly (51) or indirectly (200) through majority-owned DFIs. Four enterprises are majority owned by virtue of equity from the government and majority owned parastatals. The commercial activities of the parastatals are as diverse as horse breeding, consulting, retailing, entertainment (a movie theater), and the operation of an international airline. But the largest single economic activity of parastatals is manufacturing, particularly of food and beverages. In 1990, 60 percent of the enterprises were in manufacturing and mining, 18 percent in distribution, 15 percent in finance, with the rest in transport, other services and electricity.

4.5 Among majority-owned enterprises, manufacturing predominates (40 percent), followed by distribution (26 percent), finance (18 percent), transport (8 percent), with the remainder in other services and electricity. Minority-owned enterprises are even more concentrated in manufacturing and mining (76 percent) while the others are in finance (13 percent) and distribution (11 percent). There are no minority-owned enterprises in transport, other services or electricity.

Box 4.1: Data and Terminology

To facilitate the analysis presented in this chapter, the Government collaborated in an ambitious data gathering exercise. The first step was to identify and confirm the commercially-oriented enterprises in which the Government held majority or minority equity over the last 6 years. This provided a transparent and uniform definition of the parastatal sector; that is, commercially-oriented enterprises in which the Government holds majority or minority ownership directly or indirectly. Public regulatory agencies are excluded. Next, standard national accounting methodology was used to prepare national income accounts for the enterprises comprising the parastatal sector. Some of the relevant data for this exercise were already in the Government's master files but others had to be obtained through field visits and interviews. Financial information was obtained in a similar manner except that more extensive use was made of questionnaires and interviews.

Because the returns would be elemental to the analysis and conclusions presented in this chapter, they were carefully checked and extensively discussed with and verified by the government agencies which processed them. Data on external debt, imports and exports were also prepared in accordance with the confirmed list of enterprises. But information on deposits and credit, which was obtained from the Central Bank, did not permit disaggregation of the regulatory bodies from the commercially-oriented enterprises.

Annotated tables showing this data are presented in Statistical Annex and the Parastatal Sector Financial Survey (1991). A subset of these tables is used in the rest of this chapter to shed light on the economic and financial impact and performance of the sector as a whole.

15/ A number of these firms are at various stages in the process of liquidation. The count will keep changing as more firms are wound up.

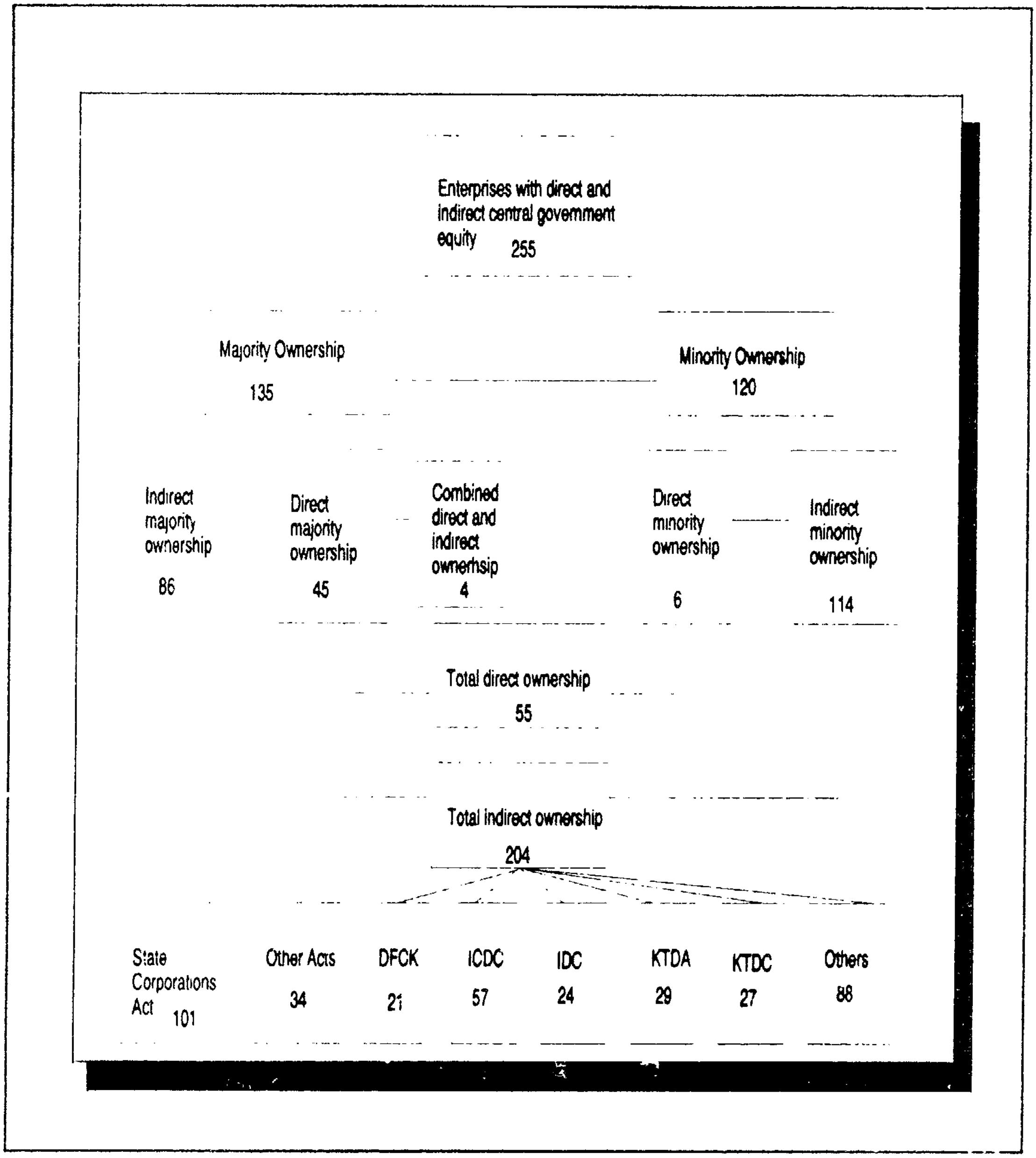


Figure 4.1: The Structure of Parastatal Enterprise Sector

4.6 Parastatals are mostly medium-sized, employing under 500 persons each. As at end 1990, only 26 percent were large companies. Of these, about one-third had over 2,000 employees each. The largest firms were in manufacturing and mining, and transportation and communications. Among minority-owned enterprises, 87 percent employ fewer than 500 persons. Majority-owned enterprises are more evenly distributed across all sizes of employment.

B. Contribution to Growth and Employment

4.7 During 1986-90, the parastatal sector consistently accounted for around 11 percent of GDP. 16/ The contribution of majority-owned enterprises was equivalent to 9.1 percent of GDP while minority-owned enterprises generated 2.3 percent of GDP (Tables 4.1 and 4.2).

Table 4.1
Value-Added by Majority-Owned Parastatals as Share of GDP at Factor Cost, 1986-90
(Percentages)

	1986	1987	1988	1989	1990	1986-90
Manufacturing & mining	2.1	1.9	1.7	1.5	1.4	1.7
Electricity	0.7	0.7	0.6	0.6	0.7	0.7
Wholesale, retail, hotels & rest.	2.2	2.0	1.8	2.0	1.9	2.0
Transport and communications	4.3	4.5	4.2	4.8	4.7	4.5
Finance, real estate & bus. svcs.	1.1	1.2	1.3	1.3	1.2	1.2
Other services	0.0	0.0	0.0	0.0	0.1	0.0
Less: Imputed bank services	-1.0	-1.0	-1.0	-1.1	-0.8	-0.9
Total	9.3	9.4	8.6	9.2	9.3	9.1

Source: Statistical Annex, Table 1a and Statistical Appendix, Table 2.1.

Table 4.2
Value-Added by Minority-Owned Parastatals as Share of GDP at Factor Cost, 1986-90
(Percentages)

	1986	1987	1988	1989	1990	1986-90
Manufacturing & mining	2.1	2.0	2.0	2.0	1.9	2.0
Wholesale, retail, hotels & rest.	0.2	0.2	0.3	0.2	0.2	0.2
Finance, real estate & bus. svcs.	0.3	0.2	0.1	0.2	0.2	0.2
Less: Imputed bank services	-0.2	-0.1	-0.0	-0.1	-0.0	-0.1
Total	2.4	2.3	2.3	2.2	2.3	2.3

Source: Statistical Annex, Table 1b and Statistical Appendix, Table 2.1.

16/ GDP at factor cost, unless otherwise noted.

Table 4.3
Contribution of the Parastatal Sector to Sectoral and Aggregate GDP(fc) Growth, 1986-90 a/
(Percentages)

	Overall GDP Growth	Majority-Owned: Weighted Growth in Value Added	Minority-Owned: Weighted Growth in Value Added	Parastatal Sector: Weighted Growth in Value Added
Manufacturing & mining	5.8	-0.1	0.0	-0.1
Electricity and water	8.5	5.1	..	6.9
Wholesale, retail, hotels & rest.	6.0	1.6	0.6	1.8
Transport & communications	3.9	5.2	..	5.1
Finance, real estate & bus. svcs.	6.4	1.7	0.0	1.1
Other services	6.5	0.2	..	8.8
Overall economy	5.0	0.6	0.0	0.5

Source. Statistical Annex, Tables 2a and 2b, and Statistical Appendix, Table 2.2.

a/ The GDP sectoral growth rates of majority- and minority-owned enterprises are weighted by their respective shares of sectoral GDP. Similarly, the GDP growth rate of the parastatal sector as a whole is weighted by the share of parastatal GDP to total GDP.

Among majority-owned enterprises, transport and communications was the largest contributor while the contribution of other services was negligible. In between were manufacturing and mining, even though most parastatals were in this sector; electricity; wholesale trade, retail trade, hotels and restaurants; and finance, real estate and business services.

4.8 Among minority-owned firms, manufacturing and mining made the largest contribution to GDP, followed by wholesale trade, retail trade, hotels and restaurants, and finance, real estate and business services.

4.9 The contribution of parastatals to growth varied widely across sectors and ownership. At the high end of the scale, the growth of majority-owned enterprises in transport and communications more than offset the contraction by other enterprises in this sector (Table 4.3). Majority-owned enterprises in electricity and water were next. Others made a measurable positive contribution. Notably, minority-owned enterprises in manufacturing and mining and the financial sector made negligible contributions to growth. But majority-owned enterprises in manufacturing and mining were at the other extreme, in that their weighted contribution to overall manufacturing growth was negative. This is especially significant since the majority of parastatals are in this sector.

4.10 Majority-owned enterprises created three and one-half times as many jobs as did minority-owned enterprises during 1986-90 (Tables 4.4 and 4.5). In fact, the parastatal sector as a whole put one-tenth as many people to work as did the rest of the economy. Figure 4.2 shows the sectoral composition of wage employment in Kenya during 1986-90. Within the majority-owned subsector, manufacturing accounted for 37.5 percent of the jobs but only 18.2 percent of the subsector's value added (Statistical Appendix and Annex). Among minority-owned enterprises, the match between workers and output was better in that manufacturing was responsible for 85.7 percent of subsector's jobs and produced 86.5 percent of the subsector's output.

Table 4.4
Wage Employment in Minority-Owned Parastatals

	1986	1987	1988	1989	1990
Manufacturing & mining	22,814	22,329	23,246	22,460	22,747
Wholesale, retail, hotels & rest.	2,190	2,809	2,961	2,794	2,711
Finance, real estate & bus. svcs.	1,335	1,105	1,024	997	1,023
Total	26,339	26,243	27,231	26,251	26,481

Source: Statistical Annex, Table 4b.

Table 4.5
Wage Employment in Majority-Owned Parastatals

	1986	1987	1988	1989	1990
Manufacturing & mining	33,549	32,822	33,836	34,067	34,880
Electricity	6,576	7,315	8,137	8,127	7,780
Wholesale, retail, hotels & rest.	9,256	9,777	9,740	10,239	12,520
Transport and communications	24,843	25,599	29,682	30,087	27,799
Finance, real estate & bus. svcs.	7,985	8,358	8,631	10,017	10,497
Other services	1,895	1,895	1,959	1,944	1,904
Total	84,104	85,766	91,985	94,481	95,380

Source: Statistical Annex, Table 4a.

4.11 Annual wages and salaries in the parastatal sector (workers compensation from the production accounts divided by employment) was almost twice the national average during 1986-90. Annual wages and salaries in the majority-owned sub-sector deviated even further from the national average. It is not entirely clear why large sectoral discrepancies existed. Of course, the national average is influenced disproportionately by the large number of agricultural workers who are paid close to the minimum wage. Generally, this appears not to be the case in the parastatal sector where the production of manufactured goods, transport and communications, and financial services predominate. Even so, wages and salaries in minority-owned enterprises, where manufacturing and mining provided 85.7 percent of employment during 1986-90, were closer to the average for Central Government workers.

4.12 Two related pieces of evidence suggest that the transport and communications and the financial sectors explain the high average wage level among majority-owned enterprises. **First,** these sectors, which respectively accounted for 49.6 percent and 13.4 percent of value-added by majority-owned firms during the period, were the only 2 which together employed more workers than manufacturing and mining (42.0 percent compared with 37.5 percent). **Second**, according to the National Manpower Survey of Kenya (1986-88), transport and communications and financial services had the highest proportion of workers--10.9 percent and 31.1 percent respectively--earning more than K£2,999 per year. This compares with 1.3 percent in agriculture, 9.8 percent in manufacturing and mining, 8.1 percent in electricity and water, 9.4 percent in trade, hotels and restaurants, 5.4 percent in other services and 5.9 percent nationally (Republic of Kenya, 1989b).

4.13 Turning to the dynamic aspects of employment, annual growth was fastest during 1986-90 in majority-owned trade, hotels and restaurants (6.9 percent), majority-owned finance, real estate and business services (6.6 percent), minority-owned trade, hotels and restaurants (5.9 percent) and majority-owned electricity (5.8 percent). Elsewhere in the parastatal sector, employment growth was sluggish: 0.7 percent and 1.1 percent respectively in minority and majority-owned manufacturing and mining, and 1.7 percent in majority-owned transport and communications. In minority-owned finance, real estate and business services, it contracted by 1.1 percent. Among minority-owned enterprises as a group, employment grew by 1 percent during the period, less than half the rate (2.7 percent) at which jobs were created by majority-owned enterprises. Moreover, average real wages in the former contracted by 1.2 percent during 1986-90 but managed a negligible (0.1 percent) improvement in the latter (Statistical Annex, Tables 4a and 4b).

C. Contribution to Investment

4.14 During 1986-90, the parastatal sector accounted for 16 percent of gross fixed capital formation. Majority-owned firms were responsible for 13.7 percentage points compared with 2.3 percentage points attributable to minority-owned enterprises. At the sectoral level, the most significant investments were in majority-owned transport and communications, minority-owned manufacturing and mining, majority-owned manufacturing and mining, and majority-owned finance, real estate and business services (Statistical Annex, Tables 13a and 13b).

4.15 Machinery and equipment accounted for the largest share (37.9 percent) of gross fixed capital formation in the parastatal sector during 1986-90. Transport equipment was next at 28.1 percent and was followed by non-residential buildings at 12.6 percent, residential buildings (8.1 percent) and land improvements (2.7 percent). This distribution of investment across types of assets was not very different from the investment pattern in the rest of the economy.

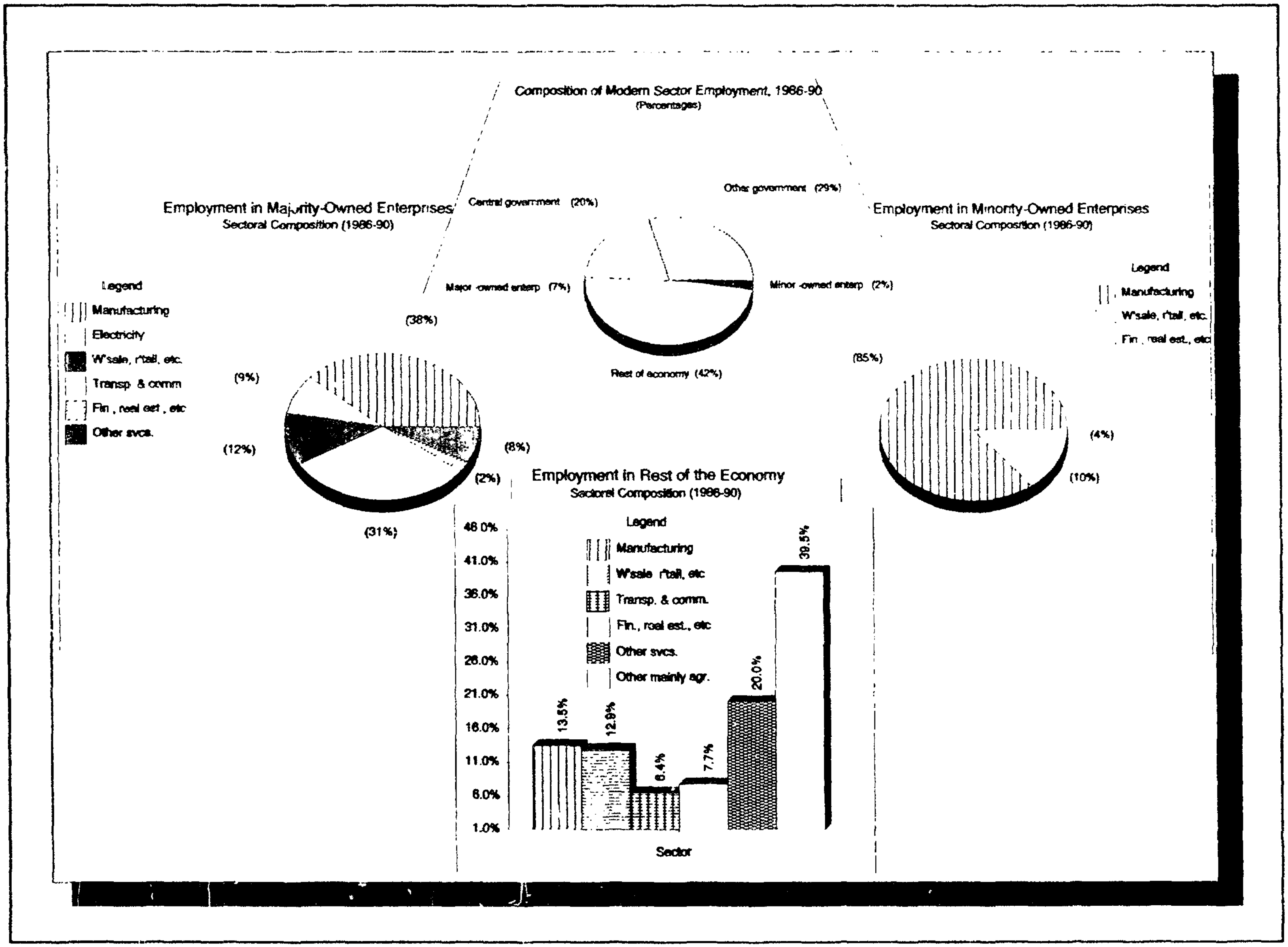


Figure 4.2: Modern Sector Employment

4.16 Fixed investment growth in the parastatal sector (30.2 percent per annum) far outstripped fixed investment growth in the rest of the economy (0.5 percent per annum) during 1986-90. Among majority-owned enterprises, gross fixed capital formation expanded strongly at 19.9 percent per year but among minority-owned firms the average annual expansion was eight-fold (albeit from a small base). Such dynamism was particularly evident in minority-owned manufacturing and mining, and minority- and majority-owned finance, real estate and the business services sector where modernization and computerization programs were under implementation.

D. Merchandise Exports and Imports

4.17 Table 4.6 shows the merchandise exports and imports of the major enterprises in the parastatal sector. These numbers require careful interpretation because they only capture transactions in which the parastatals are directly involved. For instance, they exclude imports which may be purchased locally from a second or third party. Furthermore, since the parastatals enjoy a monopoly in the importation of commodities such as oil and sugar, not all imports recorded in Table 4.6 were used entirely within the sector. And since nonfactor services are excluded, the sector's earnings from tourism are not captured. In any case, the magnitude of the enterprises' value added relative to the magnitude of their external debt obligations suggests that the sector's net contribution to the service account was negative. In other words, even if all tourism value added from parastatals were in foreign exchange, it would be insufficient to cover

Table 4.6
Merchandise Exports and Direct and Ex-factory Merchandise Imports of Majority-Owned Parastatals, 1987-90)
(US$ millions, percentages)

	1987	1988	1989	1990
Merchandise imports a/	121.1	241.8	379.3	407.2
Merchandise exports b/	31.4	41.9	44.3	51.4
Balance	-89.7	-199.9	-335.1	-355.7
	Percentage of Economy-Wide Totals			
Merchandise imports a/	7.0	12.0	16.7	18.3
Merchandise exports b/	3.3	3.9	4.5	4.7
Balance	11.5	21.2	26.0	31.3

Source: Ministry of Finance

a/ Includes leases
b/ Includes re-exports

their debt service payments which have to be made in foreign exchange. As such, the sector's overall net contribution to the resource balance appears to be negative.

4.18 In principle, of course, there are no compelling reasons why every sector within an economy should individually be a net generator of foreign exchange. On the contrary, it would be understandable if foreign exchange surpluses from one sector of the economy were used by another sector. Likewise, it would be desirable under most circumstances if the sectoral surpluses fully offset the totality of sectoral foreign exchange deficits across the economy. On the positive side, the share of imported inputs and capital equipment rose from around 10 percent in 1987 to about 90 percent in 1988, the two years for which such details are available. What is disturbing, however, is that the share of direct imports by parastatals in total merchandise imports increased from 7.0 percent in 1987 to 18.3 percent in 1990, an increase which is not entirely explained by crude oil imports. It is also of concern that although parastatals are concentrated in manufacturing, an activity which has benefitted in recent years from renewed efforts at export promotion by the Government, their exports only rose from 3.3 percent of total merchandise exports in 1987 to 4.7 percent in 1990. Consequently, the share of trade deficit attributable to the parastatal sector climbed from 11.5 percent to 31.3 percent.

E. Domestic Banking

4.19 Table 4.7 reports the end-year deposit and credit position of the parastatals during 1986-90 with domestic banks and near-bank financial institutions (NBFIs) as well as the position of other public agencies (excluding the Central Government and local authorities) whose deposits and credit could not be netted out from the data base. To avoid a major distortion, the deposits of the National Social Security Fund (NSSF) were subtracted from total deposits.

4.20 As a group, the remaining enterprises generally held fewer deposits in absolute terms in commercial banks than they borrowed from these banks. Among NBFIs,

Table 4.7
Parastatal Deposits With and Credit From Commercial Banks and NBFIs
1986-90 a/

(Kenya £ millions)

	1986	1987	1988	1989	1990
Commercial Bank					
Deposits	110.9	122.2	121.3	232.1	228 1
Adj. b/	18.0	20 6	38 5	73.6	145 7
Adj. Deposits	92.9	101.7	82.8	158.5	82.4
Credit c/	137.8	175.9	168.6	136.7	159 9
NBFIs					
Deposits	146.8	137.0	144.3	190 6	296 9
Adj. b/	52.0	56.6	59.2	75.2	93.7
Adj. Deposits	94.8	80.4	85.1	115.4	203.2
Credit c/	0 0	9.0	29.1	7.9	29.3
(Percentage of Commercial Bank Holdings)					
Commercial Banks					
Deposits	8.5	8.7	8.3	13.6	11.1
Adj. b/	-1.4	-1.5	-2.6	-4.3	-7.1
Adj. Deposits	7.1	7.2	5.7	9.3	4 0
Credit c/	6.8	7.2	6.5	4 9	4.6
(Percentage of NBFI Holdings)					
NBFIs					
Deposits	18.2	15.5	13.9	15 0	17 9
Adj. b/	-6.5	-7.0	-5.7	-5.7	-5.6
Adj Deposits	11.7	8.5	8.2	9.3	12.3
Credit c/	0.0	1.0	2.8	0.6	1.9

Sources: CBK and the NSSF.

a/ May include transactions with regulatory bodies.
b/ Adjustment for deposits of the NSSF.
c/ The NSSF does not use credit from commercial banks or NBFIs.

their deposits consistently exceeded borrowing. The latter is partly explained by the fact that until 1987, some NBFIs were allowed to offer significantly higher interest rates on deposits. For example, deposit interest rates offered by NBFIs ranged from 13 percent to 14.25 percent in 1986 but were only between 11 percent and 12 percent for commercial banks. By January 1990, however, these NBFI deposit rates were of the order of 11.75 percent to 14 percent compared with 11.5 percent to 13.5 percent for commercial banks. But this interest rate structure does not explain why the deposits of these enterprises usually accounted for a larger share of total NBFIs deposits than those of commercial banks. (This was true even after 1986, the year in which a number of NBFIs encountered financial difficulties).

4.21 Furthermore, Table 4.8 indicates an unhealthy financial situation at end-1990 in that the deposits of public agencies (including the NSSF) accounted for over 90 percent of the deposits of one NBFI and between 50 percent and 89 percent of the deposits of another 4 NBFIs. Only one commercial bank had a very high concentration of parastatal deposits (over 50 percent) although 4 others had holdings equivalent to between 20 percent and 50 percent of total deposits. Some of the deposits of the public agencies may have been irretrievable because of the financial problems facing some of the banking institutions.

4.22 The numbers also say nothing about any preferential treatment which the banking institutions extended to these public agencies with respect to credit. Table 4.7 does indicate that commercial banks provided more credit to the public agencies--in absolute terms and as a share of commercial banks credit exposure--than NBFIs but the latter became a more important source of credit during 1988-90 when credit ceilings and interest rate liberalization were pursued under the adjustment programs.

4.23 As with foreign exchange, there is no compelling reason in theory or in practice why the public agencies as a group should balance their credit from and their deposits with domestic banks and NBFIs. What is more important is the extent to which their deposits are critical to the financial health of the particular banking institutions and the degree to which they compete with other segments of the economy for domestic credit. Para. 4.21 has already commented on the former. With 6.1 percent of commercial bank credit and 1.3 percent of NBFI credit, public enterprises appear not to have directly crowded out other economic actors from domestic financial markets during 1986-90 (based on Table 4.7). In the section below, the discussion of financial flows between parastatals and the Central Government provide

Table 4.8
Distribution of Parastatal Deposits With Commercial Banks and NBFIs
End-1990 a/

Parastatal Deposits as Share of Institution's Deposits (%)	No. of Banks	No. of NBFIs
90 -100	-	1
80 - 89	-	1
70 - 79	-	2
60 - 69	-	-
50 - 59	1	1
40 - 49	-	3
30 - 39	2	7
20 - 29	2	5
10 - 19	3	3
0 - 9	8	11

Source: CBK

a/ May include transactions with regulatory bodies.

some clues as to whether transfers from the Central Government budget may have been substituted for domestic borrowing, and whether these enterprises had an indirect crowding out effect via their impact on the fiscal deficit.

F. Budgetary Inflows and Outflows

4.24 The largest explicit outflow from the Central Government to the enterprises during FY86-91 was loans (59.5 percent) followed by transfers (21.0 percent) and equity purchases (19.5 percent). It should be surmised, however, that prior to this period significant equity purchases had been made since inflows during FY86-91 were dominated by payments of dividends and profits (Table 4.9). Indeed, they accounted for 81.7 percent of inflows during the period and were 9 times the equity purchased during these years. By themselves these magnitudes say nothing about the profitability of the Government's equity holdings. Dividends and profits need to be related to the Government's initial investment in these enterprises while recent equity purchases should be assessed against the capital requirements, financing options and potential profitability of the enterprises which received them. A recent study of 6 parastatals in Kenya, many of which are very dependent on government equity, concluded that they were either severely undercapitalized with critical liquidity (and working capital) problems or unlikely to be able to adequately borrow to meet long-term investment needs. At the same time, several reports on the return to government equity investments suggest that dividends and profits have been well below acceptable levels. Indeed, when profits of the Central Bank are netted out, what remains is a minuscule amount of profits and dividends.

4.25 Other adjustments are made in Table 4.9 to reflect taxes collected but not remitted to the Central Government as well as external debt service payments made by the government for these enterprises. The foregone tax revenue would have lowered the fiscal deficit. The same is true of the amounts paid in interest on debt. But even when the government is re-imbursed by the parastatals for debt service payments made during the course of the same fiscal year (as occurred several times during FY91), the government still had to grapple with the adverse consequences for its cash flow.

4.26 Corporate taxes paid by the parastatals are deliberately excluded from Table 4.9. The reason is that such flows are not peculiar to these enterprises and may occur irrespective of their ownership. Some import duty exemptions are also in this category. Those which are specific to the parastatals could not be easily netted out from the total and are therefore not shown. It was also not easy to determine the extent to which government guarantees permitted these firms to be more leveraged and, thereby, to reduce their taxable income by applying eligible interest payments against income. But even without such fine-tuning of the numbers, it is clear that overall, there was a net outflow from the Central Government to these enterprises during FY86-91.

G. External Debt

4.27 At end 1990, the stock of medium and long term PPG external debt contracted by parastatals (all majority-owned) was $907.3 million (excluding the Nairobi City Commission), equivalent to 17 percent of Kenya's PPG external debt including IMF. Comparative data suggest that the commercial terms at which the parastatals generally borrowed compared favorably with those extended to parastatals in other Sub-Saharan countries.

Table 4.9
Parastatals and the Central Government Budget, FY86-91 a/
(Millions of Kenya pounds)

	FY86	FY87	FY38	FY89	FY90	Prel. FY91
Adjusted total inflow to Central Govt. budget b/	30.9	22.1	33.6	35.0	14.5	15.4
CBK profits	n.a.	44.1	41.6	67.8	96.1	97.8
Total inflow to Central Government budget	30.9	66.2	75.2	102.8	110.6	113.2
Loan repayments	7.5	6.4	5.6	15.0	10.0	10.5
Interest payments	11.6	7.6	6.1	9.7	10.0	..
Dividends and profits	11.8	52.2	63.5	78.1	90.6	..
Total adjusted outflow from Central Govt. budget c/	106.3	10.1	7.4	30.9	42.2	163.2
Unremitted taxes d/	-	-	-	0.0	0.0	45.0
Ext. debt service payments	-	-	-	15.3	13.4	66.5
Total outflow from Central Government budget	106.3	10.1	7.4	15.6	28.8	51.7
Loans	50.0	2.0	5.8	3.5	22.6	47.1
Equity purchases	10.5	7.9	1.6	12.2	6.2	4.6
Transfers	45.9	0.4	0.0	0.0	0.0	0.0
Net inflow to Central Govt.	-75.5	56.1	67.8	87.2	81.9	61.5
Net adjusted inflow to Central Government b/ c/	-75.5	12.1	26.2	4.1	-27.7	-147.8
Memorandum items: (In percentages)						
Net adjusted inflow to Central Government/GDP e/	-1.1	0.2	0.2	0.0	-0.1	-0.9
Fiscal deficit/GDP f/	-5.3	-6.6	-4.2	-4.9	-4.1	-6.8

Sources: Ministry of Finance, CBK and IMF. FY91 data from Economy Survey.

a/ May include some regulatory agencies.
b/ Excludes profits of CBK.
c/ Adjusted for taxes collected but not remitted and payments of Government-guaranteed external debts.
d/ By agencies which collect sales and value-added taxes.
e/ GDP in denominator consistent with GDP used in IMF fiscal data for period.
f/ Includes grants. Consistent with IMF fiscal data.

4.28 Formal guarantees were provided by the Government directly through the Treasury (66.3 percent of the value of the end-1990 stock) and indirectly through government-owned local commercial banks (21.6 percent of the value of the end-1990 stock). A small amount was guaranteed by private domestic banks and an even smaller amount was contracted without an explicit guarantee.

4.29 One consequence of the commercial profile of the external debt of most parastatals is that their debt service accounted for 25.5 percent of Kenya's PPG external debt service obligations (incl. IMF) at end 1990 but only 17.1 percent of the stock of debt. Moreover, the share of parastatal debt service in 1990 represented an increase from 21.4 percent in 1986. What is even more disquieting is that recently, the Central Government has had to assume an increasing amount of these parastatal foreign obligations. This raises the obvious question about why the loans were borrowed, how they were used and why several borrowers are finding it increasingly difficult to repay them.

4.30 Most of the parastatal external debt was contracted by 10 firms. Several are in transportation and communications, banking and electricity, and some have the capacity to earn foreign exchange directly. A number are legislated monopolies while others enjoy significant local market share. All are majority-owned by the Government and a few have been able to borrow externally without the prior clearance of the Treasury and without the conventional government guarantees. By the nature of their operations, all are users of imported machinery and equipment and many have undertaken large capital-intensive infrastructural investments. In fact, their external borrowing has been justified on the grounds that these investments are essential for Kenya's development and sustained growth.

4.31 It has been suggested that in the Kenyan context, a prudent level of sustainable external indebtedness for parastatals is one that limits debt service payments to no more than 40 percent of operating income before depreciation. This assumes an average repayment period of around 10 years, an average interest rate of approximately 10 percent and depreciation of the Kenya shilling. But several of these firms are indebted well beyond this limit, reflecting in part problems which they share with their counterparts in developing countries. These problems include managerial weaknesses which in some cases were compounded by government regulation of input and output prices, salary constraints on recruiting skilled personnel and foreign exchange losses. Government as a client has sometimes been delinquent in paying parastatals for services rendered, and this has undermined their orderly financial management. Some of these firms were required to pursue costly noncommercial objectives for which they were not adequately compensated. Other situations involved problems with equipment which were part of donor-tied aid but which were difficult to service and maintain. At the same time, most enterprises were undercapitalized, had inadequate working capital and depended on foreign as opposed to domestic debt. In essence, the debt servicing difficulties experienced by several parastatals recently have been caused by factors external to themselves as well as internal constraints and managerial inefficiencies.

H. Evaluating Macroeconomic and Financial Performance

Macroeconomic Performance

4.32 In this section attention shifts from how much parastatals as a group contributed to GDP to how efficiently this contribution was made. Central to this examination are implicit indicators of labor productivity, incremental capital-output ratios and changes in total factor productivity (TFP).

4.33 On the positive side, the implicit change in labor productivity--the difference between real output growth and employment--was largest (22 percent per annum) among minority-owned firms in trade, hotels and restaurants during 1986-90. Labor productivity was also strong in majority-owned other services (11 percent), transport and communications (6.6 percent) and finance, real estate and business services (4.1 percent). In contrast, implicit productivity increases were negligible in majority-owned electricity, trade, hotels and restaurants and negative in majority and minority-owned manufacturing and mining.

4.34 As a measure of the productivity of capital, incremental capital output ratios (ICORs) are a useful proxy for the extent to which changes in output coincide with changes in the capital stock as proxied by gross fixed capital formation. The values shown in Figure 4.3 capture the relationship between annual changes in ICORs and annual changes in capital. Understandably, large investments which only yield returns in the distant future would perform badly by this measure. Accordingly, the ICORs for mining are large or negative. By the same token, however, it is disturbing that the ICORs for minority and majority-owned manufacturing are either large or negative. It is equally disquieting that the economy, net of the parastatal sector, had an average ICOR of 3.9 during 1986-90, which was almost one-half the value for majority-owned enterprises (7.6) and one-third the value (10.8) for minority-owned firms. 17/

4.35 The change in TFP is a better measure of productivity partly because it recognizes the fact that labor and capital work together. Independently, the minority-owned sector appears to use labor more efficiently and capital less so. However, the results in Table 4.10 indicate that the efficiency of labor in this subsector offsets the inefficiency in capital, with the result that the change in total factor productivity was 1.2 percent in 1986-90. On the other hand, although the majority-owned enterprises appeared to use capital more efficiently than minority-owned firms, the difference was not large and did not offset the weak performance of labor productivity. As a result, the majority-owned enterprises experienced an annual average reduction of 3.0 percent in TFP during 1986-90. This stands in marked contrast to the rest of the economy (including the Central Government) where the increase in TFP was 1.9 percent (Table 1.9) and 5.4 percent (excluding the Central Government) (Table 4.10).

I. Financial Performance

Background

4.36 Whereas 87 percent of the parastatals provided data for the compilation of the national accounts (data for the rest were estimated), 18/ around 60 percent of the majority-owned enterprises provided financial data. Only one major enterprise in this group did not submit financial returns. For comparison, similar information was collected from about one-third of the minority-owned enterprises, and several wholly privately-owned firms from a variety of sectors. These differences in coverage introduce two wrinkles into the discussion of the financial performance vis-a-vis the macroeconomic performance. **First**, whereas the conclusions reached about economic performance apply to the parastatal sector in its entirety, the assessment of

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17/ To avoid problems of interpretation, the ICOR for minority-owned firms excludes the figure for 1989 which is negative.

18/ This level of reporting was unusually high by Kenyan and international standards. Usually, data is collected for about 60 percent of the firms and [illegible] for the rest.

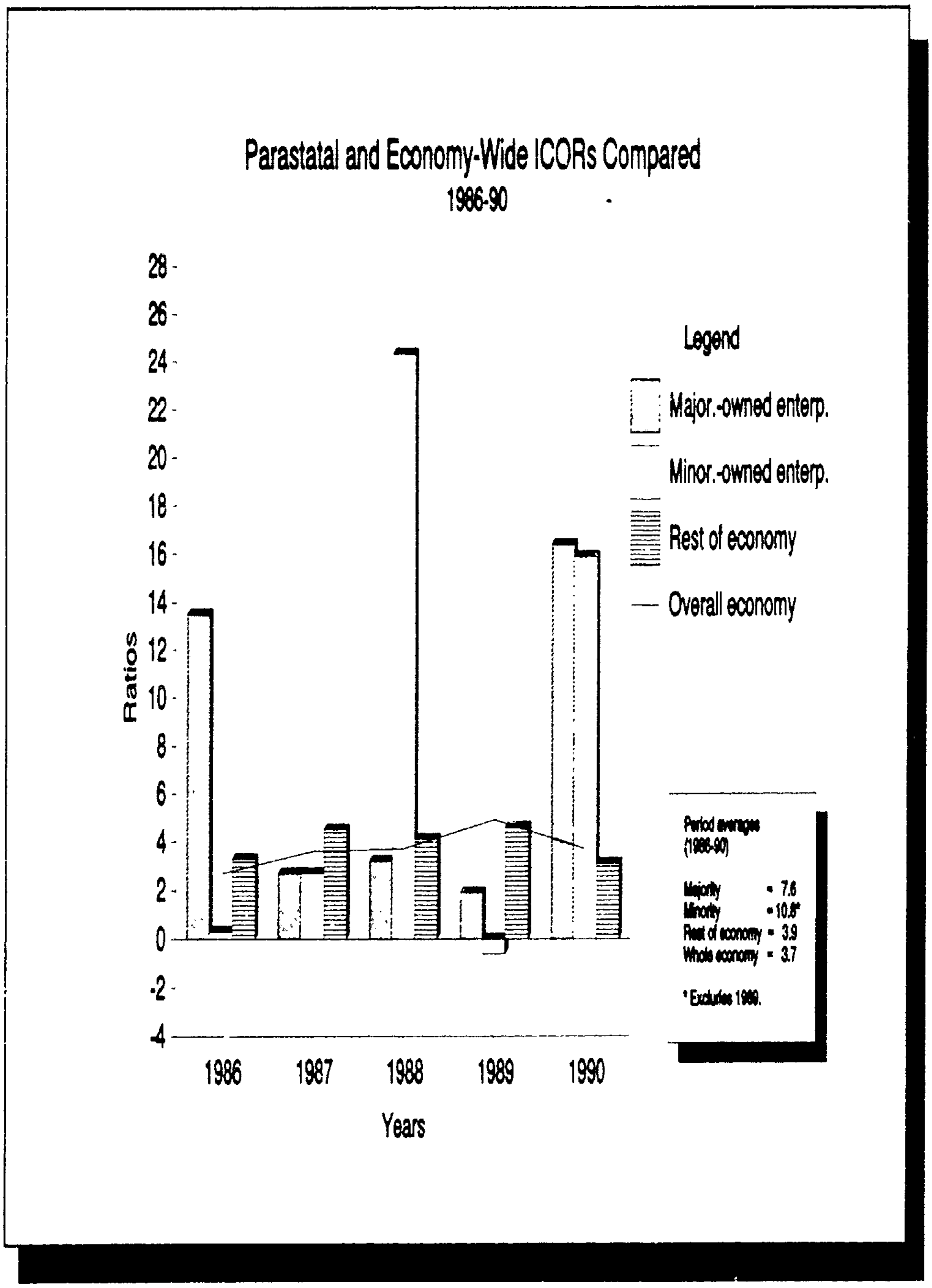
Parastatal and Economy-Wide ICORs Compared
1986-90
28
26
24
22
20
18
16
14
12
10
8
6
4
2
0
-2
-4
Ratios
1986
1987
1988
1989
1990
Years
Legend
Major.-owned enterp.
Minor.-owned enterp.
Rest of economy
Overall economy
Period averages
(1986-90)
Majority = 7.6
Minority = 10.5*
Rest of economy = 3.9
Whole economy = 3.7
* Excludes 1989.

Figure 4.3

Table 4.10
TFP of the Parastatal and Private Sectors, 1986-90
(Percentages)

	1986	1987	1988	1989	1990	1986-90
Change in TFP a/						
Private Sector	6.9	1.1	7.8	6.0	5.3	5.4
Parastatals	-4.5	2.0	-3.5	1.9	-4.8	-1.7
Majority-Owned Enterprises	-6.6	1.8	-4.7	1.8	-7.2	-3.0
Minority-Owned Enterprises	3.3	1.6	-0.9	-2.7	4.7	1.2
Growth Rate of Value-Added b/						
Private Sector c/	10.2	10.2	10.2	10.2	10.2	10.2
Parastatals	2.9	9.0	5.9	9.4	2.5	5.9
Majority-Owned Enterprises	2.4	10.6	7.1	12.0	2.0	6.8
Minority-Owned Enterprises	5.0	1.9	0.5	-3.4	5.2	1.8
Growth Rate of Labor Inputs d/						
Private Sector	5.0	5.4	4.3	1.0	4.2	4.0
Parastatals	1.5	1.4	6.4	1.3	0.9	2.3
Majority-Owned Enterprises	0.6	2.0	7.3	2.7	1.0	2.7
Minority-Owned Enterprises	4.5	-0.4	3.8	-3.6	0.9	1.0
Growth Rate of Capital Inputs d/ e/						
Private Sector	2.3	11.7	1.2	6.5	5.4	5.4
Parastatals c/	11.4	11.4	11.4	11.4	11.4	11.4
Majority-Owned Enterprises	15.3	15.3	15.3	15.3	15.3	15.3
Minority-Owned Enterprises	0.5	0.5	0.5	0.5	0.5	0.5

Source: Bank staff estimates

a/ Change in TFP is calculated as the difference between the rates of growth of value-added and factor inputs (labor and capital) weighted by their income shares.
b/ At factor cost.
c/ Period average.
d/ Weighted by their income shares.
e/ Data on the capital stock is from MPND, Government of Kenya.

financial performance is essentially an analysis of a sub-group. By and large, however, the excluded majority-owned firms are a numerically smaller sub-group of financially less significant enterprises. Therefore, although the data inputs do not cover as many firms as those in the analysis of macroeconomic performance, the discussion of financial performance should still be interpreted as applying to the parastatal sector in general.

4.37 The **second** wrinkle has to do with comparability between macroeconomic data (especially those covering domestic credit, external debt, and flows between the Central Government and the parastatals) and similar data from the financial survey. Because the former data base covers all firms, its numbers will be given precedence over numbers from the financial survey. But even if all of the same firms were in both data sets, the macroeconomic performance could still differ from financial performance (Box 4.2).

Box 4.2
Linkages Between the Macroeconomic and Financial Performance of the Parastatal Sector

Analyzing the macroeconomic and financial performance of enterprises is analogous to viewing two sides of the same coin. Each may be peculiar in detail but ordinarily they are complementary in perspective.

In this chapter, macroeconomic performance focuses on the magnitude of the enterprises' contribution to GDP and GDP growth as well as the quantity of resources used to generate this contribution. The former is measured by value added while the latter is captured by indicators such as labor productivity, the ICOR and the change in TFP. While higher labor productivity, lower ICORs and faster growth in TFP are desirable in principle, their pursuit could conflict with the full utilization of the available factors of production because perfectly adjustable factor markets do not exist in practice. For example, wages may not be sufficiently flexible downward for all the labor to be absorbed in production. And even if they were, efficiency might dictate that more capital be used instead of labor.

Given the limited availability of foreign exchange to most developing countries, assessment of macroeconomic performance also focuses on the balance between direct import consumption and exports generated within the sector. The sector need not be self-sufficient in foreign exchange. Rather, it should, in conjunction and in competition with the rest of the economy, utilize and generate scarce foreign exchange in an efficient manner. There is probably less universal agreement on how performance in this area should be measured, but indicators such as the composition of imports relative to the rest of the economy, the external asset/liability balance and the robustness of the overall balance of payments can be useful.

Generally, a firm in the private sector is likely to survive financially in a competitive environment only if it produces efficiently. Financial survival ordinarily implies generating a current surplus and a satisfactory return on capital. An efficient production base would support such a surplus but would need to be complemented by a suitable mix of debt and equity. Frequently, firms in the private sector tend to be heavily leveraged in part because interest expenditure is tax deductible. Often in the public sector, however, these relationships become blurred because of non-market sources of financing such as government transfers and subsidies. Government guaranteed borrowing, price controls, exemption from taxes such as import duties and non-economic responsibilities also skew this relationship in different directions. Hence, while it should not be surprising to find inefficient firms in the sector which are surviving financially, it would not be unreasonable to expect parastatals which are efficient producers to be financially weak. Accordingly, the discussion of the financial performance of the parastatals has to be supplemented with analysis of the flows between the sector and the Central Government, as well as their transactions with the domestic banks, NBFIs and external creditors. Ideally, cross-debts should also be traced and quantified but this proved to be very difficult.

Ultimately, what is desirable is that the enterprises in the parastatal sector operate in an environment which forces them to compete on the same terms, with the most efficient producers, for inputs and markets at home and abroad. Survival under such circumstances is likely to require and re-inforce efficient production as well as strong financial performance.

Performance

4.38 Tables 4.11 and 4.12 contain selected indicators of financial performance for the period 1986-90 for a sub-group of minority- and majority-owned parastatals. The values are simple averages. Relative to the majority-owned enterprises, the minority-owned enterprises did better financially. Their average gross rate of return for 1986-90 was higher; their net rate of return was also higher; their current assets/liability ratio was larger respectively; their debt/equity ratio was greater; their receivables collection period was shorter; so too was their creditor payment period.

Table 4.11
Minority-Owned Parastatals: Selected Indicators of Financial Performance, 1986-90

	1986	1987	1988	1989	1990	1986-90
Gross rate of return (%)	38.3	30.4	39.9	46.0	39.7	38.9
Net rate of return (%)	39.4	30.9	40.3	44.7	39.8	39.0
Debt/equity ratio	5.7	7.5	5.5	2.7	2.5	4.8
Current ratio	2.4	2.5	2.0	2.2	1.6	2.1
Receivables collection period (days)	106.0	123.0	141.0	117.0	113.0	120.0
Creditors payment period (days)	85.0	99.0	102.0	80.0	109.0	95.0

Source: Parastatal Sector Financial Survey, Tables 3a and 3b.

Table 4.12
Majority-Owned Parastatals: Selected Indicators of Financial Performance, 1986-90

	1986	1987	1988	1989	1990	1986-90
Gross rate of return (%)	11.6	16.8	16.4	16.8	21.5	16.6
Net rate of return (%)	12.0	19.4	17.2	38.3	23.0	22.0
Debt/equity ratio	2.3	1.8	1.9	2.2	2.0	2.0
Current ratio	2.5	1.3	1.2	2.7	1.3	1.8
Receivables collection period (days)	152.0	163.0	156.0	142.0	165.0	155.6
Creditors payment period (days)	223.0	432.0	432.0	209.0	464.0	352.0

Source: Parastatal Sector Financial Survey, Tables 2a and 2b.

4.39 With the exception of textiles and leather manufacturing, the differences in financial performance between minority-owned and majority-owned enterprises pervade all sectors. This was particularly pronounced in food and beverages where the minority-owned firms earned gross and net rates of return averaging 241.6 percent and 261.0 percent respectively (9.5 percent and 5.6 percent respectively in the case of majority-owned firms). Concurrently, the receivable collection period was 5.2 days for the minority-owned firms as opposed to 44.6 days for their majority-owned counterparts; the corresponding creditors repayment period was 33.8 days for minority-owned firms compared with 146.4 days for the majority-owned ones. The debt equity ratio (0.3 relative to 0.8) and the current ratio (0.4 as opposed 1.1) were marginally higher in these minority-owned firms compared with the majority-owned ones.

4.40 The financial sector is another case in which large discrepancies occurred during 1986-90 in the financial performance of the minority-owned enterprises vis-a-vis the majority-owned enterprises. In the former, the gross rate of return averaged 28.1 percent while the debt/equity ratio and current ratio were 32.2 and 2.6 respectively. In contrast, the latter had a gross rate of return of 11.9 percent a debt/equity ratio of 32.2 and a current ratio of 2.6 (Figure 4.4).

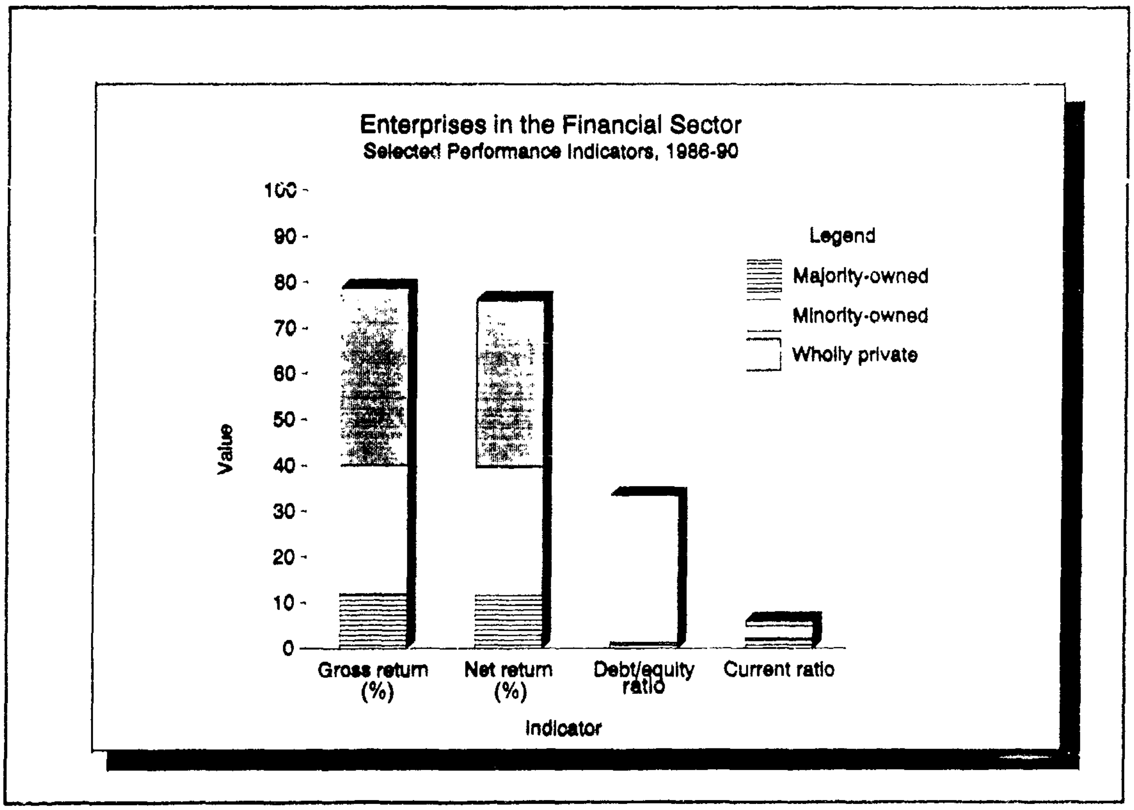

Figure 4.4

4.41 The gross rates of return in minority- and majority-owned parastatals fluctuate somewhat but generally display an upward trend. Whereas the receivables collection period rises erratically for majority-owned enterprises, it falls after 1988 for minority-owned firms. Fluctuations are also evident in the creditors payment period but the trend is toward longer payment periods for both groups of enterprises. Similarly, debt equity ratios of both groups tended to fall (although this was more pronounced among minority-owned firms) and current ratios to decline. Among private sector comparators in finance and transportation, the gross and net rates of return also fluctuated but generally moved upward. The opposite was true in privately owned food and beverage manufacturing. In all private sector comparators, however, debt equity ratios and current ratios remained largely constant while receivable collection period and creditors payment period rose.

4.42 Although the financial survey does not cover all parastatals, the data it generated on variables such as flows between government and these enterprises, are still useful. For example, given what is already known from the fiscal accounts, the information from the financial questionnaires sheds some light on the relative importance of the larger enterprises vis-a-vis the smaller enterprises in explaining these transfers. Table 4.9 has already shown that net transfers from public enterprises worsened progressively during 1986-90. Data from the financial survey indicate further that during the same period, the total flows--equity, loans and grants--from the Central Government to the sector were 2.3 times the total flows--dividends, principal and interest repayments--from the sector to the Central Government. And when adjustments are made for taxes collected but not remitted and external debt service payments assumed by the government, the net flows in the financial survey worsen in a similar manner to that shown in Table 4.9.

4.43 The question raised by the data is not simply why any particular parastatal was a financial success or failure. The universal fact of commercial life-private or public--is that enterprises malperform for a variety of avoidable and unavoidable reasons. The experience of Veneers and Zimmerman illustrates this point (Box 4.3). In any case, an exhaustive treatment of such reasons would be beyond the scope of this report. What is presented instead in paras. 4.44 and 4.45 below is a summary of the generic problems which are illustrated by the macroeconomic and financial data. These problems appear to be inherent in public ownership and are distinct from sector-specific firm-level circumstances irrespective of ownership.

4.44 While it is relatively easy to identify the problems which have affected the performance of the parastatals, it is much more difficult to apportion precise weights to any single problem. A pragmatic and simple alternative is to report the concerns about these enterprises which have been voiced by the Government in its capacity as shareholder and which are corroborated by the analysis of macroeconomic and financial performance. **First**, management problems often originate in poor selection criteria for directors and senior staff (Republic of Kenya, 1979, p. 4) and desultory, disjointed and ultimately ineffectual board representation of the Government. **Second**, enterprises were often undercapitalized because Government, as sole shareholder, was unable to provide additional resources. At the same time, there was emphasis on creating new capacity but little provision for working capital. This was particularly troublesome for parastatals which produced price controlled items and hence could not easily raise their profit margins. **Third**, investments were frequently undertaken without adequate assessment of their viability. "Examples of unsound and poorly controlled investments can readily be found in such areas of activity as fertilizer, sugar, textiles, and power alcohol. The amounts involved are of such a magnitude that if they had been directed toward the development of essential rural infrastructure, several districts could have been radically transformed in terms of both production and

Box 4.3
Veneers and Zimmerman

Not all enterprises in the parastatal sector are financially unviable, but not all financially viable enterprises in the parastatal sector are surviving. The discussion of Veneers and Zimmerman below illustrates this point but does not dispute the importance of the concerns which led to their closure.

Veneers Kenya Ltd. was started in 1978 to manufacture plywood for a variety of domestic and industrial uses, and tea chests for tea exports. Its major share holders were private operators of a sawmill (35 percent), a local businessman who had been in the logging business for over three decades (33 percent) and the government-owned Industrial Development Bank (26 percent). The company was located in the Transmara Forest where it was initially permitted to fell non-indigenous trees and turn them into finished products on site. Studies done by the Ministry of Natural Resources concluded that the company's operations were not a threat to indigenous trees or the surrounding environment.

By 1979, Veneers was in commercial production and began to pay dividends to all of its shareholders. After 1984, however, the company's operations were interrupted several times because of the perception that it was damaging the environment. For example, in June 1984 the company was stopped for 3 months from felling trees in Nyangores Forest. In this case, the reason was the preservation of indigenous trees and protection of the Nandi/Kericho water catchment area. Another ban was imposed in August 1985 but it was lifted in September in that year after it was confirmed that the company had not indiscriminately felled trees--only 'mutati' species were being cut--and that water catchment function of the forests had not been compromised. Operations continued utilizing exotic non-indigenous pine plantations at Londiani. This facilitated forestry planting of indigenous species. Still, on February 14, 1987, the company was again ordered to stop all timber felling. It has remained closed resulting in the loss of around 300 jobs.

Zimmerman (1973) started as a private concern in the taxidermy business in 1944 but expanded into game ranching when it acquired government equity (51 percent) in 1973 through the Kenya Tourism Development Corporation. By 1978 the company had around 200 workers, earned mostly foreign exchange and was among the leaders worldwide in the business. Over the next five years, net profits averaged around 21 percent of turnover during full years of operation and the government received dividends equivalent to 95 percent of its original equity investment.

However, in May 1977 the Government banned hunting in Kenya and extended the ban to dealings in game products from March 1978. In July that year, the company stopped operating and laid off staff. It remained dormant for over 10 years in the hope that the ban would be lifted from local game which died naturally or was not endangered, or from imported game which had come from countries where such a ban did not exist. That hope has faded and the company is now being voluntarily wound up.

employment. This is not to condemn the projects themselves but rather the lack of advance planning, adequate safeguards for Government investments and good management which has resulted in uncontrolled cost escalations, inefficient technologies and unprofitable enterprises." (Republic of Kenya, 1882, p. 42).

4.45 **Fourth**, financial management and budgetary control were weak, reflecting poor government supervision and lack of managerial and financial accountability. Parent ministries, first in the line of supervision, often failed to issue clear policy guidelines for their enterprises. Until very recently, the audit function was also underdeveloped and unfocussed. **Fifth**, attempts at reform have tended to depend excessively on management changes and to leave the inherent incentive structure within and surrounding the enterprises untouched. **Sixth**, it has proven difficult to legislate financial accountability without excluding mechanisms which promote productivity and efficient corporate operations. Ex ante controls predominate. Ex post performance evaluation has been scarce. Ultimately, however, these explanations are not excuses for the weak macroeconomic and financial performance of a sector which has had preferential treatment in the competitions for Government contracts, comprehensive import duty exemptions and preferential access to domestic credit.

J. Transitional Summary and Conclusions

4.46 So far, this chapter has presented and analyzed a wealth of macroeconomic and financial data on the parastatal sector in Kenya for the period 1986-90. More data can be added but this would only re-inforce the broad conclusions already reached which may be synthesized as follows:

- At end-June 1991, the parastatal sector roughly comprised equal numbers of majority-owned and minority-owned enterprises. Overall, the enterprises were most numerous in manufacturing (particularly food and beverages) but several were involved in distribution, finance, transport, communications and other services. However, there was greater diversity of sectoral activity among majority-owned firms than among their minority-owned counterparts who tend to be concentrated in manufacturing.

- At end-1990, most parastatals were medium-sized employing under 500 persons. Those that were larger were mostly majority-owned, with the largest firms in manufacturing and mining, transportation and communications. All told, the parastatal sector created one-tenth as many jobs as the rest of the economy and generated slightly more than one-ninth as much value-added.

- As a group, parastatals were not budget neutral. Majority-owned enterprises received increasingly larger net flows from the Central Government especially toward the end of the period when the Government had to assume some of their external debt service obligations.

- Parastatal deposits were held by commercial banks and NBFIs, but within the latter, they accounted for a larger share of total deposits. Data on the credit side suggests that the parastatals were not large direct consumers of domestic credit. However, because they contributed to the fiscal deficit, they had an indirect impact via domestic financing of the fiscal imbalance. Moreover, credit to parastatals was unresponsive to measures aimed at curtailing monetary expansion during 1988-90, indicating that the burden of adjustment fell on the private sector.

- Significant external debts were incurred by just over a dozen majority-owned firms. Most were guaranteed by the Central Government directly while a few enjoyed guarantees provided by government-owned domestic banks. In general, these loans bore commercial rates and thus are more burdensome than comparable Central Government borrowing.

- By 1990, about 40 parastatals accounted directly for approximately one-third of the trade deficit. Of course, they were not the sole users of some of the items--notably oil, sugar--which they imported. On the other hand, they contributed less than 5 percent of merchandise exports, despite the availability of export incentives and a concentration of parastatals in manufacturing.

- Overall, value added from the parastatals grew as quickly as the rest of the economy but the sector employed a disproportionately large amount of resources--especially labor and capital--in the process. The situation was worse in majority-owned manufacturing and mining but it was also quite bad in majority-owned transport and communications and minority-owned finance, real estate and business services.

- Minority-owned enterprises generally used labor and capital more efficiently than majority-owned enterprises but were less efficient than firms which were wholly privately-owned. The financial performance of these enterprises displayed a similar pattern. It was especially strong in majority-owned trade, restaurants and hotel, and minority-owned finance, real estate and business services but particularly weak in majority-owned mining, majority- and minority-owned 'other services', and minority-owned domestic trade.

- A re-allocation of productive resources from the parastatal sector could produce static and dynamic efficiency gains. This is because the productivity deficit economy-wide appeared to be greatest among majority-owned enterprises. Moreover, although minority-owned enterprises did better, the change in their total factor productivity was less than the national average and well-below the private sector (the rest of the economy excluding the Central Government). Accordingly, the static efficiency gains are likely to be largest from the majority-owned subsector. This could also have a significant direct impact on the budget deficit.

- Reform which encourages greater competition economy-wide could also eventually produce dynamic benefits beyond those which are suggested by the performance of the private sector during 1986-90. The TFP recorded by the private sector was achieved amidst resource and regulatory constraints, some of which emerge from the parastatal sector and the fiscal imbalance. The latter led to the imposition of credit ceilings which limited private sector access to credit, and drove up real interest rates and inflation. The former sometimes operated in uncontested markets and often received favorable treatment in contestable situations.

K. Parastatal Reform

4.47 The Government's past attempts at reforming the parastatal sector have focussed on strengthening the control mechanisms and the accountability of managers. Lacking an overall policy framework for the parastatal sector, efforts to improve efficiency have tended to follow a case-by-case approach, most often in response to a deteriorating situation in an individual enterprise or the emergence of a crisis which focuses the public's attention or begins to impact noticeably on the Government's budget. In such circumstances, the Government has generally responded by changing management and issuing a set of instructions to deal with the immediate problem. As a result, progress in parastatal reform has been slow and ad hoc. Moreover, because the Government's corrective measures have not dealt adequately with the underlying causes of parastatal inefficiency, reforms are inherently short term in nature and constantly in danger of being reversed.

4.48 Recently, the Government has come to accept the need for a comprehensive approach to parastatal reform, including a reassessment of the role of the state more in line with Kenya's development strategy and goals. This reassessment has been prompted in part by budgetary pressures but also by a growing concern over the low returns to public sector investments and the realization that unless the large parastatal claim on economic resources can be reduced, the private sector will be unable to provide the impetus for more rapid and efficient growth.

4.49 The detailed objectives of a parastatal reform program may vary widely but an overarching aim should be to improve productive efficiency throughout the economy, in both the public and the private sectors. Other important objectives of the program can include:

- reducing the financial and administrative burdens that parastatals impose on the Government;
- raising revenues from the sale of state-owned assets;
- dispersing widely the ownership of assets previously held by the Government;
- deepening capital markets;
- attract foreign investment, management skills and technology;
- eliminating preferential treatment to allow a level playing field for parastatals and the private sector; and
- improving the enabling environment for the private sector.

These desirable goals should be pursued, but not allowed to take precedence over the primary objective of enhancing efficiency.

4.50 Although privatization is often the most visible element of a parastatal reform program, a clear implication from the set of objectives suggested above is that privatization should not be viewed as an end in itself, but as a broader effort to promote productive efficiency, strengthen competitive forces in the economy, and support entrepreneurial development. Experience shows that divestiture programs that follow or parallel policy, regulatory and institutional reforms have tended to show better results than programs undertaken in isolation from such reforms. Thus, the design of the divestiture component in Kenya should be well synchronized with the removal of economic distortions and the development of a supportive macroeconomic, institutional, managerial, and financial environment.

4.51 As part of its parastatal reform program the Government has decided to adopt the following categorization of enterprises:

	STRATEGIC	NON-STRATEGIC
VIABLE	Retain	Sell
NON-VIABLE	Restructure/Retain	Liquidate

In line with the Government's definition, **strategic** in the matrix above refers to enterprises, parts of enterprises or the commercial functions of administrative/regulatory bodies, that are deemed vital to national security and those providing essential goods and services, especially infrastructure services and utilities. All other parastatals would be classified as **non-strategic**.

4.52 **Viable** parastatals would cover all enterprises that are commercially profitable under the current and proposed economic policy environment. All others are deemed **unviable**. The category potentially viable has been omitted intentionally, on the grounds that decisions on the financial and managerial resources required to turn a potentially viable company into a viable commercial undertaking should be left to the new managers and owners of privatized parastatals. Thus, the Government should not be responsible for the physical, financial or managerial rehabilitation of a parastatal prior to privatization. In the long run, the Government will aim at full divestiture of all non-strategic parastatals. Experience with parastatal reform programs has shown that classifying all firms at the outset is not necessary; quick action to privatize, liquidate, or restructure some of the extreme cases is often more important than an exhaustive classification and lowers the risk that the reform process will stall through lack of internal consensus on parastatals that are politically difficult to classify.

L. A Set of Guiding Principles

4.53 The Government's decision to embark on a comprehensive parastatal reform program is an important step. Implementation of the program and its sustainability will depend on the Government's acceptance and adherence to a set of policy principles to guide the reforms. It is important that these principles be clearly recognized and publicized as they will have major bearing on the credibility of the reforms and their acceptability by the public at large. 20/

20/ The discussion that follows draws from the World Bank's extensive experience in parastatal reform and its applicability to Kenya's specific circumstances. For a comprehensive analysis of the World Bank's lessons of experience, see: Shirley and Nellis, 1991.

Transparency of Divestiture

4.54 Given the limited absorptive capacity of Kenya's private sector and financial markets, divestiture will necessarily be a long-term process. Experience in many countries that have embarked on privatization programs strongly suggests that to ensure sustainability and efficiency, the process must be transparent and must provide equal opportunities to all potential investors. In this respect, the process by which assets are valued and transacted must follow clearly articulated and agreed criteria. It must ensure that once the decision to privatize has been taken, the actual valuation of assets and firms follows strict technical criteria and negotiations with potential buyers are, to the maximum extent possible, free of political interference. All transactions should be conducted in an open and transparent manner, consistent with normal standards of commercial discretion. At the completion of the sale, all aspects of the transaction should be in the public domain. This process requires careful handling not only to ensure that divestiture generates adequate returns but also to avoid claims that the Government is giving away the public patrimony to preferred purchasers who then enjoy a windfall profit.

An Open Environment for Parastatal Reform

4.55 As suggested above, the main objective of the parastatal reform program should be to increase the overall efficiency of productive resources by mobilizing the financial and managerial skills of the private sector in support of economic growth. Recognizing that the existing pool of private capital and managerial skill is limited, the Government should make it clear that no specific class of potential participant, either as owner, manager or lessor, will be excluded. In particular, divestiture to foreign firms or individuals would be welcome, in line with the Government's foreign investment policies and regulations.

Subsidies and Preferential Treatment

4.56 The most effective way to promote the efficiency of an enterprise, public or private, is to require it to operate as a profit-making commercial venture in a competitive environment and without subventions or special privileges. As part of its parastatal reform program, it should be Government policy to eliminate all subsidies, explicit or implicit, to strategic and viable enterprises. Subsidies should be considered only for unviable but strategic parastatals or those parastatal activities of a social or developmental nature undertaken at the explicit request of the Government. In granting subsidies the following principles will be important: (i) all subsidies should be transparent and explicitly recognized in the Central Government budget; (ii) cross-subsidization among parastatals and government departments should be eliminated; (iii) the Government should explicitly recognize and cost the commercially unviable activities undertaken by parastatals on its behalf and provide a direct subsidy for them; (iv) the extent of the subsidy should be determined and reviewed periodically as part of a contractual arrangement negotiated annually between the Government and the parastatal, and clearly setting out mutual responsibilities and obligations; and (v) unbudgeted subsidies to parastatals through tax or duty exemptions, below-market lending rates, or other such means should be eliminated.

4.57 With respect to divested enterprises, the following principles will be important: (i) enterprises will be divested into competitive markets, ensuring that purchasers will not obtain an intact or unregulated monopoly; (ii) purchasers will not be accorded special protection, privileges, or access to credit on concessionary terms; (iii) necessary legal restructuring and labor retrenchment measures will be undertaken while the parastatal is in public hands, in order to transfer unencumbered assets to the new private sector owners; and (iv) all sales will be on a cash-only basis, with the possible exception of shares sold to the workforce of affected enterprises.

Parastatal Debt and Government Guarantees

4.58 An effective reform effort will need to reduce the existing stock of parastatal debt to a sustainable level. For those parastatals that remain under state control, the Government should define appropriate debt/equity ratios on a firm-by-firm basis and take steps to move toward these ratios.

4.59 For those parastatals to be divested an important objective should be to effect a transfer of assets unencumbered by outstanding debt obligations. Experience has shown that where divested enterprises continue to carry financial obligations to the Government there is a tendency for the Government, operating as a creditor, to seek to maintain some degree of control or influence in the operations of the company on the grounds that it has a right to safeguard its investment. On the part of the new owners, there is the potential that repayments to the Government will receive low priority, or in an extreme case, even lead to default on the assumption that since the Government has a strong interest in ensuring the success of the divestiture program, it will be reluctant to repossess divested assets or force the company into receivership. To ensure that divested companies are run as commercial ventures, the Government should assume all the domestic and external liabilities for which it was directly (e.g., for firms wholly owned by the Government) or indirectly (e.g., through guarantees) liable. The proceeds of the divestiture should be first applied to recuperate all costs associated with such an assumption of liabilities.

Regulation, Market Intervention and Commercial Functions

4.60 In Kenya, as in many countries, state ownership has been perceived and structured as an alternative to regulation or market intervention in a particular sector. As a result, over the years a number of parastatals have acquired a variety of functions which are in practice incompatible and distort market mechanisms. Although on productive efficiency grounds the ultimate objective should be to minimize the extent of government regulatory and marketing interventions, an initial step must be to recognize that regulation (e.g., for health and safety, competition), market interventions (e.g., price stabilization in agriculture), and commercially viable activities must be institutionally separate. Without such separation, parastatals may be placed in a position of pursuing internally inconsistent objectives and, to the extent that regulatory and commercial functions are combined, providing the parastatals an unfair advantage over the competing private sector they are empowered to regulate. As part of the parastatal reform program, the Government should review the various functions of parastatals with a view to separating those functions that are incompatible. An important principle should be that regulatory and/or marketing bodies should not undertake commercial activities, either as monopolies or in competition with the private sector.

4.61 A number of governments have increasingly come to the conclusion that the introduction of an appropriate legal and administrative framework, rather than ownership, is a more efficient approach to economic regulation. In the case of Kenya, in addition to separating regulatory from commercial functions and ensuring that private and public enterprises are placed on an equal regulatory footing, there is a need to substantially reduce and streamline the regulation of economic activities. To the maximum extent possible, Kenya's regulatory system should move to indirect, ex post regulation through the legal system rather than direct, ex ante administrative regulation.

Autonomy and Accountability of Parastatals

4.62 Limited managerial autonomy and independence is a major constraint to improving the efficiency of those parastatals that will remain under state control. Without autonomy in areas such as pricing, staffing and investment decisions, management's capacity to maximize efficiency is severely circumscribed. At the same time, managers who have greater freedom to run parastatals must be held accountable for the performance of the firm. The challenge is to establish a delicate balance between autonomy and accountability. Accountability is meaningless without autonomy but autonomy without accountability is license. At present, the Government believes that parastatal managers have insufficient autonomy and that accountability and evaluation procedures are inadequate. As part of the parastatal reform program, therefore, it will be important to take steps to strengthen autonomy of managers and revise reporting and evaluation systems accordingly.

4.63 In moving to improve the balance between autonomy and accountability a critical step is for the Government to clearly define its own role vis-a-vis the enterprise. The following roles have been suggested as appropriate (Jones, 1987): (i) set the basic objectives for the enterprise (e.g. maximize profits or return on equity); (ii) appoint the managing director and/or the board of directors; (iii) evaluate performance against the basic objectives, and reward or penalize the managing director accordingly; (iv) review only those financing decisions that affect public funds (e.g. requests for government equity, government guarantees); (v) monitor prices or tariffs if the enterprise is a monopoly; (vi) plan for the long term with regard for the interdependencies of enterprises (e.g. to phase out activities that might best be left to the private sector); and (vii) do nothing else.

Parastatal Boards

4.64 In Kenya, there is widespread recognition that the quality of many parastatal boards of directors has deteriorated as the number and size of these boards has increased. An active and professional board of directors can be an important asset to a company. In principle, with an effective board in place, governments can be encouraged to decentralize power to the board and increasingly rely on an arm's-length relationship. Clearly, the board cannot be the only way to hold management accountable, particularly when public resources are at stake, but a competent board can play a constructive role through its policy-making and review functions. A number of principles are important to improve the quality of boards in strategic parastatals: (i) the board should be small; (ii) appropriate qualifications for directors should be clearly stated and enforced; (iii) directors should have fixed terms with a staggered turnover to ensure continuity; (iv) directors should be compensated adequately but not lavishly; (v) the Government should speak with one voice at the board and its representative should be of appropriate rank; and (vi) the Government should regularly evaluate the performance of the board, and if it finds the board's performance inadequate, dismiss it.

Management Salaries and Performance Incentives

4.65 If the Government, as owner of parastatal firms, treats good and bad performers equally, it should not be surprised by the lack of efficiency and falling productivity of its parastatal sector. Evaluating the performance of parastatal managers is a difficult but essential process. A complete performance evaluation system should include: (i) a reliable and timely flow of appropriate information in standardized form; (ii) objectives, targets, and specific criteria for evaluation; (iii) an objective and professional oversight body to monitor performance and evaluate results; (iv) a decision-making body to act on the findings; and (v) a managerial incentive scheme (Shirley and Nellis, 1991). Given Kenya's limited administrative and technical capabilities, the design of an appropriate performance evaluation system will be a difficult undertaking. Nonetheless, the principle that the performance of parastatal managers will be evaluated should be established at an early stage of the reform process. The early experience with performance evaluation in Pakistan and Korea, however, suggests that even technically flawed indicators seem to improve efficiency, and they clearly raise the attention paid to performance by both management and government.

4.66 As in most developing countries, salary structures in Kenyan parastatals are linked to the rigid and bureaucratic rules of the civil service. 21/ Although parastatal salary scales are higher than those of the civil service, salary adjustments only occur when civil service pay scales are revised, generally every 4-5 years and following the recommendations of a Salary Review Commission. Salary structures of managers, in particular, should be roughly competitive with counterparts in the private sector. In addition, there is a need to develop a system that provides financial incentives for improved performance. Without improved salaries and performance incentives, it will be difficult to attract, retain and motivate qualified staff and managers in the parastatal sector. The most important step toward an effective compensation system is to move away from a rigid link to the civil service. The best system is one in which the compensation package and increases are decided by each enterprise on the basis of its market situation and performance.

Safety Nets

4.67 Parastatal reform tends to be associated with retrenchment. The immediately visible social costs of privatization and liquidations can be severe in the short to medium run, whereas the benefits associated with a more dynamic and expanding private sector can only be expected to materialize over the longer run and they generally tend to be less visible than short-term retrenchments. Since Kenya does not have a social security system for the unemployed, there is a need to design a safety net to mitigate the transitional social costs resulting directly from the parastatal reform program. Issues in the design of safety nets are discussed in Chapter 5.

Institutional Framework

4.68 Managing and designing a parastatal reform and privatization program is a complex undertaking, and government officials seldom have the needed skills. Successful implementation of the reform program, especially its divestiture component, will require special technical skills and administrative capabilities in areas such as asset valuation, legal and contractual matters, the receivership process, absorptive capacity of the capital market, and the design of information and performance evaluation systems for strategic parastatals. Moreover, governments are often in

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21/ This applies only to enterprises that are wholly- or majority-owned by the Government.

a weak bargaining position--publicly committed to reform and privatization, burdened by unattractive parastatals, and short on the information and expertise to effectively dispose of state assets. A common outcome under such circumstances is that assets are undervalued and the Government finds it difficult to insulate the process of sale from political interference. In a number of countries, lack of appropriate institutional mechanisms to oversee and implement the parastatal program has led governments to temporarily abandon the reform process.

4.69 The Government has decided that the Office of the Vice President and Ministry of Finance will be responsible for implementation of the parastatal reform program. The Ministry will be in charge of developing and implementing the policy and institutional reforms required to strengthen the enabling environment, improving and streamlining the regulatory framework, and designing and carrying out the divestiture component. The Government has also set up a Parastatal Reform Policy Committee (PRPC) to guide the divestiture process. The PRPC is chaired by the Vice President and Minister for Finance, and includes: (i) the Ministers of Planning, Industries, Tourism and Wildlife, Commerce, Office of the President, and Foreign Affairs; (ii) 4 Permanent Secretaries; (iii) the Governor of the Central Bank; and (iv) 3 private sector representatives. The PRPC plans to meet every 2 weeks provided there is a quorum (ie, at least 4 Ministers, 2 Permanent Secretaries and one private sector representative--members of the PRPC cannot delegate).

4.70 Although the PRPC currently has a wide mandate, its terms of reference are loosely structured, suggesting that its functions and responsibilities will, to a considerable extent, evolve through practice. Since its first meeting, the PRPC has already initiated actions with respect to liquidation or divestiture of some public sector assets. It has not, however, established detailed and transparent criteria for the disposal of these assets. Moreover, an adequately staffed Technical Unit to support the work of the PRPC has yet to be established. While the PRPC's functions, procedures and work program are currently evolving, to ensure the success of the reform program it will be important to establish early a set of guiding principles (along the lines of those suggested above) and its areas of responsibility. It is equally important to determine what the PRPC will not do. Experience suggests that the PRPC should be regarded as the political body to devise, guide and oversee implementation of the divestiture component of the Government's parastatal reform and private sector development program. Because of its political nature, the PRPC should be publicly accountable for the divestiture process.

4.71 The PRPC should be involved in policy formulation, decision making, and implementation oversight and review. Its policy formulation functions should cover: setting valuation criteria and procedures to effect divestiture; redundancies and safety net provisions; and allocation of divestiture proceeds. Its decision-making functions should cover: approval of enterprises to be divested or liquidated, method of privatization, and timetable; acceptance or rejection of fully determined transactions presented to it by the Technical Unit; periodically report to the public on privatization decisions taken and progress made; approval of the functions, staffing, mandate and budget of the Technical Unit; and approval of a pre-qualified pool of technical expertise from which the Technical Unit can draw for its work. Its review function should include: reviews of the Technical Unit's adherence to the criteria and procedures laid down by the PRPC; annual assessment and performance review of the Technical Unit's role in carrying out divestiture objectives and targets; and monitor implementation of the safety net component. The PRPC should not be involved directly in the valuation of divestible assets or in negotiations with potential buyers.

Implementation Issues

4.72 **Sequencing Parastatal Reforms.** In every country, parastatal reform is a difficult and lengthy process because of its complex economic, political, and social dimensions. For the process to be sustainable, it must be handled in stages which take into account a country's administrative capacity, political factors, and the absorptive capacity of its private sector. In Kenya, an essential first step has been the hammering out of a political consensus on the need to adopt a comprehensive and systematic approach to the parastatal sector. It has taken more than a decade to forge this political and economic consensus which, although present today, needs to be buttressed by a clear understanding of the principles to be followed, implementation priorities, and actions to build momentum. Because the Government in Kenya is responding to this evolving consensus and perceives a window of opportunity, it has chosen to focus on divestiture. This is appropriate in the Kenyan context but in following this approach there is a danger that the divestiture process will be hastily implemented and, because of its political visibility, will be perceived as the sole objective of the parastatal reform program. To guard against this danger, the Government should ensure that its overall parastatal reform strategy is well disseminated and understood by the public and decision makers. Although the broad elements of the Government's parastatal strategy have emerged in various public pronouncements, a first priority is the clear articulation of policies and principles in a publicly available document, to be followed up by periodic restatements of the Government's commitment and progress achieved. This would ensure that the public's attention is regularly refocussed on the broader framework and objectives of the parastatal reform program.

4.73 With regard to divestiture, two critical areas need to be addressed over the short term. **First**, as some privatization measures are already in process a priority should be to set and publicize the selection criteria and the rules and procedures that will govern the divestiture effort. **Second**, the institutional structure required to support the reform program needs to be decided and implemented. Most of the skills required for divestiture and broader parastatal reform do not presently exist within Kenya's civil service structure. Thus, a major effort to mobilize the necessary technical skills and institutional capacity will be required. While this is an urgent priority, no amount of technical assistance or institutional strengthening will succeed if the Government itself is unclear or less than fully committed to the broad objectives, principles, and procedures of a comprehensive parastatal reform program.

4.74 To maintain momentum on divestiture, and while steps are taken to set guidelines, procedures, and establish the institutional support structure, candidates for divestiture over the near term should be those that are likely to cause minimum economic and social disruptions, and where the very nature of the enterprises is likely to make it easier to ensure an efficient and transparent privatization exercise. Likely candidates are profitable small- and medium-sized parastatals operating in the tradeable goods sector which have no need for financial, operational, and legal restructuring, and which will require a minimum of redundancies or social disruption.

4.75 **Legal Environment.** Experience shows that as governments move from the policy formulation phase to the details of the parastatal reform and privatization program, they often tend to overlook the need for legal changes or to underestimate the amount of time required to effect such changes. However, a reform program designed to encourage greater efficiency in the whole economy may depend critically on changes in the legal environment that can support increased competition and accountability in both the private and public sectors. For strategic parastatals, the laws governing them should support competitiveness and managerial accountability. To achieve this, countries have opted for one of two broad approaches. One option is to concentrate on directly legislating the reform of public enterprises, by modifying the parastatals' enabling acts or the whole State Corporations Act. A second option is to apply the established private sector commercial code, in Kenya's case the Companies Act, to the parastatal sector to place firms under a more efficient set of rules and to underscore that they are to be run as commercial entities. In general, placing as many strategic parastatals under the same commercial code governing private firms--and ensuring that the code itself supports competitive markets--will tend to promote competition and nondiscrimination more effectively than special legal status for parastatals.

4.76 **Privatization Options.** Different forms of divestiture are possible depending on the type of enterprise considered. Broadly, privatization can take place through public offering of shares, private sale, or public competitive tendering. In addition to the main option of sale identified, the sale of assets to employees and/or management can also be considered. At an early stage it will be important to develop guidelines to assist in identifying and implementing appropriate forms of divestiture. Parastatals to be divested partially or fully through the Nairobi Stock Exchange should comply with a minimum set of conditions or criteria, including: eligibility for listing on the stock exchange (eg, audited accounts, track record on profitability and dividend payments, etc.); relatively large and well-known firms; favorable economic and financial prospects; and prospectus approved by the Capital Markets Authority (CMA). Detailed steps for privatization should be developed and could include: readying measures (eg, clarifying legal status and preemptive rights); preparation of valuation; procedures for selection of an agent or issuing house to handle the sale; preparing and issuing a prospectus approved by CMA; mechanism to ensure distribution and collection of applications; agreement on measures to deal with undersold or oversubscribed issues; and development of conditions where different classes of shares (eg, golden shares) would be applied. In order to assure wide distribution of shares, where this is an objective, it is important to specify in advance the maximum allowable percentage of shares to be held by one person or entity, each region, foreign investors, or employees and management.

4.77 Parastatals which will be sold totally or partially by private sale to a pre-identified buyer or group of buyers must follow a transparent procedure which could be ensured by: laying down criteria for pre-qualification of interested buyers or following an open competitive process; developing mandatory guidelines for price setting, opening, ranking, and selection of purchasers; and setting uniform terms of sale. Parastatals to be sold through an open invitation to bid should also respond to a set of procedures which could include: conditions for tender, pre-qualification, evaluation criteria, and regional participation; preparation of tender documents, including description of assets along with any special requirements such as employee retention, joint-venture arrangements, local and foreign participation, and specific usage restrictions; advertising and distribution of tender documents; and criteria for review and evaluation. Participation of management and employees in the process of privatization, if deemed desirable, could be facilitated by the introduction of incentives such as discounts on the price of shares. Various schemes such as Employee Stock Ownership or Employee Participation Plans could be explored.

4.78 **Evaluating Trade-Offs.** Unless the Government considers the potential trade-offs between objectives before making decisions, it can make costly errors. Many privatization programs have focused on short-term revenue gains when long-run net fiscal benefits are by no means assured. If the sales price of a profitable parastatal plus the present value of future tax revenues are less than the present value of the net future income stream under state ownership, divestiture worsens the Government's financial position. In some cases, divestiture of an unprofitable but viable parastatal can quickly eliminate a fiscal drain on the Government, but the asset transfer can leave the economy worse off if extensive concessions are offered to the new owners. In other cases, short-run revenues can be maximized by selling monopolies, but if as part of the divestiture process there is no attempt to develop competitive pressures, long run economic costs can be high. In evaluating these trade-offs it will be important to keep in mind the primary objective of parastatal reform--increasing productive efficiency--and the guiding principles should be designed to meet this objective. While other objectives, such as relieving fiscal pressures can be important, the acid test should be whether the divestiture action will lead, over the long run, to a more competitive and economically efficient outcome.

4.79 **Absorptive Capacity.** Although in embarking on a privatization program Kenya enjoys the advantage of relatively dynamic and well-established private sector, a weak capital market and limited absorptive capacity make it imperative that the financial prerequisites for divestiture be assessed carefully and the sale of assets be adequately sequenced. In structuring its privatization program, the Government needs to ensure that the disposal of assets does not overwhelm a thin market to the point where the process begins to acquire the characteristics of distress sale. At the same time, although there are clear benefits to the transfer of state assets to the private sector, the private sector itself will continue to require capital for its own needs, independent of the privatization program. Thus, there is a need to ensure that the privatization process does not drive down the price of divestible assets and does not crowd out other economically-efficient capital needs of the private sector. This will require close coordination of the Government's privatization program with developments in Kenya's financial and capital markets.

M. Summary

4.80 The findings of this chapter confirm concerns which were preambled in earlier reports on selected groups of parastatals in Kenya, and elsewhere in the developed and developing world. In this sense, the conclusions reached in this chapter are anything but new. What is different, however, is that the documented managerial and financial problems of a few enterprises is now evident as the endemic plight of many. And the assembled evidence is significantly more robust, arresting and disquieting than any put together so far. It has also come almost thirty years after a developmental role was first assigned to the sector, more than enough time for it to demonstrate its effectiveness, justify its composition and claim on resources, and silence its critics.

4.81 The problems of the sector, their causes and their solutions are neither new nor peculiar to Kenya. It is true that many of the problems may have become more entrenched because of the failure of successive attempts at reform. To date, however, such attempts have been piece-meal and timid. In the future, they will need to be bold and decisive.

Chapter 5

Implementing Adjustment and Sustaining Growth

"It is the ordinary people who alone can make development sustainable, and development has not really occurred until it is sustainable" (World Bank, 1990a, p. 8).

Introduction

5.1 The Kenyan economy needs to grow faster. After 27 years of independence GNP per capita reached $368 in 1990 reflecting national income growth of 1.9 percent per annum during 1968-89. At this historical growth rate, GDP per capita would double only after 35 years (after around 27 years if population growth declines from 3.8 percent to 3.4 percent). "More rapid growth is essential to provide both Kenya's families and the Government with the resources to finance long-term basic needs, even if [this] require[s] a slower growth of basic needs outlays for a time" (Republic of Kenya, 1986, p. 13). In most of the post-independence period, growth appears to have been extensive, driven more by the quantity of resource inputs such as capital and labor than by productivity increases. Foreign savings financed a large portion of these capital inputs. The challenge ahead for economic policy design and implementation is to sustain a higher level of income growth by significantly raising factor productivity. Such growth would create jobs and could more easily generate equitable income distribution.

5.2 The Kenyan economy can grow faster. Chapter 1 indicates that it grew strongly in 1990 although a number of enabling factors were less favorable. The analysis in Chapter 4 also shows that the economy grew strongly throughout 1986-90 in spite of the inefficient use of resources by the parastatal sector. Indeed, Bank simulations indicate that GDP growth during the period could have been as much as 2 percentage points higher per year if productivity in the parastatal sector were similar to that of the private sector. This would cut the time for doubling income per capita to about 17 years. The corollary, of course, is that reform of the parastatal sector would be tantamount to re-investing in stabilization and sustained growth. Based on the discussions in Chapters 2 and 3, reform of the civil service would also be an investment in stabilization and growth.

5.3 Like general macroeconomic reform, public sector adjustment must be as convincing about implementation as it is about concepts and design. It must also handle issues of substance and perceptions--commitment, ownership, transparency--as well as deal with magnitudes--how much adjustment, in what sequence, at what cost, with what benefits and at what risks. A subset of these conceptual and implementation issues is discussed in Section A of this chapter. The rest of the chapter then looks at parallel developments in the private sector (Section B) and in the general macroeconomic environment (Section C) that would greatly enhance the chances for successful public sector adjustment.

A. Some Practical Issues and Lessons of Experience

5.4 Although objectives abound in theory, Bank experience suggests that at the practical operational level parastatal reform should aim for 3 outcomes:

- reduction in the size of the sector which in many countries became overextended in a protected industrial environment, and inefficient in the use of productive resources;

- improvement in operational efficiency as the enterprises adapt, or are forced to adapt, to competitive forces; and

- increase in profitability, thus enabling the parastatals to increase their contribution of taxes and dividends to the Central Government's budget, and to reduce their dependence on transfers from it.

When the experiences of civil service reforms are distilled, there is cautious optimism for:

- "activist policy" which tackles issues of overstaffing and duplication of institutions; and

- changing the composition of employment by increasing recruitment of higher level skills which are necessary for better government.

5.5 Bank experience further indicates that reform takes time. Put differently, "no one [should] expect the process to be quick, easy, or miraculous in curing either past errors or current ills" (Conable, 1991, p. 25). Time is required to build consensus beyond the core of political and technical leadership to other governmental institutions and society at large. Time is also required to balance objectives, select trade-offs, implement policies and reap benefits.

Redundancies and Safety Nets

5.6 Apart from strong political commitment, two other elements appear to contribute significantly to successful public sector adjustment. The rest of this section discusses the first of these, namely, the provision of safety nets for workers who are made redundant. The second element has two related components: a strong private sector and a healthy macroeconomic environment. These are covered in Sections B and C below.

5.7 In the short-run, reform of the central government and parastatal sector is likely to entail some retrenchment of workers. In the case of central government reform, this conclusion is based on evidence in Chapter 3 suggesting that the Government is functionally overextended, financially strapped particularly by civil service pay and employment, and a potential liability to sustained economy-wide growth and development. A similar picture for the parastatal sector emerges in Chapter 4 although in neither case is it clear exactly how many persons could be affected or how quickly a less constrained private sector would be able to absorb them. Such details would depend, among other things, on the phasing of reform efforts and would have to be worked out on a ministry-by-ministry, firm-by-firm basis.

5.8 Still, experience in several countries offers a number of general lessons for dealing with employment reform in the specific context of public sector adjustment. First, enforcement of retirement age, perhaps the least politically sensitive approach, usually does not substantially reduce the wage bill. The verdict is the same for early retirement schemes which often target persons who are a few years from normal retirement. Significant savings in the wage bill, in net present value terms, accrue only with the removal of younger workers. In any case, removal of the senior cadre of workers, even if they are within a few years of retirement, could rob the public sector of its most experienced, productive and difficult-to-replace personnel. Not that younger workers are readily dispensable. In many countries they are concentrated in urban areas and are politically vocal. Voluntary retirement would not independently solve this problem because it may result in the exodus of the most able personnel. Left behind may be the vast majority who are less mobile, and still politically vocal and costly to the public sector.

5.9 Accordingly, a **second** lesson of experience is that severance packages could be the single most important factor which determines the willingness of workers to accept redundancies. Several countries have provided safety nets, including severance packages, which seek to mitigate the adverse financial and social problems for targeted groups of redundant workers in the context of public sector adjustment. The severance payments in many cases are decreed by law and are calculated on the basis of age and length of service. Payment could be made in a lump sum, installments, or in some combination of the two options. Workers usually prefer lump sum payments, either for starting a new business or to prevent erosion by inflation. On the other hand, inflation and interest foregone help to reduce the size and cost of redundancies to governments or employers when payments are stretched out. The options could be unilaterally decided as part of a general policy or could be negotiated with workers. Additionally, in the interest of protecting the standard of living of workers, it may be appropriate to go beyond the legal requirement linking severance payments to salary only, and to impute some value for other allowances such as housing and medical insurance. This may even be imperative in instances where the ratio of salary levels to allowances is particularly low. In one country, for example, public sector employees received only six months salary but were able to remain in government housing for two years.

5.10 **Third**, direct payments to workers are generally better than special credit schemes. Where such schemes were tried, it was often difficult to interest banks in extending credit to relatively small and potentially high-risk borrowers. Moreover, many retrenched employees who received credit considered them as merely grants or as a part of their termination package. As a result, defaults on repayments and the administrative costs of such schemes were high.

5.11 **Fourth**, training programs for redundant public employees should be flexible and afford them a range of new and marketable skills. But instead of creating new institutions to provide this training, excess capacity in existing institutions should be tapped whenever possible. Nevertheless, the general experience appears to be that training programs provided as part of a safety net for retrenched public employees are not widely successful. **Fifth**, there was also little success when employment creation was attempted through massive public works. Apart from being temporary and costly, the work usually involved hard manual labor, paid minimum wages, and was thus unattractive to the more skilled personnel.

5.12 **Sixth**, the design of safety nets should be supported by reliable data on staffing levels including 'ghost workers,' and on variables such as age and length of service which may help to determine their eligibility for retirement. Reliable information should also be obtained on the wage bill, including benefits and allowances. In some cases, censuses may be necessary. However, experience with such censuses has shown that they are most successful when their design is kept simple, are carried out with external technical assistance (whose presence tends to minimize charges of favoritism and corruption), and when they are supported from the outset by the established system of manpower planning. In addition to data on personnel and wages, there may be a need for 'functional reviews,' that is, organizational audits which help to determine the number and skills of personnel required to carry out the objectives of the organization. Of course, data and reviews are not substitutes for the difficult decisions that have to be taken about who goes and who stays. But what such information does is place the policy maker in a better position not only to identify how cuts can be made but also how they can be made less painful.

5.13 In the final analysis, what emerges as a rule of thumb is that safety nets should be administratively simple and flexible. And rather than create new institutions, redundant workers should be afforded access to the full range of programs, including training, which are already a part of the economic and institutional mainstream.

B. Private Sector Development

5.14 Where the private sector is strong and growing, it is able to acquire divested assets, absorb some of the public sector redundancies, generate additional revenues to finance pay reforms, and generally respond to the incentives in the enhanced competitive environment. Chapters 1-4 above provide additional reasons why in Kenya a strong private sector should be developed in parallel with and in support of public sector adjustment. **First**, because of budgetary constraints and the destabilizing influence of fiscal imbalances, the public sector cannot expand at rates which would absorb significant amounts of Kenya's rapidly growing labor force. **Second**, TFP measurements in the public and private sectors in Kenya show that there would be distinct payoffs to growth if resources were shifted to the latter. **Third**, to grow rapidly, the Kenyan economy will have to continue to be re-oriented toward the much bigger, but extremely competitive, world market. Players in that market require a level of adaptability and skills that is very scarce within the public sector. Over time, therefore, a broader range of private sector expertise, both domestic and foreign, will need to be cultivated and utilized.

5.15 The Government has been tackling many of the first-order constraints on the development of major sectors through the agricultural, industrial, financial and export adjustment programs. Kenya needs a second phase of direct actions to promote the private sector. Presently, the Government will begin, in conjunction with IDA and other donors, a major assessment of the requirements for accelerated private sector development. The findings are expected to form the basis for an action plan which must deal with at least three central issues:

- **Uncertainty**: An operating environment in which the risks of business enterprises are understood and are measurable within a reasonable range, is critical to the development of private firms. In Kenya, there is an unacceptable level of uncertainty which arises from factors such as (i) macroeconomic imbalances; (ii) unequal case-by-case treatment of individuals and firms; (iii) poor and uncertain implementation of commercial legislation and economic regulations; and (iv) insufficient dialogue and information flows between policy makers and the private sector. The latter is most noticeable in the legal framework for accounting and auditing where the unreliability of financial information continues to thwart more rapid deregulation of the tax, trade and operational framework for private firms and individuals. Uncertainty also arises because of onerous exit regulations and obstacles to the orderly shutdown of inefficient or insolvent firms.

- **High Costs**: Kenya may be characterized as a high cost operating environment. **First**, high costs result from the fact that many economic activities are the preserve of largely inefficient parastatal firms. To the extent that these parastatals dominate the basic industries that supply inputs to the rest of the economy, producers bear the initial adverse effects of such inefficiencies. Ultimately, however, consumers pay the higher costs and Kenya's competitiveness is compromised. **Second**, high costs arise from the nature of government controls--ex ante rather than ex post. Ex ante controls allow considerable bureaucratic discretion in the application of regulations.

They also permit the use of real resources in wasteful rent-seeking activity and corrupt practices. The broad scope of controls--at every stage of production and trade--is a **third** factor which raises the financial and time cost faced by the private sector in Kenya.

- **Support Services**: As Kenya continues to diversify its economy and integrate its newer industries more closely with the international economy, it will require modern and efficient services, specifically physical infrastructure (e.g. industrial and commercial space, utilities, transport and communications), financial services and information networks. However, the capacity of the public sector to develop these services efficiently is limited. In any case, many services can be provided on a commercial basis by the private sector, as they are in more developed economies. This will need to be encouraged.

5.16 Actions that would address the issues raised above and increase the scope for private sector development include:

- reforms in the design and enforcement of commercial law, including the enforceability of agreements, commitments and contracts, especially by foreigners;

- the enforcement of regulations in a manner designed to preserve the contestability of markets;

- the removal of barriers to entry to and exit from industry, the speeding-up of approvals where required, and assurance of the stable and equitable enforcement of government regulations;

- improvement of physical infrastructure which is contingent not only on the Government's ability to transfer resources within expenditure categories in a budget constrained environment, but also to undertake credible institutional reforms that attract external resources and harness the abilities of the private sector for the provision of services;

- correcting the weaknesses in the financial system which could undermine long-term stability in the economy. Among them are: (i) the weak balance sheets of several large financial institutions, including parastatals, which limit capital mobility within the system and the development of broader money and capital markets; (ii) the paucity of services for managing corporate liquidity, savings, borrowing and investment; and (iii) the scarcity of equity in the system as a whole;

- efforts to broaden the role of market-based consulting services that provide information that is timely for and relevant to successful planning, purchasing, production and trade;

- formalizing public-private sector consultation and creating adequate channels for receiving and transmitting information to groups with divergent interests. A mechanism to consult the private sector before major public policy decisions are made (e.g. before the annual budget of the Government is finalized and presented to the public) would allow the process of policy formulation to benefit from the varied expertise in the private sector, and would also permit the Government to build a broader consensus than currently exists in support of its economic policies; and

- removal of exchange controls which currently constitute the main instrument deployed by the Government for managing its foreign exchange resources. At present, exchange controls influence all interactions between the domestic and international economies. The private sector in particular is affected by fluctuations in the availability of foreign exchange for imports and this has adverse effects on production planning and inventory control. The low priority given to foreign exchange releases for travel, technology contracts, and profits and related remittances is also a disincentive to foreign investors.

C. General Medium-Term Macroeconomic Considerations

5.17 The macroeconomic environment is important for the success of reform largely because of its impact on broad sectoral policies aimed at improving the efficiency of resources allocation nationwide as well as its impact on initiatives specifically geared toward private sector development and growth. The rest of this section sets out some of the key aspects of such a macroeconomic framework. In doing so, the chapter uses a model of the RMSM-X genre and illustrates three medium-term scenarios focussing on the behavior of growth, consumption, savings, investment, and the balance of payments. First, however, it discusses the medium-term outlook for the international economy as a given and assesses its likely impact on the Kenyan economy.

The Medium-Term Outlook for the Global Economy

5.18 There is compelling evidence that the world economy faces turbulent times in the near term. The signs include the slowdown in economic growth in the major OECD countries--US, Canada and the United Kingdom--and financial stress in the U.S. and Japan which compounds an already tight global credit situation, the difficulties in reforming the economic systems of Eastern Europe, stagnation of the Uruguay Round of trade negotiations and a slowdown in the growth of developing countries. Individually, none of these factors is sufficient to dampen the short-term prospects for the world economy, but together they constitute a difficult set of external circumstances for developing countries wishing to improve their overall growth performance which in 1990 (2.3 percent) was their worst since the last world recession in 1982.

5.19 Growth in the G-7 countries is not expected to improve in 1991, reflecting virtually no growth in the United States, the United Kingdom and Canada, and slow expansion of the Japanese and German economies. Their prospects in the longer term will depend largely on the depth and duration of the recession in the United States, the sustained pace of reform in Eastern Europe and the stability of the international financial system. In any case, it is unlikely that the real LIBOR rate of 5.5 percent in 1980-89 would be exceeded during the 1990s. The corresponding rate of inflation in the G-7 countries could be similar to 1980-89 as oil prices return rapidly to prewar levels and then rise steadily in response to market fundamentals. Under these circumstances, the G-7 countries would repeat the 1980-89 growth performance in the 1990s (World Bank, 1991a, pp. 43-45). Irrespective of how the industrialized countries perform, however, growth in developing countries in the longer-term will be defined, as in the past, by their policies and by fundamental forces such as international trade, finance, investment and technological change.

5.20 The specific implications of these global prospects for Kenya are three-fold. **First**, the competition for foreign investment will probably intensify as developing countries and Eastern Europe off-load more and more public assets The response of private creditors at home and abroad to these opportunities wili depend, to a sign cant degree, on the quality of the enabling environment into which they are invited to operate. Meanwhile, changes since 1989 in the global political economy are redefining the criteria for and expectations of economic and financial partnership between donors and aid recipients. Increased emphasis on decentralized and transparent economic decision-making presents both a challenge and an opportunity for Kenya to maximize its access to foreign capital flows.

5.21 **Second**, trade, industrial and financial reforms begun in the late 1980s must be sustained and supported by appropriate stabilization measures, for together they will improve the opportunities for Kenya to participate beneficially in the global economy. Studies of several developing countries indicate that the static gains from trade liberalization range from less than one percent to six percent of GDP. These gains increase when dynamic effects--including economies of scale, higher investment and savings, improvements in innovation and technical change, and increased speed in disseminating technical and economic information--are included. Technological change facilitates efficiency gains and generates higher per capita incomes. During 1980-89 when the industrialized countries grew by three percent per annum, Sub-Saharan African countries as a group grew by around two percent. With annual growth in excess of three percent during the period, Kenya demonstrated its ability to perform above average. Reforms like those identified in Annex I, and Chapters 3 and 4 would enable Kenya again to grow faster relative to other Sub-Saharan countries and the industrialized nations.

5.22 **Third**, the management of external assets and liabilities will face new challenges if, as forecast, there is greater commodity price variability--including coffee and tea--and steadily declining relative commodity prices. Among some 14 major internationally traded agricultural commodities, the coefficient of world price variability was highest for sugar (20.4) and lowest for bananas (3.4) (World Bank, 1991a, p. 23). For coffee and tea, Kenya's primary agricultural exports, the figures were 7.4 and 10.7 respectively. Studies indicate that a one percentage point annual increase in production in industrialized countries--other things remaining unchanged--raises nonoil commodity prices by two percent in real terms (Gilbert, 1990). But other things do not remain unchanged. Weather, stockpiling, the behavior of cartels, and tariff and non-tariff barriers alter this relationship. The most reasonable expectation is for these commodity prices to move slowly upward overtime. Therefore, apart from export diversification and promotion, Kenya will need to find ways to manage commodity risk as part of a more ambitious strategy for managing external assets and liabilities.

The Medium-Term Domestic Outlook

The Enabling Scenario

5.23 The enabling scenario discussed in this section presupposes that the Government needs to create a macroeconomic environment that supports public sector adjustment. In practice, enhancing the macroeconomic environment and adjusting the public sector would have overlapping elements and would occur concurrently. However, for ease and clarity of exposition, the scenario is developed and explained as if the two events--preparation for comprehensive public sector adjustment and the adjustment itself--were strictly sequential. That is, adjustment is assumed (in the enabling scenario) to take place after 2000.

5.24 In the enabling scenario, economic management is motivated by the "vision" summarized in Figure 5.1 and guided by quantitative economic indicators. It is assumed that the quantitative aspects of the scenario illustrate desired directions of change, rather than precise targets.

5.25 The ultimate goal of economic policies in the enabling scenario is to create macroeconomic conditions which are conducive to successful public sector adjustment and private sector development. Better public sector management should be understood in broad terms. On the economic front, it means a rationalization of what the public sector does and more efficient resource use in doing it. Also implied is better macroeconomic management, including greater reliance on market forces where they work, improvements in the regulatory environment and generation of public savings. Better public sector management also has to do with issues such as broad-based participation in public policy formulation, decision-making and information flows (Landell-Mills and Serageldin, 1991, p. 3).

5.26 It must be emphasized that, by itself, the enabling scenario would not take the economy to a higher growth path. Such a path would require comprehensive public sector adjustment to sustain a stable macroeconomic environment, raise efficiency in the Central Government (Chapter 3), eliminate the productivity deficit of parastatals (Chapter 4), and stimulate private sector development (Section B above). In their absence, the deficit reduction achieved in the enabling scenario--through revenue measures, savings through the educational sector reforms, and ad hoc cuts in the development budget--would be in constant danger of being reversed and, indeed, would begin to succumb to the underlying destabilizing pressures during the second half of the decade. As such, the enabling scenario is a fragile course from which the economy can rise to a higher growth path through public sector reforms or from which it can be derailed by destabilizing pressures. The projections in Table 5.1 illustrate how these features of the enabling scenario might translate into GDP and sectoral growth; consumption, savings and investment; and balance of payments performance.

Growth

5.27 In the enabling scenario growth is sustained just below five percent during 1991-95 because of temporary improvements in stabilization performance, and because adjustment in the agricultural, industrial, financial, export and educational sectors continues. Ordinarily, these policies have the potential to significantly improve macroeconomic efficiency, stimulate nontraditional exports, strengthen the balance of payments, reduce Kenya's dependence on external financing and challenge the economy to accelerate growth beyond historical levels. But this potential cannot be realized until the underlying destabilizing forces on the fiscal deficit are alleviated and resources are reallocated from the more inefficient parastatal sector to the private sector through parastatal reform

5.28 Growth is below the average rate for 1986-90 for four main reasons. **First**, public expenditure, and thereby aggregate demand, is contained (albeit by ad hoc measures) to reduce destabilizing pressures originating in fiscal imbalances and to prepare the macroeconomic environment for more comprehensive reforms. **Second**, at the sectoral level, agriculture grows below its full potential because of the sluggishness of commodity prices, especially coffee, vagaries of the weather and the usual lags between on-going agricultural sector reforms and supply responses. **Third**, the manufacturing sector performs well (7.7 percent in 1991-95) but it would do better once manufacturing enterprises in the public sector are privatized. This builds on the discussion in Chapter 1 which concludes that the sector is responsive to market incentives. Furthermore, as stabilization pressures diminish, non-traditional manufacturing exports grow above the average for the sector.

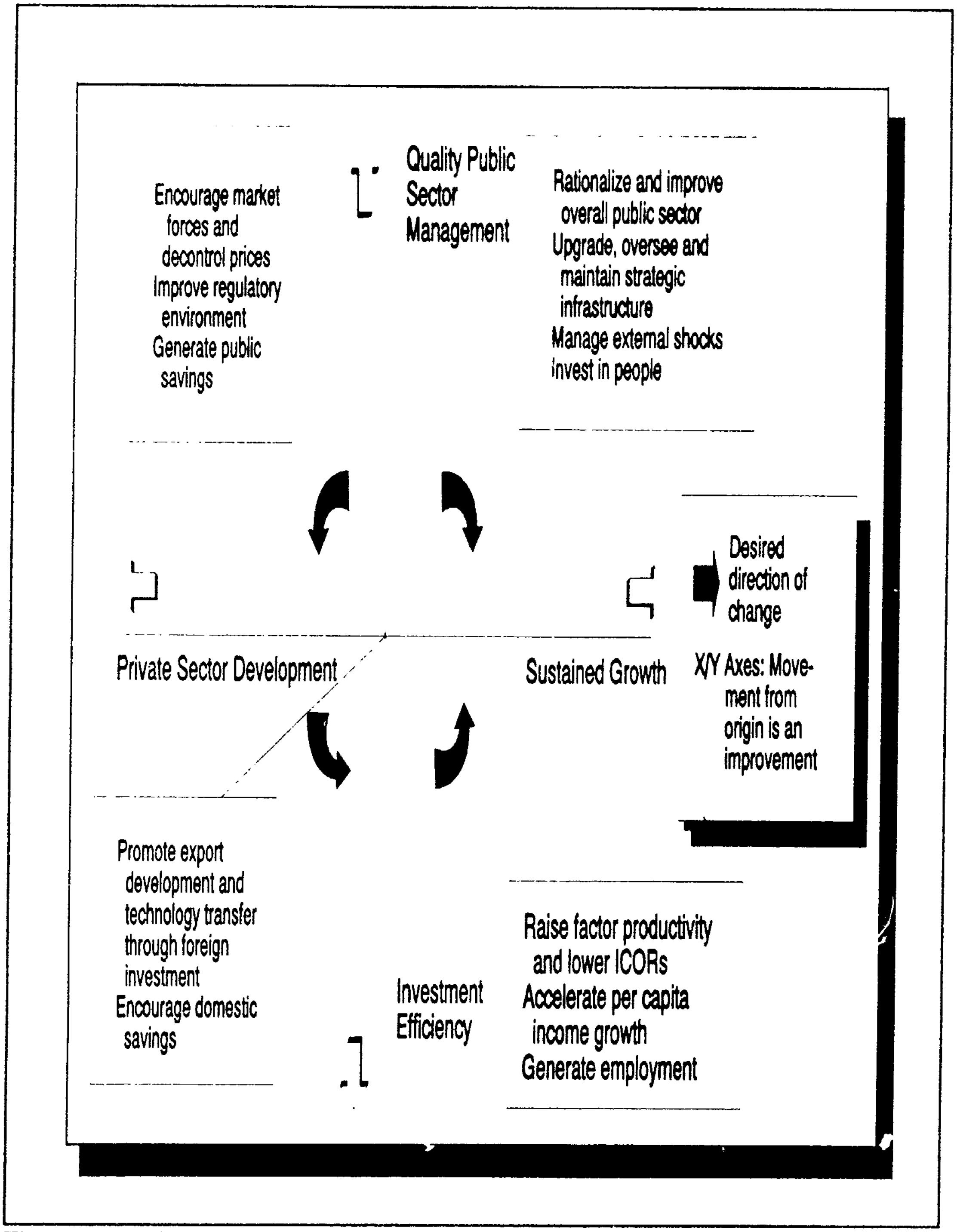

Figure 5.1: Dimensions of Public Sector Adjustment

Table 5.1
Macroeconomic Indicators in the Enabling Scenario, 1986-2000

	Period Averages		
	1986-90	1991-95	1996-2000
Average real growth rates (%)			
Gross domestic product (mp)	5.8	4.9	3.9
Agriculture	4.3	3.5	3.0
Manufacturing	5.7	7.7	6.0
Services	5.5	4.6	4.0
Merchandise exports (fob)	5.4	6.6	4.5
Merchandise imports (cif)	7.1	6.1	4.1
Monetary variables growth rates (%)			
Broad money (M2)	16.9	23.7	21 6
Domestic credit	17.8	20.9	22.8
Private credit	15.4	23.9	19.1
Economic structure and balances (constant prices) as % of GDP			
Agriculture	26.2	23.8	22.4
Manufacturing	11.1	10.8	12.4
Services	42.1	43.7	45.2
Gross national savings	12.9	27.7	27.3
Central government savings	-0.8	3.1	2.5
Private	13.6	24.6	24.8
Gross domestic savings	15.6	20.6	18.8
Gross investment	19.8	23.1	20.6
Fixed investment	16.1	19.1	18.7
Consumption	84.4	79.4	81.2
Central government	17.7	9.9	12.9
Private	66.7	69.5	68.4
ICOR	3.8	3.4	3.7
Marginal savings rate			
Gross national savings	-0.1	1.3	-0.4
Gross domestic savings	-0.1	0.6	-0.4
Fiscal deficit/GDP (%) 1/ 2/	-6.5	-3.9	-3.8
Grants	1.9	2.0	0.4
Central govt. revenue (%) 1/	21.4	22.6	23.7
Central govt. expenditure (%) 3/	27.9	26.6	27.5
Current account deficit/GDP (%) 2/	-7.0	-5.2	-3.7
MLT DS/Exports GS (%)	34.3	28.5	17.6
MLT debt/Exports GS (%)	269.0	289.4	236.8
MLT debt/GDP (%)	64.0	81.1	65.3
Ext. fin. gap p.a. (US$ million)	0.0	70.9	26.7

Source: Staff estimates.

Note: Fiscal year ends on June 30. Fiscal year GDP is calculated as simple average of calendar year data.

1. Numerator includes adjustment to cash but excludes grants. Current price data.
2. Numerator excludes grants.
3. Numerator includes net lending.

5.29 **Fourth**, services (including government and tourism) expand at 4.6 percent in 1991-95. In line with greater financial discipline, the growth of government administration slows even though comprehensive reform does not take place. Tourism and the financial sector maintain historical growth trends but neither approaches their full potential. The reasons are that in the absence of comprehensive reform, government investment in infrastructure which supports tourism would be more limited by fiscal constraints and the quality of government administration (including project implementation) would not improve. This would be particularly disturbing because the constraints currently faced by the sector include: (i) the uncoordinated development which has resulted in inappropriate mixes of rival forms of tourist activities; (ii) inadequate infrastructure, including access roads in areas with considerable potential for expansion; and (iii) unsustainable development of specific areas such as the Amboseli and Masai Mara Game Reserves.

5.30 On-going financial reforms, independent of parastatal reform, are benefitting the financial sector. But they will not necessarily improve the efficiency of the large parastatal banks which dominate the sector. Accordingly, their implicit contribution to the growth of the service sector is deemed to be modest even in the enabling scenario.

5.31 Beyond the period 1991-95, growth continues on a declining path (3.9 percent in 1996-2000) because: (i) the underlying destabilizing pressures on the fiscal deficit surface and cause the fiscal deficit (including grants) to almost double in 1996-2000 relative to 1991-95; (ii) the productivity deficit of the parastatal sector continues; and (iii) uncertainty about the soundness of Kenya's economic management causes donors to reduce lending. Growth at the sectoral level follows a similar pattern.

Consumption, Savings and Investment

5.32 Savings and investment behavior in the enabling scenario would continue to be constrained by the financial performance of the public sector. Although a measure of financial discipline is achieved during 1991-95, the public sector is not expected to achieve higher levels of investment efficiency. In the central government, revenue averages 22.6 percent of GDP during 1991-95 while overall expenditure is contained. Consumption, linked to the wage bill, is also contained during the first half of the decade.

5.33 Public investment is reduced in line with greater financial discipline and more selective new public investments. Indeed, initial progress toward better public investment programming would include a reduction in the number of projects but the ability of the Government to significantly raise efficiency through increased O&M expenditures would be very limited. Accordingly, the projections assume no significant increase in the efficiency of these investments in 1991-95. On the contrary, efficiency would deteriorate during the second half of the decade if the government does not follow through with comprehensive public sector adjustment (Table 5.1).

5.34 As the economy stabilizes during 1991-95, the private sector should be expected to invest more in response to the production incentives evolving under the sector adjustment programs. Accordingly, private investment rises over the period, pushing total investment to 23.1 of GDP in 1991-95. Of course, it should be higher under more comprehensive public sector reform which creates new opportunities for profitable investment outlays. However, it falls during 1996-2000 as economic conditions deteriorate in the absence of such reform.

The Balance of Payments

5.35 The current account deficit is projected as shrinking from 5.2 percent of GDP (excluding grants) in 1991-95 to 3.7 percent of GDP (excluding grants) in the second half of the decade. During 1991-95, manufacturing exports are assumed to do well while import growth is expected to be moderate. Further reductions in the current account do not take place during 1991-95 because the projections are cautious about the behavior of major commodity exports. Even if coffee production were to recover, value-added would be low because of the breakdown of the international coffee agreement. The projections recognize, however, that the prospects for horticultural exports continue to be particularly good. But growth is below potential because bottlenecks in transportation persist.

5.36 Overall, the enabling scenario is hopeful about the prospects for manufactured export prices. On the domestic front, manufacturing would benefit somewhat from the on-going efforts to strengthen the general enabling environment for the private sector and the reduction of effective protection during 1991-95. But manufacturing firms in the parastatals do not respond to these signals. On the external front, conditions are expected to be favorable for growth and specific preferential arrangements are expected to continue. All together, merchandise exports grow by 6.6 percent in 1991-95 but growth slows to 4.5 percent during 1996-2000 as domestic economic conditions deteriorate.

5.37 On balance, therefore, the current account remains fragile throughout the decade. Additionally, it is forced to contract during 1996-2000 because the absence of public sector adjustment limits the opportunities for donor financing.

The Capital Account

5.38 The capital account improves during 1991-95 but remains weak. Plausible reasons are likely to include: (i) the limited new investment opportunities in the absence of comprehensive parastatal sector reform; (ii) 'a wait and see' attitude by foreign investors until public sector adjustment begins or advances; (iii) the slow pace at which improvements in the quality of civil service--including services in areas such as external resource mobilization and foreign investment promotion--take place in the absence of comprehensive public sector adjustment; and (iv) negative perceptions about the quality of governance in the absence of public sector adjustment. Not surprisingly, when adjustment fails to occur during 1996-2000, the capital accounts weaken further and the willingness of donors to provide financing weakens as well. Accordingly, a residual external financing gap of $70.9 million is projected for 1991-95 and a much lower financeable gap of $26.7 million for 1996-2000.

Fiscal Performance

5.39 Fiscal performance is a crucial factor in creating the enabling environment. Although comprehensive public sector adjustment is still down-stream, the Government takes steps to reduce its crowding out of private sector activity, increase private disposable incomes and improve investment efficiency. Accordingly, the projections show that the overall fiscal deficit (excluding grants) would fall from 6.5 percent of GDP in 1986-90 to 3.9 percent in 1991-95. Total revenue (excluding grants) rises from 21.4 percent of GDP to 22.6 percent of GDP during the first half of the decade.

5.40 Most of the fiscal adjustment during 1991-95 would come from total expenditure which would fall from 30.2 percent of GDP as of June 1991 (Table 2.1) to 26.6 percent during 1991-1995. Here attrition would make a small contribution. Some expenditure cuts would also be achieved by not filling vacancies and by the reforms in the education sector which increase cost recovery and limit the growth in teachers. The assumption of parastatal debt by the central government would also be reduced and the development budget would be cut.

5.41 The projections assume that the Central Government has first claim on domestic credit in the whole economy and that this pool of credit is determined jointly by the net foreign assets in the balance of payments and the money supply. 22/ Therefore, as the fiscal balance improves during 1991-95, the Central Government's claim on domestic resources falls and releases credit for the private sector. Accordingly, Table 5.1 shows that under the enabling scenario, credit to the private sector would grow at 23.9 percent in 1991-95.

5.42 Without public sector adjustment, however, this is temporary. During 1996-2000, the underlying pressures arising from overstaffing, wage creep and parastatal inefficiency emerge and government expenditure begins to rise (relative to 1991-95), averaging 27.5 percent of GDP during 1996-2000. However, because donor funding is limited, the Government is forced to increase its domestic revenue effort as well as borrowing from the domestic banking system. A summary of the enabling scenario is presented in Table 5.4 at the end of the chapter.

The Adjustment Scenario

5.43 A reminder is offered at the outset. The projections of the adjustment scenario are illustrative. They should also be interpreted as what would happen during 1991-2000 if comprehensive public sector adjustment were to occur from the start of the period. Implicit here is the assumption that the preconditions described in the enabling scenario are already in place at the beginning of the period of analysis. As such, the adjustment scenario traces the more optimistic growth path which the economy might be expected to follow. Movement from the growth path of the enabling scenario to the higher level of the adjustment scenario would depend on the speed with which the stabilization pressures are brought under control and public sector adjustment is implemented.

5.44 Five features of the adjustment scenario should be noted. **First**, although GDP and sectoral growth is higher in the adjustment scenario than in the enabling scenario (Table 5.2), the difference is greater during 1996-2000 than in the earlier period. This is consistent with the argument in para. 5.5 that reform takes time. It also recognizes that the downsizing of the public sector could dampen growth initially, even though a fairly steady recovery might be expected. **Second**, the difference in sectoral growth between the adjustment scenario and the enabling scenario is greatest in services and manufacturing during 1996-2000. Here the reasoning is that export manufacturing, including agro-processing, is the activity which would probably gain the most from comprehensive public sector reform. In fact, this would not be surprising given the concentration of the existing inefficient parastatal activity in this sector, and the broad thrust of on-going sectoral reforms.

5.45 **Third**, private fixed investment as a percentage of GDP is greater than in the enabling scenario. Overall investment efficiency, as measured by the ICOR, is also higher. This is based on

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22/ In turn, the supply of money is based on econometric estimates of the demand for money at given interest rates, rates of inflation and levels of national income.

Table 5.2
Macroeconomic Indicators in the Adjustment Scenario, 1986-2000

	Period Averages		
	1986-90	1991-95	1996-2000
Average real growth rates (%)			
Gross domestic product (mp)	5.8	5.1	7.3
Agriculture	4.3	3.8	4.6
Manufacturing	5.7	7.8	10.2
Services	5.5	5.3	8.6
Merchandise exports (fob)	5.4	7.6	10.9
Merchandise imports (cif)	7.1	7.8	8.1
Monetary variables growth rates			
Broad money (M2)	16.9	24.9	21.6
Domestic credit	17.8	20.5	17.4
Private credit	15.4	23.9	19.2
Economic structure and balances (constant prices) (% of GDP)			
Agriculture	26.2	23.7	21.3
Manufacturing	11.1	10.8	12.1
Services	42.1	43.8	45.3
Gross national savings	12.9	25.8	33.7
Central government savings	-0.8	1.9	6.5
Private	13.6	23.9	27.2
Gross domestic savings	15.6	18.8	22.0
Gross investment	19.8	22.9	26.4
Fixed investment	16.1	19.0	23.2
Consumption	84.4	81.2	77.9
Central government	17.7	11.0	10.9
Private	66.7	70.3	67.0
ICOR	3.8	3.2	3.0
Marginal savings rate			
Gross national savings	-0.1	1.0	0.4
Gross domestic savings	-0.1	0.6	0.3
Fiscal deficit/GDP (%) 1/ 2/	-6.5	-4.8	-1.8
Grants	1.9	2.5	1.5
Central govt.revenue (%) 1/	21.4	22.6	24.9
Central govt.expenditure (%) 3/	27.9	27.4	26.7
Current account deficit/GDP (%) 2/	-7.0	-6.9	-6.0
MLT DS/Exports GS (%)	34.3	29.5	16.3
MLT debt/Exports GS (%)	269.0	289.9	224.7
MLT debt/GDP (%)	64.0	80.7	60.8
External fin. gap p.a. (US$ million)	0.0	121.1	65.6

Source: Staff estimates.

Note: Fiscal year ends on June 30. Fiscal year GDP is calculated as simple average of calendar year data.

1. Numerator includes adjustment to cash but excludes grants. Current price data.
2. Numerator excludes grants.
3. Numerator includes net lending.

Table 5.3
Macroeconomic Indicators in the Reference Scenario, 1986-2000

	Period Averages		
	1986-90	1991-95	1996-2000
Average real growth rates (%)			
Gross domestic product (mp)	5.8	2.9	2.3
Agriculture	4.3	2.5	2.0
Manufacturing	5.7	4.0	3.9
Services	5.5	4.0	4.0
Merchandise exports (fob)	5.4	4.5	3.3
Merchandise imports (cif)	7.1	3.4	2.6
Monetary variables growth rates			
Broad money (M2)	16.9	21.2	23.6
Domestic credit	17.8	22.7	25.1
Private credit	15.4	14.2	13.9
Economic structure and balances (constant prices) as % of GDP			
Agriculture	26.2	24.8	25.0
Manufacturing	11.1	10.3	10.9
Services	42.1	45.1	46.4
Gross national savings	12.9	29.3	31.2
Central government savings	-0.8	3.1	6.0
Private	13.6	26.5	25.2
Gross domestic savings	15.6	22.6	22.2
Gross investment	19.8	23.8	25.6
Fixed investment	16.1	17.5	19.6
Consumption	84.4	77.4	77.8
Central government	17.7	11.7	13.2
Private	66.7	65.7	64.7
ICOR	3.8	5.2	7.3
Marginal savings rate			
Gross national savings	-0.1	1.7	-0.3
Gross domestic savings	-0.1	1.0	-0.3
Fiscal deficit/GDP (%) 1/ 2/	-6.5	-6.4	-2.7
Grants	1.9	1.1	0.5
Central govt. revenue (%) 1/	21.4	25.0	27.9
Central govt. (%) 3/	27.9	31.5	30.6
Current account deficit/GDP (%) 2/	-7.0	-3.4	-2.1
MLT DS/Exports GS (%)	34.3	31.0	20.8
MLT debt/Exports GS (%)	269.0	311.7	286.6
MLT debt/GDP (%)	64.0	85.9	77.9
Ext. fin. gap p.a. (US$ million)	0.0	32.8	19.2

Source: Staff estimates.

Note: Fiscal year ends on June 30. Fiscal year GDP is calculated as simple average of calendar year data.

1. Numerator includes adjustment to cash but excludes grants. Current price data.
2. Numerator excludes grants.
3. Numerator includes net lending.

the analysis in Chapter 4 which shows that during 1986-90, parastatal enterprises used capital resources much more inefficiently than the private sector. **Fourth**, the economy is able to sustain a larger external financing gap ($121.1 million per year in 1991-95 and $65.6 million per year in 1996-2000) because the donor community is likely to be supportive of such a reform effort. **Fifth**, government savings improve and the fiscal deficit (including external grants) contracts further because of greater fiscal discipline but also because of higher economic growth and additional inflows of external funding (all relative to the enabling scenario). A summary of the adjustment scenario is provided in Table 5.4 at the end of the chapter.

The Reference Scenario

5.46 The basic assumption of the reference scenario is that stabilization pressures worsen because fiscal imbalances are not contained. It is also assumed that no further policy reforms are implemented in the agricultural, industrial, financial, export and educational sectors and that some policy backtracking actually takes place. Table 5.3 shows that under these circumstances real GDP growth could decelerate (relative to the enabling and adjustment scenarios) to 2.9 percent per annum during 1991-95 and 2.3 percent during 1996-2000. Although the external environment is the same as in the enabling and adjustment scenarios, the annual growth of merchandise exports would slow to 4.5 percent and 3.3 percent during 1991-95 and 1996-2000 respectively.

5.47 The deterioration of macroeconomic balances would reduce the scope for donor assistance. Accordingly, the projections assume that quick-disbursing inflows fall by two-thirds under this scenario, and that access to commercial borrowing would be limited. This reduction in foreign exchange receipts in turn reduces import growth. It also affords the economy a smaller external financing gap ($32.8 million per year in 1991-95 and $19.2 million per year in 1996-2000).

5.48 Weaker export performance causes the debt service ratio to rise to an average of 31 percent during 1991-95, compared with 28.5 percent in the enabling scenario and 29.5 percent in the adjustment scenario. Worse still, the debt service ratio under this reference scenario peaks at 34 percent in 1992 before falling to 32.2 percent in 1993 and 29 percent in 1994. In the past, debt service ratios of these magnitudes were manageable because of strong donor support via the capital account of the balance of payments. If such support weakens, as assumed under this scenario, Kenya may be forced to seek debt relief through rescheduling.

5.49 In essence, throughout the reference scenario, the performance of the public sector would deteriorate. Inflationary pressures would persist and would derail growth via the erosion of production incentives and the crowding out of private investment. Such developments would also reduce the scope for balance of payments support, limit access to foreign financing for investment, and even force Kenya to request debt relief through rescheduling (Table 5.4).

Table 5.4: Summary of Macroeconomic Scenarios			
Item	**Reference Scenario**	**Enabling Scenario**	**Adjustment Scenario**
Overall Performance	Growth deteriorates rapidly as destabilizing fiscal pressures and financial indiscretion in the parastatal sector undermine the credibility and effectiveness of sectoral reforms in general. Export diversification and growth, and capital inflows are also adversely affected. In consequence, GNP per capita falls to K£317 (in 1990 K£) by the year 2000.	During 1991-95, growth is slightly below pre-1986-90 level as financial discipline is imposed on the public sector and sectoral reforms continue. However, this is a fragile situation because the underlying destabilizing pressures s ll exist. In fact, during 1996-2000, the ιconomy continues along a declining growth path because public sector adjustment does not take place and these underlying pressures surface. As a result, GNP per capita only rises to K£378 (in 1990 K£) by the year 2000, largely because of the declining population growth rate.	Growth rises gradually but steadily above the 1990 level and eventually is sustained above the 1986-90 average rate. It is driven by productivity gains, rising per capita incomes, strong aggregate demand and significant employment generation. By the year 2000, GNP per capita rises to K£448 (in 1990 K£).
Growth: Private Sector	Stifled by worsening macroeconomic imbalances which originate in unsustainable fiscal deficits and foreign exchange crises.	Grows initially because market deregulation, price decontrol, trade liberalization, financial reforms and export incentives operate in a more stable economic environment. But deteriorates when the environment becomes unstable.	Expands, initially, by the down-sizing of the public sector and the release of investible resources. Later, in response to private sector development efforts and improvements in macroeconomic incent:ves, growth achieves greater self-sustained momentum.
Growth: Central Government	Revenue/GDP chases expenditure/GDP. The latter creeps upward because public sector reform is postponed. This limits the scope for policy-based external funding which is partly offset by a greater domestic revenue effort.	During the first half of the decade, revenue/GDP stabilizes at about 23 percent while overall expenditure is contained. Later, revenue begins to chase rising government expenditure in the absence of public sector adjustment.	Revenues/GDP reaches and occasionally exceeds 24 percent of GDP while recurrent expenditure is restructured and rationalized. Investment is more selective and viable, and is better implemented.
Growth: Parastatal Sector	Real value-added is low and variable across sectors. The deteriorating financial performance causes a drain on the budget of the central government.	Value added is also low and variable across sectors. But the financial drain on the Treasury is reduced during 1991-95 by the clarification and enforcement of existing fiscal regulations. However, this weakens during 1996-2000.	With down-sizing and restructuring of the sector, growth in real value added and financial performance is higher and more uniform. There are also more transparent and programmed financial transfers between the sector and the Central Government.

Table 5.4: Summary of Macroeconomic Scenarios			
Item	**Reference Scenario**	**Enabling Scenario**	**Adjustment Scenario**
Consumption, Savings, and Investment: Private Sector	Increasingly displaced by public consumption which, along with public investment, is partly financed by private savings. Investment efficiency, as measured by ICORs, declines.	At first, private consumption/GDP rises as public sector consumption contracts. Investment efficiency stabilizes. However, this begins to be reversed during 1996-2000.	Private consumption/GDP also rises as public consumption declines. Later, it falls as private investment opportunities multiply with public sector reform. Investment efficiency improves.
Consumption, Savings, and Investment: Central Government	Consumption, linked to the wage bill, absorbs a rising share of government expenditure. Investment increases as budgetary policy is used to stimulate growth, but inefficiencies worsen.	Consumption, linked to the wage bill, is contained during the first half of the decade. Investment is reduced in line with greater financial discipline and sound public investment programming. Savings improve and a surplus is generated. However, the situation begins to change in the latter half of the year as pressures from the wage bill and inefficient parastatals surface.	Consumption, linked to the wage bill, falls in relation to GDP but expenditure for nonwage operations and maintenance rises steadily. Following rationalization, investment keeps pace with GDP growth in the context of a more ambitious and supportive public investment program. Savings become positive and finance a large share of domestic investment.
Consumption, Savings and Investment: Parastatal Sector	Consumption, linked to the wage bill, grows in relation to parastatal output and GDP. Investment becomes more inefficient and absorbs a larger share of national savings.	During 1991-95, consumption/GDP falls slightly from the 1986-90 level. Investment and savings increase marginally with respect to GDP. However, these improvements are eroded during 1996-2000 because they are not locked in by comprehensive parastatal reform.	As reforms in the sector proceed, consumption/GDP falls and then stabilizes. Investment/GDP also falls but rises later as enterprises which remain in the public sector receive upgraded technology and equipment.
Balance of Payments: Current Account	Traditional exports account for a larger share of exports because of the disappointing performance of nontraditional exports. Imports are constrained through administrative delays.	At first, nontraditional exports keep pace with overall export growth. Imports are rationed largely through exchange rate policy, and are partly financed by a weak but initially improving capital account. Later, these trends are reversed and the balance of payments is undermined.	The share of nontraditional exports in total exports increases. Trade in general is buoyant. Import demand strengthens but is rationed by exchange rate and monetary policy, and sound public sector management.

Table 5.4: Summary of Macroeconomic Scenarios			
Item	**Reference Scenario**	**Enabling Scenario**	**Adjustment Scenario**
Balance of Payments Capital Account	The account weakens. Inflows from official and private sources decline Reserves remain precariously low. Rescheduling of external debt becomes necessary.	The account improves during 1991-95 but remains fragile. Policy-based donor support tapers off as reforms in industry, trade, finance and agriculture are exhausted. International reserves initially stabilize at a modest level. Absence of public sector adjustment during 1996-2000 limits the opportunities for donor funding. Consequently, the account becomes even more fragile.	The account is strengthened by larger private capital inflows and policy-based lending which support the public sector adjustment program. International reserves increase steadily.

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Table 1.1: POPULATION PROJECTIONS, 1979-2000
(In Thousands)

Year	Working Age Population 1/	Total Population
1979	7539	16141
1980	6551	16667
1981	7802	17342
1982	8126	18035
1983	8469	18748
1984	8829	19482
1985	9208	20241
1986	9591	21021
1987	10006	21826
1988	10431	22657
1989	10879	23513
1990	11348	24397
1995	13972	29237
2000	17065	34792

1/ Defined as the age group 15-59.

Sources: Central Bureau of Statistics, Statistical Abstract; and
Population Projections for Kenya, 1980 - 2000, March 1983.

Table 1.2: POPULATION PROJECTIONS BY SEX AND AGE GROUPS,1979-2000
(In Millions)

	Sex		Age Group				
Year	Male	Female	Under 10	10-14	15-19	20-59	Over 59
1979	7.6	7.7	5.3	2.1	1.7	5.8	0.4
1980	8.3	8.4	6.3	2.2	1.7	4.9	1.5
1981	8.6	8.7	6.6	2.3	1.8	6.0	0.6
1982	9.0	9.1	6.8	2.4	1.9	6.2	0.6
1983	9.3	9.4	7.1	2.6	2.0	6.5	0.7
1984	9.7	9.8	7.3	2.7	2.1	6.7	0.7
1985	10.1	10.2	7.6	2.8	2.2	7.0	0.7
1986	10.5	10.5	7.8	2.9	2.3	7.3	0.7
1987	10.9	10.9	8.1	3.0	2.4	7.6	0.7
1988	11.3	11.4	8.3	3.1	2.5	7.9	0.8
1989	11.7	11.8	8.6	3.3	2.6	8.3	0.8
1990	12.2	12.2	8.9	3.4	2.7	8.6	0.8
1995	14.6	14.6	10.3	4.0	3.3	10.6	1.0
2000	17.4	17.4	11.9	4.6	3.9	13.1	1.2
Memo Items:							
Census Results	1979	1989					
Population 1/	15.3	21.4					

Note: For assumptions underlying these projections see Technical Notes.

1/ 1989 results are provisional.

Sources: Central Bureau of Statistics, Statistical Abstract; Population Projections for Kenya, 1980 - 2000, March 1983;and Population Census of 1979 and 1989.

Table 1.3: EMPLOYMENT BY INDUSTRY AND SECTOR
(In Thousands)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Wage Employees	1005.8	1024.3	1046.0	1093.3	1119.4	1174.4	1226.7	1285.4	1342.2	1372.8	1407.7
Agriculture and forestry	231.4	235.5	223.8	231.1	235.4	240.9	248.4	253.0	265.1	261.8	267.5
Mining and quarrying	2.3	2.2	3.0	3.5	4.1	4.8	3.8	6.5	[illegible]	8.4	8.6
Manufacturing	141.3	146.3	146.8	148.8	153.1	158.8	166.2	175.0	180.8	182.8	187.7
Electricity and water	10.1	10.2	14.0	17.2	17.4	17.8	18.2	19.2	20.4	22.4	22.0
Construction	63.2	61.3	60.4	60.2	49.3	49.9	55.7	58.2	63.7	68.7	71.4
Trade,restaurants and hotels	70.5	72.6	74.9	80.3	84.8	89.7	95.4	105.3	106.7	110.3	113.9
Transport and communications	55.2	55.4	52.8	55.0	54.1	55.7	62.0	64.4	73.6	75.8	74.2
Finance and business services	39.7	39.5	43.7	45.7	50.2	53.4	56.3	57.9	61.3	63.7	65.3
Other services 1/	392.1	401.3	426.6	451.5	471.1	503.4	520.7	545.9	562.4	578.9	597.1
Private Sector	534.2	540.2	540.4	565.5	578.0	599.7	620.9	658.0	681.8	687.2	713.8
Agriculture and forestry	172.5	173.6	167.5	177.3	181.3	186.0	192.9	198.8	198.4	195.1	202.4
Mining and quarrying	1.7	1.5	1.8	2.1	2.6	3.2	2.3	6.0	7.6	7.8	7.9
Manufacturing	111.4	116.7	116.0	117.1	119.7	123.6	130.1	138.2	141.7	141.8	146.1
Electricity and water	0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.2	0.2	0.2	0.5
Construction	31.7	32.6	32.1	31.4	27.2	25.8	24.8	26.1	31.1	33.4	36.8
Trade,restaurants and hotels	66.0	67.7	69.3	74.6	79.2	83.8	89.1	97.1	98.3	101.4	104.6
Transport and communications	23.0	18.9	19.7	21.1	20.1	20.5	19.6	19.7	23.2	24.5	25.9
Finance and business services	31.9	31.1	34.7	36.1	38.4	40.1	40.7	41.6	44.2	45.3	47.1
Other services 1/	95.9	97.9	99.1	105.7	109.6	116.7	121.4	130.3	137.1	137.7	142.5
Public Sector 2/	471.6	484.1	505.6	527.8	541.4	574.7	605.8	627 4	660.4	685.6	693.9
Self-employed and family workers	61.9	62.1	62.7	63.2	32.4	33.4	35.4	38.1	43.9	44.3	48.2
Small scale enterprises 3/	123.1	157.3	172.2	221.4	233.3	254.5	281.1	312.1	346.2	390.0	443.1
[illegible]	1190.8	1243.7	1280.9	1377.9	1385.1	1462.3	1543.2	1635.6	1732.3	1807.1	1899.0
Memo Items:											
Wage Employees	1005.8	1024.3	1046.0	1093.3	1119.4	1174.4	1226.7	1285.4	1342.2	1372.8	1407.7
Regular	..	..	..	898.8	982.0	1031.4	1062.3	1093.7	1143.2	1174.9	1220.0
Casual	..	..	..	194.5	137.4	142.9	164.4	191.7	199.0	197.9	187.7

1/ Community, social and personal services.

2/ See Statistical Appendix Table 5.8 for details.

3/ Includes urban informal sector.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 2.1: GROSS DOMESTIC PRODUCT BY ORIGIN AT CURRENT PRICES
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Non-Monetary Economy	131.7	150.8	164.7	199.6	215.1	246.9	263.8	297.4	341.9	396.0	425.7
Forestry and fishing	17.2	20.0	22.7	26.3	29.6	35.0	39.1	45.5	54.7	62.1	65.8
Building and construction	41.6	46.2	49.0	60.0	62.1	76.3	71.8	77.1	84.2	90.4	95.8
Water collection	15.1	17.1	19.5	22.1	24.8	28.1	31.6	35.8	40.7	44.5	46.1
Ownership of dwellings	57.8	67.4	73.6	91.2	98.6	107.5	121.4	139.0	162.3	199.0	218.9
Monetary Economy	2166.7	2508.7	2884.5	3274.0	3657.8	4171.7	4851.2	5350.9	6129.9	7030.2	8206.9
Agriculture	711.9	819.1	964.1	1126.5	1244.3	1357.2	1598.1	1669.3	1902.7	2088.4	2235.4
Forestry and fishing	20.0	25.2	30.5	35.8	39.5	44.5	53.0	67.1	81.7	120.8	140.2
Mining and quarrying	5.7	5.9	6.6	7.4	8.5	10.0	11.5	13.3	13.7	18.6	24.4
Manufacturing	295.1	328.2	372.3	408.3	461.0	518.4	608.2	652.5	753.0	855.4	987.4
Building and construction	105.2	121.0	135.8	137.6	133.6	161.5	175.1	210.8	284.1	386.9	591.3
Electricity and water	16.5	20.8	24.8	37.6	43.2	49.5	52.1	55.2	57.6	64.0	79.4
Trade, restaurants & hotels	244.7	274.0	306.7	371.0	439.7	520.6	561.0	628.3	712.0	829.1	947.6
Transport, storage & comm.	127.8	143.4	185.2	215.9	250.3	296.4	341.1	393.4	433.7	485.8	598.2
Finance & business services	135.7	168.8	209.7	248.7	269.0	314.9	365.2	418.7	501.8	576.9	686.7
Ownership of dwellings	146.3	180.2	179.5	196.7	214.5	231.7	263.0	303.6	355.6	393.9	480.5
Domestic services	23.3	28.6	32.8	35.6	44.9	51.8	63.0	71.8	83.9	97.5	113.6
Government services	332.5	390.9	441.4	475.3	522.2	616.3	756.5	858.4	998.0	1166.6	1323.3
Other services	65.0	73.9	82.5	92.2	107.3	129.6	153.7	181.7	197.9	228.0	251.5
Imputed bank service charges	-62.9	-71.2	-87.3	-114.5	-120.2	-130.6	-150.2	-173.0	-246.0	-281.6	-252.5
Total GDP at Factor Cost	2298.4	2659.5	3049.3	3473.6	3872.9	4418.7	5115.0	5648.2	6471.8	7426.2	8633.6
Memo Items:											
Total GDP at Factor Cost 1/	2298.4	2659.5	3049.3	3473.6	3872.9	4418.7	5115.0	5648.2	6471.8	7426.2	8633.6
Agriculture	749.1	854.3	1017.3	1188.6	1313.5	1436.7	1690.1	1781.9	2039.1	2271.3	2441.4
Industry	479.2	539.2	608.0	672.9	733.1	843.8	950.3	1044.6	1233.3	1459.8	1824.5
Manufacturing	295.1	328.2	372.3	408.3	461.0	518.4	608.2	652.5	753.0	855.4	987.4
Services	1070.1	1256.1	1424.0	1612.1	1826.3	2138.2	2474.6	2821.7	3199.4	3695.0	4367.7

1/ See Technical Note for aggregation scheme

Source: Central Bureau of Statistics, Economic Survey, various issues and Ministry of Planning.

Table 2.2: GROSS DOMESTIC PRODUCT BY ORIGIN AT CONSTANT 1982 PRICES
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Non-Monetary Economy	155.8	159.6	164.7	178.4	185.7	202.4	201.7	208.8	214.8	223.4	229.6
Forestry and fishing	21.0	21.8	22.7	24.9	25.8	28.5	29.2	30.1	31 1	32 0	32.9
Building and construction	48.1	48.0	49.0	57.2	59.1	70.6	65.3	67.7	68.2	71.5	72.9
Water collection	18.7	19.0	19.5	19.9	20.3	20.7	21.1	21.7	22.6	23.4	24.1
Ownership of dwellings	68.0	70.7	73.6	76.5	80.6	82.7	86.1	89.3	92.9	96.4	99.7
Monetary Economy	2612.4	2774.0	2884.5	2946.5	2966.0	3110.9	3296.5	3459.6	3643.9	3826.6	4003.8
Agriculture	845.9	897.3	964.1	979.1	941.1	975.6	1023.4	1062.6	1109.3	1152.5	1192.2
Forestry and fishing	27.6	28.4	30.5	32.2	33.3	36.2	39.0	44.6	50.4	53.4	56.0
Mining and quarrying	8.8	5.5	6.6	6.7	7.4	8.1	8.4	9.1	10.2	10.6	11.3
Manufacturing	351.5	364.1	372.3	389.1	405.8	424.1	448.7	474.3	502.8	532.5	560.3
Building and construction	126.6	136.7	135.8	112.0	104.5	108.1	112.1	116.7	121.7	128.3	135.1
Electricity and water	21.3	24.6	24.8	26.1	26.8	29.0	31.2	33.6	36.5	39.5	43.7
Trade, restaurants & hotels	318.4	322.5	306.7	315.3	332.6	355.2	390.0	412.5	436.3	455.5	473.7
Transport, storage & comm.	148.8	151.7	185.2	201.5	202.3	206.5	215.4	224.9	234.0	241.1	249.7
Finance & business services	169.2	221.3	209.7	226.0	222.5	244.5	261.0	274.5	291.3	313.1	333.2
Ownership of dwellings	165.7	181.3	179.5	181.5	184.6	190.3	196.5	205.6	212.2	220.6	229.4
Domestic services	28.3	30.7	32.8	34.9	37.2	39.8	44.0	48.7	55.3	62 4	70.5
Government services	403.8	425.2	441.4	459.9	473.1	497.3	528.7	554.1	586.2	618.4	646.8
Other services	75.0	78.0	82.5	86.3	94.2	99.1	104.1	111.7	119.7	127.9	135.9
Imputed bank service charges	-78.4	-93.4	-87.3	-104.1	-99.4	-103.0	-105.9	-113.4	-121.8	-129.1	-134.0
Total GDP at Factor Cost	2768.2	2933.5	3049.3	3124.9	3151.7	3313.3	3498.2	3668.4	3858.6	4050.0	4233.4
Memo Items:											
Total GDP at Factor Cost 1/	2768.2	2933.5	3049.3	3124.9	3151.7	3313.3	3498.2	3668.4	3858.6	4050.0	4233.4
Agriculture	894.5	947.5	1017.3	1036.2	1000.2	1040.3	1091.5	1137.3	1190.7	1238 0	1281.1
Industry	574 9	597.9	608.0	610.9	623.9	660.5	686.8	723.1	761.9	805.8	847.5
Mining	8.8	5.5	6.6	6.7	7.4	8.1	8.4	9.1	10.2	10.6	11.3
Manufacturing	351.5	364.1	372.3	389.1	405.8	424.1	448.7	474.3	502.8	532.5	560.3
Other Industry	214.7	228.3	229.1	215.2	210.6	228.4	229.7	239.7	248.9	262 7	275.9
Services	1298.9	1388.2	1424.0	1477.8	1527.6	1612.5	1719.9	1808.1	1906.0	2006 2	2104 9

1/ See Technical Note for aggregation scheme.

Source: Central Bureau of Statistics, Economic Survey, various issues and Ministry of Planning

Table 2.3: GROSS NATIONAL PRODUCT BY EXPENDITURE AT CURRENT PRICES
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
GDP at Factor Cost	2298.4	2659.5	3049.3	3473.6	3872.9	4418 7	5115.0	5648.2	6471.8	7426.2	8633.6
Non-Monetary	131.7	150.8	164.7	199 6	215 1	246.9	263 8	297.4	341.9	396 0	426.7
Monetary	2166.7	2508 7	2884.5	3274.0	3657.8	4171.7	4851.2	5350.9	6129.9	7030.2	8206.9
Net Indirect Taxes	397.1	441.3	466.2	509.3	589.6	618 7	759.2	910.9	1079.1	1190.5	1398.9
Indirect Taxes	397.8	442.6	467.7	511.0	591.4	619 7	759.8	911.6	1079.2	1190.5	1399.0
Subsidies	0 7	1.2	1.6	1 7	1 8	1 0	0 6	0.7	0.1	0.1	0.1
GDP at Market Prices	**2695.5**	**3100.8**	**3515.4**	**3982.9**	**4462.5**	**5037.3**	**5874.2**	**6559.1**	**7550.9**	**8616.6**	**10032.5**
Resource Gap	299.4	251.8	131 8	17 8	61.5	53.6	-10.3	334.5	389.5	494.7	527.2
Imports of GNFS 1/	1052.7	1048.7	1009.4	1014.2	1232.0	1328.4	1506.4	1734.1	2054.3	2492.4	3069.4
Exports of GNFS	753.3	796.9	877 6	996.3	1170.5	1274 8	1516.7	1399.6	1664.9	1997.7	2542.2
Total Resources	2994.9	3352.6	3647.2	4000.7	4523.9	5090.9	5863.9	6893.7	7940.4	9111.3	10559.7
Consumption	2207.2	2494.5	2879.5	3171.4	3598.2	3783.5	4585.5	5301.1	6053.5	6993.1	8184.1
Public	533.8	576 4	647.4	733.1	775.6	880.1	1075.9	1217.7	1385.7	1607.5	1841.6
Private	1671.9	1914.3	2232.1	2438.3	2822.6	2920.3	3519.8	4083.4	4661.6	5331.3	6431.5
Statistical Discrepancy	1.5	3 8	-0.0	0.0	-0.0	-16.8	-10.2	0.0	6.2	54.3	-89.0
Gross Investment	787.7	858.1	767.7	829.3	925.7	1307.4	1278.4	1592.6	1886.8	2118.2	2375.6
Gross fixed capital formation	621.0	724.7	668.2	717.5	807.2	901.4	1153.2	1286.7	1516.0	1657.8	2030.3
Public	281.2	322.5	300.9	274.2	336.7	361.5	475.5	467.5	624.7	694.3	956.2
Private	339.9	402.2	367.4	443.3	470.5	539.9	677.7	819.3	891.2	963.5	1074.1
Changes in stocks	166.7	133.4	99.5	111.9	118.6	405.9	125.2	305.8	370.9	460.4	345.3
Gross Domestic Savings	488.3	606.3	635.9	811.5	864.3	1253.8	1288.7	1258.0	1497.4	1623.5	1848.4
Net Factor Income	-84.0	-97.1	-139.4	-127.2	-150.2	-183.2	-209.2	-248.6	-320.6	-363.1	-385.5
Net Private Transfers	10.1	44.6	45.5	42.2	43.3	67.0	47.2	59.3	79.0	104.4	192.4
Gross National Savings	414.4	553.8	542.1	726.5	757.4	1137.5	1126.7	1068.6	1255.8	1364.9	1655.3
GNP at Market Prices	**2611.5**	**3003.7**	**3376.1**	**3855.7**	**4312.3**	**4854.1**	**5665.0**	**6310.5**	**7230.3**	**8253.6**	**9647.0**

1/ Data for 1989 excludes KL120 million which represents the purchase of one and leasing of another aircraft by Kenya Airways Corporation

Source. Central Bureau of Statistics, Economic Survey, various issues and Ministry of Planning

Table 2.4: GROSS NATIONAL PRODUCT BY EXPENDITURE AT CONSTANT 1982 PRICES
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
GDP at Factor Cost	2768.2	2933.5	3049.3	3124.9	3151.7	3313.3	3498.2	3668.4	3858.6	4050.0	4233.4
Non-Monetary	155.8	159.6	164.7	178.4	185.7	202.4	201.7	208.8	214.8	223.4	229.6
Monetary	2612.4	2774.0	2884.5	2946.5	2966.0	3110.9	3296.5	3459.6	3643.9	3826.6	4003.8
Net Indirect Taxes	569.0	529.7	466.2	436.5	472.3	466.6	552.9	623.2	691.6	707.6	765.7
Indirect Taxes	569.8	531.0	467.7	438.2	474.0	467.4	553.4	623.7	691.7	707.7	765.7
Subsidies	0.8	1.3	1.6	1.6	1.6	0.8	0.4	0.4	0.1	0.0	0.1
GDP at Market Prices	**3337.3**	**3463.2**	**3515.4**	**3561.5**	**3624.0**	**3779.8**	**4051.1**	**4291.7**	**4550.2**	**4757.6**	**4999.1**
Resource Gap	636.4	352.9	131.8	-33.8	105.8	-21.4	40.2	171.2	232.3	249.8	247.1
Imports of GNFS 1/	1524.1	1203.5	1009.4	823.7	970.9	901.7	1053.6	1193.6	1301.4	1258.8	1315.2
Exports of GNFS	887.7	850.6	877.6	857.5	865.1	923.2	1013.4	1022.4	1069.1	1008.9	1068.2
Total Resources	3973.6	3816.1	3647.2	3527.6	3729.8	3758.4	4091.4	4462.8	4782.6	5007.4	5246.2
Consumption	2942.6	2817.2	2879.5	2862.2	3033.6	2867.8	3345.4	3592.3	3833.5	4014.8	4316.0
Public	694.7	657.3	647.4	702.8	702.9	710.0	760.8	785.4	800.0	811.4	848.7
Private	2247.9	2163.8	2232.1	2159.4	2330.7	2171.7	2584.6	2806.9	3031.1	3186.7	3497.4
Statistical Discrepancy	-0.0	-3.8	-0.0	0.1	0.0	-13.9	0.0	-0.0	2.4	16.7	-30.1
Gross Investment	1031.0	998.9	767.7	665.4	696.2	890.6	746.0	870.6	949.1	992.7	930.2
Gross fixed capital formation	807.3	847.8	668.2	576.0	593.6	611.1	668.1	708.0	766.7	760.0	760.8
Public	350.5	369.8	300.9	228.4	247.9	245.9	280.7	261.8	320.1	325.8	370.1
Private	456.8	478.0	367.4	347.6	345.6	365.2	387.3	446.1	446.7	434.2	390.7
Changes in stocks	223.7	151.1	99.5	89.4	102.6	279.5	77.9	162.6	182.4	232.7	169.4
Gross Domestic Savings	597.5	710.0	635.9	650.9	647.8	854.3	753.1	640.3	702.4	742.8	704.3
Net Factor Income	-111.5	-110.5	-139.4	-112.2	-123.8	-135.3	-145.9	-161.0	-193.1	-199.5	-191.5
Net Private Transfers	13.4	50.8	45.5	37.2	35.7	49.4	32.9	38.4	47.6	57.4	95.6
Gross National Savings	499.5	650.2	542.1	576.0	559.7	768.4	640.1	517.7	556.8	600.7	608.3
Capacity to Import	1090.6	914.5	877.6	809.2	922.4	865.4	1060.8	963.4	1054.7	1008.9	1089.3
Terms of Trade Adjustment	202.9	64.0	0.0	-48.3	57.4	-57.8	47.4	-59.1	-14.4	-0.0	21.2
Gross Domestic Income	3540.2	3527.2	3515.4	3513.2	3681.4	3722.0	4098.5	4232.6	4535.8	4757.6	5020.3
Gross National Income	3428.7	3416.7	3376.1	3401.0	3557.6	3586.8	3952.6	4071.6	4342.7	4558.1	4828.8
GNP at Market Prices	**3225.8**	**3352.7**	**3376.1**	**3449.3**	**3500.2**	**3644.6**	**3905.2**	**4130.7**	**4357.1**	**4558.1**	**4807.6**

1/ See footnote 1, Statistical Appendix Table 2.3

Source: Central Bureau of Statistics and Ministry of Planning

Table 2.5 GROSS FIXED CAPITAL FORMATION BY INDUSTRY AT CURRENT PRICES
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Total Capital Formation	**621.0**	**724.7**	**668.2**	**717.5**	**807.2**	**901.4**	**1153.2**	**1286.7**	**1516.0**	**1657.8**	**2030.3**
Agriculture and forestry	48.2	55.6	51.9	54.0	59.0	76.3	90.0	106.7	113.0	118.6	143.3
Mining and quarrying	5.0	4.9	4.1	5.1	7.1	4.9	7.0	12.7	10.2	10.2	15.7
Manufacturing	76.9	90.3	67.0	111.7	95.3	101.8	161.3	171.8	218.3	253.9	363.3
Electricity and water	41.3	65.5	75.2	57.2	37.0	46.3	48.6	62.2	81.7	121.1	173.3
Construction	33.4	32.9	28.9	59.4	68.3	49.5	50.3	70.2	70.5	85.2	111.6
Trade, restaurants & hotels	28.3	19.7	21.8	26.4	24.8	34.5	24.9	24.9	37.5	26.0	40.2
Transport and communication	102.8	113.5	101.5	110.1	149.9	164.2	289.0	306.7	259.2	280.8	321.5
Finance & business services	10.2	23.7	9.4	16.7	18.4	19.2	13.5	21.6	44.6	54.5	69.1
Ownership of dwellings 1	106.6	120.6	126.5	114.1	134.8	132.5	172.8	194.1	213.5	233.5	272.0
Government services	127.2	144.5	126.7	102.0	153.1	192.4	220.0	230.1	362.6	349.8	447.4
Other services	41.3	53.6	55.3	60.7	59.5	80.0	75.9	85.8	104.8	124.3	72.9
Private Sector 2/	339.9	402.2	367.4	443.3	470.5	539.9	677.7	819.3	891.2	963.5	1074.1
Agriculture and forestry	39.1	45.9	43.8	45.6	49.9	69.6	85.8	103.7	108.8	114.1	119.6
Mining and quarrying	5.0	4.8	4.1	5.1	7.1	4.9	7.0	12.7	10.2	10.2	15.7
Manufacturing	73.9	87.7	64.3	108.6	92.2	98.8	156.1	168.0	212.3	232.2	348.2
Electricity and water	-0.1	0.0	0.0	0.0	0.0	3.0	3.9	2.9	2.1	6.2	4.2
Construction	31.4	30.4	25.4	32.8	42.6	29.5	47.8	66.9	67.0	81.1	95.5
Trade, restaurants & hotels	26.3	18.0	17.7	20.8	22.2	31.4	22.1	22.6	27.8	22.6	33.8
Transport and communication	46.6	62.6	54.2	68.2	84.9	101.0	130.1	181.5	163.5	163.9	176.9
Finance & business services	1.2	12.5	2.3	7.7	4.3	8.6	8.4	17.0	26.6	25.6	33.5
Ownership of dwellings 1/	79.3	94.4	102.9	95.5	109.7	114.3	143.1	160.7	169.0	184.5	177.1
Other services	38.8	49.6	52.7	59.0	57.5	78.9	73.3	83.1	104.0	123.1	71.2
Statistical Discrepancy	-1.5	-3.8	0.0	-0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	-1.6
Public Sector 3/	281.2	322.5	300.9	274.2	336.7	361.5	475.5	467.5	624.7	694.3	956.2
Memo Items:											
Total Capital Formation 4/	621.0	724.7	668.2	717.5	807.2	901.4	1153.2	1286.7	1516.0	1657.8	2030.3
Agriculture	48.2	55.6	51.9	54.0	59.0	76.3	90.0	106.7	113.0	118.6	143.3
Industry	156.6	193.5	175.2	233.3	207.7	202.4	267.2	317.0	380.7	470.4	663.9
Manufacturing	76.9	90.3	67.0	111.7	95.3	101.8	161.3	171.8	218.3	253.9	363.3
Services	416.3	475.6	441.2	430.1	540.5	622.7	796.0	863.1	1022.2	1068.8	1223.1

1/ Includes traditional dwellings

2/ Derived residually

3/ Includes Central Government, Municipalities, Councils and parastatals (See Statistical Appendix Table 5 7 for details)

4/ See Technical Note for aggregation scheme

Source Central Bureau of Statistics, Economic Survey, various issues

Table 2 6 GROSS FIXED CAPITAL FORMATION BY INDUSTRY AT CONSTANT 1982 PRICES
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Total Capital Formation	**807.3**	**847.8**	**668.2**	**576.0**	**593.6**	**611.1**	**668.1**	**708.0**	**766.7**	**760.0**	**760.8**
Agriculture and forestry	63.1	64.9	51.9	44.0	40.7	51.2	54.0	59.1	60.1	55.0	51.8
Mining and quarrying	7.6	6.0	4.1	3.6	4.9	3.1	3.6	6.7	5.4	4.4	5.5
Manufacturing	110.1	109.7	67.0	81.0	65.7	65.2	83.9	89.6	112.4	110.5	129.5
Electricity and water	49.9	76.0	75.2	49.5	27.0	31.0	29.9	35.7	43.4	58.8	70.6
Construction	48.1	40.2	28.9	41.8	46.9	32.3	27.0	37.2	37.1	37.2	39.9
Trade, restaurants & hotels	39.5	51.0	21.8	21.4	17.9	24.2	14.2	13.4	19.4	11.5	14.4
Transport and communication	127.8	102.1	101.5	83.3	105.3	106.6	144.8	151.1	115.7	117.2	112.7
Finance & business services	12.7	26.8	9.4	14.3	14.2	13.1	7.6	11.9	23.2	25.5	26.4
Ownership of dwellings 1/	133.1	138.3	126.5	101.7	112.5	97.2	119.3	120.0	99.7	114.9	109.7
Government services	160.2	169.3	126.7	88.0	114.7	132.1	138.1	133.9	192.9	165.1	173.7
Other services	55.3	63.6	55.3	47.3	43.9	55.1	45.5	49.6	57.4	60.0	26.7
Private Sector 2/	456.8	478.0	367.4	347.6	345.6	365.2	387.3	446.1	446.7	434.2	390.7
Agriculture and forestry	52.4	54.2	43.8	37.4	35.6	47.4	50.3	57.5	58.3	53.1	43.5
Mining and quarrying	7.6	6.0	4.1	3.6	4.9	3.1	3.6	6.7	5.4	4.4	5.5
Manufacturing	105.6	106.6	64.3	78.7	63.5	63.3	81.2	87.7	109.3	100.9	124.2
Electricity and water	0.0	0.0	0.0	0.0	0.0	2.0	2.5	1.7	1.1	3.1	1.8
Construction	45.1	37.3	25.4	23.2	29.3	18.8	25.4	35.3	35.2	35.2	33.4
Trade, restaurants & hotels	36.6	21.5	17.7	16.3	16.1	22.0	12.5	12.1	14.3	9.9	11.9
Transport and communication	56.8	70.7	54.2	50.7	59.2	65.0	64.6	88.5	70.8	66.0	60.8
Finance & business services	1.8	14.2	2.3	6.7	3.1	5.5	4.6	9.3	13.4	11.2	12.3
Ownership of dwellings 2/	99.1	108.2	102.9	85.1	91.5	83.8	98.8	99.3	81.9	90.8	71.3
Other services	52.0	59.2	52.7	46.1	42.4	54.4	43.9	48.0	57.0	59.6	26.1
Statistical Discrepancy	-0.0	0.0	0.0	-0.0	0.0	-0.0	0.0	-0.0	0.1	-0.1	0.0
Public Sector 3/	350.5	369.8	300.9	228.4	247.9	245.9	280.7	261.8	320.1	325.8	370.1
Memo Items:											
Total Capital Formation 4/	807.3	847.8	668.2	576.0	593.6	611.1	668.1	708.0	766.7	760.0	760.8
Agriculture	63.1	64.9	51.9	44.0	40.7	51.2	54.0	59.1	60.1	55.0	51.8
Industry	215.7	231.9	175.2	175.9	144.4	131.6	144.5	169.2	198.3	210.9	245.4
Manufacturing	110.1	109.7	67.0	81.0	65.7	65.2	83.9	89.6	112.4	110.5	129.5
Services	528.6	551.0	441.2	356.0	408.4	428.3	469.6	479.7	508.3	494.1	463.6

1/ Includes traditional dwellings
2/ Derived residually
3/ Includes Central Government, Municipalities, Councils and parastatals (See Statistical Appendix Table 5 7 for details)
4/ See Technical Note for aggregation scheme.

Source Central Bureau of Statistics, Economic Survey, various issues

Table 2.7: DEFLATORS
(1982 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Non Monetary Economy	84.5	94.5	100.0	111.9	115.9	122.0	130.8	142.4	159.2	177.3	185.8
Forestry and fishing	81.8	91.8	100.0	105.6	114.9	122.9	133.9	151.2	176.1	194.1	200.4
Building and construction	86.5	96.2	100.0	105.0	105.0	108.1	109.9	113.9	123.3	126.5	131.4
Water collection	80.7	90.1	100.0	111.2	122.4	136.0	149.4	164.7	180.5	189.7	191.1
Ownership of dwellings	85.0	95.3	100.0	119.2	122.5	130.0	141.1	155.6	174.7	206.4	219.6
Monetary Economy	82.9	90.4	100.0	111.1	123.3	134.1	147.2	154.7	168.2	183.7	205.0
Agriculture	84.2	91.3	100.0	115.1	132.2	139.1	156.2	157.1	171.5	181.2	187.5
Forestry and fishing	72.7	88.6	100.0	111.0	118.7	122.9	136.0	150.5	162.1	226.0	250.1
Mining and quarrying	65.5	108.4	100.0	110.2	114.8	122.9	136.3	145.5	134.9	175.3	216.8
Manufacturing	84.0	90.1	100.0	104.9	113.6	122.2	135.6	137.6	149.8	160.6	176.2
Construction	83.1	88.5	100.0	122.8	127.8	149.4	156.3	180.7	233.5	301.7	437.7
Electricity and water	77.3	84.6	100.0	143.9	161.5	170.7	167.0	164.4	158.0	162.0	181.7
Trade, restaurants & hotels	76.8	85.0	100.0	117.7	132.2	146.6	143.9	152.3	163.2	182.0	200.1
Transport, storage & comm	85.9	94.5	100.0	107.1	123.7	143.5	158.3	174.9	185.3	201.5	239.5
Fin. & business services 1/	80.2	76.3	100.0	110.0	120.9	128.8	139.9	152.5	172.3	184.2	206.1
Ownership of dwellings	88.3	99.4	100.0	108.4	116.2	121.8	133.8	147.6	167.6	178.5	209.5
Domestic services	82.4	93.3	100.0	102.0	120.6	130.1	143.1	147.4	151.8	156.3	161.0
Government services	82.3	91.9	100.0	103.3	110.4	123.9	143.1	154.9	170.3	188.6	204.6
Other services	86.7	94.7	100.0	106.9	113.9	130.8	147.7	162.6	165.3	178.3	185.0
Less imputed bank services and charges	80.2	76.3	100.0	110.0	120.9	126.9	141.8	152.5	201.9	218.1	188.4
Total GDP at Factor Cost 2/	**83.0**	**90.7**	**100.0**	**111.2**	**122.9**	**133.4**	**146.2**	**154.0**	**167.7**	**183.4**	**203.9**
Agriculture, Forestry & Fishing	83.7	91.2	100.0	114.7	131.3	138.1	154.8	156.7	171.2	183.5	190.6
Industry	83.4	90.2	100.0	110.1	117.5	127.7	138.4	144.5	161.9	181.2	215.3
Manufacturing	84.0	90.1	100.0	104.9	113.6	122.2	135.6	137.6	149.8	160.6	176.2
Services	82.4	90.5	100.0	109.1	119.6	132.6	143.9	156.1	167.9	184.2	207.5
Net Indirect Taxes	69.8	83.3	100.0	116.7	124.8	132.6	137.3	146.2	156.0	168.2	182.7
GDP at Market Prices	**80.8**	**89.5**	**100.0**	**111.8**	**123.1**	**133.3**	**145.0**	**152.8**	**165.9**	**181.1**	**200.7**
Imports GNFS	69.1	87.1	100.0	123.1	126.9	147.3	143.0	145.3	157.9	198.0	233.4
Exports GNFS	84.9	93.7	100.0	116.2	135.3	138.1	149.7	136.9	155.7	198.0	238.0
Total Resources	75.4	87.9	100.0	113.4	121.3	135.5	143.3	154.5	166.0	182.0	201.3
Consumption	75.0	88.5	100.0	110.8	118.6	131.9	137.1	147.6	157.9	174.2	189.6
Public	76.8	87.7	100.0	104.3	110.3	124.0	141.4	155.0	173.2	198.1	217.0
Private 1/	74.4	88.5	100.0	112.9	121.1	134.5	136.2	145.5	153.8	167.3	183.9
Gross Investment	76.4	85.9	100.0	124.6	133.0	146.8	171.4	182.9	198.8	213.4	255.4
Fixed Capital Formation	76.9	85.5	100.0	124.6	136.0	147.5	172.6	181.8	197.7	218.1	266.9
Public	80.2	87.2	100.0	120.1	135.8	147.0	169.4	178.6	195.2	213.1	258.4
Private	74.4	84.1	100.0	127.5	136.1	147.8	175.0	183.6	199.5	221.9	274.9
Gross National Product	**81.0**	**89.6**	**100.0**	**111.8**	**123.2**	**133.2**	**145.1**	**152.8**	**165.9**	**181.1**	**200.7**

1/ Implicit deflator

2/ See Technical Note for aggregation scheme

Source: Derived from Statistical Appendix Tables 2.1 to 2.4

Table 2.8: INCREMENTAL CAPITAL - OUTPUT RATIOS

Year	Total Investment	GDP	Incremental Output	ICOR	3-year Moving Average	5-year Moving Average
1977	815.0	2798.1				
1978	1007.4	3045.1	247.0	4.1		
1979	766.2	3160.6	115.4	6.6	5.5	
1980	1031.0	3337.3	176.7	5.8	6.8	7.8
1981	998.9	3463.2	125.9	7.9	9.5	9.9
1982	767.7	3515.4	52.2	14.7	12.4	10.8
1983	665.4	3561.5	46.1	14.4	13.4	10.8
1984	696.2	3624.0	62.5	11.1	10.4	9.8
1985	890.6	3779.8	155.8	5.7	6.5	7.5
1986	746.0	4051.1	271.3	2.7	4.0	5.4
1987	870.6	4291.7	240.5	3.6	3.3	4.1
1988	949.1	4550.2	258.6	3.7	4.0	3.7
1989	992.7	4757.6	207.4	4.8	4.1	
1990 1/	930.2	4999.1	241.5	3.9		

Note: Values are in millions of Kenya pounds at constant 1982 prices.

1/ Provisional.

Source: Staff estimates derived from Statistical Appendix Table 2.4

Table 3.1: BALANCE OF PAYMENTS
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Trade (net)	-369.2	-344.3	-291.7	-181.5	-226.5	-271.8	-230.7	-587.4	-696.4	-1067.0	-1144.6
Exports,f.o.b. 1/	457.5	485.3	509.9	615.8	745.1	773.8	949.4	747.6	902.8	952.7	1153.0
Imports,f.o.b. 2/	826.7	829.7	801.6	797.3	971.7	1045.6	1180.1	1335.0	1599.2	2019.6	2297.6
Services (net)	-14.2	-4.6	20.5	36.4	12.9	35.0	31.4	4.2	-18.8	89.2	166.3
Receipts	315.8	336.7	403.3	405.2	458.2	536.6	597.3	682.8	779.9	1057.4	1401.1
Payments	330.0	341.3	382.8	368.8	445.3	501.7	565.9	678.5	798.6	968.2	1234.8
Transfers (net)	54.7	97.8	72.6	119.6	127.3	157.4	167.9	176.6	307.1	393.5	429.4
Receipts	61.9	112.4	89.6	142.9	154.3	181.2	196.2	211.7	342.1	444.3	493.5
Payments	7.2	14.6	17.0	23.3	27.0	23.8	28.3	35.1	35.1	50.8	64.1
Current Account Balance	-328.7	-251.1	-198.5	-25.5	-86.3	-79.4	-31.5	-406.6	-408.1	-584.2	-549.0
Capital Account (net)	252.8	148.9	62.0	69.2	125.5	-4.6	102.2	307.2	344.6	681.4	373.6
Private long-term	55.4	1.4	6.0	-3.6	6.8	3.8	25.2	37.0	-1.6	70.8	26.3
Government long-term	146.4	116.9	36.2	66.9	99.7	-20.3	3.8	162.3	256.4	389.6	105.1
Parastatals	1.3	23.0	3.8	15.4	-10.5	-25.7	56.3	61.6	39.4	166.9	72.6
Short-term	49.7	7.8	16.1	-9.5	29.6	37.6	16.9	46.3	50.4	54.2	169.6
Errors and omissions	3.7	12.0	28.5	13.7	-6.9	-10.2	2.3	-5.0	-4.2	-16.7	6.4
Overall Balance	-72.2	-90.2	-108.1	57.4	32.3	-94.2	73.0	-104.4	-67.7	80.5	-168.9
Monetary Movements	72.2	90.2	108.1	-57.4	-32.3	94.2	-73.0	104.4	67.7	-80.5	168.9
Change in reserves	17.4	54.3	-16.6	-133.4	-43.0	-18.7	-20.0	124.6	-53.0	-114.2	25.2
Transactions with IMF	54.8	32.2	108.2	77.1	-1.6	105.2	-54.4	-51.3	109.5	20.9	117.0
Changes in other liabilities	..	3.8	16.5	-1.1	12.3	7.7	1.4	31.2	11.2	12.7	26.8

1/ Excluding aircraft and ships' stores but including re-exports

2/ Includes defence imports and excludes cinematographic films,newspapers and periodicals and aircraft leases

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 3.2: BALANCE OF PAYMENTS
(In Millions of US Dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Trade (net)	-975.6	-669.5	-458.4	-263.1	-321.0	-330.8	-284.7	-712.7	-781.8	-1032.5	-991.6
Exports,f.o.b. 1/	1208.9	943.6	801.4	892.7	1055.9	941.8	1171.4	907.1	1013.6	921.9	998.8
Imports,f.o.b. 2/	2184.5	1613.1	1259.8	1155.9	1376.9	1272.6	1456.1	1619.8	1795.4	1954.4	1990.4
Services (net)	-37.5	-8.9	32.2	52.8	18.2	42.6	38.7	5.1	-21.1	86.3	144.1
Receipts	834.5	654.7	633.9	587.4	649.3	653.1	737.0	828.5	875.5	1023.2	1213.7
Payments	872.1	663.5	601.6	534.7	631.1	610.6	698.3	823.3	896.6	936.9	1069.7
Transfers (net)	144.5	190.2	114.1	173.4	180.4	191.6	207.1	214.2	344.7	380.8	372.0
Receipts	163.6	218.5	140.7	207.2	218.6	220.5	242.1	256.8	384.1	430.0	427.5
Payments	19.0	28.4	26.6	33.8	38.2	28.9	35.0	42.6	39.4	49.1	55.5
Current Account Balance	-868.6	-488.2	-312.1	-37.0	-122.4	-96.7	-38.8	-493.3	-458.2	-565.4	-475.5
Capital Account (net)	668.0	289.5	97.4	100.3	177.8	-5.6	126.1	372.7	386.9	659.4	323.7
Private long-term	146.4	2.6	9.4	-5.2	9.6	4.6	31.1	44.9	-1.8	68.5	22.8
Government long-term	386.9	227.2	56.8	97.0	141.2	-24.7	4.6	196.9	287.9	377.0	91.1
Parastatals	3.4	44.6	5.9	22.3	-14.9	-31.2	69.5	74.7	44.2	161.5	62.9
Short-term	131.3	15.1	25.3	-13.8	41.9	45.8	20.9	56.2	56.6	52.4	146.9
Errors and omissions	9.8	23.3	44.9	19.9	-9.8	-12.4	2.8	-6.0	-4.8	-16.1	5.5
Overall Balance	-190.8	-175.4	-169.8	83.2	45.7	-114.7	90.1	-126.6	-76.0	77.9	-146.4
Monetary Movements	190.8	175.4	169.8	-83.2	-45.7	114.7	-90.1	126.6	76.0	-77.9	146.4
Change in reserves	46.0	105.5	-26.0	-193.3	-60.9	-22.8	-24.6	151.1	-59.5	-110.5	21.8
Transactions with IMF	144.8	62.6	170.0	111.7	-2.3	128.0	-67.1	-62.3	123.0	20.2	101.4
Changes in other liabilities	..	7.3	25.9	-1.6	17.4	9.4	1.7	37.8	12.6	12.3	23.2
Memo item:											
Average Exchange Rate (Ksh/$)	7.6	10.3	12.7	13.8	14.1	16.4	16.2	16.5	17.8	20.7	23.1

1/ Excluding aircraft and ships' stores but including re-exports

2/ Includes defence imports and excludes cinematographic films,newspapers and periodicals and aircraft leases.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 3.3: MERCHANDISE EXPORTS - VALUE AND VOLUME

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Domestic Exports	(In Millions of Kenya Pounds)										
Food and live animals	43.4	62.0	54.8	85.2	78.1	67.6	93.7	110.6	135.3	136.0	194.8
Maize, unmilled	0.0	0.1	0.3	12.2	5.9	1.2	14.7	19.5	21.7	15.6	20.7
Pineapples, canned	8.9	12.0	14.5	20.9	25.9	24.4	24.2	25.8	25.1	37.1	43.4
Beverages and tobacco	168.5	171.9	223.8	286.5	395.5	428.7	571.1	364.4	435.5	482.9	549.1
Coffee, unroasted	108.1	109.4	144.6	160.1	203.6	230.6	388.5	194.6	244.5	203.8	221.0
Tea	58.0	61.1	77.6	123.4	189.5	191.7	172.8	163.4	185.3	271.9	314.5
Crude materials, inedible 1/	45.0	40.6	49.7	48.2	49.8	56.4	59.6	66.3	89.8	90.7	121.3
Sisal fibre and tow	8.8	8.8	10.8	12.1	12.6	14.4	10.9	9.9	11.9	16.3	18.9
Mineral fuels	162.7	164.1	149.3	134.5	142.6	127.4	107.8	101.8	119.8	118.6	150.4
Animal & veg. oils & fats	0.6	0.6	0.3	0.9	2.6	1.3	0.6	0.8	1.0	2.3	1.9
Chemicals	22.8	33.1	19.6	27.5	32.5	39.8	43.9	42.8	45.0	58.3	39.6
Manufactured goods 2/	41.3	38.3	46.1	47.7	50.1	60.1	64.0	59.2	83.1	101.8	108.8
Cement	10.2	14.4	19.8	21.8	18.7	16.3	13.4	10.4	10.4	11.0	12.6
Mach. & transp. equipment	3.0	3.1	2.1	2.5	3.2	3.5	6.4	7.0	7.9	9.3	6.0
Other exports	0.4	0.2	0.1	0.1	0.6	0.3	10.9	0.6	0.2	0.1	0.0
Total Domestic Exports	487.6	513.9	545.7	633.1	754.8	785.1	958.0	753.4	917.7	999.8	1232.4
Non-oil Exports	324.9	349.8	396.5	498.6	612.2	657.7	850.1	651.6	797.9	881.2	1081.9
Horticulture	11.4	12.6	13.6	17.5	54.2	53.0	66.1	77.1	94.8	112.1	159.9
Re-exports	28.1	23.4	22.9	19.1	22.1	26.3	28.9	36.5	34.2	19.9	11.7
Food	6.3	6.2	6.3	4.8	11.7	13.8	15.3	16.3	16.4	0.6	0.1
Mach. & transp. equipment	11.7	7.6	9.7	8.3	6.8	7.4	8.0	13.0	10.4	12.7	4.6
Total Exports 3/	**515.7**	**537.2**	**568.6**	**652.2**	**776.9**	**811.4**	**986.9**	**789.9**	**951.9**	**1019.7**	**1244.0**
Exports	(In Millions of US Dollars)										
Maize, unmilled	0.0	0.1	0.5	17.6	8.4	1.5	18.1	23.6	24.3	15.1	17.9
Other food 4/	116.2	121.5	86.1	107.2	105.9	82.4	98.2	111.5	128.7	118.8	152.5
Coffee	285.7	212.7	227.2	232.1	288.5	280.7	479.3	236.1	274.6	197.2	191.4
Tea	153.3	118.8	122.0	178.9	268.5	233.3	213.2	198.2	208.0	263.1	272.5
Other beverages and tobacco	6.2	2.7	2.6	4.3	3.3	7.8	12.1	7.8	6.4	6.9	11.7
Petroleum and other energy	430.0	319.1	234.6	194.9	202.0	155.1	133.1	123.6	134.5	114.8	130.3
Horticulture	30.0	24.5	21.4	25.4	76.8	64.5	81.6	93.6	106.4	108.5	138.5
Chemicals	60.2	64.3	30.8	39.9	46.0	48.5	54.1	52.0	50.6	56.4	34.3
Manufactured goods 2/	109.2	74.6	72.5	69.1	71.0	73.1	79.0	71.8	93.3	98.5	94.3
Other merchandise goods 5/	172.0	106.3	96.1	75.9	30.3	40.8	49.0	40.3	41.9	7.6	34.2
Total Exports	**1362.8**	**1044.6**	**893.7**	**945.5**	**1100.9**	**987.6**	**1217.7**	**958.4**	**1068.7**	**986.6**	**1077.7**
Volume of Selected Exports	(In Metric Tons, unless otherwise specified)										
Coffee	80,086	86,171	100,995	90,457	96,914	104,679	126,498	99,977	90,831	98,041	114,384
Tea	74,799	75,350	80,413	99,938	91,198	126,303	116,456	134,627	138,201	163,279	166,405
Petroleum prod. & ot.energy 6/	1,825	1,411	1,000	765	795	731	834	684	828	646	638
Sisal	759	36,397	40,445	38,942	39,120	40,024	31,696	27,913	30,937	32,856	30,125
Cement	530,393	668,037	737,422	736,318	602,993	485,839	495,623	353,249	346,640	313,884	329,539
Maize, unmilled	20	991	949	122,514	47,434	17,683	227,951	247,688	167,237	110,241	159,883
Horticulture	22,300	23,300	24,600	28,900	103,700	84,500	119,177	146,602	161,754	134,178	188,825

1/ Excluding fuels

2/ Excluding chemicals and processed foods.

3/ Including aircraft and ships' stores.

4/ Including animal and vegetable oils and fats

5/ Including re-exports.

6/ In million litres.

Source: Central Bureau of Statistics, Statistical Abstract and Economic Survey various issues

Table 3.4: VALUE OF EXPORTS BY DESTINATION

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
					(In Millions of Kenya Pounds)						
European Economic Community	175.1	177.9	197.2	254.8	348.3	346.2	440.5	334.7	453.3	447.4	551.4
United Kingdom	58.9	59.8	72.3	96.3	142.3	135.6	143.1	133.1	186.9	198.7	218.3
Other Western Europe	23.6	18.9	21.5	24.9	33.7	35.5	50.5	25.2	43.6	42.0	52.8
Eastern Europe	4.9	7.0	8.1	5.5	6.8	13.7	10.7	8.9	6.0	20.1	19.8
USA	16.9	19.5	35.2	39.1	38.8	54.1	85.8	42.6	46.2	49.4	42.6
Canada	5.1	4.0	4.7	5.1	5.9	5.4	9.2	6.3	8.6	10.0	10.9
African Countries	141.0	157.3	160.1	195.7	202.8	206.9	211.4	219.7	243.9	227.1	269.8
Uganda	66.4	52.6	58.5	71.5	67.6	70.1	72.6	69.7	83.7	65.9	64.0
Tanzania	5.2	6.3	6.8	6.3	9.7	19.2	27.3	19.6	24.3	27.5	32.3
Burundi	7.3	12.9	13.3	14.7	14.9	8.8	8.9	11.8	-	-	-
Sudan	9.9	12.4	18.9	24.6	21.0	30.1	21.5	22.2	-	-	-
Rwanda	12.6	21.6	21.9	24.8	26.6	25.3	25.2	23.8	-	-	-
Other 1/	39.5	51.5	40.7	53.9	62.9	53.5	55.9	72.7	135.9	133.7	173.5
Middle East	19.4	25.4	28.1	19.8	25.1	26.4	42.3	30.2	23.6	29.3	48.3
Far East and Australia	68.0	72.3	53.9	65.3	80.1	84.6	98.2	79.8	76.9	126.7	155.7
Japan	3.8	3.7	3.5	4.6	6.1	6.2	8.6	7.0	13.7	12.2	15.1
All other countries	3.5	3.0	1.1	5.6	3.6	0.9	0.9	0.2	0.7	0.7	1.8
Sub total	457.5	485.3	509.9	615.8	745.1	773.8	949.4	747.6	902.8	952.7	1153.0
Aircraft and ships stores	58.2	51.9	58.8	36.4	31.8	37.6	37.5	42.3	49.0	67.1	91.0
Total exports	515.7	537.2	568.6	652.2	776.9	811.4	986.9	789.9	951.9	1019.7	1244.0
Domestic	487.6	513.9	545.7	633.1	754.8	785.1	958.0	753.4	917.7	999.8	1232.4
Reexports	28.1	23.4	22.9	19.1	22.1	26.3	28.9	36.5	34.2	19.9	11.7
					(In Millions of US Dollars)						
Memo Items:											
Total exports	1362.8	1044.6	893.7	945.5	1100.9	987.6	1217.7	958.4	1068.7	986.8	1077.7
Domestic	1288.6	999.1	857.8	917.8	1069.6	955.6	1182.0	914.2	1030.3	967.6	1067.6
Re-exports	74.1	45.4	36.0	27.7	31.3	32.0	35.6	44.2	38.4	19.3	10.1

1/ Data for 1988 and 1989 includes Burundi,Sudan and Rwanda.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 3.5: EXPORTS BY STANDARD INTERNATIONAL TRADE CLASSIFICATION - QUANTUM,PRICE AND VALUE INDICES
(1982 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Quantum Indices											
Food and live animals	80.0	89.0	100.0	105.0	102.0	114.0	126.0	125.0	120.0	133.0	154.0
Beverages and tobacco	135.0	81.0	100.0	155.0	105.0	231.0	340.0	235.0	180.0	186.0	275.0
Crude materials(inedible) 1/	117.0	116.0	100.0	101.0	110.0	116.0	119.0	121.0	153.0	113.0	111.0
Mineral fuels	185.0	140.0	100.0	85.0	84.0	69.0	89.0	78.0	96.0	76.0	75.0
Animal & veg. oils & fats	178.0	211.0	100.0	156.0	460.0	201.0	82.0	116.0	150.0	250.0	146.0
Chemicals	127.0	125.0	100.0	92.0	94.0	106.0	95.0	99.0	88.0	108.0	100.0
Manufactured goods 2/	111.0	89.0	100.0	83.0	78.0	77.0	99.0	98.0	130.0	133.0	170.0
Mach. & transp. equipment	154.0	102.0	100.0	51.0	38.0	44.0	38.0	84.0	53.0	59.0	25.0
Misc. manufactured articles	120.0	108.0	100.0	76.0	82.0	104.0	144.0	107.0	122.0	130.0	181.0
Total Exports	**109.0**	**103.0**	**100.0**	**96.0**	**95.0**	**99.0**	**114.0**	**110.0**	**116.0**	**115.0**	**122.0**
Non-oil Exports	92.0	94.0	100.0	100.0	98.0	108.0	121.0	119.0	121.0	127.0	143.0
Coffee	79.3	85.3	100.0	89.6	96.0	103.6	125.3	99.0	89.9	97.1	113.3
Tea	93.0	93.7	100.0	124.3	113.4	157.1	144.8	167.4	171.9	203.1	206.9
Price Indices											
Food and live animals	95.0	95.0	100.0	126.0	167.0	155.0	188.0	137.0	171.0	162.0	167.0
Beverages and tobacco	90.0	98.0	100.0	108.0	132.0	146.0	148.0	146.0	185.0	209.0	256.0
Crude materials(inedible) 1/	88.0	96.0	100.0	107.0	107.0	117.0	121.0	128.0	138.0	198.0	213.0
Mineral fuels	58.0	81.0	100.0	107.0	112.0	114.0	81.0	88.0	84.0	104.0	136.0
Animal & veg. oils & fats	67.0	80.0	100.0	115.0	127.0	142.0	159.0	139.0	137.0	205.0	284.0
Chemicals	72.0	76.0	100.0	120.0	125.0	134.0	167.0	162.0	161.0	178.0	212.0
Manufactured goods 2/	80.0	91.0	100.0	123.0	128.0	154.0	115.0	117.0	129.0	154.0	155.0
Mach. & transp. equipment	80.0	87.0	100.0	179.0	223.0	208.0	322.0	202.0	293.0	314.0	365.0
Misc. manufactured articles	96.0	76.0	100.0	125.0	170.0	169.0	174.0	177.0	184.0	200.0	224.0
Total Exports	**83.0**	**91.0**	**100.0**	**120.0**	**144.0**	**142.0**	**152.0**	**126.0**	**145.0**	**156.0**	**169.0**
Non-oil Exports	91.0	93.0	100.0	124.0	154.0	151.0	174.0	138.0	165.0	171.0	178.0
Coffee	94.3	88.7	100.0	123.6	146.8	153.9	214.5	135.9	188.2	145.3	134.9
Tea	80.4	84.0	100.0	128.0	215.3	157.3	153.7	125.8	138.9	172.5	195.9
Value Indices											
Total Exports	**90.7**	**94.5**	**100.0**	**114.7**	**136.6**	**142.7**	**173.5**	**138.9**	**167.4**	**179.3**	**218.8**
Non-oil Exports	82.0	88.2	100.0	125.8	154.4	165.9	214.4	164.3	201.3	222.3	272.9
Coffee	74.8	75.7	100.0	110.7	140.9	159.5	268.7	134.6	169.2	141.0	152.9
Tea	74.8	78.7	100.0	159.1	244.2	247.0	222.7	210.5	238.8	350.4	405.3

1/ Excluding fuels

2/ Excluding chemicals and processed food.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 3.6: MERCHANDISE IMPORTS - VALUE

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
	(In Millions of Kenya Pounds)										
Food and live animals	47.5	30.2	40.3	38.2	95.9	65.1	74.7	57.1	41.4	74.0	154.6
Beverages and tobacco	3.8	2.7	2.8	2.1	1.9	2.9	2.8	4.1	4.8	5.4	6.7
Crude materials (inedible) 1/	15.4	18.9	17.2	26.3	29.9	31.2	32.0	39.4	50.2	59.3	64.5
Mineral fuels	325.1	348.0	334.5	333.5	335.8	379.1	243.4	287.1	258.2	355.4	500.7
Animal & veg. oils & fats	22.6	24.2	26.2	45.9	35.7	47.8	46.5	41.6	63.5	71.2	70.0
Chemicals	101.8	103.0	97.6	126.6	133.1	187.2	220.2	255.4	315.5	353.5	339.8
Manufactured goods 2/	130.0	105.0	105.2	103.8	133.8	150.8	168.6	202.3	284.8	351.6	372.2
Machinery & transp. equipment	269.3	251.3	243.3	204.4	294.2	293.3	502.7	491.1	678.7	879.9	946.2
Misc. manufactured articles	43.4	47.6	32.2	24.7	35.6	37.6	46.3	52.3	66.8	83.5	87.7
Other misc. imports	0.0	1.5	1.0	0.0	1.3	1.2	0.7	0.4	1.3	5.3	3.2
Total Imports,c.i.f.	**959.0**	**932.4**	**900.3**	**905.6**	**1097.2**	**1196.0**	**1337.9**	**1430.9**	**1765.1**	**2239.0**	**2545.6**
Non-oil Imports	633.9	584.4	565.8	572.1	761.4	816.9	1094.5	1143.7	1507.0	1883.6	2044.9
	(In Millions of US Dollars)										
Food,bev. and tobacco 3/	195.2	110.9	109.0	125.0	189.2	140.9	152.9	124.7	123.2	145.8	200.4
Petroleum and other energy	859.2	676.0	525.8	483.5	475.9	461.4	300.4	348.4	289.8	343.9	433.7
Manufactured goods 2/	458.2	296.8	215.9	186.3	240.0	229.3	265.2	309.0	394.7	421.0	398.4
Other misc. imports	0.1	2.9	1.6	0.0	1.8	1.4	0.8	0.5	1.4	5.1	2.8
Intermediate goods	309.7	237.3	180.4	221.8	231.0	265.7	311.2	357.7	410.6	399.5	350.3
Primary	40.7	36.8	27.0	38.2	42.4	37.9	39.5	47.8	56.4	57.3	55.9
Manufactured 4/	269.0	200.3	153.4	183.6	188.6	227.8	271.7	309.9	354.3	342.1	294.4
Capital goods	711.7	488.6	[illegible]	296.3	416.9	357.0	620.3	595.9	762.0	851.5	819.7
Total	**2534.3**	**1813.0**	**1415.0**	**1312.9**	**1554.8**	[illegible]	**1650.8**	**1736.2**	**1981.7**	**2166.7**	[illegible]
Total (incl. Losses)	2534.3	1813.0	1415.0	1312.9	[illegible]	[illegible]	1787.6	1736.2	2013.7	2273.2	2222.8

1/ Excluding fuels

2/ Excluding chemicals and processed food

3/ Including animal and vegetable oils and fats.

4/ Chemicals.

Source: Central Bureau of Statistics, Statistical Abstract, various [illegible]

Table 3.7: VALUE OF IMPORTS BY ORIGIN

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
					(In Millions of Kenya Pounds)						
European Economic Community	354.3	329.5	302.7	291.1	398.6	409.2	647.8	621.7	842.2	1012.9	1144.4
United Kingdom	162.4	156.9	135.8	121.6	152.3	164.3	208.9	244.1	333.7	351.0	466.7
Other Western Europe	39.1	44.9	36.1	55.2	39.7	63.4	58.5	73.2	98.2	121.1	138.3
Eastern Europe	6.6	6.2	5.4	4.1	5.8	8.2	18.8	10.7	18.8	25.6	18.0
USA	61.0	63.7	54.4	56.6	51.1	66.2	65.3	101.1	88.3	164.2	114.4
Canada	5.1	11.7	13.4	7.6	9.1	11.2	6.6	10.9	8.8	5.6	15.7
Africa	29.5	17.4	62.8	22.2	22.0	28.1	36.9	43.2	52.8	73.2	75.7
Middle East	302.2	322.0	287.3	284.1	308.6	363.2	228.0	279.8	253.3	349.7	524.1
Saudi Arabia	168.1	183.3	134.3	68.7	85.1	49.5	39.0	16.5	15.7	42.5	123.4
United Arab Emirates	24.8	86.3	84.1	119.8	123.6	223.5	127.3	228.9	201.4	253.3	339.2
Other	109.2	52.5	69.0	95.6	99.9	90.3	61.8	34.4	36.2	53.9	61.5
Far East and Australia	151.1	133.5	132.5	178.4	258.6	241.1	266.7	280.4	396.1	477.8	464.1
Japan	88.4	73.5	70.1	85.8	111.8	120.0	146.3	155.7	216.6	245.5	228.5
All other countries	10.2	3.5	5.7	6.5	3.8	5.5	9.4	9.8	6.6	8.9	51.0
Total	959.0	932.4	900.3	905.6	1097.2	1196.0	1337.9	1430.9	1765.1	2239.0	2545.6
Commercial	889.2	849.4	843.3	852.6	1050.2	1154.0	1276.0	1346.3	1654.4	2097.3	2397.6
Government	69.9	83.0	57.0	53.1	47.0	42.0	61.9	84.6	110.7	141.7	148.1
					(In Millions of US Dollars)						
Memo Items:											
Imports,c.i.f.	2534.3	1813.0	1415.0	1312.9	1554.8	1455.7	1650.8	1736.2	1981.7	2166.7	2205.2
Commercial	2349.7	1651.6	1325.5	1236.0	1488.2	1404.6	1574.5	1633.6	1857.5	2029.6	2077.0
Government	184.6	161.3	89.5	76.9	66.6	51.1	76.3	102.6	124.3	137.1	128.3
Leases	0.0	0.0	0.0	0.0	0.0	0.0	136.8	0.0	32.0	106.4	17.6

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 3.8: IMPORTS BY STANDARD INTERNATIONAL TRADE CLASSIFICATION - QUANTUM,PRICE AND VALUE INDICES
(1982 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Quantum Indices											
Food and live animals	122.0	63.0	100.0	85.0	206.0	158.0	115.0	113.0	69.0	107.0	217.0
Beverages and tobacco	191.0	117.0	100.0	72.0	46.0	53.0	45.0	54.0	63.0	59.0	62.0
Crude materials(inedible) 1/	97.0	123.0	100.0	138.0	134.0	107.0	129.0	158.0	178.0	157.0	158.0
Mineral fuels	130.0	107.0	100.0	92.0	90.0	91.0	94.0	100.0	98.0	101.0	104.0
Animal & veg. oils & fats	68.0	83.0	100.0	72.0	63.0	86.0	112.0	117.0	165.0	141.0	150.0
Chemicals	135.0	119.0	100.0	85.0	87.0	74.0	100.0	122.0	126.0	118.0	97.0
Manufactured goods 2/	190.0	119.0	100.0	72.0	91.0	82.0	97.0	105.0	125.0	127.0	108.0
Machinery & transp.equipment	160.0	124.0	100.0	60.0	84.0	77.0	104.0	102.0	134.0	152.0	135.0
Misc. manufactured articles	216.0	171.0	100.0	73.0	103.0	83.0	105.0	107.0	107.0	128.0	98.0
Total Imports	**151.0**	**118.0**	**100.0**	**79.0**	**93.0**	**86.0**	**101.0**	**106.0**	**119.0**	**125.0**	**119.0**
Non-oil Imports	153.0	117.0	100.0	72.0	94.0	83.0	103.0	109.0	128.0	135.0	126.0
Price Indices											
Food and live animals	97.0	120.0	100.0	111.0	116.0	102.0	161.0	126.0	150.0	171.0	176.0
Beverages and tobacco	72.0	81.0	100.0	104.0	141.0	190.0	218.0	262.0	269.0	322.0	381.0
Crude materials(inedible) 1/	94.0	88.0	100.0	111.0	130.0	169.0	155.0	145.0	164.0	220.0	237.0
Mineral fuels	59.0	85.0	100.0	108.0	112.0	127.0	77.0	86.0	79.0	106.0	144.0
Animal & veg. oils & fats	125.0	109.0	100.0	245.0	216.0	213.0	159.0	136.0	147.0	192.0	179.0
Chemicals	77.0	89.0	100.0	153.0	156.0	258.0	227.0	214.0	256.0	308.0	357.0
Manufactured goods 2/	65.0	83.0	100.0	137.0	140.0	175.0	165.0	184.0	216.0	262.0	329.0
Machinery & transp.equipment	71.0	84.0	100.0	139.0	145.0	156.0	198.0	198.0	208.0	239.0	289.0
Misc. manufactured articles	64.0	86.0	100.0	105.0	108.0	141.0	137.0	152.0	193.0	202.0	278.0
Total Imports	**68.0**	**87.0**	**100.0**	**128.0**	**131.0**	**155.0**	**147.0**	**149.0**	**164.0**	**198.0**	**238.0**
Non-oil Imports	75.0	89.0	100.0	140.0	143.0	173.0	187.0	185.0	209.0	246.0	287.0
Value Indices											
Total Imports	**106.5**	**103.6**	**100.0**	**100.6**	**121.9**	**132.8**	**148.6**	**158.9**	**196.1**	**248.7**	**282.8**
Non-oil Imports	112.0	103.3	100.0	101.1	134.6	144.4	193.4	202.1	266.3	332.9	361.4

1/ Excluding fuels.

2/ Excluding chemicals and processed food.

Source: Central Bureau of Statistics, Economic Survey, various issues

Table 3.9: EXTERNAL TERMS OF TRADE INDICES
(1982 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Merchandise Goods											
Export price index	83.0	91.0	100.0	120.0	144.0	142.0	152.0	126.0	145.0	156.0	169.0
Import price index	68.0	87.0	100.0	128.0	131.0	155.0	147.0	149.0	164.0	198.0	238.0
External terms of trade	122.1	104.6	100.0	93.8	109.9	91.6	103.4	84.6	88.4	78.8	71.0
Non-oil Items											
Export price index	91.0	93.0	100.0	124.0	154.0	151.0	174.0	138.0	165.0	171.0	178.0
Import price index	75.0	89.0	100.0	140.0	143.0	173.0	187.0	185.0	209.0	246.0	287.0
External terms of trade	121.3	104.5	100.0	88.6	107.7	87.3	93.0	74.6	78.9	69.5	62.0

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 3.10: SERVICES TRANSACTIONS AND TRANSFERS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
(In Millions of Kenya Pounds)											
Service Receipts	**315.8**	**336.7**	**403.3**	**405.2**	**458.2**	**536.6**	**597.3**	**682.8**	779.9	**1057.4**	**1401.1**
Nonfactor Service Receipts	295.8	311.6	367.7	380.5	425.4	501.0	567.3	652.0	762.1	1045.1	1389.2
Freight and insurance	25.6	19.3	29.1	36.5	39.5	33.9	30.0	31.4	40.7	52.3	58.4
Other transportation	128.8	105.3	116.3	99.8	106.8	125.1	131.7	151.1	170.1	217.5	322.8
Foreign travel	88.5	96.2	122.9	130.0	151.7	204.4	248.0	292.1	349.3	432.1	533.3
Other	52.9	90.8	99.5	114.2	127.4	137.7	157.6	177.5	202.0	343.2	474.7
Factor Service Receipts 1/	20.0	25.1	35.6	24.7	32.8	35.6	30.0	30.8	17.8	12.3	11.8
Investment income	16.1	16.9	20.0	24.6	32.7	35.5	29.8	30.6	17.7	12.1	5.3
Other	3.9	8.2	15.6	0.2	0.2	0.2	0.2	0.2	0.1	0.2	6.5
Service Payments	**330.0**	**341.3**	**382.8**	**368.8**	**445.3**	**501.7**	**565.9**	**678.5**	**798.6**	**968.2**	**1234.8**
Nonfactor Service Payments	226.0	219.1	207.9	216.9	260.4	282.8	326.3	399.1	455.1	592.8	771.8
Freight and insurance	137.7	128.7	125.0	96.0	151.6	169.5	189.2	213.7	256.0	329.4	367.8
Other transportation	18.3	23.8	24.9	30.1	32.9	33.2	39.5	37.8	47.7	75.7	122.1
Foreign travel	8.6	9.1	7.4	8.3	10.2	12.4	18.2	20.0	20.4	27.6	43.9
Other	61.4	57.6	50.6	82.6	65.7	67.7	79.4	127.6	131.0	160.2	237.9
Factor Service Payments 1/	104.0	122.2	174.9	151.9	185.0	218.9	239.6	279.4	343.5	375.4	463.0
Investment income	91.6	106.4	109.7	139.9	171.8	204.2	222.9	259.9	320.3	347.8	428.4
Other	12.4	15.8	65.3	12.0	13.2	14.7	16.8	19.5	23.2	27.6	34.6
Services (net)	-14.2	-4.6	20.5	36.4	12.9	35.0	31.4	4.2	-18.8	89.2	166.3
Nonfactor	69.8	92.5	159.9	163.6	165.0	218.2	241.0	252.9	307.0	452.3	617.5
Factor	-84.0	-97.1	-139.4	-127.2	-152.2	-183.2	-209.6	-248.6	-325.7	-363.1	-451.2
[illegible]	**61.9**	**112.4**	[illegible]	[illegible]	**154.3**	**181.2**	**196.2**	**211.7**	**342.1**	**444.3**	**493.5**
Private	16.3	56.9	60.0	62.5	65.7	87.5	72.3	90.7	113.1	149.9	250.5
Government	45.6	55.5	29.6	80.4	88.6	93.7	123.9	121.0	229.0	294.4	243.0
Transfer Payments	**7.2**	**14.6**	**17.0**	**23.3**	**27.0**	**23.8**	**28.3**	**35.1**	**35.1**	**50.8**	**64.1**
Private	6.2	12.3	14.5	20.3	22.4	20.6	25.1	31.4	34.1	45.5	58.1
Government	1.0	2.3	2.5	3.0	4.6	3.2	3.3	3.7	1.0	5.3	6.0
Transfers (net)	54.7	97.8	72.6	119.6	127.3	157.4	167.9	176.6	307.1	393.5	429.4
Private	10.1	44.6	45.5	42.2	43.3	67.0	47.2	59.3	79.0	104.4	192.4
Government	44.6	53.2	27.1	77.4	84.0	90.5	120.7	117.3	228.1	289.1	237.0
(In Millions of US Dollars)											
Memo Items:											
Services (net)	-37.5	-8.9	32.2	52.8	18.2	42.6	38.7	5.1	-21.1	86.3	144.1
Nonfactor	184.5	179.9	251.3	237.2	233.8	265.6	297.4	306.8	344.6	437.7	534.9
Factor	-222.0	-188.8	-219.0	-184.4	-215.6	-223.0	-258.6	-301.7	-365.7	-351.3	-390.9
Transfers (net)	144.5	190.2	114.1	173.4	180.4	191.6	207.1	214.2	344.7	380.8	372.0
Private	26.7	86.7	71.5	61.2	61.4	81.5	58.2	71.9	88.7	101.1	166.7
Government	117.9	103.4	42.6	112.2	119.0	110.1	148.9	142.3	256.0	279.8	205.3

1/ Mainly investment income; also includes labor income.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 3.11: FOREIGN EXCHANGE RESERVES AT YEAR'S END

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	(In Millions of Kenya Pounds)										
Assets											
Central Bank	186.1	124.8	144.9	273.2	313.5	328.9	343.0	219.6	259.1	335.3	300.8
Central Government	1.1	0.6	0.1	0.2	0.3	0.6	0.6	2.4	3.6	12.2	9.3
Reserve Tranche - IMF	--	0.1	1.1	6.9	8.3	10.9	12.0	12.8	15.3	17.5	20.8
Commercial Banks	27.8	35.3	31.4	30.5	31.6	32.0	36.9	32.9	42.9	70.1	82.7
Gross Reserves	215.0	160.8	177.4	310.7	353.7	372.3	392.4	267.7	320.8	435.0	413.5
Change in Reserves 1/	48.9	54.2	-16.6	-133.4	-43.0	-18.6	-20.1	124.6	-53.1	-114.1	21.4
Liabilities											
Use of IMF Credit	79.3	110.1	218.3	295.3	294.1	400.1	345.7	291.7	401.2	422.1	539.1
SDR Allocation/Valuation	14.5	22.1	26.0	26.7	27.4	33.0	36.2	38.9	46.1	52.9	63.0
Other External Banks	2.2	2.3	9.0	3.8	6.1	8.1	4.3	4.7	4.2	4.0	24.7
Commercial Banks	26.0	22.0	28.1	31.3	40.7	40.7	42.7	73.4	77.9	84.1	84.9
Total Liabilities	121.9	156.5	281.3	357.1	368.1	481.9	428.8	408.7	529.4	563.0	711.6
Net Position	93.0	4.3	-103.9	-46.4	-14.4	-109.6	-36.4	-140.9	-208.5	-128.1	-298.1
Change in Net For. Assets 1/	75.2	88.8	108.2	-57.5	-31.9	95.2	-73.1	104.5	67.6	-80.5	170.1
Memo Items: 2/											
Reserves/Imp. GNFS (months)	2.5	1.8	2.1	3.7	3.4	3.4	3.1	1.9	1.9	2.0	1.6
Gross Reserves	568.0	312.7	278.7	450.4	448.3	457.3	489.1	324.2	345.0	402.7	343.4
Change in Reserves	129.4	105.3	-26.0	-193.3	-54.5	-22.8	-25.0	150.9	-57.1	-105.7	17.8
Total Liabilities	322.1	304.3	442.0	517.6	466.5	591.8	534.6	494.9	569.2	521.3	590.9
Net Position	245.9	8.4	-163.3	-67.2	-18.2	-134.5	-45.4	-170.7	-224.2	-118.6	-247.6
Change in Net For. Assets	198.7	172.6	170.1	-83.4	-40.5	116.9	-91.1	126.5	72.7	-74.5	141.2

1/ Minus (-) denotes an accumulation

2/ In millions of US dollars unless otherwise specified (end year exchange rates are used).

Source: Central Bank of Kenya, Research Department; and Central Bureau of Statistics

Table 4.1 EXTERNAL LONG-TERM PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED

(As of December 31, 1990, In Millions of US Dollars)

Creditor Type and Country	Disbursed	Undisbursed	Total
Suppliers' Credits	113.6	22.0	140.6
Belgium	47.0	11 3	58.3
Finland	0 8	6.8	7.5
Germany	0.1	-	0.1
Japan	10 9	-	10.9
Netherlands	8 0	-	8.0
United Kingdom	51.8	3.9	55.7
United States	0.1	-	0.1
Financial Institutions	424.9	158.3	583.2
Belgium	3.2	10.0	13 2
Canada	24 9	-	24.9
France	176.0	61.7	237.7
Multiple lenders	72.7	-	72.7
Netherlands	16.5	-	16.5
United Kingdom	131.6	86.6	218.2
Multilateral Loans	2472.1	771.3	3243.4
African Dev. Bank	108.1	100.6	208.7
African Dev. Fund	81.0	108.4	189.4
BADEA/ABEDA	16.3	-	16.3
EEC	42.0	14.9	57.0
European Dev. Fund	47 1	-	47.1
European Invest. Bank	79.8	42.9	122.8
IBRD	871.5	5.2	876.7
IDA	1184.1	472.8	1656.8
IFC	9 4	-	9.4
IFAD	11.9	18.6	30.6
OPEC Special Fund	18.6	7.9	26.5
SAFA (Sp. Ar Fund Af.)	2.2	-	2.2
Bilateral Loans	1431.6	729.8	2161.4
Austria	16.5	0.8	17.4
Belgium	1.0	-	1.0
Canada	57.0	88.4	145.4
China	22.9	2.9	25.9
Denmsrk	67.0	9.5	76.5
Finland	5 2	-	5.2
France	316.4	52.7	369.2
Germany, Fed. Rep.	66.6	90.1	156.7
India	1.9	0.6	2.5
Italy	85.1	127.7	212.8
Japan	265.4	254.4	519.8
Netherlands	159 6	0.0	159.6
Saudi Arabia	61.2	59.6	120.9
Sweden	43.9	-	43.9
Switzerland	9.0	-	9.0
United Kingdom	68.2	6.2	74.4
United States	175.1	36.7	211.9
Yugoslavia	9.6	-	9.6
Export Credits	362.6	3.1	365.7
Austria	14 0	-	14.0
France	214 5	3.1	217.6
Switzerland	68.5	-	68.5
United Kingdom	41.8	-	41.8
United States	23.9	-	23 9
Totat External Public Debt	4809.8	1684.5	6494.4

Note. Data excludes IMF

Source IBRD.Debtor Reporting System.

Table 4.2: EXTERNAL PUBLIC DEBT DOD AND COMMITMENTS BY CREDITOR TYPE FOR 1980-90
(In Millions of US Dollars)

Creditor Type	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Debt Outstanding and Disbursed	**2074.1**	**2209.6**	**2352.2**	**2389.0**	**2337.4**	**2682.4**	**3466.3**	**4322.5**	**4166.1**	**4117.5**	**4809.8**
Suppliers' credits	188.2	140.6	104.0	70.1	50.5	37.7	27.0	33.6	37.9	71.0	118.6
Financial institutions	330.3	384.1	342.9	294.4	232.0	169.4	266.4	276.7	240.0	257.4	424.9
Bonds	10.1	8.1	-	-	-	-	-	-	-	-	-
Multilateral loans	632.3	714.3	883.7	993.3	1093.0	1336.3	1615.2	1971.2	1919.3	2126.5	2472.1
IBRD	308.3	351.4	423.6	506.4	582.9	750.9	931.2	1128.3	973.0	889.0	871.5
IDA	220.0	234.1	318.7	333.9	363.1	408.5	450.9	553.1	672.7	893.1	1184.1
Other	104.0	128.8	141.5	153.0	146.9	177.0	233.1	289.8	273.5	344.4	416.5
Bilateral loans	622.8	708.0	776.4	825.4	851.9	1025.1	1312.6	1683.4	1648.1	1328.1	1431.6
Export credits	290.4	254.5	245.2	205.8	110.1	113.9	245.1	357.6	320.8	334.4	362.6
Commitments	**525.1**	**462.7**	**611.9**	**297.6**	**535.6**	**412.5**	**462.4**	**455.6**	**567.0**	[illegible]	[illegible]
Suppliers' credits	4.0	5.9	-	-	12.6	-	15.8	33.4	52.6	25.2	10.7
Financial institutions	-	129.7	16.5	5.5	13.2	159.8	41.9	70.1	75.4	100.6	145.6
Bonds	-	-	-	-	-	-	-	-	-	-	-
Multilateral loans	243.9	192.0	270.9	177.7	218.0	31.3	148.3	185.0	206.5	529.6	205.8
IBRD	70.0	83.0	131.1	19.0	145.0	-	32.6	-	-	-	-
IDA	122.0	46.7	113.1	56.7	62.4	6.3	54.3	127.7	141.5	392.5	201.9
Other	51.9	62.3	26.7	102.0	10.5	25.0	61.4	57.3	64.9	137.1	3.9
Bilateral loans	277.2	109.5	281.2	101.8	226.2	217.6	109.8	143.1	201.4	206.7	220.0
Export credits	-	25.7	43.3	12.6	65.6	3.9	146.6	23.9	31.1	-	-
Memo Items:											
Average terms on new commitments:											
Interest rate (%)	3.5	8.9	5.5	4.6	6.0	5.3	5.2	3.7	3.8	2.9	4.4
Concessional	1.5	1.8	1.4	1.7	2.2	2.0	1.2	1.4	1.5	1.3	0.9
Non-concessional	8.1	9.2	10.2	10.3	10.1	6.8	6.7	4.6	8.3	7.7	8.5
Private financing	8.0	14.9	9.5	9.9	7.6	9.3	7.4	8.8	7.9	8.1	7.6
Maturity (years)	31.3	20.1	28.8	30.8	23.5	19.7	20.2	28.9	21.2	28.4	22.6
Grace period (years)	7.8	5.3	6.8	6.8	5.6	6.4	5.4	7.3	6.7	7.9	5.6
Grant element (%)	52.8	14.6	36.3	44.1	28.1	34.8	31.6	49.6	46.5	57.1	41.6

Note: Data excludes IMF.

Source IBRD,Debtor Reporting System

Table 4.3: EXTERNAL PUBLIC DEBT DISBURSEMENTS AND SERVICE PAYMENTS BY CREDITOR TYPE FOR 1980-90
(In Millions of US Dollars)

Creditor Type	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Disbursements	**516.1**	**446.0**	**418.0**	**348.3**	**375.1**	**242.2**	**616.0**	**541.0**	**401.6**	**604.5**	**675.6**
Suppliers' credits	25.4	5.8	-	1.6	8.5	4.0	0.4	18.2	17.0	33.9	52.1
Financial institutions	184.2	116.2	25.3	22.3	18.1	14.3	141.2	43.9	33.8	75.0	179.7
Bonds	-	-	-	-	-	-	-	-	-	-	-
Multilateral loans	157.9	116.4	200.8	155.6	183.2	132.8	127.4	161.3	180.9	328.3	314.0
IBRD	45.2	61.5	87.8	100.0	129.6	77.5	51.0	39.5	25.3	17.6	3.5
IDA	71.6	14.8	85.4	19.8	35.6	35.0	29.8	73.3	135.5	226.9	234.2
Other	41.2	40.1	27.6	35.8	17.9	20.3	46.6	48.6	20.0	83.8	76.3
Bilateral loans	85.9	174.2	136.0	145.5	155.8	86.6	205.9	231.2	129.9	135.3	124.2
Export credits	62.7	33.5	55.9	23.3	9.4	4.5	141.0	86.5	40.0	32.0	5.7
Amortization	**113.1**	**153.3**	**178.0**	**184.4**	**194.8**	**231.6**	**215.4**	**233.4**	**244.8**	**316.6**	**282.0**
Suppliers' credits	24.6	25.8	23.3	26.2	21.9	23.7	15.6	15.6	7.5	1.8	15.0
Financial institutions	17.4	58.7	64.1	65.7	75.5	86.8	52.1	43.5	58.8	56.4	43.6
Bonds	-	-	7.4	-	-	-	-	-	-	-	-
Multilateral loans	13.1	16.2	21.5	27.0	33.2	46.9	58.5	83.8	97.9	97.0	136.9
IBRD	10.6	11.7	15.6	17.2	21.7	33.6	42.8	60.4	77.2	75.9	95.1
IDA	0.5	0.7	0.8	0.9	1.1	1.5	1.8	2.2	2.8	3.3	4.1
Other	2.0	3.8	5.1	8.8	10.3	11.8	13.8	21.2	17.9	17.8	37.7
Bilateral loans	25.7	28.9	28.4	34.8	39.2	48.5	51.5	52.7	48.2	140.7	61.5
Export credits	32.3	23.7	33.2	30.8	24.9	25.8	37.8	37.7	32.4	20.9	25.0
Interest	**127.0**	**126.7**	**146.6**	**124.4**	**129.8**	**131.3**	**159.1**	**176.1**	**179.8**	**164.2**	**188.8**
Suppliers' credits	14.2	12.6	9.7	6.6	6.7	4.6	3.1	1.7	1.3	1.5	7.2
Financial institutions	24.8	39.6	54.4	29.0	23.0	18.7	13.9	19.8	22.8	19.3	23.9
Bonds	1.4	-	-	-	-	-	-	-	-	-	-
Multilateral loans	36.3	35.7	36.8	44.9	58.6	63.4	84.6	98.9	103.4	86.6	101.3
IBRD	31.3	30.2	29.7	36.0	49.0	51.8	72.7	84.7	87.8	74.0	77.7
IDA	1.2	1.6	1.8	1.9	2.6	3.2	3.8	4.5	5.2	5.0	6.9
Other	3.8	3.9	5.3	7.0	7.0	8.3	8.1	9.7	10.3	7.5	16.7
Bilateral loans	23.7	24.6	27.6	27.4	30.5	33.9	38.9	40.8	42.1	33.0	32.6
Export credits	26.5	14.2	18.1	16.5	11.0	10.7	18.6	14.9	10.3	23.7	23.7
Total Public Debt Service	**240.2**	**280.0**	**324.5**	**308.8**	**324.5**	**362.9**	**374.4**	**409.5**	**424.6**	**480.8**	**470.8**

Note: Data excludes IMF.

Source: IBRD, Debtor Reporting System.

Table 4.4: IMF POSITION AT YEAR'S END
(In millions of SDR)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Purchases	60.0	30.0	150.4	132.6	46.2	123.1	0.0	0.0	102.6	0.0	0.0
Debt Service	13.1	21.2	40.9	73.0	96.0	104.7	125.8	110.9	88.4	122.0	93.2
Repurchases	7.0	7.2	16.9	43.0	58.0	69.7	89.8	83.9	67.4	98.0	75.2
Charges	6.1	14.0	24.0	30.0	38.0	35.0	36.0	27.0	21.0	24.0	18.0
Net Use of Fund Credit (during period)	44.0	23.0	134.8	88.1	-10.6	54.6	-89.8	-83.9	35.2	-98.1	-76.2
Quota	103.5	103.5	103.5	142.0	142.0	142 0	142.0	142.0	142.0	142.0	142.0
Use of Fund Credit	152.3	175.3	310.1	398.2	387.6	442.2	352.4	268.5	303.7	205.6	129.4
Fund holdings of Kenya currency	255.8	278.7	412.1	530.6	518.7	572.0	482.2	398.3	433.5	335.4	259.2
Reserve position in Fund	--	0.1	1.5	9.6	10.9	12.2	12.2	12.2	12.2	12.2	12.2

Source: IMF, International Financial Statistics, various issues.

Table 5.1: SUMMARY OF CENTRAL GOVERNMENT BUDGET OPERATIONS
(In Millions of Kenya Pounds)

	[illegible]	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	Provisional [illegible]
Total Revenue	**611.0**	**701.5**	**763.1**	**832.1**	**923.6**	**1019.6**	**1209.3**	**1389.6**	**1618.5**	**1918.6**	**2087.6**	**2457.3**
Current	611.0	701.5	763.1	824.3	920.9	1016.9	1205.6	1386.7	1614.3	1887.4	2081.5	2452.4
Capital	..	..	..	7.8	2.7	2.7	3.8	2.9	4.1	31.2	6.1	4.9
Expenditure and Net Lending	**719.9**	**880.9**	**1003.3**	**900.8**	**1143.5**	**1346.0**	**1478.3**	**1889.7**	**2042.2**	**2447.7**	**2700.4**	**3327.1**
Current Expenditure	536.4	672.1	848.4	871.9	984.6	1091.3	1250.8	1517.2	1731.0	1967.1	2154.6	2690.8
Capital Expenditure	149.1	188.8	143.2	142.0	133.3	217.8	177.0	324.6	281.9	418.9	481.7	595.2
Net Lending	34.4	20.0	11.8	-113.1	25.6	36.9	50.5	47.9	29.3	61.7	64.1	41.1
External Grants 1/	**19.1**	**19.6**	**19.8**	**56.3**	**49.9**	**70.5**	**54.8**	**62.8**	**159.4**	**186.7**	**217.3**	**425.5**
Overall Deficit	**-89.8**	**-159.8**	**-220.4**	**-12.4**	**-170.0**	**-255.9**	**-214.2**	**-437.3**	**-264.4**	**-342.5**	**-395.5**	**-444.3**
Financing of Deficit												
External Loans (Net)	74.7	126.8	159.6	91.3	35.8	24.9	-95.0	1.5	71.5	200.0	301.2	268.1
Total Domestic Borrowing	23.9	67.5	167.9	245.6	156.3	87.6	204.2	406.4	225.9	88.0	68.7	88.0
Long-Term (net)	48.6	66.4	44.0	272.2	10.7	6.9	36.3	156.4	220.8	119.1	100.5	63.2
Short-Term (net)	-24.7	1.1	123.9	-26.6	145.6	80.7	167.9	250.0	5.1	-31.1	-31.8	1.8
Changes in Cash Balances	8.8	34.5	107.1	324.5	22.0	-143.5	-105.1	-29.5	32.9	-54.5	-25.6	-88.2
Memo Items:												
Current Surplus	74.6	29.4	-85.3	-47.6	-63.7	-74.4	-45.3	-130.5	-116.7	-79.7	-73.1	-238.4
Overall Deficit (excl. grants)	-108.9	-179.4	-240.2	-68.7	-219.8	-326.4	-269.0	-500.1	-423.8	-529.2	-612.8	-869.8

1/ Prior to 1982/83, program grants are excluded.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 5.2: CENTRAL GOVERNMENT REVENUES
(In Millions of Kenya Pounds)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1984/85	1985/86	[illegible]	[illegible]	1988/89	1989/90 Provisional	1990/91 Provisional
Tax Revenue	**515.1**	**608.6**	**676.2**	**715.4**	**811.8**	**886.0**	**1066.6**	**1240.7**	**1453.3**	**1645.2**	**1830.6**	**2097.9**
Direct Taxes	173.6	198.3	201.1	231.8	251.8	301.0	358.1	385.7	454.5	512.0	599 2	710.0
On income and profits	171.9	197.6	199.7	231.2	251.2	301.0	358.1	385.7	454.5	512.0	599.2	710.0
Other	1.8	0.7	1.5	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indirect Taxes	341.5	410.3	475.0	484.2	560.6	585.0	708.5	855.0	998.9	1133.2	1231.5	1387.9
On goods and services	232.0	261.2	286.0	301.6	367.0	392.9	457.0	574.4	708.7	805.6	882.8	1072.6
Sales tax/VAT	154 9	179.4	194.8	195.9	253.7	273.6	303.6	397.5	520.0	588.3	640.4	783.0
On local manufactures	..	..	..	123.3	146.5	158.0	191.0	241.8	301.3	351.3	323.7	435.0
On imports	..	..	..	72.6	107.2	115.6	112.6	155.8	218.7	237.0	316.6	348.0
Excise duties	59.5	60.2	64.0	74.0	79.4	78.8	89.0	106.3	123.1	137.5	149.4	182.0
Other taxes and licenses	17.6	21.6	27.3	31.8	33.9	40.5	64.4	70.6	65.7	79.9	93.1	107.6
On international trade	109.5	149.1	189.0	182.6	193.6	192.1	251.5	280.6	290.2	327.5	348.7	315.3
Import duties 1/	102.5	146.0	183.7	175.8	183.5	165.1	211.8	246.7	273.7	301.0	348.0	314.0
Export duties	7.0	3.1	5.3	6.8	10.1	27.0	39.6	33.9	16.5	26.6	0.7	1.3
Non-tax Revenue	**92.8**	**88.8**	**121.8**	**116.2**	**111.3**	**133.6**	**145.7**	**148.9**	**165.1**	**274.1**	**257.0**	**360.7**
Income from property	26.8	38.7	34.0	53.7	54.2	57.5	64.8	60.5	69.6	94.9	100.4	185.9
Current transfers	1.0	1.2	1.6	2.6	1.9	2.6	11.4	15.3	8.3	12.9	12.4	5.3
Sales of goods and services	46.2	32.8	34.6	30.7	27.5	36.9	38.9	43.4	51.1	76.5	81.8	83 3
Other	18.8	16.1	51.6	29.2	27.8	36.7	30.7	29.6	36.3	89.8	62.4	86.2
Statistical Discrepancy	3.0	4.1	-34.8	0.5	0.6	0.0	-3.0	-0.0	-0.0	-0.7	-0.0	-1.3
[illegible]	611.0	701.5	763.1	[illegible]	923.6	1019.6	1209.3	1389.6	1618.5	1918.6	2087.6	2457.3
Memo Items:												
Share of Total Revenue (%)												
Tax Revenue	84.3	86.8	88.6	86.0	88.0	86.9	88.2	89.3	89.8	85.8	87.7	85.4
Direct Taxes	28.4	28.3	26.4	27.9	27.3	29.5	29.6	27.8	28 1	26.7	28.7	28.9
Indirect Taxes	55.9	58.5	62.3	58.2	60.7	57.4	58.6	61.5	61.7	59 1	59.0	56.5
On international trade	17.9	21.3	24.8	21.9	21.0	18.8	20.8	20.2	17.9	17.1	16.7	12.8
Non-tax Revenue	15.2	12.7	16.0	14.0	12.0	13.1	12.1	10.7	10.2	14.3	12.3	14.7

1/ Before Export Compensation payments.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 5.3: ECONOMIC CLASSIFICATION OF CENTRAL GOVERNMENT EXPENDITURE
(In Millions of Kenya Pounds)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Current Expenditure	**536.4**	**672.1**	**848.4**	**871.9**	**984.6**	**1091.3**	**1250.8**	**1517.2**	**1731.0**	**1967.1**	**2154.6**	**2690.8**
Consumption Expenditure	366.3	419.7	535.9	511.2	594.2	606.9	690.3	812.8	937.3	1067.8	1138.8	1457.3
Wages and salaries	136.8	172.8	224.4	230.1	264.7	288.7	335.8	398.4	453.6	541.5	555.4	622.5
Other goods and services	229.5	247.0	311.5	281.1	329.6	318.2	354.5	414.4	483.7	526.3	583.3	834.8
Subsidies 1/	1.0	11.3	15.1	10.5	14.0	14.8	27.4	26.5	29.0	31.1	46.2	62.2
Export compensation	..	10.5	13.5	10.5	12.3	12.9	27.3	25.4	28.7	31.0	46.2	62.0
Interest	48.1	68.1	118.5	145.9	173.7	195.9	266.1	300.2	370.4	463.4	500.2	606.8
Domestic	..	36.8	51.0	93.1	108.9	121.9	175.0	198.2	249.5	306.9	339.3	375.2
Foreign	..	31.3	67.5	52.8	64.8	74.0	91.0	102.0	120.9	156.6	160.9	231.6
Transfers	121.1	173.0	178.8	204.3	202.7	273.8	267.2	377.7	394.4	404.6	468.8	564.5
To Households 2/	13.3	11.1	17.0	23.0	19.8	26.4	48.7	32.8	39.2	41.8	70.8	..
To Enterprises 3/	4.4	19.5	8.4	8.4	11.1	0.4	1.0	-	7.0	-	0.0	..
To General Government	101.3	140.1	150.7	167.1	165.1	214.4	208.9	331.0	324.4	353.5	386.0	..
To Rest of World	1.2	1.3	2.3	5.1	5.3	31.5	5.8	12.3	10.3	7.0	7.2	..
To Other	0.8	1.0	0.5	0.7	1.5	1.1	2.7	1.6	13.7	2.3	4.8	..
Others	0.0	0.0	0.0	0.0	0.0	—	0.0	0.0	0.0	0.2	0.7	0.0
Capital Expenditure	149.1	188.8	143.2	142.0	133.3	217.8	177.0	324.6	281.9	418.9	481.7	595.2
Gross fixed capital formation	143.5	166.9	123.5	134.9	119.0	194.7	150.5	283.7	242.0	374.5	446.9	557.4
Transfers	5.7	21.8	19.6	7.1	14.4	23.1	26.5	40.9	39.9	44.5	34.8	37.8
Net Lending	34.4	20.0	11.8	-113.1	25.6	36.9	50.5	47.9	29.3	61.7	64.1	41.1
Purchase of equity 4/	9.5	5.2	7.4	6.0	0.5	5.4	10.5	7.9	7.1	16.7	9.4	4.6
Loans 5/	55.6	65.6	70.7	31.2	30.7	35.5	47.5	46.4	27.3	61.0	58.1	47.0
Loan Repayments to Government	30.7	50.8	66.3	150.2	5.6	4.0	7.4	6.4	5.1	16.0	3.4	10.5
[illegible] 6/	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1346.0	[illegible]	1889.7	[illegible]	[illegible]	[illegible]	3327.1
Memo Items:												
Recurrent Account	549.3	689.3	830.3	967.7	1011.5	1026.7	1346.6	1626.3	1819.0	2336.3	2499.0	3002.0
Development Account	232.1	282.7	292.1	223.0	246.3	508.0	309.1	462.2	408.6	630.4	657.5	994.6
Total	781.3	972.0	1122.3	1190.7	1257.8	1534.7	1655.7	2088.5	2227.6	2966.7	3156.5	3996.6
less Public Debt Redemption	30.7	40.3	52.8	139.7	105.7	184.7	169.9	192.4	180.2	502.8	453.3	659.0
less Loan Repayments to Gov't	30.7	50.8	66.3	150.2	5.6	4.0	7.4	6.4	5.1	16.0	3.4	10.5
Total Expenditure 6/	719.9	880.9	1003.3	900.8	1146.4	1346.0	1478.4	1889.7	2042.2	2447.9	2699.8	3327.1

1/ In 1979/80, data on subsidies exclude export compensation.

2/ Households and unincorporated enterprises including private nonprofit institutions.

3/ Financial and nonfinancial enterprises.

4/ In enterprises.

5/ Loans to households, enterprises and general government agencies.

6/ Includes net lending.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 5.4a: CENTRAL GOVERNMENT RECURRENT EXPENDITURE BY SECTOR
(In Millions of Kenya Pounds)

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Defense & Publ. Administration	191.4	193.0	252.7	241.9	261.8	262.8	274.3	338.5	449.0	461.0	549.2	615.8
General Administration	44.9	50.7	66.1	64.8	62.3	66.4	68.8	84.7	94.4	121.4	116.5	149.7
External Affairs	6.9	8.8	10.3	12.2	13.8	15.6	22.2	27.4	29.0	34.1	42.7	36.6
Public Order and Safety	35.0	51.6	54.0	34.4	56.2	59.5	69.7	82.4	107.7	134.2	146.1	158.1
Defense	104.6	81.9	122.4	130.6	129.5	101.3	113.7	144.0	218.0	171.3	243.9	271.4
Social Services	179.1	231.5	258.3	274.4	[illegible]4.7	344.8	422.1	499.5	574.3	636.7	683.1	787.4
Education	122.6	162.4	180.6	192.1	210.5	245.4	313.9	371.1	431.0	478.0	522.5	606.5
Health	43.7	52.6	59.8	62.0	64.4	72.4	78.8	95.5	104.0	117.5	119.1	133.1
Housing and Commun. Welfare	2.2	2.6	2.8	3.0	3.1	3.3	2.8	2.0	2.6	4.2	3.2	4.7
Social Welfare	10.6	13.9	15.1	17.3	20.6	23.7	26.7	30.9	36.7	37.0	38.4	43.1
Economic Services	85.0	130.0	126.9	134.8	151.5	199.8	197.0	271.9	214.7	240.3	274.9	274.2
General Administration	7.6	14.8	11.7	10.7	11.7	9.6	15.2	12.3	21.2	21.0	39.1	25.9
Agric.,Forestry & Fishing	27.5	52.0	45.3	58.6	54.1	97.8	69.7	132.7	78.5	82.7	96.1	92.1
Mining,Manuf. and Constr.	10.8	13.6	14.0	15.0	17.0	24.4	29.9	36.6	36.0	39.2	42.4	39.7
Electr.,Gas,Steam & Water	9.0	13.2	13.7	13.1	16.4	16.0	18.3	21.4	21.2	24.3	23.5	24.3
Road	14.7	16.8	19.8	16.1	19.6	10.9	10.6	10.6	8.5	10.1	11.4	12.6
Transp. and Communications	4.9	6.2	7.4	7.9	7.4	8.2	8.7	9.3	9.5	10.5	11.9	13.0
Other 1/	10.5	13.5	15.1	13.4	25.3	32.9	44.7	49.0	39.8	52.5	50.5	66.7
Other Services 2/	93.8	134.8	192.3	316.6	299.5	219.3	453.2	516.5	581.0	998.3	991.8	1324.6
Total	549.3	689.3	830.3	967.7	1011.5	1026.7	1346.6	1626.3	1819.0	2336.3	2499.0	3002.0

1/ Includes Export Compensation.
2/ Includes public debt.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 5.4b: CENTRAL GOVERNMENT DEVELOPMENT EXPENDITURE BY SECTOR
(In Millions of Kenya Pounds)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1984/85	1985/86	1986/87	1987/88	1988/89	Provisional 1989/90	1990/91
Defense & Publ. Administration	47.4	60.6	47.[illegible]	35.6	39.6	62.1	59.7	147.9	102.1	135.6	184.0	224.9
General Administration	34.8	45.0	30.6	21.8	21.8	41.0	33.7	110.4	62.9	91.1	139.3	170.9
External Affairs	0.8	0.1	0.5	0.0	0.5	1.7	0.8	1.0	1.0	3.2	3.2	[illegible].4
Public Order and Safety	4.6	7.6	7.9	6.6	6.7	8.6	11.5	13.8	11.8	11.6	16.2	23.7
Defense	7.2	7.8	8.8	7.2	10.5	10.9	13.7	22.8	26.4	29.8	25.4	28.8
Social Services	40.5	46.5	50.2	45.0	39.8	56.8	64.2	104.4	94.6	129.3	107.1	224.5
Education	14.5	14.0	17.1	14.3	9.6	14.5	15.8	25.5	25.7	55.1	41.8	96.0
Health	10.8	12.7	11.3	7.7	11.9	10.3	14.0	14.7	14.0	2[illegible].5	24.8	54.0
Housing and Commun. Welfare	8.9	12.1	11.8	7.5	3.0	---	13.5	11.2	4.1	16.7	9.6	11.5
Social Welfare	6.4	7.8	10.1	15.5	15.5	32.1	20.9	53.1	50.9	36.0	30.8	63.1
Economic Services	132.9	165.9	182.6	138.3	162.9	204.4	176.9	209.9	211.9	365.5	366.5	545.3
General Administration	10.3	12.7	10.8	9.2	20.2	60.4	20.2	12.3	59.6	83.1	106.6	117.1
Agric.,Forestry & Fishing	40.1	56.7	58.5	47.1	39.7	43.0	78.5	101.7	69.1	92.2	72.8	172.1
Mining,Manuf. and Constr.	9.5	21.2	15.5	9.6	19.0	24.6	5.8	6.4	5.8	35.1	44.4	55.5
Electr.,Gas,Steam & Water	24.6	27.9	31.1	17.1	28.1	21.3	23.2	40.7	28.9	54.5	71.2	64.7
Road	41.7	40.7	57.9	49.9	47.7	48.3	42.8	39.9	43.0	96.6	59.6	100.3
Transp. and Communications	4.3	3.0	5.2	4.0	4.1	3.6	4.8	6.5	4.1	2.2	7.3	27.9
Other 1/	2.4	3.8	3.7	1.4	[illegible].0	3.2	1.6	2.3	[illegible].4	1.9	4.6	7.7
Other Services 2/	11.2	9.7	11.[illegible]	4.1	4.0	184.7	8.3	0.0	0.0	0.0	0.0	0.0
Total	232.[illegible]	282.7	292.1	223.0	246.3	508.0	309.1	462.2	408.6	630.4	657.5	994.6

1/ Includes Export Compensation.
2/ Includes public debt.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 5.5: CENTRAL GOVERNMENT EXPENDITURE BY SECTOR

	1979/80	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Defense & Publ. Administration	**238.8**	**253.6**	**300.4**	**277.5**	**301.4**	**324.9**	**334.0**	**486.4**	**551.2**	**596.6**	**733.2**	**840.7**
General Administration	79.7	95.8	96.7	86.5	84.1	127.3	102.5	195.1	157.3	212.5	255.7	320.7
External Affairs	7.7	8.9	10.7	12.2	14.3	17.3	23.0	28.3	30.0	37.3	45.9	38.0
Public Order and Safety	39.6	59.2	61.8	41.0	62.9	68.1	81.1	96.1	119.6	145.7	162.3	181.8
Defense	111.8	89.7	131.1	137.8	140.0	112.2	127.3	166.8	244.3	201.0	269.3	300.2
Social Services	**219.6**	**278.0**	**308.5**	**319.3**	**338.5**	**401.7**	**486.3**	**603.9**	**668.9**	**766.0**	**790.2**	**1011.9**
Education	137.0	176.3	197.7	206.4	220.1	259.8	329.7	396.5	456.6	533.0	564.3	702.5
Health	54.5	65.3	71.1	69.7	76.3	82.7	92.7	110.3	117.9	139.0	143.9	187.1
Housing and Commun. Welfare	11.1	14.8	14.5	10.5	6.1	3.3	16.3	13.2	6.6	20.9	12.8	16.1
Social Welfare	17.0	21.7	25.2	32.8	36.1	55.8	47.6	83.9	87.7	73.0	69.2	106.2
Economic Services	**217.9**	**295.9**	**309.5**	**273.2**	**314.4**	**404.2**	**373.9**	**481.8**	**426.6**	**605.9**	**641.3**	**819.5**
General Administration	17.9	27.5	22.5	19.9	31.9	69.9	35.4	24.6	80.8	104.1	145.6	143.0
Agric.,. orestry & Fishing	67.6	108.7	103.8	105.7	93.8	140.8	148.2	234.4	147.6	174.9	168.9	264.2
Mining,Manuf. and Constr.	20.3	34.9	29.5	24.6	36.0	49.0	35.7	43.1	41.8	74.3	86.8	95.2
Electr.,Gas,Steam & Water	33.5	41.1	44.8	30.2	44.5	37.3	41.5	62.1	50.1	78.8	94.7	89.0
Road	56.5	57.4	77.7	66.0	67.4	59.2	53.3	50.5	51.4	106.7	71.0	112.9
Transp. and Communications	9.2	9.2	12.6	11.9	11.5	11.8	13.5	15.8	13.6	12.7	19.2	40.9
Other 1/	12.9	17.2	18.8	14.9	29.4	36.1	46.3	51.3	41.2	54.4	55.2	74.4
Other Services 2/	105.0	144.5	203.9	320.7	303.5	404.0	461.5	516.5	581.0	998.3	991.8	1324.6
Total	781.3	972.0	1122.3	1190.7	1257.8	1534.7	1655.7	2088.5	2227.6	2966.8	3136.3	3996.6

Note: Data in millions of Kenya pounds unless otherwise specified.

1/ Includes Export Compensation.

2/ Includes public debt

Source: Central B.. au of Statistics, Economic Survey, various issues.

Table 5.6: LOCAL GOVERNMENT BUDGET OPERATIONS
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985/86	1986/87	1987/88	1988/89	Provisional 1989/90	1990/91
Total Revenue	**51.2**	**62.0**	**80.9**	**86.4**	**68.6**	**114.7**	**107.2**	**118.0**	**160.9**	**228.5**	**302.1**
Municipal Councils	39.9	49.8	66.0	70.6	60.2	97.2	85.0	96.8	113.6	180.5	240.9
Current Revenue	32.2	37.6	51.2	52.7	46.9	52.7	54.0	77.9	98.9	113.1	121.2
Direct taxes 1/	8.4	15.0	21.2	21.3	19.0	23.5	22.7	27.4	33.1	32.0	33.8
Indirect taxes	1.0	1.2	1.7	1.9	1.0	2.9	3.5	3.1	1.6	3.3	2.3
Nontax revenue	22.8	21.4	28.3	29.6	26.9	26.4	27.8	47.5	64.2	77.7	85.1
Transfers	2.7	2.3	2.6	1.0	0.7	1.0	0.5	0.2	0.3	0.6	0.2
Capital Revenue	7.7	12.3	14.8	17.8	13.3	44.5	31.0	18.9	14.7	67.4	119.7
Loans raised	7.7	12.3	14.8	17.8	13.2	44.5	30.8	18.7	13.8	67.3	118.7
Loan repayment	0.0	0.0	0.1	0.1	0.1	0.0	0.2	0.1	0.9	0.1	1.0
Town, Urban and County Councils	11.3	12.1	14.9	15.8	8.4	17.4	22.1	21.2	47.3	48.0	61.2
Current Revenue	10.5	10.6	13.2	12.9	8.3	16.7	21.0	18.9	45.4	45.8	58.6
Direct taxes 1/	0.9	1.3	0.9	1.1	1.0	2.1	1.0	1.2	2.3	2.2	4.6
Indirect taxes	4.6	4.4	6.1	5.6	4.7	10.4	8.3	7.9	9.8	7.2	12.6
Nontax revenue 2/	5.0	4.9	6.2	6.3	2.6	4.2	11.7	9.9	33.3	36.5	41.5
Transfers	0.7	0.7	1.4	0.6	0.4	0.4	0.7	0.6	0.8	0.5	0.4
Capital Revenue	0.8	1.6	1.7	2.9	0.1	0.7	1.2	2.3	1.9	2.2	2.5
Loans raised	0.8	1.5	1.7	2.9	0.1	0.7	1.2	2.2	1.9	2.2	2.5
Loan repayment	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure 3/	**64.3**	**78.2**	**91.3**	**86.2**	**75.6**	**150.2**	**125.2**	**139.2**	**146.5**	**248.3**	**331.8**
Municipal Councils	53.3	64.9	74.5	73.7	65.2	132.1	105.9	117.1	121.3	207.0	271.5
Current Expenditure	30.8	39.0	47.0	50.6	40.9	62.2	60.3	69.5	73.2	90.0	98.3
Transfers	1.0	1.3	1.0	1.1	0.8	1.6	4.7	5.1	2.1	4.5	0.9
Capital Expenditure	22.5	25.8	27.5	23.2	24.3	69.8	45.6	47.6	48.0	117.0	173.2
Gross fixed cap. formation	16.6	19.7	20.5	16.3	15.7	54.3	31.4	32.1	31.1	98.8	161.0
Debt service	5.4	5.6	6.4	6.6	8.4	15.4	12.5	15.2	16.7	17.4	12.2
Transfers	0.5	0.6	0.6	0.3	0.2	0.2	1.7	0.4	0.2	0.9	0.0
Town, Urban and County Councils	11.1	13.3	16.8	12.5	10.3	18.1	19.3	22.0	25.2	41.3	60.4
Current Expenditure	8.0	9.2	11.1	11.7	7.2	13.8	15.4	17.5	20.0	28.6	40.3
Transfers	0.4	0.6	0.5	0.6	0.2	0.9	0.8	0.5	0.1	1.5	1.6
Capital Expenditure	3.1	4.1	5.7	0.8	3.2	4.3	3.9	4.5	5.2	12.6	20.1
Gross fixed cap. formation	2.6	3.8	5.5	0.6	3.1	3.8	3.3	4.3	4.2	11.8	19.3
Debt service	0.3	0.3	0.2	0.2	0.1	0.3	0.3	0.2	0.7	0.8	0.8
Transfers	0.1	0.1	0.1	0.1	0.0	0.1	0.3	0.0	0.3	0.1	0.0
Overall Deficit	**-13.1**	**-16.2**	**-10.4**	**0.2**	**-7.0**	**-35.5**	**-18.0**	**-21.2**	**14.4**	**-19.7**	**-29.8**
Municipal Councils	-13.4	-15.0	-8.5	-3.2	-5.0	-34.8	-20.8	-20.3	-7.7	-26.5	-30.5
Town, Urban and County Councils	0.2	-1.2	-1.9	3.3	-1.9	-0.7	2.9	-0.9	22.1	6.8	0.8

1/ Paid by households and enterprises

2/ From 1988/89 onwards, data includes service charges

3/ Includes amortization payments.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 5 7: PUBLIC SECTOR FIXED CAPITAL FORMATION BY INDUSTRY
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
In Current Prices											
Total Public Sector 1/	**281.2**	**322.5**	**300.9**	**274.2**	**336.7**	**361.5**	**475.5**	**467.5**	**624.7**	**694.3**	**956.2**
Government Services	128.6	148.3	126.7	102.0	153.1	192.4	220.0	230.1	362.6	349.8	447.4
Education	20.2	21.6	20.9	14.8	16.5	24.8	31.0	31.3	87.4	54.3	88.6
Health	14.1	12.6	8.8	8.3	9.1	10.7	12.9	12.6	21.5	12.4	20.1
Agricultural services	13.1	12.3	12.5	10.6	6.4	10.4	15.9	13.4	19.5	21.4	28.1
Public administration and other gov. services	81.3	101.8	84.5	68.5	121.1	146.5	160.1	172.8	234.2	261.7	310.6
Public Sector Enterprises	152.5	174.2	174.2	172.1	183.6	169.2	255.6	237.4	262.1	344.5	507.2
Agriculture and forestry	9.1	9.7	8.1	8.4	9.0	6.8	4.2	2.9	4.2	4.6	23.7
Mining and quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	3.0	2.6	2.7	3.1	3.1	2.9	5.2	3.8	5.9	21.7	15.1
Electricity and water	41.4	65.5	75.2	57.2	37.0	43.3	44.6	59.3	79.6	114.9	169.1
Construction	2.0	2.5	3.4	26.5	25.6	20.0	2.5	3.3	3.6	4.1	16.1
Trade,restaurants & hotels	2.0	1.7	4.1	5.7	2.6	3.1	2.8	2.2	9.7	3.4	6.4
Transp. and communication	56.3	50.9	47.3	41.9	65.0	63.2	158.9	125.2	95.7	116.9	144.6
Fin & business services	9.0	11.1	7.2	9.0	14.1	10.6	5.0	4.6	18.1	28.9	35.6
Ownership of dwellings 2/	27.3	26.3	23.6	18.6	25.1	18.2	29.7	33.3	44.5	49.0	94.9
Other services	2.5	4.0	2.6	1.8	2.0	1.1	2.6	2.7	0.8	1.2	1.7
Statistical Discrepancy	0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	1.5
In Constant 1982 Prices											
Total Public Sector 1/	**350.5**	**369.8**	**300.9**	**228.4**	247.9	245.9	**280.7**	**261.8**	320.1	325.8	370.1
Government Services	160.2	169.2	126.7	88.0	114.7	132.1	138.1	133.9	192.9	165.1	173.7
Education	26.4	25.0	20.9	12.4	12.7	17.4	19.4	18.3	47.9	26.3	34.9
Health	17.7	14.5	8.8	7.1	7.4	7.9	8.6	7.5	11.6	5.8	7.8
Agricultural services	16.5	14.2	12.5	9.2	4.8	7.1	10.3	8.0	10.0	9.8	10.7
Public administration and other gov. services	99.6	115.5	84.5	59.4	89.7	-32.4	-38.3	-33.7	-69.5	-41.9	-53.3
Public Sector Enterprises	190.3	200.6	174.2	140.3	133.3	113.7	142.6	128.0	127.2	160.6	196.5
Agriculture and forestry	10.7	10.7	8.1	6.7	5.1	3.8	3.8	1.5	1.9	1.9	8.3
Mining and quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	4.5	3.0	2.7	2.3	2.2	1.9	2.7	2.0	3.1	9.6	5.4
Electricity and water	49.9	76.0	75.2	49.5	27.0	29.0	27.4	34.0	42.3	55.7	68.8
Construction	3.1	2.9	3.4	18.7	17.7	13.5	1.6	1.9	2.0	2.0	6.5
Trade,restaurants & hotels	2.9	29.5	4.1	5.1	1.8	2.2	1.7	1.2	5.1	1.6	2.6
Transp. and communication	71.1	31.4	47.3	32.6	46.1	41.6	80.2	62.5	44.9	51.2	51.9
Fin & business services	10.9	12.6	7.2	7.6	11.1	7.6	3.0	2.6	9.8	14.3	14.1
Ownership of dwellings 2/	34.0	30.1	23.6	16.6	21.0	13.4	20.5	20.7	17.8	24.1	38.4
Other services	3.3	4.4	2.6	1.3	1.4	0.7	1.6	1.6	0.4	0.4	0.6
Statistical Discrepancy	-0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0	-0.1	0.0	-0.1

1/ Includes Central Government, Municipalities, Councils and parastatals

2/ Includes traditional dwellings

Source: Central Bureau of Statistics, Economic Survey, various issues

Table 5.8: PUBLIC SECTOR EMPLOYMENT AND WAGE BILL

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Publ.Sector Wage Employment 1/	**471.6**	**484.1**	**505.6**	**527.8**	**541.4**	**574.7**	**605.8**	**627.4**	**660.4**	**685.6**	**693.9**
Agriculture and forestry	58.9	61.9	56.3	53.8	54.1	54.9	55.5	54.2	66.7	66.7	65.1
Mining and quarrying	0.6	0.7	1.2	1.4	1.5	1.6	1.5	0.5	0.6	0.6	0.7
Manufacturing	29.9	29.6	30.8	31.7	33.4	35.2	36.1	36.8	39.1	41.0	41.6
Electricity and water	10.0	10.0	13.8	17.1	17.4	17.8	18.2	19.0	20.2	22.2	21.5
Construction	31.5	28.7	28.3	28.8	22.1	24.1	30.9	32.1	32.6	35.3	34.6
Trade,restaurants and hotels	4.5	4.9	5.6	5.7	5.6	5.9	6.3	8.2	8.4	8.9	9.3
Transport and communications	32.2	36.5	33.1	33.9	34.0	35.2	42.4	44.7	50.4	51.3	48.3
Fin. and business services	7.8	8.4	9.0	9.6	11.8	13.3	15.6	16.3	17.1	18.4	18.2
Other services 2/	296.2	303.4	327.5	345.8	361.5	386.7	399.3	415.6	425.3	441.2	454.6
Central Government	214.8	214.5	216.7	226.4	231.1	252.0	259.7	274.4	267.2	277.4	269.7
Teachers Service Comm. 3/	-	110.9	119.0	124.1	132.2	151.0	164.0	173.0	185.1	195.1	203.6
Parastatals	187.0	87.4	95.7	97.6	95.4	90.4	100.1	97.3	108.2	110.9	114.1
Local Government	39.6	39.7	41.3	45.2	47.7	45.6	43.3	43.5	50.6	48.3	51.8
Other	30.2	31.6	32.9	34.5	35.0	35.6	38.7	39.2	49.3	53.9	54.7
Public Sector Wage Bill 4/	**337.3**	**416.9**	**464.4**	**513.5**	**567.5**	**657.3**	**748.5**	**804.6**	**991.2**	**1099.8**	**1204.0**
Agriculture and forestry	23.3	27.0	25.9	27.3	28.4	30.3	35.4	37.4	55.3	56.6	59.5
Mining and quarrying	1.0	1.2	2.6	2.9	3.1	3.4	3.2	1.2	1.5	1.7	1.8
Manufacturing	23.5	24.8	26.7	29.9	35.7	39.6	42.0	46.5	55.9	63.4	68.8
Electricity and water	7.8	10.2	13.4	17.6	20.4	23.3	26.7	35.9	42.2	53.0	58.6
Construction	15.0	18.1	20.4	22.5	20.0	23.4	25.8	28.0	30.3	37.8	44.8
Trade,restaurants and hotels	4.6	6.2	7.9	8.8	8.9	9.6	10.7	15.6	17.0	19.5	22.0
Transport and communications	35.7	45.2	46.5	49.8	53.7	57.9	75.9	85.6	109.9	117.6	118.4
Fin. and business services	14.3	18.3	20.6	22.3	30.7	38.9	52.8	57.4	67.7	76.4	90.0
Other services 2/	212.1	265.9	300.5	332.5	366.7	430.9	476.0	497.0	611.4	673.8	740.1
Central Government	153.6	193.3	207.7	227.3	236.7	276.3	320.4	353.7	455.4	488.3	506.7
Teachers Service Comm. 3/	-	79.8	94.3	103.6	120.7	148.2	180.0	196.5	222.0	238.2	270.4
Parastatals	133.6	89.3	97.1	107.1	124.3	139.9	146.3	147.2	182.4	211.8	243.2
Local Government	27.5	28.2	35.9	42.7	43.6	46.8	48.2	49.3	57.2	60.6	73.1
Other	22.6	26.3	29.4	32.8	42.2	46.0	53.6	58.0	74.2	100.9	110.6
Wage Earnings Per Employee 5/	**715.3**	**861.2**	**918.5**	**972.9**	**1048.1**	**1143.8**	**1235.7**	**1282.5**	**1500.9**	**1604.1**	**1735.1**
Central Government	715.1	901.2	958.5	1004.0	1024.1	1096.5	1233.5	1289.1	1704.3	1760.3	1878.8
Teachers Service Comm. 3/	-	719.6	792.4	834.8	912.7	981.5	1097.6	1135.7	1199.4	1220.9	1328.1
Parastatals	714.4	1021.7	1014.6	1097.3	1302.7	1547.6	1461.5	1512.8	1685.8	1909.8	2131.5
Local Government	694.4	710.3	869.2	944.7	914.7	1026.5	1113.4	1132.2	1130.6	1254.7	1411.2
Other	749.7	832.6	893.3	950.7	1205.0	1291.4	1387.8	1479.1	1504.3	1872.0	2021.9

1/ In thousands.

2/ Community,social and personal services

3/ Data for 1979 and 1980 are included in parastatals

4/ In millions of Kenya pounds

5/ Average wage earnings in Kenya pounds.

Source. Central Bureau of Statistics, Economic Survey, various issues

Table 6.1: CONSOLIDATED ACCOUNTS OF THE BANKING SYSTEM AT YEAR'S END
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Money	530.0	597.2	689.3	745.7	816.4	787.0	1043.5	1144.4	1211.5	1315.8	1678.2
Quasi-money	315.4	362.9	398.6	421.7	497.0	559.4	740.7	838.9	929.4	1101.9	1222.6
Total	845.4	960.2	1087.9	1167.5	1313.4	1346.5	1784.3	1983.3	2140.9	2417.6	2900.8
Net foreign assets	113.2	16.0	-101.0	-11.3	20.2	-68.2	8.7	-64.1	-193.7	-87.9	-232.5
Domestic Credit	779.9	967.9	1252.4	1253.4	1388.9	1569.0	2018.0	2429.1	2591.2	2770.8	3509.1
Central government (net)	166.0	292.9	484.1	391.5	436.0	478.5	744.4	967.7	883.5	857.3	1361.9
Other public bodies	26.0	23.7	50.4	92.9	105.7	119.9	139.5	176.9	171.9	137.9	161.5
Private sector	587.9	651.3	717.8	769.0	847.2	970.7	1134.2	1284.4	1535.8	1775.6	1985.7
Other items (net)	-47.7	-23.7	-63.6	-74.6	-95.7	-154.3	-242.5	-381.6	-256.6	-265.2	-375.8

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 6.2: CHANGE IN MONEY SUPPLY AND SOURCES OF CHANGE
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Money	11.3	67.2	92.0	56.5	70.7	-29.4	256.5	100.9	67.1	104.3	362.4
Quasi-money	27.5	47.5	35.7	23.1	75.2	62.5	181.3	98.2	90.5	172.5	120.8
Total	38.8	114.8	127.7	79.6	145.9	33.1	437.8	199.0	157.5	276.8	483.2
Net foreign assets	-66.2	-97.2	-117.0	89.6	31.5	-88.4	76.9	-72.9	-129.6	105.8	-144.6
Domestic Credit	88.1	188.0	284.5	1.0	135.5	180.2	449.0	411.0	162.1	179.6	738.3
Central government (net)	9.8	126.9	191.2	-92.6	44.5	42.5	265.9	223.4	-84.2	-26.2	504.6
Other public bodies	-20.9	-2.3	26.7	42.5	12.8	14.2	19.6	37.5	-5.0	-34.1	23.6
Private sector	99.2	63.3	66.6	51.1	78.2	123.5	163.5	150.2	251.3	239.8	210.1
Other items (net)	16.8	24.0	-39.8	-11.0	-21.1	-58.7	-88.2	-139.1	125.0	-8.6	-110.6

Source: Derived from Statistical Appendix Table 6.1

Table 6.3: ASSETS AND LIABILITIES OF NON-BANK FINANCIAL INSTITUTIONS AT YEAR'S END
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Liabilities											
Deposits -	242.6	284.6	358.8	433.6	607.7	701.7	805.5	883.7	1037.9	1274.3	1661.2
Central and local government	25.0	27.5	32.2	29.0	25.6	26.9	23.3	32.6	30.2	32.8	62.3
Other public sector	67.5	85.9	138.8	136.9	161.2	155.0	146.8	137.0	144.3	190.5	297.0
Other depositors	150.2	171.2	187.8	267.8	420.9	519.8	635.4	714.2	863.4	1051.0	1301.9
Other liabilities	76.8	105.5	154.0	193.2	258.6	295.0	300.9	231.2	314.7	385.5	464.4
Total	319.5	390.1	512.8	626.8	866.3	996.7	1106.3	1114.9	1352.5	1659.8	2125.6
Assets											
Cash and banks	42.4	32.1	69.5	64.1	103.2	98.9	123.5	66.2	114.3	142.3	201.6
Other financial institutions	8.5	16.0	35.7	34.2	85.7	75.3	99.0	68.4	91.8	140.5	144.2
Associated companies	37.5	40.4	12.1	4.8	15.6	10.4	12.7	13.6	12.7	22.0	58.2
Investments, Bills, Loans and Advances -	220.1	283.4	370.4	492.3	613.8	755.7	812.3	913.0	1058.0	1263.5	1612.3
Central and local government	12.1	21.6	29.7	90.2	94.8	138.2	162.2	161.8	136.8	176.5	160.1
Other public sector	1.2	1.3	5.3	3.2	2.9	3.0	7.2	9.0	24.0	7.9	27.7
Private sector	206.8	260.4	335.5	398.9	516.2	614.5	642.8	742.2	897.2	1079.1	1424.4
Other assets	11.1	18.2	25.1	31.5	48.0	56.4	58.9	53.7	75.8	91.6	109.3

Source: Central Bureau of Statistics, Economic Survey and Statistical Abstract, various issues; Research Dept. Central Bank Kenya.

Table 6 4: PRINCIPAL INTEREST RATES AT YEAR'S END
(In Percentages)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Central Bank of Kenya											
Discount rate-treasury bills	6.0	10.1	13.4	15.0	12.5	14.1	11.2	13.0	15.0	14.0	15.9
Advances on treasury bills	8.0	10.0	14.5	14.5	12.0	12.0	12.0	12.0	15.0	15.5	18.4
Crop finance scheme											
Discounts	8.5	10.3	13.8	13.8	11.3	11.3	11.3	11.3	16.0	16.5	19.4
Advances	8.0	11.5	14.0	14.0	11.5	11.5	11.5	11.5	16.0	16.5	19.4
Other bills and notes											
Discounts	8.5	11.5	14.5	14.5	12.0	12.0	12.0	12.0	16.0	16.5	19.4
Advances	8.0	11.5	15.0	15.0	12.5	12.5	12.5	12.5	16.0	16.5	19.4
Kenya Commercial Bank											
Time Deposits											
3-6 months	7.0	10.8-12.0	12.8-13.0	12.0-12.5	11.0-11.3	11.0-11.3	11.0-11.3	9.5-10.0	11.5-12.0	11.5-12.0	13.8-14.5
6-9 months	6.8	11.0-12.3	13.2-13.6	12.3-12.8	11.5-11.8	11.5-11.8	11.5-11.8	9.5-10.0	12.5-13.0	12.5-13.0	14.0-14.8
9-12 months	6.4	11.3-12.5	13.4-13.8	12.5-13.0	11.8-12.0	11.8-12.0	11.8-12.0	9.5-10.0	12.5-13.0	12.5-13.0	14.5-15.8
12 mos. (0.25 - 1mill Sh)	6.5-6.8	11.5	13.5	13.0	11.8-12.0	11.8-12.0	11.8-12.0	9.5-10.0	12.5-13.0	12.5-13.0	14.5-15.8
Savings deposits	6.0	10.0	12.5	12.5	11.0	11.0	11.0	11.0	10.0	12.5-13.0	13.5
Loans & advances (maximum) 1/	11.0	14.0	16.0	15.0	14.0	14.0	14.0	14.0	15.0	15.5	19.0
Other Financial Institutions											
Post Office Savings Deposits	6.0	10.0	10.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Agric.Finance Corp.loans											
Land purchase	9.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Seasonal crop loan	11.0	12.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Other	10.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Hire-purchase Companies and Merchant Banks:											
Deposits (time)	8.0-11.0	8.0-12.0	13.3-16.3	14.0-16.5	13.0-14.5	13.0-14.5	13.0-14.5	10.0-13.5	10.0-15.0	12.0-15.0	13.5-18.0
Loans	10.0-14.0	14.0	16.0	20.0	19.0	19.0	19.0	18.0	18.0	18.0	19.0
Building Societies											
Deposits	6.0-9.5	8.0-11.5	15.3	15.0-15.5	13.0-14.3	13.0-14.3	13.0-14.3	10.8-12.5	11.0-12.5	11.8-14.0	13.0-15.0
Loans	11.0-14.0	13.0-14.0	16.0	16 0	16.0	16.0	16.0	14.5	14.5	16.5-18.0	19.0

1/ Loans and advances for less than 3 years.

Source: Central Bureau of Statistics, Economic Survey, various issues; and Central Bank of Kenya.

Table 6.5: EXCHANGE RATE MOVEMENTS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
End of Period											
Ksh/SDR	9.7	12.0	14.1	14.4	15.2	17.7	19.1	23.4	25.0	28.4	34.3
US$/SDR	1.3	1.2	1.1	1.0	1.0	1.1	1.2	1.4	1.3	1.3	1.4
Ksh/US$	7.6	10.3	12.7	13.8	15.8	16.3	16.0	16.5	18.6	21.6	24.1
Period Average											
Ksh/SDR	9.7	10.6	12.0	14.2	14.7	16.7	19.0	21.3	23.9	26.4	31.1
US$/SDR	1.3	1.2	1.1	1.1	1.0	1.0	1.2	1.3	1.3	1.3	1.4
Ksh/US$	7.4	9.0	10.9	13.3	14.4	16.4	16.2	16.5	17.7	20.6	22.9
Indices (1982 = 100) 1/											
Real Effective Rate	99.7	96.4	100.0	94.8	101.9	100.5	87.1	78.7	72.5	69.4	61.8
% change	-1.0	-3.3	3.7	-5.2	7.5	-1.4	-13.3	-9.6	-7.9	-4.2	-11.0
Nominal Effective Rate	107.6	105.7	100.0	91.9	97.4	93.1	82.9	77.1	73.6	73.4	69.3
% change	0.9	-1.8	-5.4	-8.1	6.0	-4.4	-11.0	-7.0	-4.5	-0.3	-5.5

Note: A reduction in the index indicates a devaluation.

1/ Based on annual average exchange rates.

Source: IMF.

Table 7.1: AGRICULTURAL OUTPUT, INPUTS, AND VALUE ADDED
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Gross Output											
At current prices	791.2	917.5	1048.8	1274.1	1412.4	1562.9	1814.1	1873.4	2189.0	2381.6	2519.3
Marketed production	353.3	386.9	448.9	555.5	788.8	755.9	938.3	817.7	945.7	1003.2	1104.1
At constant 1982 prices	945.6	1010.1	1048.8	1121.6	1086.4	1142.4	1217.3	1246.4	1297.8	1345.1	1347.2
Marketed production	443.9	460.6	448.9	475.2	451.2	540.3	549.4	567.1	584.5	623.5	677.3
Value index	75.4	87.5	100.0	121.5	134.7	149.0	173.0	178.6	208.7	227.1	240.2
Quantum index	90.2	96.3	100.0	106.9	103.6	108.9	116.1	118.8	123.7	128.3	128.4
Price index	83.7	90.8	100.0	113.6	130.0	136.8	149.0	150.3	168.7	177.0	187.0
Inputs											
At current prices	79.3	98.4	84.7	147.5	168.0	205.7	216.0	204.1	286.3	293.2	289.7
At constant 1982 prices	99.7	112.8	84.7	142.6	145.4	165.7	193.9	183.9	188.6	192.6	155.2
Value index	93.6	116.1	100.0	174.2	198.4	242.8	255.0	240.9	338.0	346.1	341.9
Quantum index	117.6	133.2	100.0	168.3	171.6	196.8	228.9	217.0	222.6	227.4	183.1
Price index	79.6	87.2	100.0	103.5	115.6	123.4	111.4	111.0	151.8	152.2	186.7
Value Added 1/											
At current prices	711.9	819.1	964.1	1126.5	1244.3	1357.2	1598.1	1669.3	1902.7	2088.4	2229.7
At constant 1982 prices	845.9	897.3	964.1	979.1	941.1	975.6	1023.4	1062.6	1109.3	1152.5	1192.0
Value index	73.8	85.0	100.0	116.8	129.1	140.8	165.8	173.1	197.4	216.6	231.3
Quantum index	87.7	93.1	100.0	101.6	97.6	101.2	106.1	110.2	115.1	119.5	123.6
Price index	84.2	91.3	100.0	115.1	132.2	139.1	156.2	157.1	171.5	181.2	187.0

Note: Indices as well as value of inputs are derived
Base year for indices, 1982.

1/ Monetary sector only, and excludes forestry and fishing.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 7.2: GROSS MARKETED PRODUCTION AT CURRENT PRICES
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Cereals	35.3	48.2	59.7	81.4	71.4	91.0	107.2	101.0	99.5	116.8	90.9
Wheat	17.7	17.9	22.0	26.9	17.8	26.3	32.9	21.9	35.1	40.0	32.0
Maize	10.4	23.6	30.8	49.0	49.1	54.6	66.5	68.1	54.2	69.9	56.9
Rice	2.8	2.9	2.9	2.7	3.2	6.8	..	..	..	..	..
Others	4.3	3.7	4.0	2.9	1.3	3.4	7.8	11.1	10.2	7.0	2.1
Temporary Crops	57.3	62.9	64.6	63.2	68.0	83.2	120.5	122.2	105.3	126.7	150.4
Pyrethrum	9.7	13.4	14.8	5.0	1.9	2.9	4.5	5.6	6.6	10.1	12.6
Sugar Cane	29.5	30.9	29.4	34.3	41.0	46.8	52.8	55.5	68.8	78.4	96.4
Others	18.0	13.6	20.4	23.8	25.1	33.5	63.3	61.1	29.9	38.2	41.4
Permanent Crops	204.5	195.6	232.9	316.6	551.8	459.4	550.8	404.8	501.6	509.7	571.4
Coffee	118.9	105.5	122.9	166.3	227.7	191.9	288.3	192.2	278.1	243.9	203.4
Sisal	9.7	8.5	12.6	15.5	17.3	15.0	15.4	13.5	13.8	16.6	18.1
Tea	71.5	80.6	93.2	130.3	301.1	247.6	242.3	194.8	203.7	245.3	346.9
Others	4.4	4.1	4.3	4.5	5.6	4.9	4.7	4.3	6.0	3.8	3.1
Crops (Sub-total)	297.1	306.7	357.2	461.2	691.2	633.6	778.5	628.0	706.5	753.2	812.7
Livestock and Products	56.3	80.2	91.7	94.3	97.6	122.4	159.8	189.7	239.3	250.1	291.4
Cattle and calves	33.9	47.5	52.3	51.8	59.0	70.4	84.3	103.9	138.9	149.0	164.0
Dairy produce	15.0	22.8	28.5	32.8	25.8	36.3	56.5	62.1	60.7	66.2	84.3
Others	7.4	9.9	11.0	9.6	12.9	15.8	19.0	23.7	39.7	34.9	43.1
Total Gross Marketed Products	353.3	386.9	448.9	555.5	788.8	755.9	938.3	817.7	945.7	1003.2	1104.1
Memo Item:											
Temporary industrial crops	49.2	53.1	53.9	51.2	58.5	65.9	92.7	103.4	93.4	102.6	131.7

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 7.3: SALES TO MARKETING BOARDS - QUANTUM, PRICE, AND VALUE INDICES
(1982=100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Cereals											
Quantum	58.7	85.5	100.0	105.8	86.7	93.6	104.3	92.4	86.5	97.0	79.9
Price	90.3	93.9	100.0	129.8	139.8	160.7	171.2	179.5	193.6	198.8	242.0
Value	53.0	80.3	100.0	137.3	121.2	150.4	178.6	165.9	167.5	192.8	193.4
Temporary Industrial Crops											
Quantum	126.5	121.4	100.0	95.6	104.3	81.7	82.0	89.1	90.9	100.1	99.3
Price	71.0	79.8	100.0	100.7	127.6	137.6	148.5	150.3	173.9	189.8	242.2
Value	89.8	96.9	100.0	96.3	133.1	112.4	121.8	133.9	158.1	190.0	240.5
Permanent Crops											
Quantum	108.2	99.8	100.0	116.4	122.0	112.2	130.9	121.4	142.9	132.0	131.6
Price	91.9	84.1	100.0	118.0	185.7	144.9	181.6	140.7	158.2	154.2	134.8
Value	99.4	83.9	100.0	137.4	226.6	162.6	237.7	170.8	226.1	203.5	177.4
Crops (Sub-total)											
Quantum	102.4	106.8	100.0	111.4	102.0	110.3	128.0	119.0	130.4	131.6	116.6
Price	83.8	85.6	100.0	117.9	178.8	145.3	180.0	142.7	159.1	167.4	163.0
Value	85.8	91.4	100.0	131.3	182.4	160.3	230.4	169.8	207.5	220.3	190.1
Livestock and Products											
Quantum	80.6	82.0	100.0	100.3	145.9	82.2	92.7	105.1	126.1	127.2	135.6
Price	73.8	85.9	100.0	100.3	105.0	118.9	134.8	150.2	157.4	181.0	197.6
Value	59.5	70.4	100.0	100.6	153.2	97.7	125.0	157.9	198.5	230.2	267.9
Total Gross Marketed Products											
Quantum	95.2	98.9	100.0	110.7	117.9	104.6	120.8	116.2	125.2	130.3	120.5
Price	79.6	84.0	100.0	116.9	174.8	139.9	170.8	144.2	161.8	160.9	163.0
Value	75.8	83.1	100.0	129.4	206.1	146.3	206.3	167.6	202.6	209.7	196.4
Memo Items:											
Sales to Marketing Boards 1/	**353.3**	**386.9**	**448.9**	**555.4**	**788.8**	**755.9**	**938.3**	**817.7**	**945.7**	**1003.2**	**1114.9**
Large Farms	168.8	178.6	216.7	271.3	386.2	346.6	515.5	432.1	500.4	508.3	497.6
Small Farms	184.5	208.3	232.3	284.1	402.5	409.3	422.8	385.6	445.3	494.9	617.3

Note: Value indices were derived by multiplying quantum and price indices

1/ In millions of Kenya Pounds.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 7.4: PRINCIPAL CROPS - VOLUME OF SALES, AVERAGE PRICES AND PRODUCERS' REVENUE

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Wheat											
Volume of Sales ('000 mt)	215.7	203.4	234.7	242.3	135.4	193.5	224.7	148.3	220.2	233.2	186.5
Average Price (KSh/mt)	1638.6	1666.7	1875.8	2220.0	2690.0	2710.0	2930.0	2950.0	3405.7	3428.0	4750.0
Producers' Revenue	17.7	17.0	22.0	26.9	18.2	26.2	32.9	21.9	37.5	40.0	44.3
Maize											
Volume of Sales ('000 mt)	217.9	472.9	571.3	636.0	560.6	582.9	669.5	651.9	485.3	625.9	509.3
Average Price (KSh/mt)	953.7	1000.0	1070.0	1540.0	1750.0	1870.0	1980.0	2090.0	2142.3	2233.2	2616.7
Producers' Revenue	10.4	23.6	30.6	49.0	49.1	54.5	66.3	68.1	52.0	69.9	66.6
Sugar-cane											
Volume of Sales ('000 mt)	3972.2	3822.0	3107.7	3200.0	3600.0	3500.0	3600.0	3700.0	3800.0	4300.0	4200.0
Average Price (KSh/mt)	133.0	145.1	170.0	227.0	227.0	270.0	297.0	300.0	358.3	368.0	447.5
Producers' Revenue	26.4	27.7	26.4	36.3	40.9	47.3	53.5	55.5	68.1	79.1	94.0
Coffee											
Volume of Sales ('000 mt)	91.3	90.7	88.4	95.3	118.5	96.6	114.9	104.9	124.6	113.1	111.9
Average Price ('000 KSh/mt)	26.3	22.6	27.8	34.9	38.4	39.7	50.2	36.6	44.7	43.1	36.4
Producers' Revenue	120.3	102.4	122.9	166.2	227.8	191.8	288.4	192.1	278.2	243.8	203.4
Tea											
Volume of Sales ('000 mt)	89.9	90.9	95.6	119.3	116.2	14[illegible].1	143.3	155.8	164.0	180.6	197.0
Average Price ('000 KSh/mt)	15.9	17.7	19.4	21.8	51.8	[illegible]3.7	33.8	25.0	20.4	27.2	35.2
Producers' Revenue	71.5	80.6	92.8	130.3	301.2	247.6	242.3	194.8	167.0	245.3	346.8

Note: Revenue in millions of Kenya Pounds.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 7.5: MAIZE - SELECTED INDICATORS

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	Prov. 1989/90
Area ('000 ha)	938.0	1120.0	1208.0	1236.0	1200.0	1130.0	1240.0	1200.0	1100.0	1290.0	1400.0
Production ('000 mt)	..	1755.0	2340.0	2160.0	2070.0	1440.0	2610.0	2700.0	2250.0	2700.0	2790.0
Average yield (mt/ha)	..	1.6	1.9	1.7	1.7	1.3	2.1	2.3	2.0	2.1	2.0
Per capita production (kg) 1/	..	103.2	132.3	117.4	108.3	72.5	126.5	126.0	101.2	117.0	116.5
Per capita consumption(kg) 1/ 2/	..	125.0	118.1	105.5	116.5	95.3	115.2	94.6	103.2	116.5	101.1
NCPB operations											
Domestic sales ('000 mt)	476.1	699.3	268.2	396.0	619.2	794.7	391.5	223.2	500.4	412.2	291.6
Domestic sales as percentage of consumption (%)	..	32.9	12.8	20.4	27.8	42.0	16.5	11.0	21.8	15.3	12.0
Purchases ('000 mt)	134.2	382.6	695.7	627.1	498.4	379.7	833.7	718.8	477.2	623.7	550.8

Note: Data by fiscal years.

1/ 1979 population includes the under - enumeration of population (See Technical Note).

2/ Assumes that consumption is production minus net exports and change in National Cereals and Produce Board (NCPB) stocks.

Source: National Cereals and Produce Board; Ministry of Supply and Marketing; and Central Bureau of Statistics.

Table 7.6: TEA - SELECTED INDICATORS BY SIZE OF LANDHOLDING

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Area ('000 ha)											
Smallholders	50.7	53.6	54.7	55.0	56.5	56.5	56.5	56.9	57.7	57.9	67.0
Estates	25.9	26.2	26.4	26.6	26.7	27.3	27.9	28.5	29.1	29.5	30.0
Total	76.5	79.7	81.1	81.5	83.2	83.8	84.4	85.4	86.8	87.5	97.0
Production ('000 mt)											
Smallholders	34.0	35.8	39.9	51.0	52.7	71.3	68.1	76.9	84.7	100.6	110.0
Estates	55.9	55.1	56.1	68.8	63.9	75.8	75.2	78.9	79.3	80.0	87.0
Total	89.9	90.9	96.0	119.8	116.6	147.1	143.3	155.8	164.0	180.6	197.0
Average Yield (mt/ha)											
Smallholders	670.7	668.1	729.5	927.9	932.8	1261.8	1204.3	1351.7	1468.0	1735.9	1640.7
Estates	2162.5	2106.8	2126.3	2589.7	2391.6	2774.3	2699.8	2765.6	2726.2	2709.4	2902.4
Total	1174.5	1140.0	1184.1	1469.4	1401.1	1754.8	1697.9	1823.9	1889.9	2064.6	2030.6
Real producer price 1/ (1982 KSh/kg)	21.9	21.7	19.4	19.1	41.5	24.4	23.2	16.0	11.8	14.2	16.3

Note: Data in calendar years and may differ from those based on crop year.

1/ Nominal producer price is deflated by annual average Nairobi consumer price index (See Statistical Appendix Table 11.1).

Source: Tea Board of Kenya; and Central Bureau of Statistics, Economic Survey, various issues.

Tab' 7.7: COFFEE - SELECTED INDICATORS BY TYPE OF LANDHOLDING

	[illegible]	[illegible]	[illegible]	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	Prov. 1989/90
Area ('000 ha)											
Cooperatives	71.2	84.7	97.5	103.1	114.2	116.3	117.7	116 1	117.7	116.4	116.4
Estates	31.2	32.9	33.6	33.6	35.7	35.7	38.6	38 4	38.6	36.7	36.7
Total	102.4	117.6	131.1	136.7	149.9	152.0	156.3	154.5	156.3	153.1	153.1
Production ('000 mt)											
Cooperatives	51.9	64.0	52.5	54.1	61.5	64.7	68.4	67.9	84.3	78.3	69.5
Estates	39.1	34.7	34.4	33.1	49.0	28.9	45.5	36.4	44.4	38.6	34.4
Total	91.0	98.7	86.9	87.2	110.5	93.6	113.9	104.3	128.7	116.9	103.9
Average Yield (mt/ha)											
Cooperatives	728.9	755.6	538.5	524.7	538.5	556.3	581.1	584.8	716.2	672.7	597.1
Estates	1253.2	1054.7	1023.8	985.1	1372.5	809.5	1178.8	947.9	1150.3	1051.8	937.3
Total	888.7	839.3	662.9	637.9	737.2	615.8	728.7	675.1	823.4	763.6	678.6
Exports ('000 mt)											
Sales to quota markets	82.0	78.0	84.0	78.0	83.4	79.8	110.3	90.7	73.2	86.7	0.0
Sales to non-quota market	2.9	5.7	24.0	8.1	9.3	16.4	13.9	15.0	5.6	14.0	121.2
End-year stocks	19.8	30.9	20.0	21.3	56.3	49.3	60.7	58.9	102.3	120.7	38.2
Real producer price 1/ 2/ (1982 KSh/kg)	36.2	27.6	27.8	30.5	30.8	28.7	34.4	23.4	25.8	22.5	16.9

Note: Data by agricultural years.

1/ Nominal producer price is deflated by annual average Nairobi consumer price index (See Statistical Appendix Table 11.1).

2/ Calendar years beginning in 1980.

Source: Coffee Board of Kenya; and Central Bureau of Statistics, Economic Survey, various issues.

Table 7.8: SELECTED AGRICULTURAL PRICE INDICES
(1982=100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Indices of Prices Received											
Sales to marketing boards	79.6	84.0	100.0	116.9	174.8	139.9	170.8	144.2	161.8	160.9	163.0
General index of agricultural output prices	83.7	90.8	100.0	113.6	130.0	136.8	149.0	150.3	168.7	177.0	187.0
Indices of Prices Paid											
Purchased inputs	94.2	97.4	100.0	104.2	125.1	120.7	123.2	129.6	145.5	152.2	186.7
Index of purchased consumer goods - rural areas	69.9	82.7	100.0	113.8	134.0	154.8	159.9	167.8	178.6	188.4	205.9
Weighted average	77.2	87.1	100.0	111.4	131.8	146.3	150.7	158.8	170.5	181.2	192.0
Agricultural Terms of Trade 1/	108.4	104.3	100.0	102.0	98.6	93.5	98.9	94.6	98.9	97.7	97.4

1/ Agricultural output price index divided by weighted average index of prices paid.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 8.1: VALUE ADDED AND OUTPUT FOR ALL MANUFACTURING FIRMS AND ESTABLISHMENT
(In Millions of Kenya Pounds)

Industry	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Value Added	**288.7**	**339.1**	**398.6**	**429.0**	**484.4**	**542.7**	**608.2**	**690.1**	**797.6**	**906.9**	**1041.4**
Food manufacturing	69.0	73.8	101.4	109.1	137.3	152.3	174.8	209.3	228.8	258.6	289.5
Beverages and tobacco	29.9	36.4	43.9	47.2	62.5	70.4	72.8	73.1	92.4	107.3	117.1
Chemicals (incl. petroleum)	27.2	35.9	38.4	41.3	53.7	59.8	62.1	68.2	81.2	94.0	105.2
Machinery and transp. equip.	49.3	51.8	58.4	62.9	59.8	68.7	76.0	76.6	76.4	85.2	100.6
Other manufactures	113.3	141.3	156.6	168.4	171.0	191.6	222.5	263.0	318.9	361.8	428.9
Value of Output	**1360.0**	**1868.1**	**2224.3**	**2423.0**	**2950.7**	**3535.6**	**4296.7**	**5089.7**	**6102.7**	**7282.6**	**8816.3**
Food manufacturing	439.8	597.0	678.1	863.0	1107.9	1310.9	1619.7	1943.0	2246.6	2698.0	3610.0
Beverages and tobacco	73.8	82.0	114.4	128.4	144.1	216.0	277.4	298.7	338.8	390.9	409.2
Chemicals (incl. petroleum)	262.9	332.2	486.8	473.8	592.6	709.5	895.1	1047.3	1535.2	1713.4	2237.1
Machinery and transp. equip.	149.8	170.3	283.6	243.8	278.8	348.0	409.0	514.5	570.0	683.5	708.4
Other manufactures	433.7	686.5	661.5	714.0	827.2	951.1	1095.4	1286.2	1412.2	1796.8	1851.6

Source: Central Bureau of Statistics, Statistical Abstract, various issues.

Table 8.2: QUANTUM INDEX OF MANUFACTURING PRODUCTION
(1982 = 100)

Industry	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Food Manufacturing	107.6	96.9	100.0	105.8	113.6	120.2	128.3	139.8	148.4	151.5	153.4
Beverages and Tobacco	104.5	106.0	100.0	99.2	104.2	111.8	128.4	150.3	156.1	157.8	163.0
Textiles	120.3	126.8	100.0	109.6	124.3	130.1	139.2	143.7	147.2	151.0	170.0
Clothing	70.9	97.8	100.0	104.7	95.1	90.7	91.3	92.6	94.8	97.5	89.4
Leather and footwear	101.5	119.6	100.0	100.3	87.6	86.3	88.3	90.0	94.9	102.0	106.9
Wood and cork products	102.4	95.1	100.0	83.1	69.4	50.3	50.9	51.6	50.3	51.6	53.2
Furniture and fixtures	118.2	119.4	100.0	103.4	107.6	110.3	112.0	113.3	112.0	112.3	113.6
Paper and paper products	109.5	94.9	100.0	90.7	96.0	103.0	110.0	119.0	132.6	136.3	142.8
Printing and publishing	68.7	90.8	100.0	105.8	118.2	123.2	130.5	138.6	144.9	146.3	149.6
Industrial chemicals	104.9	95.7	100.0	90.4	100.8	98.1	100.0	102.1	109.4	119.0	126.9
Petroleum & other chemicals	104.2	110.6	100.0	104.9	130.7	137.2	148.9	162.0	183.0	211.3	244.3
Rubber products	126.1	133.6	100.0	127.8	149.1	162.0	171.9	181.5	187.6	202.3	213.6
Plastic products	126.8	107.9	100.0	107.8	113.7	120.9	125.6	129.6	123.8	133.8	138.8
Pottery & glass products	159.7	109.2	100.0	119.4	155.5	159.3	159.6	160.7	168.9	186.3	202.3
Non-metallic mineral products	101.4	100.2	100.0	98.0	86.9	97.8	108.3	114.4	112.8	117.9	134.0
Metal products	145.1	132.6	100.0	109.2	100.2	106.3	117.0	130.3	149.2	173.3	198.4
Non-electrical machinery	126.7	104.9	100.0	102.5	105.6	112.2	121.2	130.9	142.0	135.9	106.2
Electrical machinery	113.0	102.1	100.0	98.9	105.4	110.6	116.6	120.5	135.5	138.7	136.2
Transport equipment	85.1	101.8	100.0	116.8	100.1	87.2	76.7	70.7	79.1	82.4	87.0
Miscellaneous manufactures	127.5	136.1	100.0	110.1	146.2	187.3	241.1	311.4	333.9	347.5	376.4
Total Manufacturing	**94.4**	**97.8**	**100.0**	**104.5**	**108.8**	**113.9**	**120.6**	**127.4**	**135.0**	**143.0**	**150.5**
Growth rate (%)	5.3	3.6	2.2	4.5	4.1	4.6	5.9	5.7	6.0	5.9	5.3

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 8.3: MANUFACTURING EXPORTS - VALUE AND QUANTUM INDICES

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Value (mill.Kenya Pounds)	**98.2**	**116.8**	**100.3**	**116.7**	**132.1**	**149.9**	**162.4**	**158.1**	**189.7**	**242.4**	**260.7**
Processed food	28.8	41.0	30.9	36.0	44.0	40.1	38.4	42.6	48.1	65.8	92.8
Beverages and tobacco 1/	2.3	1.4	1.6	3.0	2.4	6.4	9.8	6.4	5.7	7.2	13.6
Chemicals	22.8	33.1	19.6	27.5	32.5	39.8	43.9	42.8	45.0	58.3	39.6
Manufactured goods	28.1	26.1	33.1	34.3	33.5	34.2	28.0	29.5	44.1	84.4	80.2
Machinery and transp. equip.	3.0	3.1	2.1	2.5	3.2	3.5	6.4	7.0	7.9	9.3	6.0
Misc. manuf.articles	13.2	12.2	13.0	13.4	16.6	25.9	36.0	29.7	39.0	17.4	28.6
Quantum Indices (1982 = 100)											
Beverages and tobacco 1/	135.2	81.4	100.0	155.0	105.0	231.0	340.0	235.0	180.0	186.0	275.0
Chemicals	127.0	125.0	100.0	92.0	94.0	106.0	95.0	99.0	88.0	108.0	100.0
Manufactured goods	111.0	89.0	100.0	83.0	78.0	77.0	99.0	98.0	130.0	133.0	170.0
Machinery and transp. equip.	154.0	102.0	100.0	51.0	38.0	44.0	38.0	84.0	53.0	59.0	25.0
Misc. manuf.articles	120.0	108.0	100.0	76.0	82.0	104.0	144.0	107.0	122.0	130.0	181.0
Weighted Average 2/ 3/	**119.1**	**102.9**	**100.0**	**84.9**	**82.7**	**92.8**	**110.0**	**102.7**	**115.5**	**124.4**	**150.4**

Note: Excludes re-exports.

1/ Excludes coffee and tea.

2/ Weighted according to the shares of 1982 export receipts which are:

Beverages & tobacco:	2.3%
Chemicals:	28.2%
Manufactured goods:	47.7%
Mach.and transp. equipment:	3.0%
Misc. manufactured goods:	18.8%

3/ Excludes processed food as index is unavailble.

Source: *Central Bureau of Statistics, Statistical Abstract and Economic Survey*, various issues.

Table 9.1: PRODUCTION, TRADE, AND CONSUMPTION OF ENERGY BY PRIMARY SOURCE
(In Thousands of Metric Tons of Oil Equivalent)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Domestic Energy Production	254.4	340.8	358.3	417.6	413.7	483.8	505.3	524.9	635.0	669.9	689.5
Hydro power	254.4	331.4	335.3	354.7	357.8	403.2	416.7	435.1	557.5	592.6	608.9
Geothermal power	--	9.4	23.0	62.9	55.9	80.6	88.6	89.8	77.5	77.3	80.6
Total Net Imports	1903.8	1782.7	1676.7	1549.1	1687.8	1677.1	1778.4	1964.4	1914.5	2018.3	1977.9
Imports of crude oil	3075.5	2611.1	2165.5	1940.2	1932.7	1980.7	2006.0	2130.5	2041.8	2100.9	2178.3
Net exports of petroleum	-1415.3	-1084.4	-769.4	-434.9	-584.7	-544.9	-699.0	-479.6	-583.1	-470.8	-425.7
Imports of hydro power	75.6	46.6	50.9	43.0	51.6	51.6	56.4	50.6	26.4	26.9	41.8
Coal & coke consumption of oil	60.0	63.8	52.5	63.7	82.7	59.9	67.9	82.2	79.0	91.6	105.8
Stock changes 1/	108.0	145.6	177.2	-62.9	205.5	129.8	347.1	180.7	350.4	269.7	77.7
Total Energy Consumption	2158.2	2123.5	2035.0	1966.7	2101.5	2160.9	2283.7	2489.3	2549.5	2688.2	2667.4
Liquid fuels	1768.2	1672.3	1573.3	1442.4	1553.5	1565.6	1654.1	1831.6	1809.1	1899.8	1830.3
Stock changes 1/	108.0	145.6	177.2	-62.9	205.5	129.8	347.1	180.7	350.4	269.7	77.7
Hydro and geothermal	330.0	387.4	409.2	460.6	465.3	535.4	561.7	575.5	661.4	696.8	731.3
Coal and coke	60.0	63.8	52.5	63.7	82.7	59.9	67.9	82.2	79.0	91.6	105.8
Memo Items:											
Local Production as % of Total Consumption	11.8	16.0	17.6	21.2	19.7	22.4	22.1	21.1	24.9	24.9	25.8
Per capita consumption in terms of kilograms of oil equiv.	129.5	122.4	112.8	104.9	107.9	106.8	108.6	114.1	112.5	114.3	109.3

Note: Fuelwood and charcoal are excluded.

1/ Includes balancing item.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 9.2: INSTALLED CAPACITY AND ELECTRICITY GENERATION

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Installed Capacity (MW)	485	540	555	544	544	559	559	575	559	723	723
Hydro	314	354	354	354	354	354	354	354	354	498	498
Thermal oil	172	172	172	160	160	160	160	176	160	180	180
Goethermal	--	15	30	30	30	45	45	45	45	45	45
Generation of Electricity (GWH)	1490	1754	1804	1904	1949	2155	2307	2454	2844	2900	3044
Hydro	1060	1381	1397	1478	1491	1680	1736	1813	2323	2469	2537
Thermal oil	430	334	311	164	225	139	202	267	198	109	171
Geothermal	--	39	96	262	233	336	369	374	323	322	336

Note: Data includes estimates for industrial establishments with generation capacity.

MW megawatt = 1 million watts = 1,000 kilowatts.

GWH gigawatt = 1000 MW.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 9.3: ELECTRICITY TARIFFS BY TYPE OF CONSUMER
(In Kenya Cents per Kilowatt Hour)

Main Consumer Groups	1980	1981	1982	1983	1984	1985	1986	Fiscal Year 1987	1988	1989	1990
Small-scale consumers	53.6	53.3	53.5	71.2	81.7	88.1	91.5	101.6	114.1	118.2	120.0
Medium-scale consumers	..	46.1	48.0	64.4	74.9	81.8	88.3	96.9	110.9	116.3	119.2
Large-scale consumers	37.7	31.1	31.3	48.2	59.7	65.8	71.2	81.0	94.0	99.0	101.7
Off-peak	22.2	21.7	22.4	42.7	56.8	65.9	70.9	80.5	94.7	99.6	99.8
Public lighting	47.1	48.6	51.9	70.0	98.2	85.9	95.3	102.0	118.8	121.6	122.5

Note: 1986 data is for January to June only.
Fiscal year ends June 30.

Source: Kenya Power and Lighting Company, Annual Reports - 1981,1985,1989 and 1990.

Table 9.4: CRUDE OIL AND PETROLEUM PRODUCTS - DEMAND AND SUPPLY BALANCE

(In Thousands of Metric Tons)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Demand											
Domestic	1768.2	1672.4	1573.3	1442.5	1553.5	1565.6	1654.1	1831.6	1809.1	1899.8	1931.4
Motor spirits	300.8	298.5	269.3	256.4	257.7	267.8	295.1	321.8	325.0	376.7	339.9
Jet/turbo fuel	347.9	343.5	281.8	250.1	259.4	261.0	263.4	249 5	254.6	274.3	302.4
Light diesel	408.5	375.6	373.1	388.9	420.1	447.7	481.0	572.7	537.3	543.6	555.4
Fuel oil	462.1	420.4	428.3	346.7	411.4	376.5	378.3	410.8	392.7	371.0	377.4
Other 1/	248.9	234.4	220.8	200.4	204.9	212.6	236.3	276.8	299.5	334.2	356.3
Exports	1618.4	1185.8	883.1	648.8	702.4	611.9	815.8	578.8	697.3	533.0	543.6
Petroleum fuels	1581.8	1169.5	868.0	630.8	685.3	596.8	804.5	571.9	689.9	515.9	534.2
Lubricating oils	35.5	15.8	14.7	17.1	16.7	14.8	11.0	6.5	6.9	16.4	9.0
Lubricating greases	1.1	0.5	0.4	0.9	0.4	0.3	0.3	0.4	0.5	0.7	0.3
Total [illegible] Total Supply	3386.6	2858.2	2456.4	2091.3	2255.9	2177.5	2469.9	2410.4	2506.4	2432.8	2475.0
Supply											
Imports:	3296.9	2746.8	2284.1	2158.6	2010.4	2067.7	2137.9	2271.1	2186.9	2178.0	2324.1
Crude oil	3075.5	2611.1	2162.5	1940.2	1874.3	1980.7	2006.0	2130.5	2041.8	2100.9	2178.3
Petroleum fuels	166.5	85.1	101.6	195.9	100.6	51.9	105.4	92.3	106.8	45.2	132.6
Lubricating oils	54.8	50.4	20.0	22.5	35.4	35.0	26.0	46.0	38.2	31.7	13.1
Lubricating greases	0.1	0.2	-	-	0.1	0.1	0.5	2.3	0.1	0.2	0.1
Adjustment 2/	89.7	111.4	172.3	-67.3	245.5	109.8	332.0	139.3	319.5	254.8	150.9
Memo Item:											
Net Imports	1678.5	1561.0	1401.0	1509.8	1308.0	1455.8	1322.1	1692.3	1489.6	1645.0	1780.5

1/ Includes refinery usage,liquefied petroleum gas,aviation spirit,illuminating kerosene and heavy diesel oil.

2/ Adjustment for inventory changes,losses in production and balancing item.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 9.5: VALUE OF EXPORTS AND IMPORTS OF MINERAL FUELS
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Imports	325.1	348.0	334.5	333.5	335.8	379.1	243.4	287.	258.2	355.4	500.7
Crude petroleum	256.6	328.0	299.8	280.5	292.4	349.3	207.8	248.5	217.9	299.1	422.0
Petroleum fuels	19.7	8.2	22.1	45.6	21.1	12.6	15.9	14.4	18.4	11.2	39.1
Lubricating oils	0.9	11.7	5.8	7.3	12.5	13.4	9.6	15.4	12.8	13.8	6.6
Lubricating greases	0.1	0.1	0.1	0.1	0.1	0.1	0.5	2.4	1.0	0.4	0.1
Other	47.8	-0.0	6.7	0.1	9.6	3.7	9.6	6.4	8.1	31.0	32.9
Exports	162.7	164.1	149.3	134.5	142.6	127.4	107.8	101.8	119.8	118.6	150.4
Petroleum fuels	150.6	152.3	141.7	118.2	131.7	108.6	100.5	96.4	109.2	88.8	141.1
Lubricating oils	10.0	5.5	7.1	9.7	9.5	9.1	7.0	4.9	5.4	10.5	8.6
Lubricating greases	0.4	0.2	0.3	0.5	0.3	0.3	0.3	0.4	0.5	0.8	0.5
Other	1.8	6.1	0.3	6.1	1.1	9.4	0.0	0.1	4.8	18.5	0.2
Value of Net Imports	162.4	183.9	185.2	199.0	193.2	251.7	135.6	185.3	138.4	236.8	350.3

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 9.6: WHOLESALE AND RETAIL PRICES OF PETROLEUM PRODUCTS

	Date of Effectiveness							
	April 1984	June 1986	April 1987	July 1987	June 1988	Sept. 1989	Feb. 1990	Sept. 1990
Wholesale (KSh/mt) 1/								
Liquefied petroleum gas	6399	5893	6400	6400	6400	7820	11629	14129
Premium gasoline	10869	9975	10868	11418	11831	13441	14362	18715
Regular gasoline	10512	9734	10622	11051	11337	13551	14127	18533
Illuminating kerosene	4859	4012	4012	3993	4012	5033	6471	9053
Light diesel oil	6365	5525	5886	5886	6005	7227	8275	11764
Industrial diesel oil	4019	3136	3982	3982	3982	4668	6089	9034
Fuel oil	2408	2003	2408	2413	2408	3164	3509	5405
Retail (KSh/liter) 2/								
Premium/gasohol 3/	8.6	8.0	8.6	[illegible].0	9.3	10.5	11.0	14.4
Regular gasoline	8.1	7.6	8.1	8.4	8.6	10.2	10.7	14.1
Gas oil	5.9	5.3	5.6	5.6	5.7	6.8	7.7	10.9

1/ Mombasa prices which include duty and VAT.

2/ Nairobi prices.

3/ Gasohol was introduced from 1983.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 10.1: TOURISM SECTOR - SELECTED INDICATORS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Receipts (KL millions)	82.5	90.0	118.0	122.0	151.7	197.0	248.0	292.1	349.0	432.0	533.0
Receipts (US$ millions) 1/	218.0	175.0	185.5	176.9	214.9	239.8	306.0	354.4	391.8	418.1	465.2
Arrivals ('000)	393.3	365.2	392.1	372.3	462.2	540.6	614.2	661.3	694.9	734.7	800.7
Purpose: Holiday	290.7	273.9	294.0	285.3	353.4	418.0	476.6	529.1	555.9	642.1	728.9
Business	48.9	48.0	47.9	45.0	56.5	59.5	65.7	66.1	69.5	53.8	42.4
Transit	53.7	43.3	39.0	35.7	44.7	52.0	59.1	58.9	61.4	34.5	23.1
Other	0.0	0.0	11.2	6.3	7.6	11.1	12.8	7.2	8.1	4.3	6.3
Average length of stay (days) 2/	15.7	15.0	16.2	15.9	15.9	15.9	15.9	16.0	16.0	13.6	14.3
Hotel occupancy ('000/night)	4717.3	4691.0	4628.5	4472.1	4684.3	4818.5	5010.0	5031.3	5134.5	5316.5	6045.9
Hotel occupancy rate (%)	56.7	55.0	51.4	48.6	50.9	53.4	53.5	53.1	52.9	55.2	57.6
Visitors to national parks('000)3/	655.7	730.1	968.0	957.9	1011.4	986.4	925.5	996.0	1095.8	1255.0	1532.2

1/ See Statistical Appendix Table 3.2 for average exchange rate used.

2/ Excludes days stayed by arrivals categorized as "other".

3/ Includes visitors to game reserves.

Source: Central Bureau o. Statistics, Economic Survey, various issues.

Table 10.2: TRANSPORT AND COMMUNICATIONS SECTOR - SELECTED INDICATORS
(In Millions of Kenya Pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Value of Output	**382.9**	**408.8**	**460.6**	**512.5**	**554.2**	**631.0**	**729.2**	**797.4**	**931.0**	**1102.4**	**1292.9**
Road transport	138.5	141.5	172.3	172.2	196.1	225.6	288.1	311.7	355.2	421.5	450.8
Passenger	72.9	72.8	93.2	102.7	120.9	155 9	197.0	200.7	212.4	244.9	275.7
Freight	65.6	68.7	79.1	69.5	75.2	69.7	91.1	111.0	142.8	176.6	175.1
Railway transport	32.8	42.6	50.0	58.1	62.2	57.7	59.5	60.7	67.9	73.7	96.3
Passenger	3.1	4.2	4.4	5.1	4.5	4.8	5.7	6.3	7.0	8.1	10.3
Freight	29.7	38.4	45 6	53.0	57.7	52.9	53.8	54.4	60.9	65.6	86.0
Water transport	62.7	65.3	54.6	67.5	81.8	89.0	72.6	75.5	79.0	109.9	134.0
Air transport	41.6	39.9	48.4	69.1	73.8	86.8	102.2	131.3	155.0	192.6	268.2
Services incidental to transp.	31.2	37.5	40.3	42.5	36.4	33.8	39.0	45.6	52.2	57.8	80.5
Pipeline	18.6	18.5	20.1	19.1	21.0	23.5	26.5	26.8	27.7	29.2	32.0
Total - Transport Sector	325.4	345.3	385.7	428.5	471.3	516.4	587.9	651.6	737.0	884.7	1061.8
Communications	57.5	63.5	74.9	84.0	82.9	114.6	141.3	145.8	194.0	217.7	231.1
Revenue - Rail & Air Transport	..	..	..	..	**114.4**	**120.5**	**135.7**	**155.2**	**170.1**	**190.8**	**92.1**
Railway transport	30.3	40.0	44.2	51.6	60.5	55.5	56.9	58.3	62.7	75.0	92.1
Passenger	2.9	3.9	4.5	4.9	4.5	4.8	5.7	6.3	7.0	8.1	10.3
Freight	27.4	36.1	39.7	46.8	55.9	50.7	51.2	52.0	55.7	66.9	81.8
Air transport 1/ 2/	..	..	..	..	54.0	65.0	78.9	96.9	107.4	115.7	..
Passenger	..	..	..	..	48.9	59.5	71.9	86.8	94.7	101.8	..
Freight	..	..	..	..	5.1	5.5	7.0	10.1	12.7	14.0	..

1/ Domestic and international.

2/ After 1989, data is no longer published.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 11.1: ANNUAL AVERAGE CONSUMER PRICE INDEX
(1982 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Urban Population											
Nairobi											
Lower income	74.2	82.9	100.0	111.4	122.9	138.8	144.4	151.8	164.4	180.6	201.8
Middle income	69.8	79.4	100.0	115.2	125.5	139.4	150.1	162.7	182.1	202.0	228.1
Upper income	74.0	83.1	100.0	116.9	126.3	136.4	143 5	154.7	173.0	191.9	217.3
Annual Average - Urban 1/	73.2	84.0	100.0	113.9	124.6	135.0	139.8	151.3	166.6	182.2	207.4
Nairobi 1/	72.7	81.9	100.0	114.5	124.8	138.2	145.9	156.3	173.0	191.3	215.5
Mombasa 2/	72.1	83.6	100.0	111.5	119.7	126.5	130.1	141.0	157.0	175.2	202.6
Kisumu 2/	72.1	84.4	100.0	114 2	126.9	139.1	143.6	159.0	173.0	183.8	208.6
Nakuru 2/	75.8	86.2	100.0	115.5	126.8	136.1	139.5	148.7	163.5	178.5	203.1
Rural Population											
Annual Average 2/	71.1	82.7	100.0	114.0	134.2	155.7	160.8	168.7	178.5	188.9	206.0
Central	70.4	82.7	100.0	115.6	134.9	146.6	153.5	162.8	173.9	185.6	203 2
Eastern	72.9	83.9	100.0	124.0	144.4	172.8	180.2	187.5	196.8	206.2	222.0
Nyanza	70.5	82.1	100.0	113.3	128.1	140.0	142.3	146.4	157.6	173.9	'91.3
Coast	71.4	81.9	100.0	107.3	131.2	158.7	164.6	180.3	193.7	198.4	'23.2
Western	70.5	83.8	100.0	113.5	136.5	164.1	162.1	167.2	173.2	188.0	201.3
Rift Valley	71.0	81.8	100.0	110.1	130.1	151.6	161.9	168.2	175.9	181.2	195.2
Composite Index 3/	71.5	83.0	100.0	114.0	132.3	151.5	156.6	165.2	176.1	187.5	206.3
Memo Items:											
Annual Average Increase (%) 3/	12.4	16.0	20.5	14.0	16.1	14.5	3.3	5.5	6.6	6.5	10.0
Urban Population	12.8	14.8	19.1	13.9	9.3	8.4	3.6	8.2	10.2	9.3	13.9
Nairobi	12.8	12.6	22.2	14.5	9.1	10.7	5.6	7.1	10.7	10.6	12.6
Lower income	13.8	11.7	20.6	11.4	10.3	13.0	4.0	5.1	8.3	9 8	11.7
Middle income	11.6	13.8	25.9	15.2	8.9	11.1	7.7	8.4	12.0	10.9	12.9
Upper income	13.0	12.3	20.3	16.9	8.0	8.0	5.2	7.8	11.8	10.9	13.2
Mombasa	13.0	15.8	19.7	11.5	7.4	5.7	2.9	8.4	11.3	11.6	15.6
Kisumu	15.8	17.0	18.5	14.2	11.1	9.6	3.2	10.7	8.8	6.2	13.5
Nakuru	9.9	13.7	16.0	15.5	9.8	7.4	2.5	6.6	9.9	9.1	13.8
Rural Population	12.3	16.3	20.9	14.0	17.8	16.0	3.3	4.9	5.8	5.8	9.1
Central	10.2	17.5	20.9	15.6	16.7	8.7	4.7	6.0	6.8	6.7	9.5
Eastern	7.9	15.1	19.1	24.0	16.4	19.7	4.3	4.0	5.0	4.8	7.7
Nyanza	11.1	16.4	21.8	13.3	13.1	9.3	1.6	2.9	7.7	10.3	10.0
Coast	16.9	14.6	22.2	7.3	22.3	21.0	3.7	9.6	7.4	2.4	12.5
Western	12.3	18.9	19.3	13.5	20.3	20.2	-1.2	3.1	3.6	8.6	7.1
Rift Valley	15.7	15.3	22.2	10.1	18.2	16.5	6.8	3.9	4.6	3.0	7.7

Note: Indices exclude rent.

1/ Simple average.

2/ Indices refer to households in lower/middle income groups.

3/ Weights are 20% Urban and 80% Rural.

Source: Central Bureau of Statistics and staff estimates.

Table 11.2a: NAIROBI CONSUMER PRICE INDICES
(1982 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Average 1/	72.7	81.8	100.0	114.5	124.9	138.2	146.0	156.4	173.2	191.5	215.7
Lower income	74.2	82.9	100.0	111.4	122.9	138.9	144.4	151.8	164.4	180.6	201.8
Middle income	69.8	79.4	100.0	115.2	125.5	139.4	150.1	162.7	182.1	202.0	228.1
Upper income	74.0	83.1	100.0	116.9	126.3	136.3	143.5	154.7	173.0	191.8	217.2
Average Increase (%)	12.8	12.6	22.2	14.5	9.0	10.7	5.6	7.1	10.7	10.6	12.7
Lower income	13.8	11.7	20.6	11.4	10.3	13.0	4.0	5.1	8.3	9.8	11.8
Middle income	11.6	13.8	25.9	15.2	8.9	11.1	7.7	8.3	12.0	10.9	12.9
Upper income	13.0	12.3	20.3	16.9	8.0	8.0	5.3	7.8	11.8	10.9	13.2
Memo Items:											
December of each year											
Average 1/	71.0	85.9	100.0	110.0	120.7	133.0	139.1	151.2	168.2	185.8	220.2
Lower income	73.7	87.9	100.0	109.6	121.6	134.1	139.5	147.4	162.1	176.3	209.0
Middle income	67.7	84.5	100.0	110.1	122.2	136.1	144.0	158.5	176.9	197.7	233.4
Upper income	71.6	85.1	100.0	110.3	118.5	128.7	133.8	147.6	165.5	183.4	218.3
Average increase (%)	12.6	20.9	16.5	10.0	9.8	10.1	4.6	8.6	11.3	10.5	18.5
Lower income	13.1	19.3	13.7	9.6	10.9	10.4	4.0	5.6	10.0	8.8	18.6
Middle income	11.3	24.8	18.3	10.1	11.0	11.5	5.8	10.0	11.6	11.7	18.1
Upper income	13.3	18.9	17.5	10.3	7.5	8.6	4.0	10.3	12.1	10.8	19.1

Note: Indices include rent.

1/ Simple average.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 11.2b: REVISED NAIROBI CONSUMER PRICE INDICES
(Feb./March 1986 = 100)

	Income Groups 1/				Income Groups 2/			
Year/Months	Lower	Middle	Upper	Ave. 3/	Lower	Middle	Upper	Ave. 3/
1990 February	133.9	143.9	150.3	136.4	144 5	162.9	163.4	148.8
March	140.1	150.6	152.8	142.6	151.2	170.5	166.2	155.6
April	142.0	152.0	153.6	144 3	153.2	172.1	167.1	157.5
May	142.8	152.7	154.3	145.1	154.1	172.9	167.8	158.3
June	145.5	155.8	157.8	147.9	157.0	176.3	171.6	161 4
July	145.6	155.9	158.1	148.0	157.1	176.5	172.0	161.5
August	147.2	156.9	159.5	149.5	158.9	177.6	173 5	163.2
September	151.9	161.4	164.4	154.2	164.0	182.7	178.8	168.2
October	154.6	164.8	169.1	157.0	166.8	186.6	183.9	171.4
November	159.9	167.6	170.8	161.8	172.6	189.7	185.8	176.5
December	162.1	173.2	177.3	164.8	175.0	196.0	192.9	179.8
1991 January	162.2	173.5	179.4	164.9	175.0	196.5	195.1	180.0
February	167.2	175.5	180.4	169.3	180.5	198.6	196.3	184.7
March	170.2	179.2	183.4	172.4	183.7	202.9	199.5	188.1
April	169.9	180.7	184.9	172.5	183.4	204.6	201 1	188.2
May	174.8	184.0	191.0	177.1	188.6	208.3	207.8	193.2
June (Provisional)	175.8	187.2	194.1	178.6	189.8	211.9	211.1	194.9
Memo Items:								
Annual Average Increase (%) 4/								
1991 February	24.9	21.9	20.1	24.1	24.9	21.9	20.1	24 1
March	21.5	19.0	20.0	20.9	21.5	19.0	20.0	20.9
April	19.7	18.9	20.4	19.5	19.7	18.9	20.4	19.5
May	22.4	20.5	23.8	22.0	22 4	20 5	23.8	22.0
June (Provisional)	20.9	20.2	23.0	20.8	20.9	20.2	23.1	20.8

1/ Excluding rent.

2/ Including rent.

3/ Weights of 76.8%, 20.9% and 2.3% for lower, middle and upper income groups respectively are applied. They are obtained from the 1982 Urban Household Budget Survey.

4/ Month on month.

Source: Central Bureau of Statistics.

Table 11.2c: NAIROBI CONSUMER PRICE INDICES
(Jan. June 1975 = 100)

Year/Months	Income Groups 1/				Income Groups 2/			
	Lower	Middle	Upper	Ave. 3/	Lower	Middle	Upper	Ave. 3/
1990 February	466.7	498.3	482.9	482.6	490.1	510.5	483.0	494.5
March	477.7	506.0	491.5	491.7	501.6	518.3	491.7	503.9
April	481.8	507.6	495.1	494.8	506.0	520.0	495.2	507.1
May	482.0	508.5	499.2	496.6	506.1	520.9	499.3	508.8
June	486.6	515.8	506.7	503.0	511.0	528.4	506.9	515.4
July	486.8	517.5	508.9	504.4	511.2	530.2	509.1	516.8
August	486.8	518.9	511.7	505.8	511.2	531.6	511.8	518.2
September	497.3	525.7	531.7	518.2	522.2	538.6	531.9	530.9
October	510.9	552.4	546.4	536.6	536.5	565.9	546.5	549.6
November	533.3	561.2	552.0	548.8	559.9	574.9	552.2	562.3
December	540.9	583.0	565.3	563.1	568.0	597.2	565.5	576.9
1991 January	540.9	583.7	567.1	563.9	568.0	597.9	567.2	577.7
February	542.2	586.7	572.3	567.1	590.3	601.0	572.5	587.9
March	547.3	595.1	579.2	573.9	574.7	609.7	579.3	587.9
April	550.7	598.3	583.8	577.6	578.3	613.0	584.0	591.8
May	555.8	600.2	590.1	582.0	583.6	614.9	590.3	596.3
June	590.3	627.4	600.4	606.0	590.3	627.4	600.6	606.1
Memo Items:								
Annual Average Increase (%) 4/								
1991 February	16.2	17.7	18.5	17.5	20.4	17.7	18.5	18.9
March	14.6	17.6	17.8	16.7	14.6	17.6	17.8	16.7
April	14.3	17.9	17.9	16.7	14.3	17.9	17.9	16.7
May	15.3	18.0	18.2	17.2	15.3	18.0	18.2	17.2
June	21.3	21.6	18.5	20.5	15.5	18.7	18.5	17.6

1/ Excluding rent.
2/ Including rent.
3/ Simple average.
4/ Month on month.

Source: Central Bureau of Statistics.

Table 11.3: WAGE EARNINGS BY INDUSTRY AND SECTOR

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Wage Earnings	**664.1**	**788.7**	**860.3**	**958.2**	**1074.8**	**1232.3**	**1393.5**	**1597.7**	**1883.7**	**2107.3**	**2356.8**
Agriculture and forestry	60.3	68.3	67.5	74.8	82.7	91.9	107.4	120.4	147.2	156.1	174.9
Mining and quarrying	1.6	1.8	3.3	3.8	4.3	5.0	4.5	6.6	9.1	10.6	11.3
Manufacturing	106.1	122.2	136.1	149.4	168.7	188.2	212.8	245.4	274.1	306.8	345.1
Electricity and water	7.9	10.4	13.5	17.7	20.4	23.3	26.7	36.2	42.5	53.4	59.6
Construction	37.5	44.5	43.7	47.5	43.5	47.5	49.6	55.6	67.3	82.3	96.9
Trade,restaurants and hotels	71.6	81.7	87.1	99.9	116.5	131.3	149.8	186.7	214.2	247.0	282.0
Transport and communications	58.1	66.6	71.9	78.1	82.9	90.7	109.8	123.3	161.2	180.2	191.1
Finance and business services	62.0	73.7	80.6	88.6	108.3	128.8	148.8	179.4	200.2	227.1	264.4
Other services 1/	259.0	319.5	356.6	398.3	447.6	525.6	584.1	644.1	767.9	843.8	931.5
Private Sector	326.7	371.8	395.9	444.7	507.3	575.0	645.0	793.1	892.5	1007.5	1152.8
Agriculture and forestry	37.0	41.3	41.6	47.5	54.4	61.6	72.0	83.0	91.9	99.5	115.4
Mining and quarrying	0.6	0.6	0.8	0.9	1.2	1.6	1.3	5.4	7.6	8.9	9.5
Manufacturing	82.6	97.4	109.4	119.5	133.0	148.6	170.8	198.9	218.2	243.4	276.3
Electricity and water	0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.3	0.3	0.4	1.0
Construction	22.5	26.5	23.3	25.1	23.4	24.1	23.8	27.6	37.0	44.5	52.1
Trade,restaurants and hotels	67.0	75.5	79.2	91.2	107.6	121.8	139.1	171.1	197.2	227.5	260.0
Transport and communications	22.5	21.4	25.4	28.3	29.2	32.8	33.9	37.7	51.3	62.6	72.7
Finance and business services	47.6	55.4	60.0	66.3	77.6	89.8	96.0	122.0	132.5	150.7	174.4
Other services 1/	46.9	53.6	56.1	65.9	80.9	94.7	108.1	147.1	156.5	170.0	191.4
Public Sector 2/	337.3	416.9	464.4	513.5	567.5	657.3	748.5	804.6	991.2	1099.8	1204.0
Memo Items:											
Av. Wage Earnings Per Employee	660.3	770.0	822.4	876.4	960.1	1049.3	1136.0	1243.0	1403.4	1535.0	1674.2
Public Sector	715.3	861.2	918.5	972.9	1048.1	1143.7	1235.6	1282.5	1500.9	1604.1	1735.1
Private Sector	611.7	688.2	732.5	786.4	877.7	958.8	1038.8	1205.3	1309.0	1466.1	1615.0

Note: Wage earnings in millions of Kenya Pounds
Average wage earnings per employee in Kenya Pounds.

1/ Community,social and personal services

2/ See Statistical Appendix Table 5.8 for details.

Source: Central Bureau of Statistics, Economic Survey, various issues.

Table 11.4: NOMINAL AND REAL WAGES
(Kenya Pounds per Year)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
Average Nominal Wage	660.3	770.0	822.4	876.4	960.1	1049.3	1136.0	1243.0	1403.4	1535.0	1674.2
Private sector	611.7	688.2	732.5	786.4	877.7	958.8	1038.8	1205.3	1309.0	1466.1	1615.0
Public sector	715.3	861.2	918.5	972.9	1048.1	1143.7	1235.6	1282.5	1500.9	1604.1	1735.1
Average Real Wage	373.7	378.1	338.6	315.4	317.2	312.5	321.9	327.6	334.4	330.5	320.1
Private sector	346.1	346.0	301.6	282.9	289.9	285.5	290.4	317.6	312.1	315.7	308.9
Public sector	404.9	433.0	387.1	350.1	345.3	340.6	354.4	345.6	357.4	345.5	331.6
Memo Items:											
Percent change in											
Consumer prices 1/	12.8	12.6	22.2	14.5	9.1	10.7	5.6	7.1	10.7	10.6	12.6
Real average earnings	0.9	1.2	-10.4	-6.9	0.6	-1.5	3.0	1.8	2.1	-1.2	-3.1

1/ Composite index of Nairobi lower, middle and upper income indices calculated as an average of the indices for all 12 months.

Source: Central Bureau of Statistics, *Economic Survey*, various issues.

Technical Notes

Overview

1. The data in this Appendix is mainly in calendar year with coverage from 1980 to 1990 (exceptions are Tables 2.8, 4.1, 5.1 to 5.6, 7.5,7.7, 9.3, 9.6, 11.2b and 11.2c). Main sources of data are the following two publications of Central Bureau of Statistics (CBS): Economic Survey and Statistical Abstract, supplemented by International Monetary Fund (IMF), International Financial Statistics (IFS); World Bank, Debtor Reporting System (DRS); National Cereals and Produce Board (NCPB); Ministry of Supply and Marketing; Tea Board of Kenya; Coffee Board of Kenya; Kenya Power and Lighting Co. and staff of both CBS and Research Department of Central Bank of Kenya.

2. In compiling the series, the conventions followed are:

   (i) Use of the most re ..nt publications to obtain and/or revise all data;

   (ii) Use of a single source (whenever possible) for data on the same subject.

3. The Government of Kenya (GOK) has detailed the methodology for compiling data for:

   (i) Value added by industrial origin;

   (ii) Public consumption;

   (iii) Gross capital formation; and

   (iv) External accounts, in the 1977 CBS publication, **Sources and Methods Used for the National Accounts of Kenya.**

4. Later, CBS reviewed the economic concepts, sources of information used and mode of presentation of statistics in the Economic Survey and Statistical Abstract. The review has been completed for public finance and balance of payments data. Some of the recommendations have been introduced and revisions were made to the data from 1981 onwards. The details of these revisions are documented and published in the 1987 edition of the Economic Survey.

5. Indices and constant prices are reported with 1982 as base year while values are given in Kenya pounds. Selected values shown in US dollars were converted from local currency using the average exchange rate provided and used by the officials at the Central Bank of Kenya (see rates in Table 3.2). These rates may differ slightly from those in IFS due to different treatment of weekends in the calculations.

Population and Employment

Tables 1.1 and 1.2

6. Demographic analysis and internal consistency checks revealed that the 1979 population census had an under-enumeration of population estimated at 814,000 persons who are included in the 1979 total population figure reported in Table 1.1. This under-enumeration of 1979 population is not disaggregated by sex and age,therefore the working age population (Table 1.1) as well as the decomposition of population by sex (Table 1.2) exclude this group.

7. The population projections assume a decline in both fertility and mortality over the period. The fertility rate is assumed to fall from 7.887 in 1979 to about 5.5 by the end of the century. Mortality projections are based on 1980 estimates of life expectancy of 54.1 years for males and 56.9 years for females, and an infant mortality rate of 92 deaths per 1,000 live births. By 2000, the life expectancy of males is projected to be 58.8 years and 61.5 for females, while the infant mortality rate is expected to be 60 deaths per 1,000 live births. Life expectancy indicates the number of years a newborn infant would live if patterns of mortality prevailing (for all people) at the time of birth were to remain the same throughout the infant's life. Infant mortality rate is the number of infants who die before reaching one year of age, per thousand live births in a given year.

8. Provisional results of 1989 Population Census show a figure which is 9% below the projected 1989 population. The projections were based on 1979 data which (a) included the under-enumeration of the population stated in paragraph 6 above and (b) assumed a moderate decline in fertility and mortality rates (see above paragraph). However, 1989 Kenya Demographic and Health Survey shows significant declines in fertility and mortality. In actual fact, total fertility rate has declined from 8 children per woman aged 49 years and above in 1979 to 6.7 children in 1989 compared to the projected figure of 7 children.

Table 1.3

9. Wage employees include casual employees, part-time workers, directors and partners serving on a regular basis salary contract. Self-employed persons, employees in small scale enterprises and family workers who do not receive regular wages or salaries are listed separately.

National Accounts

10. The accounts cover production of all enterprise activities in the monetary economy as well as production in the non-monetary economy if the activity corresponds to one undertaken commercially in the monetary economy. The non-monetary economy is one in which, even though a proportion of inputs are purchased from the monetary economy, the output is not sold using money as a medium of exchange. The benchmark data for the non-monetary economy was 1972 and since then, a grossing-up factor is used to obtain annual sectoral estimates. In editions of the Economic Survey published before 1987, the non-monetary economy was called the traditional economy. Gross Domestic product (GDP) by industrial origin is measured at factor cost while GDP by expenditure is calculated at market prices.

Tables 2.1, 2.2 & 2.7

11. The aggregation on non-monetary and monetary economy is as follows:

Agriculture - Agriculture, Forestry and Fishing.

Industry - Mining and Quarrying; Manufacturing; Building and Construction; Water Collection; Electricity and Water.

Services - Trade, Restaurants and Hotels; Transport, Storage and Communication; Finance and Business Services; Ownership of Dwellings; Domestic Services; Government Services; Other Services; and Imputed Bank Service Charges.

Value added in tourism is captured in several sectors, for example, in Trade, Restaurants and Hotels; and in Other Services.

Tables 2.3 & 2.4

12. The statistical discrepancy arises when the components of Gross Domestic Product are estimated independently by industrial origin and by expenditure categories.

Tables 2.4

13. Capacity to Import is defined as the current price value of exports of goods and nonfactor services deflated by the import price index. Terms of Trade Adjustment is capacity to import less actual exports of goods and nonfactor services in constant prices. Gross Domestic Income is GDP plus Terms of Trade Adjustment. Gross National Income is Gross Domestic Income plus Net Factor Income.

Tables 2.5 & 2.6

14. The aggregation of gross fixed capital formation is as follows:

Agriculture - Agriculture and Forestry

Industry - Mining and Quarrying; Manufacturing; Electricity and Water; Construction.

Services - Trade, Restaurants and Hotels; Transport and Communication; Finance and Business Services; Ownership of Dwellings; Government Services; and Other Services.

Tables 2.7

15. Deflators are constructed at the detailed subsectoral level in the Central Bureau of Statistics, except for Finance and Private Consumption which are implicit deflators.

Table 2.8

16. Data coverage is from 1977 to 1990. The moving average Incremental Capital-Output Ratio (ICOR) in year t is defined as follow:

3-Year Moving Average $ICOR_t = 1/3\ (ICOR_{t-1} + ICOR_t + ICOR_{t+1})$

5-Year Moving Average $ICOR_t = 1/5\ (ICOR_{t-2} + ICOR_{t-1} + ICOR_t + ICOR_{t+1} + ICOR_{t+2}$

Balance of Payments

Tables 3.1 & 3.2

17. Merchandise imports data for years prior to 1981 are reported only at c.i.f. values. In these cases, an estimate of 86.2% of this value is used as the f.o.b. value.

Tables 3.3

18. Horticulture includes flowers, fruits, spices and vegetables.

Tables 3.3 & 3.4

19. Data excludes gold and currency but includes re-exports.

Table 3.10

20. Totals for nonfactor services are derived residually.

Tables 4.1 to 4.3

21. Data is from the World Bank, DRS which collects external debt data from member countries. Debt outstanding includes principal in arrears. Interests in arrears is included in short term debt.

22. Data coverage for Table 4.1 is the stock of debt at December 31, 1990.

Table 4.4

23. Net use of Fund credit does not equal purchases minus repurchases since all purchases do not constitute a use of Fund credit.

Public Finance

24. The public finance data are on a fiscal year basis. Fiscal accounts presented by the IMF may differ from the official accounts shown here due mainly to adjustments made in their data to reflect unpresented checks.

Tables 5.1 to 5.5

25. Data coverage is for the period 1979/80 to 1990/91 (where 1979/80 fiscal year begins on July 1, 1979 and ends on June 30, 1980) and pertains to Central Government only.

Table 5.2

26. The statistical discrepancy line is introduced to impose consistency with total revenue data in Table 5.1.

Table 5.6

27. Fiscal year data is from 1985/86 to 1990/91. Prior to 1985/86, data was reported in calendar year only. Calendar year data is given here for 1980 to 1984.

Table 5.7

28. The statistical discrepancy line is introduced to impose consistency with the relevant totals in the National Accounts.

Monetary Statistics

Table 6.1

29. Money comprises the economy's means of payment and includes currency outside banks and demand deposits (including call and 7 day deposits). This differs from the definition used by IMF. Quasimoney comprises time and savings deposits. Time deposits bear interest and cannot be withdrawn instantly without penalty or loss of interest earnings. Savings deposits earn interest and can readily be exchanged for money.

Table 6.2

30. This table shows the change in year end values.

Table 6.4

31. These nominal interest rates are representative of the rates paid by financial institutions in Kenya to holders of their quasi-monetary liabilities (i.e. deposit rates) and charged by these institutions on loans to prime customers (i.e. lending rates). As of 4/90 , interest on loans and advances greater than 3 years is 19%.

Agriculture Sector

Table 7.3

32. Generally, small farms are between 0.2 and 12 hectares in size, while the average size of large

farms is over 700 hectares.

Table 7.4

33. Average prices are for calendar year and may differ from those based on crop years. In the case of tea and coffee, the prices are for made tea and processed coffee respectively.

Table 7.5

34. Data coverage is for fiscal years 1979/80 to 1989/90.

Table 7.7

35. Coverage is for agricultural years 1979/80 to 1989/90. Coffee year 1979/80 begins October 1, 1979 and ends September 30, 1980.

Manufacturing Sector

Table 8.1

36. Value added data for this sector differs from that in National Accounts because "Processing of Tea" is included here, while it is classified under "Agriculture" in National Accounts.

Energy Sector

Table 9.3

37. Data coverage is 1980 to 1985; January to June 1986 and fiscal years 1987 to 1990. Fiscal year 1987 ends on June 30, 1987.

Table 9.6

38. Dates of effectiveness of the prices range from April 1984 to September 1990.

Other Sectors

Table 10.1

39. Students comprise the major part of visitors categorized as Other.

Prices and Wages, n.e.i.

Tables 11.1, 11.2a & 11.2c

40. Calculations of Nairobi consumer price indices use the following income groups which were based on the results of 1974/75 Urban Household Budget Survey:

Lower - Households with monthly earnings below KSh 699.
Middle - Households with monthly earnings between KSh 700 and KSh 2,499.
Upper - Households with monthly earnings of KSh 2,500 and above.

Table 11.2b

41. Calculations use the following income groups which were based on the results of 1982 Urban Household Budget Survey:

Lower - Households with monthly earnings below KSh 1999.
Middle - Households with monthly earnings between KSh 2,000 and KSh 7999.
Upper - Households with monthly earnings of KSh 8,000 and above.

Table 11.2b & 11.2c

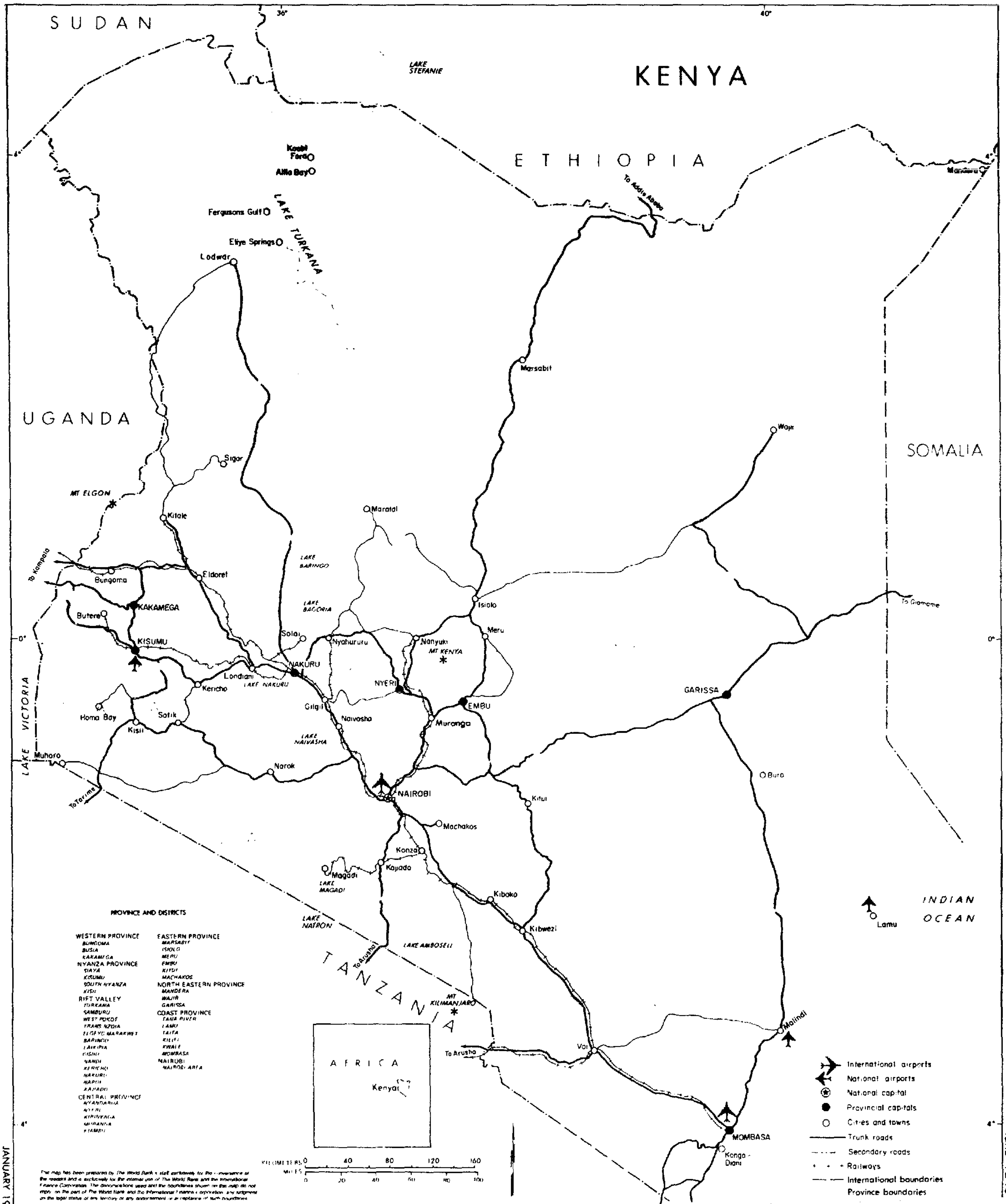
42. Monthly coverage is from February 1990 to June 1991.

Table 11.3

43. See Statistical Appendix Table 1.3 for the pertinent employment data.

Table 11.4

44. See Statistical Appendix Table 11.2a for the relevant price index.



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