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KENYA

National Programme for the second IDDA

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SECTION 1

OVERVIEW OF ECONOMY

1.1 Socio-economic indicators

Compared with most sub-Saharan African countries, Kenya has a favourable resource base and has had an impressive record of economic development since it achieved independence in 1963. It has an excellent climate, a significant coastline, and a range of natural resources including rich farm land, forests, rivers, lakes, geo-thermal energy sources, and non-metallic minerals. By 1988, the country's GNP per head was US $370 which is in the upper end for the low-income developing countries. Kenya has also improved its social indicators more than other African countries belonging to the same income group. Between 1965 and 1988, life expectancy grew from 45 to 56 for males and from 49 to 60 for females. Over the same period, infant mortality fell from 113 to 72 per 1000 live births.

The rate of population growth remains worryingly high and provides a major challenge to the task of raising per capita incomes. However, here too the trend is now downward from the remarkably high four percent rate recorded during the earlier years of the eighties. Nevertheless, from an estimated total of 23 millions in 1988, Kenya's population is projected to reach 32 millions by 2000. The two major cities are growing very fast; Nairobi has been growing at around 7.5 percent per annum, mainly as a result of rural-urban migration. Its population is now over 1.5 millions while that of Mombasa is around 500,000.

Education has undergone remarkable expansion since independence and accounted for 20 percent of central government's recurrent expenditure in 1988/89. Primary school enrolment is now virtually universal. Secondary school enrolment has been growing very fast and now represents 20 percent of the relevant group. Adult illiteracy in 1985 stood at 41 percent overall and 51 percent for women.

1.2 Resource Base

As already noted, Kenya has a favourable resource base for its economic development. Of its total land area of over 571,000 Km2, agricultural land comprises 52 million hectares, of which 6.8 million hectares are classified as high potential farm land and 3.1 million hectares as medium potential land. Although well endowed with forests, they face serious problems as a result of excessive cutting and encroachment by agriculture. Industrial forest plantations cover 165,000 hectares producing raw material mainly for sawmills and the pulp and paper industry. The country

has a comparatively long coastline and lakes cover a total area of 10,7000 km2. The total fish catch in 1988 weighed 123,000 tons: freshwater fish from Lake Victoria predominate although marine fishing is being promoted as a potential export sector.

The mineral resource base is mainly confined to non-metallic minerals including felspar, kaolin, woolastonite, flourspar, gysum and vermiculite, all of which are essential for manufacture of crockery, tiles and sanitaryware, In value terms soda ash is the most important mining operation. Gold mining, once an important foreign exchange earner, virtually ceased in the 1970-72 period but is currently enjoying a minor revival. Gemstone output is insignificant.

Kenya is heavily dependent on a declining resource, fuelwood, for household energy needs and on imported oil for other energy requirements. National energy policy is directed mainly at reducing imports and increasing domestic production, through the development of geothermal energy and hydro power. In 1988, total electricity-generating capacity amounted to 575 mw, of which 62 percent was hydro. Land and offshore oil exploration is continuing and two finds - their commercial potential as yet unknown - have already been made.

1.3 Structure of the Economy

Kenya's GDP data include an estimate of production outside the recorded economy. The contribution made by the subsistence or non-monetary sector is now estimated at around 5 percent. Table 1.1 shows the sub-sector origin of GDP in the monetary economy in 1988.

Table 1.1: Percentage distribution of GDP in 1988

	%
Agriculture, forestry and fishing	30.7
Mining and quarrying	0.3
Manufacturing	12.2
Electricity and water	1.0
Building and construction	6.1
Trade, restaurants and hotels	10.9
Transport, storage and communications	5.6
Finance, insurance, real estate, business services	7.6
Ownership of dwellings	8.7
Domestic services	1.2
Government services	15.2
Other services	3.5
Less: imputed bank service charges	- 3.0
GDP at factor cost	100.0

1.4 Overall economic performance

Kenya's economic growth since independance has been fast but with

substantial fluctuations. It has been based on an approach involving transfers of land from large to small farm use and from low-value to high-value crops and import substitution industrialization (with a substantial role for foreign capital for which Kenya was attractive in the 1960s and 1970s). The post-independence experience breaks down into five periods:

- the "Kenya miracle" of 1964-73, with an average growth rate of around 6.5 percent per annum;

- the years 1974-76, in which the annual GDP growth rate averaged 3.5 percent (less than the rate of population growth), due to rising oil prices, international recession and widespread drought in Kenya;

- the coffee and tea price boom of 1976-77, resulting largely from a severe frost which disrupted Brazil's coffee exports. As a result, GDP growth rates were 8.2 and 7.9 per cent per year in the period 1977-78;

- the period from 1979-84, with a reduced rate of growth attributable to several distinct causes: the collapse of the East African Community (EAC) in 1977, the oil crisis of 1980-81, renewed world recession in the 1980s and another drought in 1984;

- a period of renewed growth since 1985, partly attributable to the return of favourable weather conditions, a general improvement in Kenya's terms of trade, and the effects of the restructuring programme. The economy grew at 4.8 percent in 1987 and provisionally, at 5.2 percent in 1988, despite the collapse in the commodity boom.

1.5 Recent economic performance by sector

Agriculture and ranching are still the most important economic activities in Kenya, accounting (with forestry and fishing) for 31 percent of GDP and 21 percent of wage employment in 1988. More than half of agricultural output is for subsistence; the two main cash crops, coffee and tea, are Kenya's main source of merchandise export revenue.

Farmers appear to have responded well to the improved price incentives offered during the 1980s, although the 1984 drought, the worst for half a century, was a serious setback. The agricultural sector is given top priority in the government's long-term planning, with the emphasis on development of high value, labour-intensive crops such as tea, coffee, fruit and vegetables. Food self-sufficiency is also heavily emphasised, although the acute shortage of arable land means that increaeed production will have to be sought through improved yields rather than an expansion of the area cultivated: only 18 percent of Kenya's soil is categorised as being of medium or high potential,

and some of this is already severely overcrowded.

As Table 1.2 shows, the growth rates of real agricultural GDP displayed great variability throughout the 1980s with growth of 11.2 percent in 1982 and a decline of 3.9 percent in 1984. Since 1985, growth has been more steady.

Table 1.2: Growth Rates of Real GDP by Industrial Origin, 1980-88
(percentage change in constant 1982 prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Agriculture	0.9	6.1	11.2	1.6	-3.9	3.7	4.9	3.8	4.4
Forestry & Fishing	3.5	3.3	6.9	6.8	0.1	1.3	3.2	7.3	8.4
Mining & Quarrying	10.1	-37.7	21.3	1.2	10.8	9.4	3.6	8.6	11.3
Manufactures	5.2	3.6	2.2	4.5	4.3	4.5	5.8	5.7	6.0
Construction	6.7	5.8	-8.2	-5.3	-0.5	9.1	-1.6	3.9	4.4
Electricity & Water	-0.9	10.9	-2.0	9.6	-32.6	1.6	6.4	7.3	6.7
Trade & Hotels	5.0	1.3	-7.2	2.8	8.1	6.8	9.8	5.8	5.8
Transport storage	5.7	1.9	29.1	2.9	0.4	2.1	4.3	4.4	4.1
Finance & Business services	-0.5	30.8	-6.5	8.1	-0.5	9.9	6.8	5.2	6.1
Ownership of dwellings	4.7	7.5	3.7	-1.2	26.2	3.1	3.4	3.4	3.4
Domestic services	17.7	8.3	6.7	6.5	6.5	6.9	9.0	10.4	9.0
Government services	5.6	5.3	3.8	4.2	2.9	5.1	6.3	4.8	5.8
Oth services	9.9	4.1	5.7	9.2	37.6	5.2	5.0	7.4	7.1
Less: imputed bank charges	-3.4	19.1	-9.8	22.2	-3.4	3.6	2.9	7.1	7.4
TOTAL GDP	**3.9**	**6.0**	**4.8**	**2.3**	**2.7**	**4.9**	**5.5**	**4.8**	**5.2**

The manufacturing sector - which is treated in detail in Section 2 - provided 12.2 percent of GDP in 1988. This amounted to over 70 percent of the contribution of the industrial sector to GDP, which is large by sub-Saharan standards. As can be seen from examining Table 1.2, its growth throughout the 1980s was steady and relatively fast.

The service sector accounts for the largest share of GDP, with the most notable growth occuring in subsectors benefiting from Kenya's thriving tourist industry (trade, restaurants and hotels; transport, storage and communication; finance and business services). In recent years tourism has become the largest single foreign exchange earner for Kenya.

Government services have grown at a rate slightly above that of GDP. As a result, their contribution to GDP has slowly risen from 14.7 percent in 1979 to 15.2 percent in 1988.

The early 1980s was a difficult period for Kenya's building and construction industry, hit by the recession in general and the increase in building costs, the credit squeeze and attempts to restrain government expenditure in particular. The first signs of a recovery were evident in 1985, when the value of completed private building work in the main towns increased by over 70 percent; however, the value of public building work declined sharply due to continued government austerity. A further recovery, probably partly fuelled by the coffee boom, was evident in 1986, when cement consumption was 37 percent up on its 1983 trough with employment in the industry recovering well. These trends continued in 1987 and 1988.

1.6 Employment and unemployment

The total work force was estimated at 7.2 millions in 1987. Unemployment is a serious problem, especially in urban areas. By the end of this century Kenya will have a work force of 14 million people and to prevent any increase in unemployment the number of jobs will have to double by 2000. Nearly half of wage employment in the modern sector is in publicly controlled bodies. The number of women in wage employment has risen in recent years, but, at 279,600 in 1988, women represented only 21 percent of the total (in contrast to smallholder agriculture where they take a major role).

Wage employment in modern establishments has been growing at a considerably slower rate than the labour force in recent years and the numbers absorbed by the informal sector are still relatively small. However, this sector has been expanding rapidly and for the first time, in early 1988, measures were announced to give especially favourable treatment, in terms of government credit and taxation, to informal enterprises, most of which are labour intensive, low wage and highly competitive. In the private sector, agriculture, forestry and manufacturing have declined in relative importance as wage employers since 1983, while construction has suffered an absolute fall in the number

of its wage employees. Within the public sector, the main expansion has been in the case of teachers.

1.7 The financial sector

Kenya had a relatively sophisticated fiscal and monetary system at the time of independence and since then it has developed significantly. In comparison with other sub-Saharan countries, the economy is highly monetized and extensive use is made of bank credit. Direct taxes on personal and corporate income account for a high proportion of current government revenue. Treasury bills are widely used as a means of financing budget deficits. The Nairobi stock exchange is one of the busiest in sub-Sharan Africa. In addition to the Central Bank, which was established in 1966, there are 29 commercial banks - including two owned by the government - with around 360 bank branches. In addition, there are 48 non-bank financial institutions, with 60 branches, 31 building societies, 37 locally-incorporated insurance companies, a Post Office savings bank, a social security system, numerous pension plans, 6 industrial development banks, numerous savings and credit cooperative societies and other specialized institutions which lend to agriculture, tourism and housing.

A number of weaknesses in the financial sector have been exposed in recent years. These included insolvencies among a number of banks and, in order to restore confidence, a special committee has been set up and the rules relating to minimum capital Requirements for banks and building societies have been amended.

1.8 Development strategy

As already noted, Kenya's approach to the development of its agricultural sector has been based on transfers of land from large to small farm use and from low-value to high-value crops while its manufacturing sector has been promoted through a policy of import substitution industrialization behind a protective wall of tariffs and quotas. Since independence, policy makers have sought to keep Kenya a mixed economy, wherein the public and private sectors play specific and complementary roles. The former has played an important part - and foreign capital had a substantial role in the 1960s and 1970s. Nevertheless, the public sector prodominates, through direct participation and also indirectly, in productive enterprises and marketing channels. More recently, however, because of their generally poor performance, the parastatals are being reviewed and classified according to their need for rehabilitation or restructuring, need for divestiture and privatization, and need for retention. In addition to this apparent move in the direction of a lower degree of government involvement in manufacturing, the sector is also being gradually opened up through liberalization of imports and encouragement to transform itself from its traditional focus on import substitution to a greater orientation toward production for export markets.

1.9 Recent development plans and structural adjustment programmes

Kenya's most recent development plans are the Fourth (1979-83), Fifth (1984-88), and Sixth (1989-93). The Fourth Plan recognized the weaknesses of the import substitution industrialization strategy and the need for structural change within the manufacturing sector. It advocated a reduction in industrial protection and the phasing out of quantitative import restrictions, tariff rationalization and export promotion. Some liberalization measures were implemented but were later revised because the economy was in macroeconomic disequilibrium and stabilization took precedence. However, many of the stabilization measures had a positive impact on industrial efficiency, notably, exchange rate flexibility and devaluation, positive real interest rates, decline in real wages, and liberalization of imports.

The Fifth Plan (1984-88) emphasized the need for a more vibrant private sector and set out to improve the environment within which it operated by reviewing the role played by the government as an investor in productive enterprises and a competitor with the private sector for investment funds. More importantly, during the period of the fifth development plan, the Government of Kenya published a seminal Sessional Paper in 1986 entitled Economic Management for Renewed Growth, which set out its long-term strategic thinking on the future development of the economy up to 2000. This paper was intended to provide a blueprint for the Sixth Plan and for those to follow and therefore acts also as the basis for Kenya's national programme for the second IDDA. It proposed policies designed to: (a) increase the productivity of government investments and services in the face of severe fiscal constraints; (b) improve the economic balance between rural and urban areas; (c) provide a leading role for the informal sector in creating jobs and incomes; (d) encourage food security, income growth, employment creation and export expansion within agriculture; and (e) promote structural adjustment and outward orientation within the manufacturing and trade sectors.

The 1989-93 development plan, published in March 1989, is Kenya's sixth. Its theme is "Participation for Progress", involving accelerated growth rates in agriculture, industrial diversification and an increased emphasis on small-scale farming and the urban informal sector. Its target of 5.4 percent growth in GDP during the plan period (1.6 percent in per capita terms) will require both an acceleration of growth and a slight reduction in population growth.

Table 1.3: Target Growth Rates by Sector

	1989-93	1988-2000
Non-monetary GDP	3.6	3.5
Agriculture	4.5	5.3
Manufacturing	6.4	7.5
Trade, Restaurants, Hotels	7.0	5.5
Government services	5.0	5.4
Other sectors	5.2	6.7
GDP at market prices	5.4	5.9
Population	3.7	3.7
GDP per capita	1.6	2.1

Sources: Sessional Paper No 1 of 1986; Development Plan, 1989-93.

In 1987, Kenya had experienced a significant deterioration in its terms of trade. The balance of payments reverted to a deficit, there was a major loss of foreign exchange reserves, inflation accelerated, and real GDP declined. Because of this deterioration in financial and economic conditions, and in line with the objective set out in the Government's 1986 Sessional Paper on Economic Management for Renewed Growth, the Government in late 1987 adopted a major stabilization and structural adjustment programme. The overall objectives of the programme were to revive prospects for accelerated growth and to provide productive employment for the rapidly growing labour force. The programme was supported by an 18-month Stand-by arrangement from the IMF and a three-year arrangement under the Fund's Structural Adjustment Facility, both of which became effective on February 1988. The programme was also supported by IDA sectoral adjustment lending for the agricultural and industrial sectors, with confinancing from other donors. Under the structural adjustment programme, the Government set out to improve the economy's growth performance, reduce the rate of inflation and progressively narrow the current account deficit to a sustainable level through financial stabilization policies and a phased introduction of structural reforms over the programme period in agriculture, industry, government expediture, the financial sector, and state corporations.

Performance under the 1988 programme was on the whole positive. The major elements of the adjustment programme were successfully implemented and, as a consequence, the objectives of the programme with regard to growth, financial stability and the external sector were largely achieved. In early 1989 the Government requested support under a three-year Enhanced Structural Adjustment Facility (ESAF) for its 1989-91 programme, which was designed to broaden and reinforce the adjustment process and set the stage for a sustained export-led growth. The programme aims to achieve a real GDP growth higher than the population growth rate, to reduce the rate of inflation to the average of Kenya's main trading partners, to curtail substantially the external current account deficit and to build

up Kenya's net official international reserves. To attain these objectives, the programme for 1990-92 stresses further tightening of the fiscal stance, tackling structural issues related to the budget and state corporations, implementing structural reforms in the financial, trade and industrial sectors and pursuing flexible exchange and interest rate policies, as well as other market-oriented domestic policies. The reforms in the financial and industrial sectors are also being supported by the IDA through sector adjustment credits and cofinancing by other donors. Performance under the 1989 structural adjustment programme was generally satisfactory.

1.10 **International Accounts** (trade, aid, investment, and debts)

The main sources of Kenya's foreign exchange earnings, apart from petroleum products based on processed imported oil, are coffee and tea which together account for about 60 percent of the value of total exports of goods and services. Because of their importance and because the prices of these two products are volatile, export earnings are also subject to periodic ups and downs as Table 1.4 shows. This makes planning difficult and is one reason why the government is encouraging export diversification within agriculture and an export-led reorientation of the manufacturing sector.

Like many other developing countries, Kenya needs to import most capital goods, certain intermediate goods and many raw materials, especially oil. But exports have not grown enough to finance these imports. While in the period 1965-1969 exports financed 73 percent of imports this ratio had dropped to 56 percent in the late 1980s.

Kenya's balance of payments was running into trouble even before the first big increase in oil prices in 1973, as a result of the import intensiveness of the import substitution programme with imports of capital and intermediate goods rising as those of consumer goods fell. Since then the rising cost of fuel imports, unreliable weather and, apart from occasional fluctuations, the slow rise of export prices have aggravated the situation. Thus the 1980s were years of actual or latent balance of payments crisis. The net foreign assets of the banking system were negative throughout the period, except for a brief respite in 1984. Several hundred billion dollars were borrowed on the eurodollar market at high rates of interest and the public external debt service ratio reached 36 percent in 1988.

A considerable improvement in the current account of the balance of payments has nevertheless been achieved since 1980, when the IMF recorded a deficit of $887 mn. This has mainly been due to import restrictions, in the face of a poor performance by merchandise exports and exports of services (mainly tourism). As Table 1.4 shows, in 1987 there was another large increase in the current account deficit - and renewed recourse to IMF support. The deficit rose from K£32 mn in 1986 to K£409 mn ($497 mn) in 1987, but fell back to K£403 mn ($454 mn) in 1988.

Net official transfers, which seemed set to collapse in the early 1980s have since revived quite substantially. On the capital account, the level of direct investment has been very disappointing and the inflow of other long-term and of short-term capital has been erratic. As a result, foreign exchange reserves plunged in the early 1980s before reviving in 1986 because of high coffee prices and the fall in oil prices.

Table 1.4: Balance of Payments

	1985	1986	1987a	1988a
Merchandise exports fob	775	949	748	902
Merchandise imports fob	1045	1180	1335	1599
Trade Balance	**-270**	**-231**	**-587**	**-597**
Net Services	34	31	1	- 12
Net Transfers	157	168	177	306
Current Account	**-79**	**-32**	**-409**	**-403**
Government long-term capital	-20	4	162	256
Private long-term capital	4	25	10	-17
Parastatals' long-term capital	-26	56	62	39
Short-term capital	37	17	82	47
Capital Account	**-5**	**102**	**316**	**325**
Errors and omissions	-10	3	-11	11
Overall balance	**-94**	**73**	**-104**	**-67**
Change in reserves	-19	-20	124	-53
Transactions with IMF	105	-54	-51	109
Changes in other liabilities	8	1	31	11
Monetary movements	**94**	**73**	**104**	**67**

a Provisional

Source: Economic Survey

Kenya is still relatively favoured by foreign aid agencies and its receipts of official development assistance (ODA) have held up well, at $400-$500 mn per year, in recent years, almost touching $600 mn in 1987. The proportion of aid which is in the form of grants has remained fairly constant, at around 60 percent.

Kenya's total disbursed external debt at the end of 1987 is estimated by the World Bank at $5,950 mn, of which $591 mn was short term, $381 mn outstanding to the IMF, $496 mn private non-guaranteed and the remaining $4482 mn public or publicly guaranteed. Debt servicing of the latter (on the basis of commitments to the end of 1987) is projected at a steady $500-600 mn per year until 1991, falling only slowly to under £300 mn by 1997. The terms of new lending to Kenya have softened over recent years, with the average interest rate on new public and publicly guaranteed borrowing falling from 5.2 percent in 1983 to 1.4 percent in 1987, and the maturity period widening from 31.4 to 36.6 years over the same period. The World Bank data show a consistent net outflow of funds to private creditors up to 1986, only partly offset by new official lending, before a substantial inflow in 1987. The sharp rise in debt service costs

during the late 1970s and early 1980s means that the government has become a good deal more cautious about entering into external financial commitments over recent years.

1.11 Membership of regional organizations

Kenya is a member of the Organization of African Unity, a signatory to the EC-ACP Lome Convention and a member of the Preferential Trade Area for East and Southern Africa (PTA). Since the first two are too well-known to warrent description here, only the last-named will be outlined.

The PTA, which was originally intended to embrace all the 20 countries in East, Central and Southern Africa, includes Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Mozambique was admitted in April 1989. The PTA aims to liberalise trade, encourage cooperation in industry, agriculture, transport and communications and create a regional common market. The progressive liberalisation of intra-PTA trade commenced on July 1, 1984, with the adoption of a common list comprising 209 items. A Multilateral Clearing Facility, established in Harare, began operations on February 4, 1984. A PTA monetary unit of account (Uapta), equivalent to the SDR, is used to settle inter-state debts every two months, the balances payable in dollars; Uapta travellers cheques were introduced in September 1988. According to the PTA secretariat $178 mn worth of trade passed through the clearing house in January to November 1988 and was settled in Uapta. A slightly larger amount was settled in hard currency.

The practical effect of the PTA has been constrained by the rules of origin which stipulate that preferential treatment can only be accorded to goods produced by companies managed by, and in which over 51 percent of the equity is held by, nationals of the member states. Kenya argued particularly strongly against this rule, and in May 1986 the organisation agreed to a sliding scale of tariff reductions, to be applied over a five year grace period. Companies which are 40-50 percent locally owned now qualify for a 60 percent tariff reduction and those 30-40 percent locally owned for a 30 percent reduction. This concession means that many export oriented firms in Kenya would qualify for some preferential treatment.

SECTION 2

THE MANAFACTURING SECTOR

2.1 Structure and Performance

Kenya's manafacturing sector is among the largest in sub-Saharan Africa. It had about 560 medium- and large-scale, 720 small-scale, and about 1600 micro enterprises, employing a total of 159,000 in 1985. It has played an important role in the country's development since independance, increasing its share of GDP from 8 percent in 1984 to 13.2 percent in 1987 at constant prices. Like most late industrialisers, Kenya pursued industrialization through a strategy of import substitution behind a protective wall of tariffs and quotas. This strategy was supported by an overvalued exchange rate that kept non-competing imported capital goods and intermediate imputs relatively cheap; subsidized interest rates that encouraged investment; and direct government participation in the manufacturing sector. From independance, the sector has been oriented toward meeting domestic needs. As a result, the growth of domestic demand has been the main determinant of growth in the manufacturing sector, although the regional market has also provided some stimulus to growth.

Between 1963 and 1973 there was strong growth in the manufacturing sector. Manufacturing value added (MVA) grew on average by 9.1 percent per annum. This exceeded the average rate of growth of GDP by nearly 3 percent. From the mid-seventies, however, growth began to slow down because demand conditions changed in domestic and regional markets and structural problems began to appear. The deceleration in agricultural growth caused the domestic market to decline while the collapse of the East African Community was partly responsible for the decline of the regional market. Structurally, the sector was becoming more inward-looking as increasing protection made production for the domestic market more profitable than production for export. Moreover, the cascading structure of tariffs (low on imported capital and intermediate inputs and high on finished goods) was producing an increasingly import-intensive manufacturing sector. Beginning with the Fourth Plan (1979-83), policies affecting the development of the manufacturing sector were gradually changed as explained in Section 3. Most sub-sectors of manufacturing recorded increases in MVA between 1984 and 1988. Agro-industry is the most important sub-sector. Among the branches, food processing is the largest accounting for 28 to 30 percent of manufacturing value added (MVA) in recent years. (Table 2.1). In 1988 the other important branches were beverages and tobacco (11.6 percent); machinery and transport equipment (9.5 percent);

wood and paper products (10.7 percent); textiles and clothing (8.6 percent); and petruleum products (8.3 percent). The branch that increased its share in total manufacturing MVA most significantly in the eighties was food processing (from 23.9 to 28.6 percent). Other branches that increased their shares included beverages and tobacco, clothing, chemicals, plastics, rubber, ceramics, and non-metalic minerals. However, textiles, leather, wood and paper, metal products and machinery all reduced their shares somewhat. On the whole, however, the changes in percentage shares are small and there has been very little structural change in the sector over the years. This lack of change can also be seen by examining Table 2.2 which shows value of manufacturing output by sub-sector (in K£) from 1983-1988.

TABLE 2.1:
Manufacturing Value Added: Sub-Sector Shares 1980-88
(in percentages)

	1980	1982	1984	1986	1988
Meat & Dairy Products	2.6	2.6	2.7	2.8	3.3
Canned Veg, fish, oils, fats	4.6	4.4	3.4	3.6	2.8
Grain Mill Products	1.8	2.0	1.8	2.2	1.9
Bakery Products	0.9	0.8	1.2	1.1	0.9
Sugar & Confectionery	6.6	9.5	11.6	11.8	11.8
Miscellaneous foods	7.4	6.2	7.4	7.2	7.9
Food Processing Group	**23.9**	**25.5**	**28.1**	**28.7**	**28.6**
Beverages and Tobacco	**10.3**	**11.0**	**12.9**	**12.0**	**11.6**
Textiles	7.1	7.4	6.1	6.7	6.4
Clothing	2.1	2.6	2.5	2.6	2.2
Textiles and Clothing	**9.2**	**10.0**	**8.6**	**9.3**	**8.6**
Leather Products and Footwear	**2.5**	**1.7**	**1.3**	**1.4**	**1.6**
Wood and Cork Products	2.5	2.8	2.5	2.1	1.9
Furniture and Fixtures	1.3	1.0	1.2	1.1	1.0
Paper and Paper Products	4.5	4.5	3.3	3.7	4.8
Printing and Publishing	3.1	3.3	2.9	2.9	3.0
Wood Products, Paper, Print	**11.4**	**11.6**	**9.9**	**9.8**	**10.7**
Industrial Chemicals	2.9	2.6	2.7	2.4	1.9
Petroleum and other Chemicals	6.5	7.0	8.4	7.8	8.3
Chemical Industries Group	**9.4**	**9.6**	**11.1**	**10.2**	**10.2**
Rubber Products	3.2	3.0	3.9	4.4	4.0
Plastic Products	1.6	2.1	2.2	2.1	2.4
Pottery and Glass Products	0.5	0.5	0.6	0.6	0.7
Non-metalic Mineral Products	2.8	2.4	2.7	2.6	4.0
Metal Products	7.1	6.6	5.0	5.0	5.0
Non-electrical Machinery	0.7	0.8	0.7	0.6	0.7
Electrical Machinery	6.8	6.4	5.0	5.2	4.1
Transport Equipment	9.5	7.5	6.7	6.7	4.7
Machinery & Transport Equip	**17.0**	**14.7**	**12.4**	**12.5**	**9.5**
Miscellaneous Manufactures	1.1	1.1	1.3	1.4	2.1
	100.0	100.0	100.0	100.0	100.0

Source: Statistical Abstracts, various years.

TABLE 2.2:

Value of Manufactur' ng output by sub-sector, 1983-87

(in current K£ thousands)

Sector/branch	1983	1984	1985	1986	1987
Meat & Dairy products	97.2	123.8	154.2	189.7	233.3
Canned Veg, fish, oils & fats	79.5	87.9	129.3	147.3	158.6
Grain Mill Products	148.7	193.4	218.9	280.0	311.7
Bakery Products	43.6	53.1	60.4	83.4	85.0
Sugar & Confectionery	80.5	93.7	94.2	105.7	125.6
Miscellaneous foods	413.6	556.2	653.9	813.5	1028.7
Beverages and Tobacco	128.4	144.1	216.0	277.4	298.7
Food Processing (inc animal feeds)	**991.5**	**1252.2**	**1526.9**	**1897.7**	**2241.6**
Textiles	99.5	112.5	145.0	182.1	186.6
Clothing	63.0	59.8	68.8	87.9	103.9
Textiles and Clothing	**162.5**	**172.3**	**213.8**	**270.0**	**290.5**
Leather Products and Footwear	**22.1**	**28.9**	**39.6**	**42.0**	**54.8**
Wood and Cork Products	37.2	43.4	43.5	44.8	57.6
Furniture and Fixtures	18.6	18.8	21.5	21.2	15.7
Paper and Paper Products	74.6	92.7	93.6	97.4	109.6
Printing and Publishing	51.1	57.6	54.7	56.4	60.7
Wood and Paper Products	**181.5**	**212.3**	**213.3**	**219.8**	**243.6**
Industrial Chemicals	81.9	86.6	91.9	97.9	134.8
Petroleum and other chemicals	392.0	506.0	617.6	797.2	912.5
Petroleum & chemical products	**473.9**	**692.6**	**709.5**	**895.1**	**1047.3**
Rubber Products	50.9	64.7	64.2	71.2	98.7
Plastic Products	32.8	38.5	42.6	45.1	68.6
Pottery & Glass Products	8.1	8.4	8.6	8.7	7.6
Non-metallic mineral products	74.9	88.3	96.4	102.1	140.3
Building Materials & Ceramics	**166.7**	**199.9**	**211.8**	**222.1**	**315.2**
Metal Products	167.7	198.2	242.0	298.9	337.4
Electrical Machinery	13.7	16.2	20.0	21.7	20.3
Non-electrical Machinery	87.1	97.5	119.6	143.9	179.0
Transport equipment	142.9	166.1	208.4	243.4	315.1
Metals & Metal Products	**417.4**	**478.0**	**590.0**	**707.9**	**851.8**
Miscell. Manufactures	**13.7**	**21.6**	**30.6**	**37.5**	**44.8**
TOTAL ALL MANUFACTURES	**2425.6**	**2956.7**	**3535.6**	**4296.7**	**5089.7**

Source: Central Bureau of Statistics, Statistical Abstract 1989, p 126.

Despite the importance placed on manufacturing in terms of its potential to create employment, the performance of the sector to date in this respect has not been impressive. In 1988, it accounted for only 12.9 percent of modern sector employment. Growth has also been slow: between 1980 and 1989 the numbers employed in the manufacturing sector rose from 141,300 to 182,300, an annual average rate of change of around 2.9 percent. In the Sixth (1989-93) Plan, sectoral employment is targeted to rise by 3.56 percent per annum between 1988 and 1993 to give an end-of-plan target of 208,000. This implies an annual growth in average labour productivity of 2.74 percent over the period. As can be seen from Table 2.3, the most recent data available on the growth in labour productivity (measured in terms of the growth of value added per worker) suggests that this latter target is attainable. The slow growth in employment within the modern sector, especially in relation to women, underscores the government's focus on small-scale and Jua Kali enterprises as the principal sources of job creation during the Decade.

Table 2.3:
Manufacturing Sector: Selected indicators of performance 1980-89

		1980	1981	1982	1983	1984
1	Value added (K £m at constant 1982 prices)	351	364	372	389	406
	% growth p.a.		3.6	2.2	4.5	4.3
2	Wage Employment	141,300	146,300	146,800	149,000	153,100
	% growth p.a.	2.1	3.5	0.3	1.5	2.8
3	Labour productivity (value added per worker)	2,484	2,488	2,534	2,611	2,652
	% growth p.a.		0.2	1.8	3.0	1.6

		1985	1986	1987	1988	1989
1	Value added (K£M at constant 1982 prices)	424	449	474	503	532
	% growth p. a.	4.5	5.8	5.7	6.0	5.9
2	Wage employment	158,800	164,800	169,800	177,400	182,300
	% growth p. a.	3.7	3.8	3.0	4.5	2.8
3	Labour Productivity (K£) (value added per worker)	2,670	2,725	2,792	2,835	2,918
	% growth p. a.	0.7	2.1	2.5	1.5	2.9

Source: Statistical Abstracts, Economic Surveys, various years.

The very low growth in 1982 was the result of a large fall in capacity utilization that year caused by lack of imported raw materials as well as stagnant domestic demand. The much better performances recorded in 1985, 1986 and 1987 is attributed to increased domestic demand arising principally from an improvement in agricultural incomes as well as an improvement in the availability of imported inputs because of liberalization of import licencing and foreign exchange allocation. In terms of sub-sectoral shares in manufacturing employment, food processing is the largest accounting for nearly 28 percent in 1988, followed by textiles and clothing with 17.4 percent, and wood and paper with 14.4 percent. Other sub-sectors which account for a large share of manufacturing employment are metals, machinery, and transport equipment with nearly 20 percent between them.

2.2 Trade in Manufactured goods

Kenya's exports are predominantly agricultural commodities, notably coffee and tea. The refinery at Mombasa processes imported oil and its exports of petroleum products also figure prominantly in the export accounts. The value of and relative weight of manufactured exports to total exports is not large and did not change much during the eighties as can be seen in Table 2.4. The principal manufactured exports are chemicals (pesticides, soaps and medicaments), cement, textiles, leather, machinery and transport equipment which together accounted for 60 percent of the total. The fastest growing sub-sectors in terms of exporting during eighties were textiles and wood-carvings. Imports are dominated by oil, capital goods, and industrial raw materials and intermediate goods. Food imports have declined significantly over the years reflecting Kenya's increased food production.

The UK remains both the most important market for Kenyan exports and the country's principal supplier, although the UAE briefly achieved the latter position in 1985 when it secured the oil supply contract for Kenya. The EC has remained the most important destination for Kenya's exports due to the special ties through the Lome conventions. The trade balance with Tanzania and Uganda is heavily in Kenya's favour and could be further strengthened by the expansion of regional trade under the Preferential Trade Area (PTA) for East and Southern Africa. Exports to Tanzania have revived since the reopening of the border in 1983 and by 1986 they were more than four times their 1983 level, although they slipped slightly in 1987. Uganda has been particularly important as a market for manufactured goods, and should grow in importance throughout the Decade.

Table 2.4: Total Exports by Broad Economic Category 1980-88

	1980	1982	1984	1986	1988
Food, Beverages & Tobacco	211,896	278,607	473,518	664,737	570,879
Basic Materials, Mineral Fuels & Lubricants	208,230	199,239	194,988	168,046	210,624
Manufactured Goods	67,148	67,794	85,746	114,284	136 [illegible]
Miscellaneous	370	96	561	10,904	[illegible]
Total - all exports	487,644	545,737	754,098	957,970	917,720
Manufactured goods as % of all exports	**13.8**	**12.4**	**11.4**	**11.9**	**14.8**

Source: Statistical Abstracts, various years.

2.3 Ownership patterns

There are two distinctive features relating to ownership of manufacturing enterprises in Kenya. First, since independance, the Government deliberately became directly involved in productive activities: as of the late 1980s its direct and indirect (through development finance institutions) holdings amounted to about 38 companies in which it had a majority share and 66 companies in which it had a minority share. These are mainly large-scale parastatal enterprises; the major investments are in textiles, sugar, and cement, but are otherwise spread across the sector. The other important ownership feature is that within the private sector, medium- and large-scale enterprises are almost entirely owned by multinationals and Asian-Kenyans. The government sees these two features as problems and has declared its intention to promote a stronger private sector and greater Kenyanization within the manufacturing sector. To expedite progress under the latter heading, a programme of enterpreneurship development has been given priority status by the government.

2.4 Geographic distribution

With 80 percent of Kenya's population living in rural areas and half the manufacturing enterprises located in Nairobi, the government has introduced policies to encourage the establishment of manufacturing companies outside the capital and Mombasa. Incentives have been provided for the small-scale sector and for smaller towns but these incentives are not sufficiently large to overcome the locational disadvantages of areas removed from the large markets. To reduce the relative weights of Nairobi and Mombassa and improve rural-urban balance, a policy of promoting a few other, though smaller, cities would need to be implemented in concert with that of widespread dispension of economic activities throughout small rural centres. Centres like Eldoret, Thika, and Nakuru have demonstrated that effective local authorities can provide facilities to attract large enterprises.

2.5 Linkages

Interindustry trade is weak but expanding. There are significant linkages between the large food-processing industry and agricultural producers, transporters, and suppliers of packaging materials. Motor vehicle assemblers and coach builders have established some linkages with smaller workshops for some components. Within some branches there is potential for increased linkages even at present. For example, in the cotton-based textile industry there are backward linkages to primary cotton production via cotton ginning enterprises, to suppliers of dyes, printing and finishing chemicals, and to producers of synthetic fibres for blended textiles. The main forward linkages are to tailors and to final consumers through retail outlets. Significant potential exists for other linkages to engineering workshops for machine parts, to specialized tailors for curtain, upholstery and such textiles, and to the hotel and service industries and the foreign market.

Vegetable processing is obviously linked to farmers and to the upstream producers cf food products. The sector is linked to producers of tins and packaging materials, to produce of pallets, and transporters. Potential linkages could be possible to machine manufacturers and existing forward linkages could be expanded in wider markets.

The ceramic industry is also obviously linked to the domestic non-metallic mineral sector for the supply of clay, feldspar, kaolin and other composites. It is linked forward to the hotel industry and to construction, for tableware, tiles and sanitaryware. As in the other industries, there is scope for expansion of linkages to engineering works for dies, machinery and parts. Further linkages could be developed to the power supply industry fcr insulators and to chemical laboratories that use porcelain items.

2.6 Problems and constraints

Manufacturers are confronted with relatively few natural constraints and problems in Kenya compared with many countries in Africa and elsewhere. The country has a significant coast line. Good port facilities have been built in the excellent harbour in Mombasa. Nairobi has proven to be a convenient location for stopovers on the routes of international airlines for refueling and passenger destinations. The climate is excellent.

The economic environment is also favourable. Government expenditures on education and the moderately large population provide manufacturers with a good source of human resources. Besides the port facilities, the nation has a considerable amount of physical infrastructrue. For example, the road network is good, although not always in good repair on the important Mombasa-Nairobi connection. Electric power is generated in sufficient quantities at the hydroelectric plant on the Tana

River and supplemented by the thermoelectric facilities in the Rift Valley. Amenities in cities, major towns, and most urbanized areas are modern and more or less adequate for the population. There are few problems with roads, street lighting, electric power and water supply, medical facilities, cultural facilities, and so on.

Nevertheless, manufacturers still confront a number of problems and constraints. There are many controls on enterprises. Among the chief ones are import licences and taxes. Import licences have always presented severe constraints. For example, manufacturers can only guess as to what proportion of their requested amount would be allowed, when the licence would be issued, and how the exchange rate would change, if at all. The procedure can result in considerable waste. Manufacturers are thought to over-estimate their import needs. Stocks are costly if the entrepreneur wrongly guesses the action that will be taken on an import licence that is either granted early or granted for an amount that is larger than necessary. Insufficient or slow approval may result in underutilizaion of capacity, reduced production, and other inefficiencies. However, [see sections 3 and 5(a)] the government has begun the process of reviewing import licensing schedules.

In addition to constraints due to the process of application and obtaining import licenses, Kenyan manufacturers face further constraints because of their distance from suppliers. Those constraints include long delivery periods, unfavourable prices on small orders and unfavourable terms for Kenyan manufacturers that are not known by the supplier.

Economy-wide constraints include insufficient foreign exchange, import policies of existing and potential trading partner nations, and deteriorating terms of trade.

Foreign ownership is a constraint on the volume of exports to PTA countries if the firm is not eligible for PTA preferences that are available to firms under African management only.

2.7 Institutional and legal framework

Kenya has an impressive network of institutions associated with industrial development. A great number of them are in the public sector but there are also many in the private sector involved in the promotion and regeneration of industry. The public institutions include government ministries and parastatal bodies, the former being the Ministries of Industry, Commerce, Finance, Planning and National Development, and Agriculture. The Ministers of Industry and Planning and National Development plan the development of the manufacturing sector by vetting feasibility studies, especially for economic infrastructure and design, industrial policies and incentives. There are, however, a number of gaps among the public sector institutions - especially since the abolition of the ad hoc inter-Ministerial New Projects Committee which had been set up to vet new

industrial projects - and coordination could be improved. The large parastatal development finance institutions, including Industrial Development Bank Ltd, Development and Finance Company of Kenya, Industrial Estates, which had been dynamic forces for industrialization in the sixties and seventies, became engrossed in assisting ailing enterprises in the 1980s. A government-commissioned study is currently examining the development banks to assess whether and what kind of restructuring would improve their performance. The most important public institution involved in encouraging investment - both domestic and foreign - in Kenyan industry is the Investment Promotion Centre. It operates a "one-stop" approval system where project applications are processed and all relevant approvals are obtained on behalf of the investor, within one month.

There is also a wide range of educational, training, and research institutes in Kenya. There are three universities, three national polytechnics, 15 Hanambee Institutes of Technology, the national youth service, secondary technical schools, and youth polytechnics. In addition, there are institutes involved in enterpreneurship training: these include the Kenya Industrial Training Institute, the Kenya Institute of Business Training and the National Industrial and Vocational Training Centre. Institutions involved in industrial research and maintaining standards include the Kenya Industrial Research and Development Institute, the Industrial Research and Consultancy Unit, and the Kenya Bureau of Standards. The Kenya External Trade Authority has overall responsibility for coordinating activities to promote exports.

Finally, it is relevant to note that Kenya is a member of the World Bank-affiliated Multilateral Investment Guarantee Agency which issues guarantees for foreign investments in signatory countries against non-commercial risks. It is also a member of the International Centre for the Settlement of Investment Disputes.

SECTION 3

INDUSTRIAL POLICIES AND STRATEGIES

3.1 The early industrialization strategy

As already noted in Section 2, Kenya chose an import substitution industrialization strategy as its vehicle for industrial development after independance. In common with most developing countries, initial results were encouraging. The mananufacturing sector's share in GDP rose from 10 percent in the late 1960s to 13 percent in the early 1980s. Employment growth in manufacturing was significantly higher than in other sectors although not as rapid as the growth of real output in the sector, reflecting rising labour productivity over the period.

The policy instruments chosen to promote the import substitution strategy included high levels of protection (high tariffs and import quotas enforced through foreign exchange allocation). Protection was supported by an exchange rate policy that produced an overvalued currency which, in turn, discouraged exports and kept the prices of imported capital goods and intermediate inputs relatively low; subsidized interest rates which encouraged investment; and direct state participation in manufacturing industry.

By the mid-1980s these policies were perceived to be no longer appropriate. They were imposing costs on the economy at large which, in any case, had been adversely affected by the two oil crises of the seventies and the associated acceleration in the accumulation of foreign debt. A more dynamic and more diversified export structure was clearly necessary. The existing policy stance was seen to be inimical to the further development of the economy and to its manufacturing sector. The latter had become excessively import-dependant, overly capital-intensive and incapable of absorbing an adequate proportion of the rapidly increasing labour force. Its parastatal component was not performing well. Domestic demand was the driving force of growth within the sector; not only were most enterprises failing to move on to selling their products outside Kenya but, instead, the shield of protective policies was turning it increasingly toward the home market which had become a more profitable activity. Gradually, from the late 1970s, as a result of the government's recognition (in the Fourth Plan 1979-83) of the need to restructure the manufacturing sector and also as a consequence of the stabilization measures introduced in the early eighties to correct the alarmingly high deficits on the current budget and balance of payments, the policy stance began to change. The exchange rate was devalued, interest rates became positive, and the import regime began to be liberalized.

With the publication of Sessional Paper No 1 of 1986 (Economic Management for Renewed Growth) the government's intention of moving toward a more market-oriented and more outward-looking development strategy - including a more export-oriented industrialization strategy - became explicit. Many, although not

all, of the necessary changes in policies and in policy instruments needed to give effect to this new strategic approach were spelled out in the currently (1989-93) operational Sixth Plan. Indeed, Sessional Paper No 1 of 1986 was designed to provide a blueprint not only for the current plan, but, in taking 2000 as its time horizon, for following plans as well. Thus it will also be of crucial importance in any consideration of the objectives, strategies and policies of the national programme for the second IDDA.

3.2 Manufacturing Sector Objectives of the 1989-93 Plan

In the Sixth Plan, GDP is projected to grow by 5.4 percent annually and the manufacturing sector by 6.4 percent (compared with 4.2 and 5.2 respectively during the 1983-88 plan period). Manufacturing is to get 13.28 percent of total fixed investment and contribute around the same percentage to total GDP. Within the modern wage sector, manufacturing employment is projected to grow by 3.6 percent annually on average, which is faster than the rates expected from modern sector agriculture, construction, and government services but slower than the rates for private sector services, and forestry, fishing and mining.

3.3 Recent Policy Changes

At the macroeconomic level, the environment within which the manufacturing sector operates has been improved through policy changes within the areas of public finance management, the foreign exchange regime and foreign investment climate, credit and interest rate policy and taxation.

In an attempt to reduce the current budget deficit and bring order to the public finances, the government has been trying to improve the revenue side by improving tax collections and introducing some cost-sharing on beneficiaries of public health and education services. The expenditure side has proved to be more intractable because of the growth over time of public sector employment - the remuneration of which accounts for around two-thirds of the government's recurrent spending. Employment ceilings have now been established for each Ministry in the central government.

The Central Bank maintains a trade-weighted managed peg of the Kenyan shilling to the currencies of the IMF's Special Drawing Rights. Since 1982, it has gradually but increasingly devalued the shilling's real exchange rate; by 1987 it had fallen by nearly 22 per cent and the Bank seems set to continue this policy of gradual devaluation of the currency. The Foreign Investment Act guarantees foreign investors the right to repatriate all their profits but they often encounter long delays. Previously, investors had to deposit their profits in low-interest foreign accounts, sometimes for years, while awaiting foreign exchange. The government is now trying to speed up the process. Meanwhile investors are permitted to put their profits in deposit accounts at market rates of interest.

Credit policy still awaits a major overhaul. In the manufacturing sector, the key aspects of the credit system are the tendancy of commercial banks to extend mainly short- and medium-term finance, the lack of sectoral priorities on the part of the development finance institutions (DFIs); the failure of the DFIs to roll over their loans to fund new investments; the inability of many DFIs to offer funds free of significant foreign exchange risks; the prohibitive expense of the Central Bank's futures contracts for foreign exchange; and the absence of long-term export credit financing. On the whole, the financial institutions are overly conservative and their lending policies tend to be biased against all but the very large manufacturing enterprises. In order to make a larger share of credit available to the private sector, the government's share is projected to decline during the 1989-93 Plan period from 35 percent to 28 percent. Since the late eighties real interest rates have again become positive and the Plan's stated intention is to maintain this policy in order to make interest rates the main instrument of credit allocation. The stated long-term intention is to gradually allow market forces to determine rates, including those of government bonds. In reality the move to market-determined rates is likely to happen relatively soon. The final change in macroeconomic policy which is contributing to an improvement in the enabling environment within which the restructuring of the manufacturing sector is being pursued is under the heading of taxation. The system has been streamlined. Corporate taxes have been reduced from 45 to 40 percent and in 1990 the sales tax was replaced by the more efficient value added tax.

Of more direct relevance than the macroeconomic policy environment to manufacturers and the prospects of a successful restructuring of the manufacturing sector are the government's policies in relation to protection, export incentives, pricing policy, the private sector/parastatal balance, the role of small-scale and medium-sized enterprises (SMEs), rural-urban balance, environmental sustainability, and promotion of the economic status of women. Protection is still high in Kenya. Inefficient producers are shielded from competition and efficient producers can penalize consumers by charging unduly high prices. Effective rates of protection (ERPs) are also very high. Indeed they are higher for the parastatals than for private sector enterprises (184 percent versus 60 percent). Measures have already been taken to rationalize the tariff system so that similar goods bear similar rates. Official policy is to reduce protection in order to foster competition but fears of bankrupcies - even among potentially efficient enterprises - are being expressed in discussions relating to implementation. The cumbersome import licensing system is still in operation. Depending on the availability of foreign exchange, import licenses have been granted according to a pre-determined list of priorities. Declared policy is to rely less on quantitative restrictions and more on the exchange rate and tariffs. As a first step, the list of goods that can be imported with few restrictions has been increased (from 803 in 1984 to 1,121 in 1987) and further liberalizations are planned for the future.

Because there has been little or no growth in exports of manufactures the government has, over the years, introduced a series of export incentive schemes. One such is the Export Compensation Scheme introduced in 1974 but delays in processing and paying claims, absence of clear eligibility criteria, taxation of payments and openness to abuse, prevented the scheme from promoting exports of manufactures to any significant extent. In the 1989-93 Plan, government has declared its intention to improve the operation of the scheme by setting up a three-stage duty drawback facility providing for the remittance of import duties on the actual value of imported inputs for the manufacture of exports within one month. New incentive schemes designed to promote exports of manufactures have been put in place. They include manufacturing-under-bond, export processing zones, and the Green Channel Scheme to expedite foreign exchange allocation to exporters to buy imported inputs.

Prices of a wide range of manufactured products are controlled by the government. In 1987, the prices of 11 basic foods and beverages and 40 manufactured goods were subject to price controls. Since then the range has been reduced - although rice, maize, meal, sugar, sodas, galvanized steel roofing sheets, and beer are still subject to price controls - and further liberalizations have been announced. The new Monopolies and Price Commission within the Ministry of Finance is mandated to control monopoly pricing in the absence of competition from imports.

Since independance, policy makers have sought to keep Kenya a mixed economy, wherein the public and private sectors play specific and complementary roles. Although the former has played an important part, the public sector predominates through direct participation and also indirectly, in productive enterprises and marketing channels. Most of the government's majority holdings in the manufacturing sector are in textiles, sugar refineries, and cement production. Because of the poor performance of so many parastatals, they are currently under review and being classified according to the need for rehabilitation or restructuring, the need for divestiture and privatisation, and the need for retention. Clearly - although not yet explicitly - policy appears to be moving in the direction of a lower degree of government involvement in manufacturing primarily through privatization and through promotion of private sector investment by indigenous Kenyans and foreign investors.

Given that the rates of growth in Kenya's population and labour force are so high and that consequently the modern sector, let alone large-scale manufacturing, will be unable to absorb more than a small fraction of those coming onto the labour market during the current Plan period, the small-scale and Jua Kali sector will have to play a major role in employment creation and income generation. The government, supported by NGOs and institutions such as the Capital Markets Development Authority, has declared its intention to improve the enabling environment for such enterprises. The 1989-93 Plan states that government will begin by amending rules and regulations in order to remove

the constraints that are presently proportionately heavier on smaller firms. In a related policy development, small-scale manufacturing and other non-farm activities are to be promoted in rural areas via the adoption of a District focus for rural development. A stated objective of this policy approach is to achieve "rural-urban balance" by dispersing economic activities to as many parts of the country as possible and especially to reduce the increasingly heavy concentration of population in the major urban centres of Nairobi, Mombasa and Kisumu. District Development Committees will be given the task of developing and prioritising all industrial plans and programmes for the Districts through the Industrial Development Committees. In the 1989-93 Plan, government also states its intention to promote the development of a set (70 by 1993) of small towns and other urban settlements designated as Rural Trade Promotion Centres (RTPCs). These policy incentives are still at an early state of development but while the development of a large number of RTPCs would probably promote the development of districts outside the three main cities, it will hardly reduce their relative population and economic weight significantly - unless a few other large growth centres are promoted simultaneously.

On the question of management of the environment, the 1989-93 Plan draws attention to the possible negative environmental consequences of certain economic activities given the use of existing technologies. The government therein declares its intention to carry out baseline surveys of all districts which will be used for continuous environmental monitoring and evaluation. It promises a Sessional Paper on management and protection of the environment during the Plan period. There is no suggestion that there might be a positive (employment creating) link between environmental sustainability and development of the manufacturing sector. Finally, although the 1989-93 Plan acknowledges the critical role which women play in the economy, especially in food production and non-farm rural activities, it does not spell out any policy proposals to redress what it describes as the "several problems facing them in their efforts to upgrade themselves into the formal labour markets where incomes are higher and working conditions much better." No linkage is made in policy terms between the enhancement of the economic status of women, the slowing of the rate of population growth, the promotion of the small scale and informal sector, and the promotion of rural development.

SECTION 4

ASSESSMENT OF THE IMPLEMENTATION OF THE FIRST IDDA PROGRAMNME AND CURRENT DEVELOPMENT AID

4.1 Assessment of first IDDA programme

The idea of designating the 1980s as the Industrial Development Decade for Africa (IDDA) arose from the Lagos Plan of Action 1980 and the adoption by the African Heads of States and Governments of the concepts of self-reliance and self-sustainment as an objective approach to industrialization on the continent. Both stressed the importance of viewing the continent as a whole or in sub-regions rather than as "40 to 50 bits and pieces." Only in this way could a reduction in dependance on external inputs and markets be achieved and "internal engines of growth" be constructed. Consequently, as a continental strategy, the deliberate enlargement and consolidation of domestic markets and their combination, through economic cooperation, into markets accommodating economies of scale was to be pursued. According to an independant evaluation of IDDA I completed in 1989 (CAMI 9/20 Add 1 and ICE 1989/20 Add 1, 12 April 1989), the basic strengths of the IDDA approach consisted in its:

(a) defining of goals from the Lagos Plan of Action, namely self-reliance, self-sustainment, and the creation of internal engines of growth;

(b) provision of a framework within which individual countries could design their industrial development strategies; and

(c) the flexibility left to individual countries to prepare their industrialization plans to suit their own circumstances.

The weaknesses were seen to be:

(d) IDDA lacked a programme identity;

(e) it was too diffuse and amorphous to become an operational instrument;

(f) it was over-optimistic in its assumptions of the practical possibilities of major industrial investments in the Decade;

(g) it was equally over-optimistic about the practical possibilities of regional cooperation;

(h) it lacked quantitative targets;

(i) it paid inadequate attention to the economics of investment and to resource availability; and

(j) it lacked a budget (p 119).

Given that the overall objectives set out under (a) above were couched in continental or regional terms, over-optimism regarding the practical possibilities of regional cooperation certainly acted as a major constraint on the achievement of the self-reliance goal. It is also doubtful whether individual countries subsequently produced IDDA programmes as they are now doing for IDDA 2 (certainly Kenya did not) or even used IDDA as a framework within which to design their own industrial development plans. Nevertheless, it must be acknowledged that the very generality of the IDDA approach (or "diffuse and amorphous" to use the evaluator's words) permits most national industrial programmes to be consistent with it. This is certainly true in the case of Kenya's approach to industrial development as set out in the Sixth (1989-93) Plan and in Sessional paper No 1 of 1986 which provides a framework for development planning up to 2000.

The 1980s coincided with recession and aid cut-backs in industrialized countries and are generally considered - not only because of such exogenous factors but also for endogenous reasons - to have been " a lost development decade for Africa." With respect to the objectives of IDDA, the evaluators implicitly conclude that the Decade was a failure when they state that "the dependency factor has not been reduced (and) the industrialization of Africa has not become a reality." (p 120).

This conclusion that the Decade failed is made explicit in the ninth joint progress report on the implementation of IDDA produced by the secretariets of the OAU, ECA and UNIDO in March 1990. That report provided a list of what it described as "complex constraints" to explain the failure of the Decade. They included:

(a) Structural weaknesses (lack of core industries with backward and forward linkages, small size of the domestic markets and their lack of regional interpretion, low capacity utilization, import dependance, lack of important components of basic engineering, concentration on easy import substitution, deficiencies in institutional infrastructure);

(b) inadequate and inefficient industrial strategies and policies;

(c) lack of political commitment to market and resource pooling at the sub-regional level;

(d) lack of major factor inputs, repair and maintenance capabilities, entrepreneurship and financial resources as well as mounting debt and high interest rates; and

(e) exogenous factors such as a deterioration in the terms of trade, falling aid flows, balance of payments deficits, and the impact of operations of both transnational corporations and of structural adjustment programmes.

If this list is meant as an explanation for the failure of Africa (and its individual countries) to make significant progress during the 1980s to increase industrial output, then the list is only in part a description of constraints. To a much greater extent it is a listing of those very conditions which the development process - and especially the development of industry - is designed to overcome. In other words, put in positive terms, most of them become the objectives of industrial development strategy. As a listing which might assist in the design of IDDA 2 it is not very helpful. The main reasons why the Decade made very little progress toward reaching its goals (increasing regional self-reliance and self-sustainment, reducing dependence on external inputs and markets) are the following:

(a) a "top-down" approach: very little involvement of individual governments in the formulation of IDDA; little use, if any, of IDDA by governments as a framework within which to formulate their national industrial development programmes (reflecting a lack of sensitization to the IDDA) and a consequent failure of these programmes to "feed up" into a revised IDDA to any significant extent;

(b) inadequacies in the regional cooperation element of the strategy: a general failure to persuade individual countries to take a complementary rather than competitive approach to selection of potentially regional or sub-regional projects as well as poor project design at this level and lack of clarity on how projects are prioritized for inclusion in regional and sub-regional programmes or how their implementation is to be advanced;

(c) deficiencies in the institutional infrastructure to implement objectives and coordinate actors to do the jobs; and

(d) lack of government and donor funds.

These are the most important constraints that will have to be addressed in the formulation of the second IDDA.

4.2 Development Assistance

Given the need for donor assistance to help realize the objectives of the IDDA, it is relevant in Kenya's case to examine the recent record in terms of official development assistance (ODA). Data are not available on inflows through Kenya's more than 600 NGOs. As Table 4.1 shows, ODA inflows grew slowly between 1981 and 1986 but accelerated somewhat in 1987. Total ODA flows have tended to approximate the size of the goverment's development budgets. The increase in ODA in 1987 may well have been a reflection of growing confidence in Kenya's restructuring programme and in its new liberalization policies. This suggests that inflows during IDDA 2 will keep up provided such policies are continued.

Table 4.1: Externally Funded Development Assistance a/

	1981	1982	1983	1984	1985	1986	1987
US	78.0	54.0	78.0	43.0	76.0	31.0	44.0
UK	71.9	56.2	46.0	47.2	40.5	46.3	43.2
Germany (FR)	42.3	31.3	44.2	39.0	36.4	46.2	57.2
Japan	27.1	21.3	54.8	32.2	33.4	54.9	69.6
Other Bilateral	161.0	192.8	137.4	161.4	186.4	238.5	257.6
Total Bilateral	380.3	355.6	360.3	342.2	372.7	416.9	471.6
IDA	14.8	83.6	19.8	35.6	34.9	30.0	72.1
EC	46.0	28.7	16.6	16.6	15.8	11.2	29.3
World Food Programme	3.9	5.9	2.2	14.9	15.1	3.7	1.6
UNDP	8.1	8.4	5.9	5.2	5.6	6.3	5.9
Other Multinational	12.5	20.6	15.2	7.8	18.2	19.2	18.4
Total Multinational	85.3	147.2	59.7	88.1	89.6	70.4	127.3
Total ODA	465.5	502.7	420.3	430.3	462.4	487.3	598.9
Bilateral as % of total assistance	81.7	70.7	85.8	79.5	80.6	85.6	78.7

Source: OECD Development Committee, Geographical Distribution of Financial Flows to Developing Countries, Paris, 1989, pp 166-167.
a/ Gross Official Development Assistance (ODA).

SECTION 5

PROGRAMME FOR THE SECOND IDDA

5.1 Objectives, strategies and policies for the second IDDA

The fundamental goal of the second IDDA, as in the case of the first, is the achievement of self-reliance and self-sustainment in the African continent. This calls for an increasing use of local factor inputs, institutionalizing and intensifiying integration and cooperation schemes among African countries with the full involvement of indigenous enterprises, both public and private, and for the building up of domestic production structures capable of meeting changing local demand.

These objectives at the continental level are to be realized through the following broad strategic approaches:

(a) using industrialization as a means of attaining self-reliance and self-sustainment;

(b) reducing traditional dependence on forces and factors outside the continent;

(c) promoting internal engines of growth;

(d) increasing the use of domestic factor inputs;

(e) promoting the establishment in Africa of core and strategic industries;

(f) developing critical national capabilities, human, institutional and infrastructural, for project design, project execution, negotiating skills, mobilization of financial resources, support services, entrepreneurship and business management;

(g) promoting regional and subregional cooperation as a practical means of enlarging markets, establishing multinational core projects, and strengthening the interdependent physical and human infrastructure.

Given the crisis in Africa and unfavourable conditions at the global level in the eighties - which blew the first IDDA off-course - it will be necessary in IDDA 2 to strenghten these strategies to include the following pragmatic areas of action:

(a) promoting the consolidation of existing investments, through regeneration of ailing industries and revitalization of the public enterprise sector;

(b) expanding existing assets and promoting new investments, particularly in core industries, keeping in mind national endowments, markets capabilities and

viability based on sound commercial and socio-economic considerations;

(c) promoting the creation and upgrading of all types of human skills required for integrated industrial development;

(d) developing an appropriate supporting physical infrastructure;

(e) improving the quality and range of the institutional infrastructure;

(f) paying special attention to the needs of the least developed countries (LDCs) in the region;

(g) strengthening and extending programmes of regional and subregional cooperation.

The objectives and strategies of the second IDDA are certainly compatible with Kenya's development goals for the coming decade. However, in terms of objectives, those which will guide Kenya's programme during IDDA also specifically include the following:

(a) Renewed economic growth (5.6 percent per annum)

(b) Accelerated employment creation, especially in the private sector

(c) Rising productivity leading to rising real incomes

(d) Improved urban-rural balance

(e) Enhancement of the socio-economic status of women

(f) Environmental sustainability

(g) Industrial restructuring

The greatest challenge is in accelerating employment creation. The size of the labour force in 2000 has already been determined by past population growth; it will be approximately 14 million. If jobs are creatd at the rate of around 3.4 percent per annum - an improvement on past efforts - unemployment would still increase substantially. In order to reduce the total numbers unemployed and underemployed to around 10 percent of the labour force, 6 million new jobs would have to be created between the mid eighties and 2000. This represents an employment growth into 4.2 percent per annum, a rate unprecedented in Kenya's history but one which nonetheless must remain the target. Because of limits on capital availability, most of these jobs must be created in the small-scale, informal sector; thus labour productivity, although it must increase, will not rise as fast as in past when there was greater emphasis on the creation of more capital-intensive jobs in the modern sector. It is because of the huge employment creation imperative that an overall growth

target for GDP of 5.6 percent per annum is a necessity. In the manufacturing sector, an annual growth rate of over 7.5 percent per annum will be required throughout the Decade.

The strategies of IDDA 2 are also consistent with those of Kenya. However, in keeping with the need to tailor strategies and policies to national needs and capabilities, Kenya's are geared to the attainment of its specific national objectives as set out above, but within the framework of IDDA 2. Thus the strategies include:

(a) a continued emphasis on family planning;

(b) creating more employment opportunities and higher incomes for women;

(c) enhancing the role of the private sector in production, including manufacturing, supported by an improved enabling environment and policies provided by government;

(d) improving efficiency within the state-run sector by redefining their performance criteria;

(e) keeping government's direct investment and employment in the public sector withing the limits of its programme of budget rationalization; government revenues are projected to grow at a slower pace (5.4 percent p.a.) than GDP growth (5.6 percent p.a.) up to the end of the Decade, as a result in part of various tax changes consistent with Kenya's structural adjustment policies. The deficit target of 2.5 of GDP by 2000, combined with this modest growth of revenue puts a constraint on the growth of public expenditure. This is consistent with encouraging the private sector to play a larger role in development generally and in manufacturing sector development in particular.

(f) mobilization of local savings and improvement in investment climate so as to attract more domestic and foreign investment into the manufacturing sector;

(g) development of small-scale and Jua Kali sector;

(h) promoting inter-sectoral and inter-industry linkages;

(i) rehabilitating existing industries in order to make them more efficient and profitable;

(j) developing repair and maintenance capabilites;

(k) developing the physical infrastructure;

(l) developing the quality and range of institutional infrastructure;

(m) developing small towns and cities outside Nairobi and Mombasa, so as to improve the intra-urban balance;

(n) strengthening the operations of district Development Committees, County Councils, and Local Government Authorities, by increasing the representation of women on them in order to improve the rural-urban balance, gender balance, and the quality of district planning;

(o) preparing a programme of sound environmental management;

(p) supporting regional and sub-regional cooperation in provision of factor inputs, human resource development, and in the establishment of regional and sub-regional investments.

On the policy front, Kenya is committed to the strengthening of those policies designed to improve the enabling environment for manufacturing industry and make the sector more export-oriented. Specifically, trade and other industrial incentives will continue to be reoriented so as to eliminate anti-export bias, promote efficiency and the growth of new kinds of manufactured exports and encourage investment. The policy of import liberalization will be continued. Already quantitative restrictions are being replaced by tariffs and the average level of tariffs has begun to come down. Throughout the Decade, efforts to lower protection and to make it more uniform across goods will continue. On a more positive note, pro-export policies, some new, some already in place, will be implemented; these include export-processing zones, manufacturing-under-bond, duty-drawback/exemption schemes, and export-financing schemes. During the Decade, exchange rate policy will continue to support liberalization of the trade regime and an export-oriented industrialization strategy.

5.2 Programme of consolidation

(i) Rehabilitation of existing enterprises

Because of the numerous problems and constraints affecting existing enterprises within Kenya's manufacturing sector, an important component of the country's national programme for the second IDDA is rehabilitation of existing industry. In the UNIDO integrated "top-down/botton-up" approach to rehabilitation, candidate enterprises are studied in relation to their total economic environment. Its diagnostic analysis and remedial action programmes are not confined to a plant's technical problems. They cover the entire range of technical, managerial and technology issues at plant level as well as the overall financial, commercial and structural issues at the branch and macroeconomic levels. The UNIDO approach begins with an examination of the macroeconomic and institutional environment (eg government tariff policies, foreign exchange allocation system, etc), descends through the sector, subsector and branch

levels and finally arrives at the plant level. With this approach, industrial rehabilitation becomes an exercise in securing the optimal use of existing capacities and resources for future, general industrial growth in a country and within Africa as a whole.

Of related importance is the need for national programmes of preventive maintenance and domestic production of spare parts. The first would reduce, if not obviate, the need for future rehabilitation, while selective domestic production of spare parts facilitates preventive maintenance in a timely manner and at lower costs in terms of foreign exchange.

As regards rehabilitation needs and potential in Kenya during the Decade, the key sub-sector is agro-related industry and within it the textiles, food processing, pulp and paper and building materials industries. The engineering industry is also important in this regard. One of the key determinants of an industry's actual and potential importance for industrial development is the range of its backward and forward linkages. In general, they are rather weak in Kenya but are significant in the industries mentioned above. There are linkages in the large food processing industry with agricultural producers, transporters and packaging suppliers. Motor vehicle assemblers and coach builders have established some linkages with smaller workshops for supply of some components.

The textile industry is mainly cotton-based. It is linked to primary cotton production via cotton-ginning enterprises, to suppliers of dyes, printing and finishing chemicals and producers of synthetic fibres for blended textiles. The main forward linkages are to tailors and to final consumers through retail outlets. Significant potential exists for other linkages to engineering workshops for machine parts, to specialized tailors, hotels and service industries for curtain and upholstery materials and for exports to regional and world markets. Processing of fruit and vegetables is obviously linked to farmers and to the upstream producers of food products. The sector is linked to producers of tins and packaging materials, to producers of pallets, and to transporters. Potential linkages could be possible to machine manufacturers and existing forward linkages could be expanded to wider regional and world markets. Sugar is another food industry with strong backward and forward linkages to fruit processing both actual and potential. The building materials industry including cement, wood, bricks and ceramics has strong backward linkages to non-metallic minerals, agriculture and forestry and strong forward linkages to the construction industry. Ceramics, for example, is linked back to sources of clay, feldspar, kaoline and other composites and forward to construction and the hotel industry for tiles, sanitaryware, and tableware. As with the other industries, there is scope for expansion of linkages to engineering works for dies, machinery and spare parts. Food and beverages and textiles and clothing have the largest shares of employment and together account for half of the total manufacturing labour force. Building materials in general and the construction industry to

which it is linked are together very significant employers nationally. They all tend to have relatively low import dependence. Clearly, these agro-related and engineering industries, if rehabilitated, would have significant positive implications for industrial development in Kenya.

Their need for rehabilitation is manifested by the number of problems and constraints to which they are subject. The cotton textiles industry has three major constraints. The first is insufficient cotton of good quality (because of low producer prices and yields and delays in paying farmers). The second major problem is the sub-optimal size of plants which produce too wide a range of products to achieve economies of scale. Third, there are managerial weaknesses particularly in relation to product design and marketing but also costing and pricing procedures. In addition, equipment is old in many plants, maintenance is often deficient, and few firms have systematic preventive maintenance programmes. Many factories discriminate absolutely against female workers (apart from cleaners and secretaries).

Because Kenya's climate permits the growing of fresh fruits and vegetables almost throughout the whole year, domestic demand for processed vegetables is unlikely to grow rapidly. The major problems encountered in exporting to markets in industrialized countries include growing competition (including from other developing countries), the high cost of containers and packaging and increasing consumer bias against chemicals. In the sugar industry, in addition to old and often poorly-maintained machinery, the main problem relates to supply of inputs: producer prices are too low, crop finance is inadequate, there is need for more R and D, and basic infrastructure especially rural roads is often inadequate. The main problems facing the pulp and paper industry include shrinking supplies of wood, lack of waste paper, restrictive importation of pulp, and old machinery subject to constant breakdowns.

The main problems facing the ceramics industry relate to deficiencies in technical know-how, financial management, raw materials and intermediate inputs (especially dependence on imported glaze), and poor design. Low development of local sources of raw materials suggests the need for a geological survey. Other problems include old equipment and a lack of spare parts and repair. These last named problems also afflict the cement industry, a key provider of inputs to construction.

A UNIDO team carried out a diagnostic survey of rehabilitation needs in the Kenyan agro- and mineral-based industries in January-February 1990 (<u>The Regeneration of Kenyan Manufacturing Industry with Emphasis on Selected Key Industries</u>, PPD/R41, 14 September 1990). The criteria according to which plants were selected for diagnostic survey took into account statements of priority expressed in Sessional paper No 1 of 1986, the Sixth (1989-93) Development Plan, and UNDP's Fourth Country Programme for Kenya 1988-91. These included the need for the plants to be in strategic industries such as agro-industries, be viable after

rehabilitation, have capacity to reduce imports and/or increase exports, have significant backward and forward linkages, use and mobilize domestic inputs, have significant employment creation potential, improve the socio-economic status of women, encourage African enterpreneurship, promote a greater role for the private sector, improve rural-urban balance, be able to attract finance from donors, banks and/or commercial enterprises. Because of the application of these criteria and the exigencies of time, only three plants, all parastatals, were selected for survey (one each from cotton textiles, vegetable processing and ceramics out of a total list of 34 (23 submitted by the Ministry of Industry and 11 by the Investment Promotion Centre).

The main recommendation which the UNIDO team made in relation to promoting rehabilitation within the manufacturing sector as a whole was the establishment, within a Ministry selected by the Government of Kenya, with technical assistance from UNIDO, of a specialist consultancy unit with required expertise to undertake comprehensive surveys of rehabilitation needs in the sector. The unit would also design appropriately phased rehabilitation programmes, undertake full feasibility studies and market surveys, assist in securing financing and advise on and moniter the implementation of rehabilitation programmes. The UNIDO team also made specific recommendations regarding the rehabilitation and associated technical assistance requirements of the three plants which it had surveyed. These covered mechanisms to improve the supply of domestic raw materials and spare parts; training for managerial, accountancy, maintenance and production personnel, taking special account of women; establishing management information systems; market surveys; and assistance in obtaining finance to replace obsolete machinery.

(ii) Programme of preventive maintenance and domestic production of spare parts

The need to rehabilitate existing industries arose in part because plant and equipment was not adequately maintained in the past, and also because spare parts, especially imported ones, were not always available in sufficient quantities when required. Consequently, manufacturing enterprises need to put in place programmes of preventive maintenance. The domestic production of spare parts should be promoted on a phased basis where demand and supply conditions are appropriate; these conditions will change over time as the manufacturing sector develops and the general level and range of engineering skills improves. Studies of spare parts production in the PTA region have been carried out by the ECA. A PTA programme for the production of spare parts for the region is planned involving, as a first step, the establishment of a centralized, integrated spare parts manufacturing complex, on a country level basis (PTA/UNIDO, Towards an Integrated Industrial Development programme for the PTA, PPD/R.42, 5 October 1990 p. 71). The countries which have been identified as participants in this project are Kenya, Malawi, Mauritius, Somalia, Tanzania, Uganda, Zambia, and Zimbabwe. To the extent that there may be any gaps in these

surveys in relation to Kenya, surveys of the spare parts needs of Kenya's manufacturing sector, and of existing production capabilities and skill availabilities should be undertaken without delay so that Kenya's contribution to this PTA project can be as effective as possible during the second IDDA.

(iii) Revitalization of the public enterprise sub-sector

In 1986 there were about 103 state corporations in the manufacturing and commercial sectors in Kenya which were either fully or partly owned by the government either directly or through the Development Finance institutions. According to the Sixth (1989-93) Development Plan, some of these corporations are inefficient, poorly managed, unprofitable and a burden on the taxpayer on account of heavy budgetary subsidies made to them year after year. Continued involvement in them is no longer justified on economic grounds. Government has decided to drastically reduce its direct involvement in industrial and commercial activities following the report of the presidential Task Force on Divestiture of Government Investments. It intends to carry out this process of divestiture through selling shares in parastatals to the general public through the stock exchange.

Meanwhile, the government has begun to make changes in its financial realationship with state corporations. After enactment of the State Corporations Act, 42 enterprises have been included in the State Corporations Forward Budget exercise, restructuring plans are being implemented in some state corporations and subsidies paid to such corporations have been made explicit following the requirement that they now have to pay market-equivalent rates of interest on their borrowings from the government. During the early years of the second IDDA efforts to strengthen the economic efficiency and financial position of state corporations will be accelerated through inter alia, use of performance criteria. In order to reduce the level of administrative and other controls over the commercially-oriented ones, the government will develop criteria by which it will designate some as strategic and others as potential candidates for restructuring. The government will also formulate policies on capital and debt restructuring especially for those state corporations regarded as strategic which are seen to be undercapitalized and overly burdened with debts. It will set up an information system and data base to assess policies relating to restructuring and to monitor financial flows to the sector. The data base will thus clarify the contribution of the state enterprises to the total public sector deficit. It will also contribute to the process of evaluating their overall performance and should therefore help to improve it as the Decade proceeds.

5.3 **Programme of Expansion**

The concept of core or strategic industries is included in the Sixth Development Plan. These are described as those industries considered essenti

all for the formation of a strong and sustainable industrial base as well as vital in forging necessary linkages between industry and the agricultural, transport and communications sectors. The broad sub-sector headings listed in the Plan are:

(a) agro-related industries processing the outputs of agriculture including foodstuffs, hides and skins, oilseeds, cotton and wood.

(b) metallurgical industries which provide materials for the engineering industry.

(c) chemical industries producing fertilizers, pesticides, industrical chemicals, and packaging materials.

(d) pharmaceutical industries producing medicinal drugs and vaccines and which bridge the gap between modern and traditional medicine.

(e) telecommunications and information-processing industries including assembly of micro-computers and telecommunications equipment.

(f) engineering industries producing machines, hand tools, components and spares for use in industry and agriculture.

In seeking to encourage investment within these broad industrial sub-sectors, the Government leaves the selection of specific projects to the individual investor, whether foreign or domestic, in keeping with its intention to encourage the private sector. Nevertheless, there are certain criteria which, if met, would best enable the industrial sector to reach the government's development objectives. These criteria include: significant employment creation, export promotion, use of appropriate technology, increased use of domestic inputs, promotion of linkages, production of components and spare parts for existing or planned industries, enhances womens' participation and income opportunities, conserves the environment, promotes rural-urban balance, and (in keeping with the objectives of the second IDDA) promotes regional and sub-regional integration and African self-reliance.

Taking account of these criteria and Kenya's endowments and capabilities, as well as its domestic and other market opportunities, the following industries, already well-established, can be expected to expand over the period of the second IDDA.

(a) Within the agro-related sub-sector

(i) Food Processing, including fruit, vegetables, edible oils, fish, tea, and coffee. Linkages with construction, metals and engineering, packaging, information technology, tourism, animal feeds, pharmaceuticals. Significant use of domestic inputs.

Export potential, expecially regional. Technological flexibility. Significant employment potential, including women. Promotes rural as well as urban areas. No significant negative effects on environment.

(ii) Building materials, including bricks, cement, roofing tiles, ceramics, sanitaryware, wooden rafters, floors, doors, windows, piping, metal locks, and frames. Linkages with construction, mining, non-metallic minerals, metallingy and engineering, forestry, furniture. Significant use of domestic inputs. Inputs to make plate glass are now all imported. Export potential, especially regional. Technological flexibility. Large and small-scale enterprises with sub-contracting potential. Significant employment potential. Promotes rural as well as urban areas. Contributes to provision of basic need (housing). Some negative effects on environment (eg cement).

(iii) Textiles, mainly cotton based. Linkages with cotton growing, ginneries, engineering, clothing, construction, (soft furnishings), edible oils, chemicals. Use of domestic inputs but could be greater if cotton growing promoted. Export potential but needs design upgrading to be realized. Employment could be greater for women. Large and small-scale establishments (including Jua Kali) with sub-contracting potential. Technological flexibility. Promotes rural as well as urban areas. Contributes to provision of basic need (clothing). No significant negative effects on environment. Development and expansion of Kenya's textile industry would be greatly assisted by upgrading of management and workforce within the industry. This is also true for other PTA countries. With this in mind, the PTA has identified Kenya and specifically the Kenyan Textile Training Institute to be the focal point for strengthening sub-regional industrial cooperation for human resource development for the textile industry. This PTA project (AGRO/07) will involve training of trainers and introduction of new management concepts and systems which would be extended to other PTA countries after the pilot phase.

(iv) Clothing and Accesories (cotton, synthetic, leather, sisal, metal, gems) including garments, footwear, bags, belts, jewellery. Linkages with textiles, tanneries, agriculture. Significant use of domestic inputs. Export potential, regional and further afield, but needs design and upgrading to be realized. Employment potential, including women. Small-scale establishments (including Jua Kali) with sub-contracting potential. Technological flexibility. Promotes rural as well as urban development. Provides basic needs (clothing, footwear). One backward linkage (tanneries) creates negative environmental impact.

(b) Metallingical Industry

A fairly minor range of products currently manufactured, including wire rods, nails, sheet plants, reinforced steel. No local ores available; all billet is imported although ship breaking on a small scale has begun at Mombasa to provide raw materials. Expansion within this industry would need to be

carefully focused because of the raw material constraint.

(c) **Packaging Materials**, including paper, plastics, and cans. Linkages with food processing, paper and printing, plastics and metallurgy and sisal. Essential to upgrade quality and design in order to promote exports of processed foods. Studies are necessary to identify full potential.

(d) **Paper and printing**: Linkages with packaging materials, publishing. Some use of domestic inputs and potential for increased use and some replacement of imports (pulp). Commercial viability of bagasse (waste from sugar production) and papyrus should be explored.

(e) **Pharmaceuticals**
This is not a significant industry at present in Kenya. One of the most interesting possibilites would be commercial production of traditional medicines. A study on the economic viability of such production would be timely.

(f) **Electronics**
Because of Kenya's relatively low-cost labour (in global terms) and relatively high level of skills (in regional terms) assembly of electronic components and equipment will probably expand during the Decade.

(g) **Engineering Industry**
Including machine tools, components, spare parts, metal pipes, lathes, motor assembly. Linkages to agriculture, other manufacturing, transport, and metallurgy. High import content (eg motor assembly). Large and small establishments with sub-contracting potential.

Given the demand for relatively cheap transport in both rural and urban areas and further, given the present level of development of the engineering industry and skill availabilities, the development of bicycle production is opportune.

An area capable of major expansion is the production of components and spare parts. As already suggested under 5.2(ii), a survey of needs and capabilities should be undertaken without delay. As also noted under 5.2, expansion of spare parts production in Kenya can be integrated with the PTA plan for establishment of an integrated spare parts maanufacturing complex.

A number of manufacturing processes in Kenya, and in the PTA region are actually and/or potentially damaging to the environment. The focus in terms of expansion of the industrial sector should be on production of goods which would be good for the environment. This objective would be compatible with expansion of the engineering industry if it were to focus on the production of "environmentally positive" products such as air

treatment equipment (fans, blowers, filters); water treatment equipment (filters, pumps, pipes); refuse collection equipment (bins, drums, carts); waste recycling equipment (grinders, mixers, machine tools, etc); as well as refuse-processing equipment and signs. The increased use of bicycles would also be compatible with the objective of improving the environment. All of these products would have export potential within the PTA region.

Production of environmentally-positive products has clear links to the PTA project entitled "Small-scale industrial waste water treatment - pilot testing installations" (ENV.04) which could be located in Kenya. Of related interest is PTA project ENV.01 on "Preparation and dissemination of a model environmental impact statement" for use by environmental protection authorities in the region. Although its location has yet to be decided, again Kenya, in cooperation with UNEP, would be a logical candidate.

Given Kenya's need and determination to promote its small-scale industrial sector and the advantages which the use of sub-contracting from large to small-scale establishments would have for small entrepreneurs, two other PTA regional projects are also relevant. These are ENG/06 and HRS/11. The first is "Pilot development of a regional network of industrial sub-contracting exchanges" designed to diffuse information on sub-contracting capabilities within the region, with emphasis on the mobilization of small and medium-scale industry. The locations identified are Kenya, Zimbabwe, Mauritius, and Tanzania. The other PTA project is "Intra-regional cooperation for small-scale industry promotion" which will establish a PTA cooperation network to enhance small-scale industry development and national promotional capabilities. The only location identified to date is Zambia, but other PTA member states will also be involved; Kenya would be a logical candidate. Finally, the idea of establishing a Centre for Women Exporters in Kenya could be expanded to form the nucleus of a regional centre to promote exports by women of textiles, clothing and accessories within the whole region.

5.4 Support Programme

Effective implementation of the programmes of consolidation and expansion calls for a comprehensive support programme to provide entrepreneurs, technicians, artisans, managers and staff at all levels equipped with competent skills. To promote development of an enterprise culture Kenya has already embarked on the 8.4.4 education system (involving 8 years at primary level education and 4 years at secondary and first degree tertiary education).

At present secondary, technical and vocational training is offered in a variety of institutions. They include 320 Youth Polytechnics, 16 Harambee Institutes of Technology, 19 Technical Institutions, and 3 National Polytechnics. To serve the development needs effectively, training in these institutions needs to be reorganised and rationalised through reorientation of courses toward identified local needs. The universities also

need to introduce management courses and entrepreneurship development programmes in their engineering and other faculties.

Special emphasis is being placed on the development of small enterprises because of their employment creation potential. This calls for design of several support programmes. First, the institutional framework needs to be strengthened. Institutions at the District level, including existing science and technology and research institutions, District Development Committees, District Development Offices and Industrial Development Officers need increased support. Specific staffing and skills upgrading in project planning and appraisal, feasibility studies and negotiations in transfer of technology needs to be introduced. Already in place is the strategy for small enterprise development (SED) towards the year 2000, including a programme of action and programme/project ideas for small enterprise development. Some of these projects and programmes for small enterprise development have been set up and others are in the pipeline. District development profiles have been prepared for 40 districts and will be used during the Decade to design and implement industrial programmes in the Districts. Special attention should be given to design of packages for entrepreneurship development, training and credit for women, and promotion of export-oriented activities for women.

A centre for women exporters should be set up in the private sector to improve women's export skills. The centre would advise on design, quality, marketing and packaging of their products. A women's Desk should also be established at the Kenya External Trade Authority. Entrepreneurship development programmes aimed at trainers at all levels should be intensified to increase the supply of entrepreneurs.

Management skills for middle-level managers in the parastatals and firms under rehabilitation need to be strengthened. Repair and maintenance skills should be developed in cooperation with the universities and technical institutions to provide skilled manpower for the spare parts and maintenance programme. A department of preventive maintenance of machinery should be established in the engineering faculty of one of the universities or national polytechnics to upgrade and advise on maintenance practices. Capability to undertake comprehensive surveys of rehabilitation and expansion needs should be developed within the Department of Industries in the Ministry of Industry. A SED unit should be established in one of the universities. Programmes to promote linkages between large and small-scale industries should be put in place through the establishment of a Subcontracting Exchange. In order to improve product quality in leather and other fashion goods, packaging and ceramics, a Design Centre should be established.

Infrastructure (especially roads) serving market towns which have the greatest investment and employment potential should be upgraded. It is expected that 200 rural trade promotion centres will have been built by the year 2000. Development of a small number of secondary cities, with a wide range of urban

facilities, should be actively promoted during the Decade in order to reduce migration to Nairobi and promote rural-urban balance. Hard choices have to be made about which towns and parts of the country and what kinds of infrastructure should have priority, given limited resources available for new investment.

SECTION 6

RECOMMENDATIONS FOR PROGRAMME IMPLEMENTATION

6.1 Modalities for implementation

The implementation process will involve inter-agency cooperative efforts and networking. It is suggested that an inter-Ministerial Committee be established, chaired by the Ministry of Industry which would also provide the secretariat. The Committee would establish a number of sub-committees (each of which could call on the services of local experts). These sub-committees would cover the following areas:

- rehabilitation
- maintenance and domestic production of spare parts
- technological development
- agro-related industries
- women
- environment
- physical infrastructure
- human resource development
- regional cooperation.

The full Committee would meet quarterly and the sub-committees would meet as required. Operational funds would be provided by IDDA.

6.2 Selection of priority investments and technical assistance programmes

(a) Programmes of consolidation and expansion

The following are the priorities under these headings:

- Rehabilitation of existing industries
- Programme of preventive maintenance
- Selective domestic production of spare parts
- Study to investigate increased use of traditional building materials and designs
- Study on commercial viability of bagasse and papyrus for paper production
- Study on commercial viability of production of traditional medicines
- Production of bicycles
- Production of agricultural hand tools
- Production of products to improve the environment.
- Establishment of technology programme covering R & D, quality control, strengthening of negotiating capabilities for technology acquisition, and engineering design and manufactures.

A number of these projects and programmes have implications for

regional cooperation. There are six regional projects, all with priority classification included in Towards an Integrated Industrial Development Programme for the PTA (UNIDO, PPD/R. 42, 5 October 1990). Kenya should be involved in all of these. They are:

- ENG/02 "PTA programme for the production of spare parts"
- ENG/06 "Pilot development of a regional network of sub-contracting exchanges"
- ENV/01 "Preparation and dissemination of a model Environmental Impact Statement"
- ENV/04 "Small-scale industrial waste-water treatment-pilot testing installations"
- AGRO/07 "Training strategy for the development of an integrated production and technology management system for textile industry in Kenya for PTA countries"
- HRS/11 "Inter-regional cooperation for small-scale industry promotion"

It is also suggested that a "Centre for women exporters within the PTA region" be established in Kenya as a regional resource.

6.3 Support Programmes

The following are the priorities under this heading:

- All programmes under 5(d) above relating to promotion and development of small enterprises.
- Establishment of a Department of Preventive Maintenance in the Engineering faculty of one of the universities or national polytechnics
- Extension and upgrading of repair and maintenance courses in technical institutions
- Establishment of a Centre for Women Exporters
- Establishment of Women's Desk in KETA
- Establishment of a Centre for Industrial Design
- Establishment of a Sub-contracting Exchange
- Upgrading of infrastructure, expecially roads, serving market towns
- Promotion of a small number of secondary cities
- Establishment of 200 rural trade promotion centres

All of the priority programmes under the headings of Consolidation and Expansion and most of those under the heading of Support Programmes (with the possible exception of the last three) would require external assistance in the form of UN technical assistance and some provision of equipment.

6.4 Financing and major factor inputs

Sources of finance for the programme include, in theory, budgetary allocations, domestic savings, surpluses of public enterprises, private investment, loan funds from development and commercial banks, foreign investments, donor assistance, and seed money. Given the imperative of controlling public expenditure in Kenya, public funding would of necessity be severely limited. Under these circumstances, the major sources of financing for the programme would be the domestic private sector and external sources such as grants, private foreign investment, soft loans, and official development assistance. Most of the remaining factor inputs would be obtained domestically or, in the case of the regional projects, at least in part from the IDDA.