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THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

OPS/MC85-21

2

DATE: April 24, 1985

TO: The Managing Committee

FROM: Ernest Stern ES

SUBJECT: KENYA Country Program Paper

1. Attached is the Kenya CPP which was reviewed by the Operations Policy Sub-Committee on April 11, 1985. The Agenda for that meeting and the Postcript are also attached.

2. Among the issues discussed at the review were: the ability and willingness of the Government to address long-term structural problems, the obstacles to progress in moderating population growth, the adequacy of incentives to develop exports, the outlook for creditworthiness, and the appropriate mix of policy based operations in the lending program.

3. In view of the issues raised, the OPSC proposed that the Kenya CPP be discussed by the Managing Committee.

Attachments

cc: Mr. Southworth

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KENYA

Country Program Paper

Postscript

101. The OPSC Review meeting was held on April 11, 1985. The meeting began with a discussion of the Kenya Government's ability to address the long-term issues. Did the Government find it difficult to focus on the long-term, or had the Bank been unable to present the long-term issues in a manner which was convincing to the Government? The Region responded that both factors were present. For the past two years, the Kenyans have focused on the short term and on stabilization because of the immediacy of two major problems: the political instability and the drought. However, the Region believes that the Kenyan Government is committed to continued stabilization, and will undertake measures towards structural adjustment now that the agricultural sector has begun to recover from the drought. Progress will depend crucially on the degree of political stability.

102. In response to a question regarding progress in curbing population growth, the Region responded that both the Government and the Bank had underestimated the complexities of the problem. The approach taken in the Bank's project, of integrating family planning with health services, had turned out to be inadequate. Today, demand for family planning programs is outstripping supply; nevertheless, even if the supply were available, the acceptance rate would still be too low to bring about the drastic decline in fertility which the situation demands. A primary complicating factor is the ethnic diversity. Where tribal groups are jockeying for position, the logic of reduced population growth is hard to accept at the individual level. The Region will continue to work with the Kenyans and other donors to improve both the supply and demand aspects of the population program. In addition, the Region will work with PHN to improve the understanding of population dynamics in Kenya.

103. Regarding prospects for export promotion, the Region expressed the opinion that the primary problem was one of the incentive structures, which make producing for the internal market more profitable than exporting. The trade liberalization measures agreed under SAL II have yet to be implemented, and in the Region's view, the exchange rate does not provide adequate incentive to export. The representative from the IMF noted that in their view the exchange rate was not seriously out of line, that significant import liberalization had occurred, with increases in import authorizations. The Kenyan industrial structure is very narrow however, and it is not clear that the capacity exists to respond to further incentives in the medium term. The Region observed that the long-term problem of export promotion had yet to be adequately addressed and suggested that under the IMF stabilization program, equilibrium within a faulty structure had been achieved. Other committe members commented on the difficulties involved in trying to compete with the low-wage export economies of Asia even under a more liberalized trade regime. The Region mentioned its disappointment with the Government's failure to utilize the funds which had been made available in the Export Promotion Technical Assistance Credit. One speaker pointed out the linkage between the

population and industrial sector issues; employment generation in the industrial sector was needed to absorb some of the rapidly growing labor force. The representative from the IFC referred to the problem of price controls which negatively affects new industrial ventures.

104. Regarding the proposed lending program, the emphasis on sector loans was questioned in view of the disappointing experience with structural adjustment lending. It was noted that a simpler relationship between lending and performance exists in the more focused sector loans, which could improve program monitoring by both government and the Bank. One committee member suggested that in the absence of structural adjustment, IDA and Bank project lending could be ineffective. The Region characterized the proposed strategy as a "bottom up" approach, which would address bottlenecks at the project level first, which could lead to an acceptance of sectoral and macro level reforms.

105. The link between satisfactory stabilization, adjustment, and creditworthiness was underscored. In view of the current IIIb creditworthiness rating to Kenya, the Committee agreed that there should be a creditworthiness review in twelve months time.

106. The Chairman asked for clarification of the proposal in para. 68 regarding financing of critical projects. The Region responded that this was a possible approach to support the efforts towards completion of selected public investments. The Committee was not persuaded of the viability of this concept.

107. The OPSC recommends that this CPP be discussed by the Managing Committee.

April 24, 1985

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 8, 1985

TO: Operations Policy Sub-Committee

FROM: Luis de Azcarate, Director, CPD

EXT.: 60063

SUBJECT: KENYA CPP - OPSC Review

1. Attached is an agenda and comments on major policy issues identified by CPD and PBD for consideration by the Sub-Committee. The suggested agenda items are:

a) Recent Economic Developments and Prospects;

b) Bank Lending Strategy, including the proposed sector adjustment loans;

c) IBRD Exposure, Creditworthiness and Access to the Special Facility for Sub-Saharan Africa; and

d) Aid Coordination.

2. The Review Meeting will be held on Thursday, April 11, 1985 at 2:30 p.m. in Room E-1208.

Attachments

cc: Regional Office: Messrs. Kraske
Wyss
Gulhati
Greene
Dunn
Jones
Swamy
Ducker

Messrs. Ryrie
Jansen

KENYA CPP

Topics for Discussion

Recent Economic Developments and Prospects

1. Despite recent successes at economic stabilization following the world recession, stagnating production and the drought, major problems identified in the previous CPP remain as constraints to resumed sustained economic growth and development. This CPP makes it clear that the structural adjustment process, supported by the Bank under SALs I and II, has faltered owing to a lack of political strength and will in Kenya. Prospects for significant policy reform in Kenya are now much less favorable given the resistance to addressing in a systematic manner the issues of import liberalization, improved public sector/parastatal efficiency, and export promotion. Consequently, the underlying prospects for growth and creditworthiness will remain unfavorable. However, the paper does assume that even in the absence of major policy initiatives, a satisfactory level of short-term macroeconomic management will continue. The projections (Attachment 3) show a resumption of moderate economic growth (although per capita income stagnation because of the high rate of population growth), and some improvement in the external position, including a decline in the debt service ratio. The Region might wish to elaborate on the basis for these assumptions, and the commitment of the political leadership towards taking the necessary steps to ensure economic growth in the medium term.

2. In the absence of major structural reforms, foreign exchange will continue to be a constraint to economic development. Export promotion, both of traditional and non-traditional exports, should be an important element of a medium-term development strategy. Comprehensive trade liberalization, which would correct the balance of incentives between sales in the domestic market and exports, appears unacceptable to the Kenyans at this time. Yet it is possible that some intermediate actions could be proposed which would be acceptable. The Region might wish to elaborate on the constraints to improved export promotion, indicating the scope for providing additional incentives within the current political constraints, including in particular, the desirability of introducing export subsidies and/or further action on the exchange rate.

Bank Strategy

3. The CPP proposes that the lending program should consist of a core program that could proceed even in the absence of major policy reform and a series of sector loans which would be conditioned on progress in key policy areas. The Region might wish to identify more specifically the elements and size of the core program and to describe the minimum conditions of economic performance that should be required for the Bank to proceed with this program.

4. The CPP identifies three principal factors which contributed to the limited success of the structural adjustment operations: a) timing; b) Government's commitment; and c) the breadth of the program (para. 21). Accepting limitation (b) for now, the proposed Bank strategy is to address limitations (a) and (c) through the use of less comprehensive, more focussed instruments which would be conditioned on prior actions by the Government. To facilitate implementation, the use of a high level steering group is proposed (para. 23). This "divide and conquer" strategy is innovative, and if it facilitates the structural adjustment process, much progress will have been achieved. The strategy raises several issues, however. First, if the commitment is lacking, it is unclear how a structure such as a steering committee will be able to improve program implementation. The Fund's favorable experience with such a group is not much help given the very different nature of the policy measures in the Fund program. Second, taken as a whole, the breadth of issues remains in the sector package, since each sector loan would be a 2-3 year process and the proposed program calls for one new sector loan a year. The CPP recognizes explicitly that the proposed program may not be fully implemented owing to these limitations. The Region might wish to discuss the priority to be attached to the various sector loans should the pace of the reform falter, and elaborate on the benefits to be realized from the steering committee approach.

5. The first two sector loans are proposed for the agricultural sector (para. 61). The goals (para. 78) include rationalization of the agricultural portfolio, reforming agricultural parastatals, expanding private sector involvement in processing and marketing, and addressing cooperative issues. Continued implementation of reforms agreed upon under SALs I and II will also be pressed for, with exception of the grain marketing reform, which will be abandoned. Not mentioned as a policy objective is the resolution of "land issues", a major objective of SAL II and generally regarded as of overriding importance to the long-term growth of the sector. The Region might wish to discuss the omission of this issue from its policy agenda. In addition, the Region might wish to define more clearly the monitorable actions, distinct from the implementation of reforms supported by SAL II, which would be supported by these sector loans, and the significance of these reforms without satisfactory action on marketing reforms.

Creditworthiness and IBRD Exposure

6. In view of Kenya's present tenuous creditworthiness (IIIb, watchlist), the likely rise in IBRD exposure to over 20 percent, with a preferred creditor share of about 40 percent, is a clear concern. The Region argues, however, the importance of maintaining the current approved FY85-89 IBRD program ($440 million) because Kenya's creditworthiness would improve should the desired policy reforms materialize. This would reduce the risk to the Bank resulting from its exposure in Kenya, and would moreover make Kenya more attractive to other lenders which would help reduce the relative size of the Bank's exposure. However, the proposed IBRD program would subject to continued and adequate progress on sector policy objectives; if this condition is not fulfilled, the program would be scaled down. Accordingly, an interim review of policy adjustments and creditworthiness prospects would be useful in about 12 months' time (para. 43).

Access to the Special Facility for Sub-Saharan Africa

7. In the Board paper discussing the establishment of the Special Facility for Africa, Kenya was listed as one of the countries which was expected to initiate a reform program within the coming year or two. While detailed criteria for eligibility have not yet been developed, it seems likely that if Kenya were to adopt the bulk of the reforms sought in connection with the sector policy loans described in the CPP, it would be a strong candidate for funds from this Facility, and if it makes no progress at all then it would not be eligible for any funds. The more difficult problem would arise in the more likely event that of only partial progress toward sector policy reform. The Region might wish to elaborate on the minimum policy progress required for Kenya to have access to the Special Facility.

Aid Coordination

8. The CPP notes that due to structural weaknesses in planning and budgeting in Kenya as well as donor resistance to financing recurrent costs, project implementation is poor and available aid is not fully utilized. The CPP proposes as an objective of Bank strategy to improve the utilization of Bank financing through portfolio rationalization, and of overall financing through improved aid coordination, to the extent that the Kenyans are receptive. In addition, it is proposed (para. 68) that "donor (i.e. preferably World Bank) finance to cover the difference between resources available and those that will be required to finance the minimum package of critical projects on a phased and diminishing basis over a period of, say, four years, is to be sought". The Region might wish to elaborate on and clarify this proposal, including the implications for the current cost sharing policy.

Annex I compares the lending program for Kenya presented in this CPP with programs previously approved.

Annex II presents a comparison of various country performance indicators.

KENYA

		Actual			Current	Program				Five-Year Totals		
		FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY82-86	FY84-88	FY85-89
Operations Program (No.)												
Approved, August 1981		6	9	8	7	7	..	..	..	37	..	..
Proposed, March 1985		5	5	3	3	7	7	5	1	23	25	23
Lending Program (No.)												
Approved, August 1981		4	4	7	5	5	..	..	..	25	..	..
Std. Table IVa, Nov. 1984		5	5	3	2	3	4	4	5	18	16	18
Proposed, March 1985		5	5	3	2	5	5	4	5	20	19	21
Lending Program (Cur. $m)												
Approved, August 1981	IBRD	82.5	167.5	195.0	220.0	150.0	..	..	..	815.0	..	..
	IDA	170.0	55.0	160.0	85.0	130.0	..	..	..	600.0	..	..
	Total	252.5	222.5	355.0	305.0	280.0	..	..	..	1415.0	..	..
Std. Table IVa, Nov. 1984	IBRD	70.2	79.9	145.0	40.0	90.0	120.0	80.0	110.0	425.1	475.0	440.0
	IDA	61.0	113.0	64.5	5.0	36.0	109.0	50.0	75.0	279.5	269.5	280.0
	Total	131.2	192.9	209.5	45.0	126.0	229.0	135.0	185.0	704.6	744.5	720.0
Proposed, March 1985	IBRD	70.2	79.9	145.0	40.0	90.0	65.0	135.0	110.0	425.1	475.0	440.0
	IDA	61.0	113.0	64.5	6.0	56.0	104.0	40.0	75.0	300.5	270.5	281.0
	Total	131.2	192.9	209.5	46.0	146.0	169.0	175.0	185.0	725.6	745.5	721.0
Lending Program (Const. FY85 $m)												
Approved, August 1981	IBRD	99.2	191.7	209.2	220.0	139.9	..	..	..	860.0	..	..
	IDA	204.3	62.9	171.7	85.0	121.3	..	..	..	645.2	..	..
	Total	303.5	254.6	380.9	305.0	261.2	..	..	..	1505.2	..	..
Std. Table IVa Nov. 1984	IBRD	84.4	91.4	155.6	40.0	84.0	104.9	65.9	85.8	455.4	450.4	380.6
	IDA	73.3	129.3	69.2	5.0	33.6	95.3	45.3	58.5	310.4	248.4	237.7
	Total	157.7	220.7	224.8	45.0	117.6	200.0	111.2	144.3	765.8	698.8	618.3
Proposed, March 1985	IBRD	84.4	91.4	155.6	40.0	84.0	56.8	111.2	85.8	455.4	447.6	377.8
	IDA	73.3	129.3	69.2	6.0	52.2	90.9	32.9	58.5	330.0	251.2	240.5
	Total	157.7	220.7	224.8	46.0	136.2	147.7	144.1	144.3	785.4	698.8	618.3
Commitment Deflator (FY85=100)		83.2	87.4	93.2	100.0	107.2	114.4	121.4	128.2			

Note: November 1984 Review Group Decisions: FY85-89: IBRD $440 million
IDA SDR 280 million.

PBDCP
3/29/85

COMPARATIVE COUNTRY ANALYSIS

Economic Structure	KENYA	GHANA	TANZANIA	SRI LANKA
Population 1983 (millions)	18.9	12.5	20.4	15.4
GNP Per Capita 1983 ($)	340.0	320.0	240.0	330.0
% Agriculture in GDP 1982	28.7 a/	51.0	52.0	27.0
% Industry in GDP 1982	17.6 a/	8.0	15.0	27.0
% Services in GDP 1982	40.1 a/	41.0	33.0	46.0
Debt Service Ratio 1982	25.2 a/ d/	6.8	5.1 e/	8.3
Economic Performance				
Real GDP Growth Rate 1970-82	5.5	-0.5	4.0	4.5
Gross Domestic Investment/GDP 1982 %	21.1 a/	1.0	20.0	31.0
Exports GNFS/GDP 1982 %	25.4 a/	2.0	11.0	27.0
Current Account Balance/GDP 1982 %	-3.0 a/	0.3	-5.9	-13.0
Gross Domestic Savings/GDP 1982 %	19.4 a/	1.0	8.0	12.0
Recent Social Indicators				
Population Growth Rate	3.9	2.9	3.3	1.6
% Change in Crude Birth Rate 1960-82	0.2	-1.8	0.8	-25.7
% Change in Crude Death Rate 1960-82	-47.9	-35.7	-33.4	-34.8
Infant Mortality Rate (per 1,000) 1982	77.0	86.0	98.0	32.0
Life Expectancy (years) 1980-82	57.0	55.0	52.0	69.0
Adjusted Education Enrollment Ratio,				
1980-82 - Primary	109.0	69.0 b/	102.0	103.0
- Secondary	19.0	36.0 b/	3.0	51.0
Adult Literacy Rate (1980-82)	47.1	30.2 c/	79.0	86.0

Lending Program	FY80-84	FY85-89 f/	FY80-84	FY85-89 g/	FY80-84	FY85-89 g/	FY80-84	FY85-89 g/
Nominal IDA US$M	410.5	281.0	281.8	425.0	359.1	327.0	491.5	335.0
Nominal IBRD US$M	448.1	440.0	0.0	0.0	25.0	0.0	54.8	400.0
p.c.p.a. Lending US$	9.1	7.6	4.5	6.8	3.8	3.2	7.1	9.5
p.c.p.a. IDA Equivalent (Constant 1985 US$)	6.5	3.5	5.1	6.0	4.3	2.8	7.9	4.9

Sources: Kenya CPP
1984 World Development Report
Social Indicators Data Sheets, EPD, June 1984

a/ 1983 figure from CPP.
b/ 1979.
c/ 1969-71.
d/ Including IMF.
e/ 1981.
f/ CPP and Table IVa dated November 30, 1984.
g/ Table IVa dated November 30, 1984.

Country Policy Department
April 8, 1985

REVIEW DRAFT
FOR OPERATIONS POLICY SUB-COMMITTEE
CONFIDENTIAL

Country Program Paper

KENYA

March 14, 1985

Eastern & Southern Africa Regional Office

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REVIEW DRAFT

KENYA

COUNTRY PROGRAM PAPER

		IBRD/IDA Lending Program[b] (US$ million) FY1980-84	FY1985-89	FY1985-89
1983 Population: 18.9 million [a]	IBRD	439.1	440.0	440.0
1983 Per capita GNP: $340[a]	IDA	410.5	281.0	281.0
	Total	849.6	721.0	721.0

Current population growth rate: 3.9% p.a.

	FY1980-84	FY1985-89	FY1985-89
No. of Loans/Credits	28	23	25
No. of Loans/Credits per million pop.	1.48	1.22	1.32

Current Exchange Rate:
KSh. 15.4 = US$1.00

Average Lending Per Capita Per Annum:
Current US$ (Constant FY84 Commitment US$)

IBRD/IDA	8.99(10.04)	7.63(6.00)	7.63(6.00)
IDA	4.34(4.91)	2.97(2.31)	2.97(2.31)

Status of IBRD Capital Subscriptions:

Resolution		Shares Allocated[c] Subscribed		Unsubscribed		Amounts to be paid for unsubscribed Shares (000's)		Local Curr. Unreleased for Shares Subscribed
No.	Adopted	No.	$(m.)	No.	$(m.)	US$	Local Curr.	US$ million
313/4	2/9/77	150	18.10	-	-	-	-	-
346	1/4/80	-	-	515	62.13	0.466	4.194	0.87
347	1/4/80	-	-	250	30.16	0.000	0.000	-
395	8/30/84	-	-	66	7.96	0.070	0.627	-

a/ World Bank Atlas, 1983
b/ The FY85-89 lending program proposed in this CPP compares with the program for the same period approved at the last Bank-wide lending program review in November, 1984 as follows:

	FY85-89 Lending Program Approved	Proposed	Percentage Change Proposed/Approved
No. of Loans and Credits	23	25	+9%
Current $ million	721.0	721.0	-
Constant FY84 Commitment $	-	-	-
Per capita per annum (Constant FY84 Commitment $)	-	-	-

c/ IBRD share value = US$120,635

KENYA

COUNTRY PROGRAM PAPER

A. Introduction

1. The last CPP for Kenya was reviewed by management on August 21, 1981. The CPP identified uncertainty over Kenya's political stability as the major obstacle to speedy implementation of needed structural adjustment policies and completion of the proposed Bank Group lending program. In the event, overriding concern for political considerations, combined with weak public administration and an unfavorable external economic environment, eroded the Government's ability for and commitment to progressive economic adjustment. The fragility of this environment was further increased by an August 1982 coup attempt, which was followed by disquiet and indecision within Government. As a result, progress in policy implementation over the last three years has been disappointing. In particular, little progress has been achieved on a number of critical elements of the structural adjustment program -- the liberalization of grain marketing, trade rationalization and export promotion. Structural policy reform has not, therefore, had the intended impact on the economy. On the other hand, the Government has managed to regain a reasonable degree of political and economic stability, produce a new development plan, prepare a broad public investment program, and, for the first time in many years, consistently meet its obligations under the IMF standby which concluded on September 30, 1984.

2. Overall, the deterioration in the Government's performance and capacity has resulted in Bank Group lending not reaching approved projected levels since the last CPP. This CPP reformulates the Bank's strategy for Kenya in the light of this experience.

B. Recent Political Developments

3. President Moi has maintained his position since he took office in 1978 by a careful balancing act between various tribal and regional interests. However, with rising unemployment, inflation, a generally declining economy, and a weak economic and political administration, Government critics have become more vocal. The Government also has been shaken by corruption scandals and internal power struggles. President Moi has taken strong measures to impose a degree of political conformity (e.g., banning tribal and some professional associations), but these measures have not silenced his critics. The mounting tension came to a climax on August 1, 1982 when a coup attempt was launched by the Air Force. The coup was quelled by the Army, which has since grown significantly in power, and alerted the President to the weakness of some of his alliances and associations with individual politicians. His relations with some Government ministers, especially the former Minister of Constitutional Affairs, Mr. Njonjo, rapidly deteriorated. In mid-1983, Njonjo was described as a "traitor", suspended from the Cabinet, and expelled from KANU (the country's only political party).

4. In an attempt to re-consolidate his position, President Moi announced early elections, which took place on September 26, 1983. Following the elections, President Moi made a number of changes in the structure and personalities of his new Government. The numbers of operating ministries and Cabinet posts were reduced. Despite these changes, however, the overall Government size increased rather than decreased, largely because of a substantial increase in the number of assistant ministers. The Moi loyalist representation in the National Assembly is still short of an absolute majority. The Government does not now reflect the political power balance as revealed in the election results, nor is it in proportion to the tribal balance in the country.

5. These events point to the perpetuation of a feature of President Moi's rule since the demise of President Kenyatta -- the slow attrition of influence of the once dominant Kikuyu tribe. Kenyatta was a Kikuyu and, during his tenure of office, this ethnic group became firmly entrenched in the Civil Service, in trade and industry where their influence almost rivalled that of the Asian community, in the University, and in the Air Force. Kenyatta's statesmanship lay principally in the manner in which he was able to allay the fears and suspicions of both competing and minority tribes by a judicious rationing of influence and affluence while, at the same time, ensuring the continued dominance of his own tribe. Moi is from the small Kalenjin tribe, and owed his position as Vice President in part to that fact and to Kenyatta's need to provide some tribal balance in the distribution of power. Since his accession, Moi has more and more surrounded himself with leaders with tribal affiliations other than Kikuyu and the attempted coup was a manifestation of growing resentment and frustration. The aftermath of the attempted coup also gave Moi the opportunity to close down temporarily and cleanse the University of the intellectuals who had allegedly opposed the Government. Njonjo is a Kikuyu with aggressive political ambitions. The ousting of Njonjo can be seen as part of a campaign to remove Kikuyus from the exercise of either political or economic power. It is in this context that the political power balance is skewed and the tribal balance no longer proportionally represented.

6. Although some stability has returned to Kenya since the elections, a high level of political nervousness still persists. This is reflected in the Government's weakness in undertaking crucial policy measures because of fear of antagonizing vested interests. The overriding concern for political considerations has resulted in an increased concentration of power in the President's Office, slower decision-making, and lack of commitment and consistency needed to carry through policy reforms in key areas. Carrying out a policy dialogue in this context shuld be expected continue to be difficult.

C. Economic Issues, Performance and Prospects

Key Structural Issues in the Kenyan Economy

7. During Kenya's first decade (1964-73) as an independent nation, GDP grew by a remarkable 6.5% p.a., or 3.0% per capita p.a. Following the first oil crisis of 1973, growth decelerated to 4% p.a., or virtual

stagnation in per capita terms, reflecting not only adverse exogenous developments such as the oil shock and the breakup of the East African Community which provided a market for Kenyan manufactured products, but also the emergence or intensification of structural constraints largely unrelated to the post-1973 terms of trade deterioration. These problems are briefly described below.

8. First, agricultural growth decelerated from 4.5% in the first decade after independence to 2.5% during the 1970s. This was due partly to the tapering off of specific positive factors -- the conversion of considerable high-potential land from extensive use to smallholder cultivation, the introduction of high-value production activities, and the adoption of high-yielding maize varieties -- which had sustained agricultural growth in the first decade after independence. But the deceleration was also due to Government policies, including excessive protection for the industrial sector which facilitated the maintenance of an overvalued exchange rate, thereby turning the internal terms of trade against the agricultural sector, and inefficient, monopolistic Government involvement in agricultural marketing which discouraged production and placed undue burdens on the budget. There was also growing pressure of the rural population on the country's limited and unequally distributed supply of medium and high potential land (only 18% of the total land area), contributing to over-intensive use in some areas. A recovery in agricultural growth to 4% p.a. was needed to maintain food security, strengthen the balance of payments, and generate employment and incomes for the rural labor force.

9. Second, industrial growth also decelerated, according to official statistics, from 8.0% in the first decade after independence to 6.5% during the period 1973-80.[1] This growth was being accomplished at an increasingly higher cost in terms of the capital-intensity of investment, low labor absorption,[2] and the burden on the balance of payments of a sector which imported a substantial volume of intermediate goods for "final touch" processing and assembly, but exported very little in the way of non-traditional goods. These undesirable features resulted from Government policies which included high levels of protection, Government financial participation in industrial firms, and fiscal incentives for investment.

1/ These are relatively high growth rates. However, the intensification of protection (as took place in Kenya during this period) can lead to artificially higher product prices, and increases in value added in local currency terms, in comparison with the value added derived by valuing the same physical product with world prices for inputs and outputs. In such a case, manufacturing growth to some extent can be a statistical artifact.

2/ In 1980, only 10% of the Kenyan labor force was employed in industry, compared with 17% in lower middle-income countries generally.

10. Protection, which was already high in the late 1960s, increased in 1970s due to the "ratchet effect" of the Government's behavior in responding to fluctuations in the external terms of trade and foreign exchange availability. During periods of foreign exchange constraint, the Government intensified quantitative import restrictions, but during periods of easy foreign exchange availability, the Government did not relax import restrictions, but increased Government expenditures instead.

11. Government financial participation in industrial firms had been justified on the basis of Kenyanization of the economy, and also on the basis of more nebulous criteria such as the "basic and strategic" character of some industries, "social contribution", or "inability to get established without Government," rather than on the basis of objective economic criteria. The Report of the Working Party on Government Expenditures (Ndegwa Report, June 1982) found that "Four things have gone wrong in implementing this approach": (i) failure to divest to private Kenyans after a transitional period, as originally intended, with the result that Kenyanization remained "representational"; (ii) inefficient operation of enterprises; (iii) special protection from competition; and (iv) abuse by private sector partners.

12. Third, energy supplies became relatively more expensive. The oil price increases of the 1970s raised the cost of imported energy substantially; in 1980, the cost of petroleum imports for domestic consumption (i.e., exclusive of re-exports of petroleum products) was equivalent to 36% of nonfuel export receipts, as compared with an average of 13% during 1976-78. Fuelwood and charcoal, which account for more than half of the energy supply to Kenya's economy, also became relatively more expensive, since the rate of consumption was four times the rate of replenishment, due to rapid population growth and a declining forest resource base.

13. A fourth issue, related to the above, is the overexpansion and inadequate management of the public sector. The Report of the Working Party on Government Expenditures declared that the fiscal deficit was "a fundamental structural problem" arising partly from "the proliferation of commercial activities by Government which has diverted scarce management talent away from the central functions of Government." The Government's Sessional Paper on Development Prospects and Policies (1982) stated that "Structural adjustment must embrace a more constructive and profitable role for essential parastatals and the return of others to private sector operation."

14. Finally, the growth of Kenya's population had accelerated from 3.4% p.a. during the intercensal period 1962-69 to 3.8% p.a., the third highest rate in the world, during the intercensal period 1969-79. This acceleration reflected a decline in mortality, an increase in fertility arising from continuation of the traditional preference for large families, and health improvements enabling fertility to move closer to its biological limit. The rapid population growth generated by this high and increasing fertility generated increasing pressures on the land, the labor market, and education and health services.

Economic Policies and Developments During the Fourth Plan Period 1979-83

15. The above structural issues were generally well recognized in the Fourth Plan, which stated that "The progress we have made in the past has pre-empted the easy forms of development in such sectors as agriculture and industry. We must now address ourselves to more difficult problems." Under Structural Adjustment I (1980) and Structural Adjustment II (1982), many of the Government's general Plan intentions were refined into more specific commitments on the content and timing of structural adjustment measures. The Fourth Plan also recognized that, in the wake of the "coffee boom" of 1976-77, the external terms of trade would deteriorate, and that it would be necessary to contain fiscal and external deficits during the Plan period. These aspects of Government's policy were refined into more specific commitments under a series of IMF programs.

16. The Plan stated that future industrial growth would require "increasing emphasis on the promotion of industrial efficiency and decreasing emphasis on industrial protection," and accordingly proposed the phasing out of quantitative import restrictions (QRs), tariff rationalization, and export promotion. Under both Structural Adjustment I and II the Government committed itself to timetables for carrying out studies of industrial cost structures and effective protection, reducing QRs, designing and implementing a new, more moderate and uniform tariff structure, and developing an export promotion program. These timetables were not met in either case. The industrial studies were launched in December 1984, more than five years later than the original Structural Adjustment I schedule. The timetable for import liberalization was disrupted by foreign exchange problems, and presently only 29% of the items are on the unrestricted list. The Government raised tariffs on four occasions and lowered them in the two most recent budgets. It has not measured the impact of these adjustments on industrial protection, and has not designed the new tariff structure intended to be in place when the QRs had been substantially phased out. An export promotion program might have included: simplifying the administration of fiscal incentives for exports to enhance their reliability; export finance; duty drawbacks; or manufacturing in bond. While intentions were announced in the June 1983 budget speech regarding export finance and manufacturing in bond, and some of these proposals have been conceptualized, so far no measures have been implemented.

17. The Plan proposed that domestic agricultural prices "be brought more into line with long term trends in world market prices." The Plan also stated that "In principle, there will be direct intervention only in those areas of agricultural and food marketing where cooperatives and the private sector cannot or do not perform essential functions and services adequately or competitively," and that restrictions on private sector marketing activity would be relaxed to encourage private investment in agricultural marketing. During 1982, both producer and consumer prices for agricultural products were raised closer to border prices at the official, somewhat overvalued exchange rate. In the area of grain marketing, following a consultants' study, the Government reaffirmed its Development Plan intention to redefine the role of the key parastatal in this sector to be a market stabilization and food security function, rather than a legal (and inefficient) monopolist, and to permit private traders to participate in grain marketing. However, the Government has not yet formulated an

action program to implement its intention in this area and has recently reversed its previous decision by announcing that the only purchaser to be permitted to enter the maize market is to be a new apex cooperative, the Kenya Grain Growers Cooperative Union. It also has not developed an effective program to address land issues.

18. During the Plan period, the Government continued to follow, as it had previously, appropriate energy pricing principles, although recently the Government has deferred needed increases in power tariffs. There has been some reduction in dependence on imported energy through the development of hydroelectric and geothermal sources. However, apparently due to the institutional fragmentation of the sector and planning weaknesses in the Ministry of Energy, the Government has not yet drawn up a well-defined energy investment program with an adequate justification.

19. In 1983, the Government prepared, for the first time ever, a Forward Budget and Public Investment Program document. However, the effectiveness of this effort was limited by weak preparation by the line ministries, and the exclusion of the parastatal sector (except for the projected budgetary contributions to the parastatals which were displayed). Public sector planning and management continues to reflect a number of weaknesses, the most serious of which is inadequate control of the parastatal sector.

20. In order to provide more effective leadership to the family planning program, particularly information and education to generate greater demand for family planning services, a National Council for Population and Development was established in the Office of the Vice President in 1982. However, the Government has not yet developed a credible fertility reduction program. Government budgetary allocations do not reflect the assignment of a high priority to family planning. Information, Education and Communiction (IEC) efforts have been lagging in the rural areas, while in the urban areas there appears to be unmet demand, as manifested by a large increase in the number of illegal abortions. Fertility has continued to increase; in the World Development Report 1984, Kenya's total fertility rate in 1982 was estimated to be 8.0 as compared with 7.6 in 1975. Kenya is one of only four countries in the world with a total fertility rate greater than 7.0.

21. It is evident from the above that the Government's implementation of its Development Plan with respect to structural adjustment was relatively weak, in that most of the planned measures were either implemented well behind schedule and/or somewhat ineffectively, or are still being developed for future implementation. Principal factors contributing to the weak implementation of structural adjustment have been:

(a) The timing of the second operation which was presented to the Board at an early stage of the program preparation/ implementation cycle, in the sense that the operation then consisted largely of stated intentions to implement measures at some future time, in many cases following studies.

(b) The breadth of the program, which included activities in seven sectors or areas.

(c) Divided or inadequate Government commitment on some issues, particularly import liberalization and grain marketing reform.

(d) Poor performance by the Ministry of Economic Planning and Development (MEPD), which was charged with responsibility for coordinating program implementation.

(e) Diversion of the attention of key Government officials to the difficult short-term governmental and financial situation arising from an unsuccessful coup attempt in August 1982, suspension of the 1982 IMF program because of the fiscal deficit, and related continuing adjustments in the foreign exchange and budgetary situation.

22. The deficiencies noted above in the structuring of Structural Adjustment II are amenable to some degree of correction. Timing of the loan to ensure that monitorable policy reform actions are more advanced than has previously been the case can be accomplished, but will demand realism in preparation. If the Bank proceeds with a third operation, many of the outstanding or incomplete actions which should have been taken under the second lending operation should be accomplished before appraisal. In addition, decisions on future policy reforms should also have been taken, in so far as this is possible and appropriate, together with an associated monitorable timetable, rather than that such decisions should be predicated on future inputs such as further studies. As far as overstructuring of Structural Adjustment II (by the inclusion of too large a number of policy reform actions) is concerned, it is the Region's present intention to ensure that any future program supported by us be more finely focussed with fewer but more closely related components. The extent of, and reasons for, divided or inadequate Government commitment are difficult to assess. In other contexts, it has shown courage and political ability in taking unpalatable decisions. Government's determination during the last two years in reducing fiscal and external deficits to sustainable levels by such stabilization measures as large-scale retrenchment on development expenditures, the deceleration of credit expansion, the pegging of wages and the adoption of a flexible exchange rate policy reveals a very high level of commitment. Its role in the resolution of the vexed issues of the assets and liabilities of the East African Community conforms with this assessment, since the settlement involves significant payments on the part of Kenya at a time when the Government's financial resources are seriously constrained. On the other hand, the failure to make better progress, particularly in such structural reform areas as grain marketing and trade reform, leads to the conclusion there could have been but little political commitment behind the agreements entered into with the Bank or, at least, no universal commitment. Procrastination in making progress in grain marketing can also be attributed to opposition by strong vested interests and, in trade reform, to the strong protectionist lobbies which exist, and which Government appears not to have the political strength to resist. Furthermore, in both these areas, lack of conviction rather than an absence of political commitment could be behind these failures. Our own economic policy dialogue has not been very successful and has been limited to a small circle of key bureaucrats who, although possibly convinced among themselves in these matters, carry insufficient influence and wield too little political power. It can be argued that failure to make significant

progress in some areas has also been inhibited by the absence of knowledge within Government on which to base informed decisions or to judge with any precision the trade-off between alternative policies. But the delays may be the result, not of wilful hypocrisy, but a blend of political indifference, bureaucratic inefficiency and insufficient in-house expertise and experience to make an evaluation of the often conflicting advice that they get on many complex and delicate issues. But implementation capacity within Government can only be significantly improved in the long term as human resource mobilization and training, which is ongoing, makes its impact on the higher levels of the bureaucracy.

23. It is clear that the President, himself, is not committed to all aspects of reform covered in structural adjustment lending to date, and it is also becoming apparent that the Government leaders find it difficult to forge cohesive support in Cabinet for certain divisive measures. In the context of Sub-Saharan Africa, informed, dynamic leadership dedicated to the right mix of structural change is a rare phenomenon. In its absence, which cannot by itself reasonably preclude further structural lending, the alternative may be to vest responsibility in a politically and bureaucratically strong Steering Committee which from the outset would have full specific Cabinet endorsement of all proposed policy reforms. This is a precondition on which the Bank should insist. Such a high level Steering Committee consisting of the Minister of Finance and Planning, the Governor of the Central Bank, the Permanent Secretary, Ministry of Finance and Planning, and the Permanent Secretary in the Office of the President responsible for Development Coordination and Cabinet Affairs already exists for the purposes of negotiating and monitoring Government's involvement with the IMF (e.g. the current Standby Agreement). Government has expressed a willingness to extend the scope of this Committee to cover any further structural adjustment operation with the Bank and there is no a priori reason why it should not also extend to sector operations, which are policy based. A greatly improved dialogue on the economic rationalization for policy reform between the Bank and the Government in general, and the Steering Committee in particular, will be necessary and should be provided, not only through intensive supervision, but also by the reorientation of economic and sector work to structural adjustment objectives.

24. The diversion of the attention of key Government officials to short term stabilization measures, following the unsuccessful coup attempt in August 1982, and the suspension of the 1982 IMF program, was necessary under the circumstances. Urgent decisions were needed on budget revision (which occurred four times during the 1982/83 fiscal year), and on resource mobilization changes. The coup attempt itself was an important factor, not only in slowing down decision making, but in contributing to foreign exchange shortages as tourism dwindled in its aftermath and unquantified amounts of capital were illegally transferred abroad. Although there were longer term structural measures which could have been taken alongside the stabilization measures, Government cannot be blamed for giving stabilization priority and the combination of an attempted coup and a series of exogenous shocks leading to serious short term disequilibrium does present an unusual set of circumstances.

25. While the Government has made only limited progress on structural adjustment, by the end of 1983 it had made important progress on reducing fiscal and external deficits to sustainable levels through stabilization

measures, despite the fact that the terms of trade deterioration was sharper than expected in the Fourth Plan. Fiscal deficits were gradually reduced through retrenchment on Central Government expenditure from the excessive level of 35% of GNP in fiscal year 1980/81 to 27% of GNP in fiscal year 1983/84. This is still a relatively high level of expenditure. As indicated in the World Development Report 1984, in the average lower-middle income developing country, Central Government expenditure is equivalent to 21% of GNP. Interest rates were increased, credit expansion decelerated, and wages were held down. The exchange rate was adjusted in nominal terms, but due to domestic inflation, the real effective exchange value of the shilling at the end of 1983 was only 3% less than in 1976. Considering that the external terms of trade had deteriorated by 22% since 1976, and that external balance had been maintained throughout the 1980's only with substantial number of quantitative import restrictions, the exchange rate remained somewhat overvalued in relation to Fourth Plan policies of import liberalization and export promotion (study recently launched by the Government should provide estimates of how much the official exchange rate differs from the opportunity cost of foreign exchange). The current account deficit was reduced from 12% of GDP in 1980 to 4% in 1983, but during the same period the debt service ratio increased from 13% to 28%.

26. Why Government should have prosecuted painful stabilization measures urgently and efficiently while procrastinating on longer term adjustment measures raises some interesting questions relating to the distribution of power within the society. Two factors appear to have influenced Government's attitude. The first would seem to be a concern to protect existing industrial interests. The second may be the innate pride of the ruling minority at the achievements to date of post-independence Kenya and a reluctance to pursue the easier alternatives to stabilization which would only end in economic chaos and the international ignominy of default and rescheduling of debts.

27. Developments in the real economy were consistent with Government policies, as actually implemented. Agricultural output stagnated during the first two years of the Fourth Plan, partly because of drought, and then grew significantly during the remaining three years because of the return of normal rainfall and more favorable prices for agricultural products. The growth rate of agricultural production from 1978 to 1983, both of which were normal weather years, was 2.5% p.a. The growth rate of industrial output was 6% p.a. during the first two years of the Plan period, when Government expenditures were very high, and then decelerated to 3.5% p.a. during the final three years, as the stabilization measures began to take effect. Export performance was disappointing, as export volume actually fell by 11% over the Plan period. This resulted from a substantial decline in the volume of petroleum product exports from the Mombasa oil refinery and the sluggish growth of non-oil exports by only 1% p.a., reflecting the continuing overvaluation of the shilling and the non-implementation of export promotion measures. Real GDP grew by 4% p.a. Because of the deterioration in the external terms of trade, real gross domestic income grew more slowly than real GDP, and real GDY per capita fell by 5% during the Plan period.

28. The Government's accomplishments during 1979-83 may thus be summarized, for the most part, as "stabilization without structural adjustment." On the structural issues, there has been some progress in improving

incentives for farmers and in reducing dependence on imported energy, but disappointingly little progress on the key issues of improving industrial sector efficiency, improving parastatal/public sector efficiency, and reducing population growth. Certainly the Government's economic management has been more effective than that of many other African countries which have done neither stabilization nor structural adjustment, and thereby have fallen into liquidity difficulties. On the other hand, if the comparison is made with Kenya's own objective, which is the restoration of sustained growth of per capita incomes for its people, the Government has not yet displayed the determination and effectiveness on structural adjustment issues necessary for the achievement of this objective.

Economic Policies and Prospects for the Fifth Plan Period 1984-88

29. The Fifth Plan. In comparison with the Fourth Plan covering 1979-83, the Fifth Plan covering 1984-88 reflects continuing commitment to prudent demand management, but also reflects the weakening of the Government's commitment to structural adjustment. The Plan's macroeconomic framework is realistic and its central theme - "mobilizing domestic resources for equitable development" - is timely and appropriate. The Plan recognizes that "Public Investment has often been less productive than private investment" and declares that "Growth in the private sector is the core of the development process in Kenya." The new Plan clearly reflects the Government's determination to avoid the excessive spending which was undermining Kenya's domestic financial stability and external financial position during the first three years of the Fourth Plan period. Fiscal adjustment will continue to be pursued through rationalization of expenditure, rather than through increases in the relatively high revenue effort. However, improvements will be sought in the structure of revenue, particularly through higher and more equitable user charges.

30. On the other hand, whereas in the Fourth Plan the Government had pledged to discontinue quantitative import restrictions by the end of the Plan period (1983), in the Fifth Plan it is stated that "means for rationing foreign exchange will be required throughout the Plan period," and that items could be shifted from the unrestricted list to the restricted list in a situation of shrinking foreign exchange reserves. Thus, trade liberalization is no longer treated as a one-way street to which the Government is strongly committed. There is no mention in the new Plan of the promotion of competition and private investment in agricultural marketing. The treatment of population and family planning is brief and inadequate. The population projections are treated as neutral projections rather than as policy targets, and there are no projections or targets for family planning acceptors, reflecting continuing non-implementation of this Structural Adjustment II commitment.

31. Considerable attention is devoted in the Plan to the new "District Focus for Rural Development." The Plan states that "the responsibility for planning and implementing rural development is being shifted from the headquarters of ministries to the districts," which are the administrative subdivisions of the Central Government beneath the Provincial level, and are not "local authorities". The objectives of this initiative--improvement of problem identification, resource mobilization, and project implementation at the local level--are unassailable. However, this new thrust is coming at a time when the Government is still a long way

from having adequately addressed long standing higher-priority public sector finance and management issues, such as ministry planning and budgeting, and parastatal accounting, financial management, and financial performance.

32. In sum, the Fifth Plan is consistent with the Government's "stabilization without structural adjustment" policy behavior of recent years.

33. The Drought and Its Implications for 1984-85. Unfortunately, the Government's hopes for launching the Fifth Plan with a year of recovery in per capita income have been dashed by the worst drought in fifty years. The "short rains" failed in some parts of the country during October-November 1983, and the "long rains" failed entirely during March-May 1984 in most of the maize-growing areas. Grain production has been only 65% of normal. This year's tea production has been adversely affected, and it is expected that next year's coffee production will be reduced. Dairy production is sharply down, and the national livestock herd is being sharply reduced by record levels of slaughter. GDP growth in 1984 is expected to be zero.

34. There were excellent short rains during October-November 1984, to which farmers have responded by planting quick-growing crops such as beans, and it is being assumed for planning purposes that the drought is over and that rainfall in 1985 will be normal. Real GDP growth is expected to be 4% in 1985. However, the recently departed drought continues to have significant financial implications. The Government's strategy for dealing with the financial implications of the drought has recently been formalized in an IMF Standby program covering calendar 1985.

35. The impact of the drought on the fiscal year 1984/85 budget has been lessened by the generosity of foreign donors in doubling grant aid from 1.3% of GNP in fiscal year 1983/84 to 2.6% of GNP in fiscal year 1984/85. Comparing fiscal 1984/85 with the previous fiscal year, drought-related expenditure will go from zero to 1% of GNP; non-drought current expenditure will increase by 1% of GNP and development expenditure will remain approximately constant in real terms (at about 8% of GNP).

36. The impact of the drought on the balance of payments has been mitigated in 1984 by exceptionally high prices for coffee and tea (the external terms of trade are estimated to have improved by 13% in 1984), the increase in grant aid, and the Government's ability to draw down its strategic grain reserve. The current account deficit is expected to be a modest 3.4% of GDP and a slight overall surplus is expected. The major impact on the balance of payments will be in 1985 when the terms of trade are expected to deteriorate as coffee and tea prices return to more normal levels, and the bulk of the grain imports will take place. The current account deficit is expected to widen to 5.8% of GNP. The Government will finance this deficit from existing and new Official Development Assistance commitments, IMF Standby and Compensatory drawings, some draw-down of reserves, and a modest amount of commercial bank borrowing, to which Kenya has not had substantial recourse since 1981.

37. Medium-term Prospects. For the future, our assumption is that the Government will continue to follow prudent demand management policies, but that it will not implement the structural adjustment measures needed to

improve the efficiency of investment in the economy with sufficient vigor to qualify Kenya for further structural adjustment lending. However, we do expect that, with the difficult tasks of stabilization, and management of the economic and financial implications of the drought behind it, the Government will begin to address some of the long-term issues more effectively. During the past few months, there has been evidence of this. In the area of population, for example, the National Council on Population and Development has drawn up fertility reduction targets; the Ministry of Health has agreed to the establishment of single-purpose family planning clinics in urban areas; all excise and sales taxes on contraceptives have been removed; and the resistance of the Ministry of Education to the inclusion of population in the curriculum has been overcome. In the area of energy, the new Minister of Energy is strongly supporting the preparation of an energy investment program. NCPB is implementing some of the recommendations of the Grain Marketing Study and has requested Bank assistance to launch an overhaul of its accounts and stock management, including a food security program.

38. Under these assumptions, GDP growth could be restored to 4% p.a. while bringing the current account deficit down to 4% of GDP, a level which could be sustained indefinitely, given the concessionality of Kenya's capital inflow and with a modest improvement in export performance. With stable external terms of trade, and population growing by nearly 4% p.a., this would represent stabilization of per capita incomes, which would be a modest achievement in relation to recent decline. With vigorous implementation of structural adjustment measures, Kenya could substantially increase the efficiency of investment and thereby achieve more rapid growth, but on the basis of recent policy behavior, this would have to be regarded as an unlikely scenario.

D. External Capital Requirements

39. Over the years, Kenya has relied primarily on Official Development Assistance (ODA) for its external capital requirements. Kenya has been a relatively favored aid recipient. In 1982, among the nine sub-Saharan countries with populations of greater than 10 million, net ODA disbursements per capita for Kenya ($27) were less than for Sudan ($37) or Tanzania ($36), but were greater than for six other countries which received net ODA per capita in the range of $6 to $16. In view of the country's political stability, its comfortable financial ratios (until recently), and the availability of a high level of ODA to be "blended" with private-source capital in yielding a quasi-concessional overall capital inflow, Kenya has also been creditworthy for considerable borrowing from private sources of finance.

40. Kenya borrowed particularly heavily from private sources during 1979-81, after the terms of trade deteriorated due to the fading of the "coffee boom," and the oil price hikes. During 1979-81, Kenya's current account deficit (its net external borrowing requirement) averaged an unsustainable 10% of GNP. During 1982-83, however, as the stabilization measures took effect, Kenya succeeded in reducing the current account deficit to levels which could be financed almost entirely from ODA and IMF drawings. In fact, during 1982-83 Kenya reduced, through net repayments, its stock of debt owed to private sources by one third, and reduced the

share of its external debt held by private sources from 40% to 27%. This accomplishment has placed Kenya in a position in which the financial impact of the drought, although serious, is manageable.

41. An important feature of recent external adjustment is that it has been accomplished entirely through reduced demand and reduced imports, rather than improved export performance. The combination of sharply rising debt service payments and stagnating export receipts has caused the debt service ratio (including IMF) to increase from 4% in 1977 (the peak of the "coffee boom") to 18% in 1981 and an estimated 30% in 1984.

42. For the future, a turnaround in export performance is expected, reflecting the recovery of agricultural production and a lagged response to the depreciation of the real effective exchange rate since 1980. In the IMF staff report on the 1985 Standby Program, export volume growth of 5.4% p.a. over 1988-89 is projected. While we have no specific basis for challenging the Government/IMF projections, in view of recent export stagnation, we have more cautiously projected export volume growth at 4% p.a. in this CPP. With continued prudent demand management policies, the current account deficit would be lowered from the elevated level of 5.6% of GDP in 1985 to a long-term sustainable level of 4% of GDP by 1988. With such a borrowing requirement, Kenya would not be able to rely entirely on ODA, but rather would have to engage in some borrowing from private sources. The objective would not be a substantial net inflow from private sources, but rather would be to refinance the existing stock of private-source debt, in order to avoid a net outflow. Under these circumstances, the debt service ratio would decline from a peak of 30% in 1984-85 to 25% by the end of the decade.

43. Our understanding of Kenya's export performance, export prospects, and capital flows needs to be strengthened, and these topics will be closely reviewed by the next economic mission (June 1985). In view of the concerns which have been expressed over Kenya's creditworthiness, long-term management, and Bank exposure (paragraph below), the Region proposes to circulate an updating memorandum to the OPSC on policy adjustments and creditworthiness prospects in about 12 months' time.

44. Bank Exposure. The current guideline is that Bank exposure in a country's debt outstanding and disbursed (DOD), and in its debt service, should not exceed 20%; however, if the exposure of preferred creditors collectively is greater than 33%, Bank exposure should not exceed 15%. Presently, the Bank's share of DOD is 18-19%, and its share of debt service is 16-17%. With the proposed lending program, these exposure ratios would increase slowly into the low 20s. Preferred creditors (IBRD, IDA, and IMF) hold about 40% of Kenya's external debt. Bank exposure is therefore an issue. It should be noted, however, that the Bank Group net transfer is expected to be about $200 million during the five-year period, and that the likelihood of a default is therefore remote since this would intensify any cash flow problem (except to the extent Kenya could give up imports associated with Bank Group projects).

45. The Bank's policy is that IBRD lending can be continued to countries with financial ratios such as Kenya's, provided that they are adequately addressing any immediate liquidity problem as well as long-term creditworthiness issues. Kenya has managed to avoid liquidity problems,

and we consider that its agreement with the IMF on a Standby program for 1985 demonstrates adequate short-term management. While we have been considerably dissatisfied with the effectiveness of Kenya's long-term management, we do not consider that our dissatisfaction is great enough to justify discontinuation of IBRD lending. As discussed further in paragraph 60, we consider that the exposure ratios envisaged are acceptable in a context of policy performance which is not adequate to qualify Kenya for structural adjustment lending, but which is sufficient to qualify Kenya for policy-based sector lending in one or more sectors.

E. Progress Towards Previous Objectives

46. The primary aim of our strategy at the time of the last CPP was to assist the Government in implementing its program of structural reform. The main vehicle was to be quick disbursing assistance in the form of two structural adjustment lending operations planned for FY82 and FY84, respectively. These operations were designed to provide short-term balance of payments support closely tied to the Government's progress in carrying out policy reform. Such assistance would be supplemented by lending for projects that would directly support structural reform or help address some of Kenya's long-term development problems, e.g., agricultural production and processing, industrial growth, energy development and conservation, and family planning, along with some lending for basic infrastructure projects in transport, telecommunications, and water supply. The economic and sector work program was also designed to deal primarily with issues in structural adjustment and critical problem areas. Our strategy was based on the expectation that the Government would make steady, if unspectacular, progress in restructuring the economy. If this proved too optimistic, we would reduce the lending program by deleting any remaining structural adjustment operations. We would also review whether it would be appropriate to reduce project lending as well.

47. After the first three fiscal years (FY82-84) covered by the last CPP, the level and composition of our actual lending indicated that our lending strategy was, indeed, too optimistic. A structural adjustment operation (Structural Adjustment II) was approved, but a year behind schedule and delays in reaching agreement on its content and slow progress by the Government in meeting the conditions for the release of the second tranche pre-empted any possibility of processing a third operation in FY84 as planned. In September 1984, the Government submitted a proposed program of policy reforms designed to serve as a framework for the formulation of Structural Adjustment III. However, the reform measures advocated added up to considerably less than we had in mind for a third operation.

48. Thirteen projects, including Structural Adjustment II, were approved during FY82-84 for a total of US$533.6 million, including US$223.5 million on IDA terms. This compares to 18 projects planned for the period, totalling US$966 million, including US$426 million of IDA funds. Nearly 30% of the total shortfall was due to the Government's failure to make it possible for us to process Structural Adjustment III (US$120 million, with US$80 million IDA). Although eight other planned projects were not processed to the Board, four projects, two each in the agricultural and energy sectors, were substituted. Three industrial projects were not processed due to poor performance of ongoing projects in the sector.

49. All of the approved projects were in keeping with the Bank Group's lending strategy. Three agricultural projects were directed at increased agricultural production and processing, while an Agricultural Technical Assistance Project provided funds for studies to help the Government formulate policy measures for carrying out sector reforms. In the energy sector, four projects were aimed at increasing the supply of geothermal and hydroelectric power--thereby alleviating the country's heavy dependence on petroleum imports--and one of the agricultural projects, Forestry III, included a large reforestation component to help stem fuelwood depletion. Our second project in the population sector, the Integrated Rural Health and Family Planning Project, was designed primarily to generate demand for family planning services and to strengthen the availability and quality of such services. The three remaining projects approved were for basic infrastructure in highways, telecommunications, and urban development.

50. Project implementation has been a major problem in Kenya, although there has been some improvement over the last two years for projects which have been heavily supervised by Bank Group staff and discussed at Country Implementation Review (CIR) meetings. Overall improvement is largely due to the closure of several poorly performing projects and significant redesign and scaling down of others. Factors accounting for implementation delays have varied among sectors and projects, but the principal causes have been (i) Government budgetary constraints, which have led to inadequate provision of local funds, (ii) an inadequate and overcommitted Government administration for coping with an overloaded project portfolio, and (iii) poor project design, often reflecting overly complex or ambitious projects involving several implementing agencies. At recent CIR meetings, the Government has reported several new initiatives for dealing with these problems, including curbing Government expenditures within the limited revenue available, proposals for expanding to other ministries the successful work of the Bank Group-financed Budget and Financial Management Task Force in the Ministry of Agriculture and Livestock Development, and the creation of a Project Implementation Committee at the Permanent Secretary level to monitor and coordinate project schedules and performance targets and the management of project funds. For new projects, the Committee is responsible for ensuring that priority is given, early in the project cycle, to those which involve appropriate technologies, realistic timetables, and straightforward administrative arrangements. The effects of these initiatives are under constant review by the Bank Group and are beginning to show signs of progress.

51. During CIR meetings, the Government and the Bank Group are continuing to review the Government's development objectives and investment priorities in the context of its implementation capacity and resource constraints. As changes in circumstances occur, discussions are held to determine the scope for rationalizing the project portfolio through the reformulation, rephasing or cancelling projects (or components) which are not being adequately funded or properly carried out. As a result, substantial cancellations of funds have been made from the Sugar Rehabilitation Project (US$58 million) and the Second Integrated Agricultural Development Project (US$38 million), and the project scope for the Bura Irrigation Settlement Project and the Second Urban Project have

been reduced to levels commensurate with available resources. In addition, the Rural Water Supply Project has been reformulated. Continuation of this process is being given high priority by both the Government and the Bank.

52. In contrast to FY82 and FY83 when disbursements improved over immediate prior years, FY84 disbursements on projects as a percentage of amounts outstanding at the beginning of the year fell to 13% (or 19% including structural adjustment operations) compared with 16% in FY83. Improvements in recent years were largely due to the application of a Treasury circular requiring operating ministries to submit reimbursement claims promptly (tied to new budgetary releases) and to make greater use of disbursement Procedure III (direct payment). With about US$483 million undisbursed at end FY84, against about US$816 million in outstanding commitments, much more needs to be done to bring the disbursement record up to an acceptable level.

53. Our country economic and sector work program in Kenya since the last CPP has been guided by the Government's effort to restructure the economy. It has focussed largely on an analysis of the structural relationships underlying the country's economic performance in order to provide a framework for policy formulation and lending. Major works completed include a Basic Economic Report (August 1982), an updating Country Economic Memorandum (October 1983), sector memoranda in agriculture (January 1984), transport (June 1984), and urban development (June 1983), and other studies dealing with agricultural inputs and credit, cooperative issues, industrial strategy, and energy assessment.

54. Over the years, our dialogue with the Government on development policy and strategy has been reasonably active. However, progress in the implementation of structural reform has been hampered by the Government's reluctance to translate policies agreed in principle into action programs, and then to carry them out. In agriculture, the Government has adopted reasonable pricing policies in most areas which conform with the objectives of structural adjustment. However, no progress has been made in reforming grain marketing. In the area of trade rationalization, the Government has still not designed a new tariff structure nor has it made progress in phasing out QRs. No systematic, coherent and cohesive export promotion policy has been adopted and no export promotion measures have been implemented. On the other hand, some project lending has induced key policy reforms, e.g. increased budgetary allocations for road maintenance, increased road user charges, and strict axle-load enforcement under the Second Highway Sector Project, and increased tariffs and sector reorganization to be effected under the Olkaria Geothermal Expansion Project and the Kiambere Hydroelectric Power Project.

55. The Government's understanding of the need for policy reforms has been helped by coordinated actions of other external aid agencies. Consultative Group meetings, for example, have provided a forum for discussing macroeconomic problems, sectoral policy issues, and aid requirements and coordination. The donors have also come together in cofinancing arrangements for specific lending operations, most notably the Integrated Rural Health and Family Planning Project and the Kiambere Hydroelectric Power Project. Several donors, who are largely dependent on our economic analyses and projections, have also been involved in the

implementation of our economic and sector work in agriculture (CIDA/EEC), industry (UNIDO), energy (UNDP/USAID), population and water supply (WHO), and education (UNESCO).

56. Over the years, IFC has built up a diversified portfolio in Kenya totalling US$68.6 million for twelve operations. The portfolio covers industrial and financial sector operations including agro-based industries, small-scale enterprises and merchant-banking and promotion ventures. In addition to two pulp and paper projects, IFC operations comprise leather tanning, cement, packaging materials, textiles, and two hotel enterprises. IFC also has an active capital markets development program with investments in four Kenyan financial institutions, including a merchant bank and a venture capital company. A recent major study, conducted jointly between IFC and the Central Bank, established parameters for several further IFC investments in this sector. Possibilities include a reinsurance company and project financing through local commercial banks. Recognizing that agriculture should play a prominent role in the Kenya program, IFC recently provided financing for a project in oil-seed development and processing and is currently examining a number of other such projects. In other sectors, projects under consideration include an oil refinery modification project and an expansion of the soda ash mining industry. A major objective is to foster enterprises which have a high economic value, are based on local materials, and promote indigenous entrepeneurship.

F. Bank Group Strategy

57. The Bank Group's strategy in the near and medium term should be to exert, through persuasion and leverage, pressure to continue the adoption and implementation of those policy reforms which have been identified for some time and agreed as being necessary to achieve structural adjustment of the economy. This main thrust should be supported and strengthened by non-project and project lending, economic and sector work, and improved performance on existing projects. We shall pursue this course in whatever manner proves possible and practical. The optimal operational instrument is, of course, structural adjustment lending and substitution of other operational measures such as fragmented, partial or unisectoral sector reform, however valuable in themselves, will almost certainly result in a shortfall from the conservative growth rates which have been targetted in the Fifth Plan. The continuation of our dialogue with Government on structural adjustment remains, therefore, a top priority.

58. For the immediate future, we assume that the probable scenario, which dictates and forms the basis of our creditworthiness analysis and lending program, is that the policy reforms needed to improve the efficiency of investment in the economy will not be prosecuted vigorously. It is now clear that the political climate is less favorable than we had believed it would be when we committed Structural Adjustment I and II. The signals, to which we must be receptive, and on the basis of which we have to adapt our strategy, are that (i) the political opposition to the rationalization of the trade regime is strengthening, and (ii) the socio-cultural attitudes to the liberalization of grain marketing have hardened in their antagonism to change.

59. In these circumstance, we propose to adopt the alternative operational vehicle of disaggregating structural adjustment into a series of policy-based, fast disbursing sector operations. Such operations would, of necessity, include many of the basic reform measures required under structural adjustment, but would also include other measures covering a wide range of other reform possibilities within the sectors. In agriculture, for example, a policy-based lending operation could include reform measures in pricing (currently incorporated in the structural adjustment program) as well as in other areas, e.g., measures to reform agricultural parastatals, expand the role of the private sector, and strengthen cooperatives,. The vexed issue of grain marketing may have to be circumvented, at least in the first year of the proposed series of loans, until political perceptions are more propitious. We must in any case allow time before judging the results of the Gvernment's initiatives in creating the new apex cooperative. In industry, policy-based lending would continue to promote trade liberalization, rationalization of the industrial structure and export promotion now incorporated in structural adjustment, and other reforms such as measures to assist small-scale enterprises and to increase the availability of long-term financing to industry. In energy, policy-based lending would focus on energy pricing, least-cost development (including energy imports, where appropriate), and fuelwood/charcoal production, marketing and resource renewal.

60. It must be realized, however, that many of the obstacles in the path of a possible Structural Adjustment III also lie in the path of policy-based sector lending. If Government is unable to move forward with reforms covered by Structural Adjustment II, there is no a priori reason why they should be able to make more progress with identical reforms sponsored under a sector lending operation. Government must believe that there are significant benefits to be achieved from disaggregating the structural adjustment program into policy packages to be carried out on a sector basis if this approach is to be successful. There are distinct advantages, notably, a diminution of the breadth of the program with a commensurate reduction in the level of monitoring and coordination required of the designated coordination Ministry, a lower level of diffusion of attention of the more senior responsible bureaucrats, and, most importantly, the sequencing over time of policy reforms within a broadened agenda for action which allows concentration on the more achievable goals and temporary postponement of the more intractable issues. If, due to Government unwillingness to implement adequate policy measures, policy-based sector lending does not materialize to the extent envisaged, we would not attempt to substitute additional project lending for policy-based sector lending. Considering that the Government budget is already overcommitted to projects, this would not be feasible, nor would it be prudent in relation to our concern over Bank exposure. Instead, there would be a lower volume of commitments. Thus, a lower level of Bank exposure would be a "self-implementing" response to poorer policy performance and hence reduced creditworthiness.

61. For the time being, therefore, we have placed the proposed third structural adjustment Loan/Credit on the reserve list in the lending program and have incorporated in substitution for it policy-based sector operations: a series of agricultural sector operations at two-year intervals (the first to be implemented in FY86), an industry sector

operation in FY88, and energy sector operations in FY87 and FY89. In the event that there should be a revival of Government's interest in early structural adjustment measures and agreement can be reached on higher levels of political commitment, including further measures representing fuller implementation of Structural Adjustment II, we would proceed with a third structural adjustment operation, which would subsume all or part of the preparatory work and conditionality envisaged for the policy-based sector operations. This would not, necessarily, displace the sector operations in their entirety. Aspects of them could remain in the lending program to complement structural adjustment, there being no reason why structural adjustment and sector lending should be in any way mutually exclusive.

62. At the same time, there remains a critical need to help Government address the basic constraints of a rapidly increasing population, low levels of education and training, the need for new technologies in agriculture, disease and environmental hazards such as erosion arising from overgrazing, population growth and deforestation. These "non-structural adjustment" issues require long term support financially and through a core program. Elements of our lending program address these needs -- e.g., Education VI, Population III, as well as the agenda contained in the economic and sector work program. And finally, continued lending is needed which emphasizes rehabilitation and maintenance of the existing infrastructure. Attention is given to this area in our current and proposed transport projects (highways and railways), and telecommunications and water supply projects, within the financial and staffing resources available to us.

Project Lending

63. In light of its limited budgetary resources and project implementation constraints, the Government has scaled down its public investment programs, and thus we must be careful to design our projects in harmony with this effort. At the moment, our project pipeline in the current approved lending program is thin, especially in FY85 and FY86 (only seven projects under preparation) and in high priority sectors such as agriculture and industry. Some projects in the program have yet to be clearly identified. A major identification effort is required to build a project pipeline which better reflects Kenya's development priorities and the available budgetary and administrative resources. This effort should be based upon sound economic and sector work. We are now in a position to do this in agriculture with the completion of the Agricultural Sector Report (January, 1984) and the Sector Strategy Paper (October, 1984). In industry, the Sector Strategy Paper (March 1985) provides an adequate basis for identifying projects suitable for Bank Group financing. In energy, the sector strategy paper under preparation will focus on the policy-based vs. project lending issue. In selecting and formulating projects, priority will be given to projects which are less complex to implement, require a smaller number of implementing agencies, ease balance of payments constraints and have a high percentage of external financing, show promise of rapid disbursement and quick-yielding returns, and offer a high level of job creation. Inherent in this approach will be a continued emphasis on institutional development, not only in the conventional project activities

which are proposed, but also in our new policy-based sector operations, which will also focus on improvements in key parastatals. Regular lending program reviews are being carried out with the Government in connection with CIR meetings.

Economic and Sector Work

64. Our country economic and sector work program will be specifically designed to support our lending objectives and pipeline, and to support policy dialogue with the Government, including structural adjustment operations. The basic constraints to growth are well known, but we now need to sharpen our analysis and concentrate our limited resources on issues in agriculture, industry, energy, human resource development, and public finance, which have been identified in previous work as critical to sector development programs, e.g. input supply in agriculture. The planned analyses should provide a solid basis of support for both non-project and project lending. However, our future work needs to be more closely coordinated and agreed upon with the Government than in the past. This will help the Government foresee the course of actions we are likely to be following, thus making it easier for the Government to prepare itself for future policy dialogue. For this purpose, we will institute regular reviews with the Government in conjunction with our lending program reviews.

Improving Performance on Existing Projects

65. Rationalization. Kenya faces a major long term problem in meeting the recurrent cost commitments accumulated from past development programs, and a more immediate problem of fully funding the development activities under implementation and planned for the near future. The growth of recurrent revenues has fallen behind the growing requirement for recurrent expenditures. New projects are being constructed without assessment of the availability of adequate recurrent funding to operate and maintain them. The momentum of new project initiation is outstripping the nation's borrowing capacity and ability to attract increasing donor support for the development budget. Not only are recurrent commitments for existing projects inadequate, but the construction of approved new projects is also increasingly underfunded. The result of this imbalance is that capital resources are spread too thinly to be efficiently productive, and their productivity is being further eroded by the inadequacy of resources for operation and maintenance. Kenya must develop a strategy and begin the process of breaking the current negative cycle and moving toward a position that is sustainable in the long term.

66. The most immediate need--both in terms of Kenya's budgetting process and in terms of securing donor assistance--is to rationalize the annual development budget (and forward development budgets) by reducing the number of planned activities to those most critical and then ensuring that they are adequately funded. The funds from recurrent revenue sources are also currently too small to maintain the nation's public sector capital stock and to operate it at a maximum level of productivity. A detailed assessment of recurrent needs must be undertaken, and the result used as a base for planning forward recurrent budgets. As new development activities are approved, the associated recurrent expenditure commitment must be added to this base.

67. Kenya is rapidly approaching a situation where it will not be able to afford to accept all foreign aid being offered, given the increasing level of the recurrent costs of maintaining and operating projects constructed with donor assistance. The problem is exacerbated by the fact that donors often prefer large capital projects, the scale of which precludes the possibility of decentralized, local responsibility for operation and maintenance. As a result, the burden falls on the already over-taxed recurrent budget of the Central Government. The capacity of the recurrent budget to absorb new obligations is constrained by the amount of recurrent revenue available, the normal growth in civil service pay scales, and debt service obligations. With the shortage of development funds, it is necessary to ensure that resources are used as efficiently as possible. Such efficiency includes minimizing implementation time as well as maximizing utility per unit of investment. The nation cannot afford to have development money tied up in projects that cannot be utilized effectively because they are incomplete. The critical development projects which have been under-funded must be identified, and the resources necessary for their expeditious completion and subsequent operation must be provided.

68. The process of improving the quality of the existing investment program through rationalization has borne some fruit, in so far as the Bank's own portfolio is concerned, as a result of our concentration over the last two years of intensive staff work on selected projects followed by high level reviews. Some projects have been terminated, instead of being extended, and others have been or are being scaled down or reformulated. Although this process has been costly in terms of staff time, both for the Government and the Bank Group, and has involved a difficult and painful dialogue, it should be continued. In future CIR meetings, we intend to include on the agenda a review of 3-4 projects at a time with the focus on making decisions on detailed rationalization proposals drawn up in advance by staff (with prior agreement, if possible, at the working level). Nevertheless, Government appreciates that a much broader approach is imperative, and are proposing to adopt a strategy in which, as a first principle, all development budget allocations will be based as soon as possible on full cost funding of individual projects of high priority, to eschew "across the board" or proportional cuts when proposals exceed ceilings, and to reject all new projects until the completion of the backlog of uncompleted and current projects has been budgetted. They have proposed as a basic objective the gradual emergence of a trimmed recurrent budget capable of meeting the induced costs from the development budget and, also, a development budget which, itself, does not rely on an unsustainable level of borrowing. Donor (i.e. preferably World Bank) finance to cover the difference between the resources available and those that will be required to finance the minimum package of critical projects on a phased and diminishing basis over a period of, say, four years is to be sought. As of now, Government is a long way from formulating in any detail a practical, acceptable vehicle for Bank funding. None of the Government's statements on this subject have mentioned any effort to address parastatal issues. If the proposed rationalization operation does develop further, the Bank would have to consider whether operations which did not address these issues would be acceptable. We shall work with them in this endeavor and, if possible, provide project preparation support and financial backing if, in the event, a fundable form of assistance emerges.

Aid Coordination

69. The realization of any broad form of rationalization will also, of course, require cooperation from other donors and we need to expand and intensify our efforts in aid coordination. Until recently, local aid coordination, on which progressive Consultative Group work should be firmly founded, has been a confused, partial and fragmented process, lacking any comprehensive treatment or in-depth focus. Meetings were irregular and convened on an ad-hoc basis, various donors possessing an interest in the matters under consideration taking the lead. The role of the Government was virtually non-existent and the Department of the Treasury charged with handling external resources was poorly manned, lacked credibility in the eyes of the donors and largely restricted its activities to direct, routine, project specific bilateral communications. As a result, in 1983, a strong perception emerged within the donor community that enhanced coordination was important not only to the successful implementation of their own aid programs, but also in the face of a weak Government administration. There was a growing realization that, without better coordination, there would be perpetuation of duplication and overlapping of effort and, occasionally, conflicting objectives which could only lead to waste and ineffectiveness in the allocation of their own resources. There was also a felt need for a perspective on often rapidly changing economic situations as a framework for their own planning, which only the Bank could provide at the level and of the quality required.

70. The Region accepted that the need for improved aid coordination was self-evident, given the number of donors and the weakness of Government's institutional arrangements to further co-ordination; and that a support role was a basic responsibility of the Bank. Following a concensus reached at the plenary session of the Consultative Group meeting held in January, 1985, a local aid co-ordination sub-committee deliberated on the three main concerns of the Group; (i) that, because in the past frequent adjustments had to be made by the Government of Kenya in between Consultative Group meetings, there had been no forum for the Government and donors to exchange views on possible options; (ii) that the ambitious plans developed by the Kenyan authorities raised questions as to how the plans were to be implemented, the measures needed and being taken to mobilize required resources, and the adjustments which would have to be effected if the resource mobilization was not realized; and (iii) the impact of such adjustments on aid programs, and the form external assistance should take. It was agreed that there should be frequent meetings at the local level, that the Kenyan Government should play the lead role in the process of coordination and in organizing the meetings, that, in the first instance, the focus of such meetings should be on sectoral and subsectoral programs and projects, and that the approach should be flexible and pragmatic with Government orchestrating the exercise in a manner which would be most helpful. There would be some flexibility in regard to the level of participation, but, generally, it would be at the working level. This approach was endorsed by the representatives of Government who were present and measures to be taken to strengthen the External Aid Department in the Treasury were detailed. The Bank undertook to participate and the Office in Nairobi stood ready to play whatever role was considered useful.

71. The first meeting of local representatives of the donor community took place in Nairobi in April 1984 under the leadership of the Government, at which it was agreed to establish, in the first instance, two

subcommittees, one on agriculture and one on energy. However, follow up has been poor, other than in agriculture, and there is a need to revitalize the process. The energy subcommittee, for example, has failed to meet. There have been numerous meetings of the agriculture subcommittee, inspired and generated by the requirements of drought relief coordination which have also tackled underlying sectoral issues of policy and process. The famine relief and food distribution in 1984, the reform of the artificial insemination system, and the preparation of an arid and semi-arid lands program are all outgrowths of this aid coordination effort. The long-term acceptability of this process to Government remains to be demonstrated. However, no steps have been taken to strengthen the staff of the External Aid Department.

72. The procrastination and apparent blend of resistance and inability on the part of Government to organize effective local aid coordination has engendered some scepticism among donors as to the effectiveness of and benefits to be derived from the exercise. At the same time, however, the commercial and geo-political considerations which partly motivate some of the bilateral donors make some necessary aspects of aid coordination -- such as portfolio rationalization -- a sensitive issue. There is no question but that the relative success of the agricultural subcommittee, in so far as regularity of meetings and the significance of the content to date, derives from the stimulatory efforts of Bank staff stationed in Nairobi reinforced by those of local EEC and FAO staff. While we should not permit Government to abdicate its responsibilities, local Bank staff undoubtedly will have to continue to provide some leadership and energizing. To this end, the Nairobi office staff is soon to be augmented by a country economist, part of whose terms of reference will be to contribute to aid coordination, particularly in the areas of information exchange and the construction of a comprehensive data base. We shall continue to sponsor and provide assistance to Government in the furtherance of local aid coordination within the capacity of our resources.

73. Poverty Focus. The most recent Bank analysis of poverty issues in Kenya is found in the Basic Economic Report (1982) and the main findings were reported in the 1981 CPP (paras. 23 and 24). The data underlying this analysis are from 1974, and thus our understanding is based largely on data which are now one decade old. The Central Bureau of Statistics conducted a Household Budget Survey in 1982 and a Social Indicators Survey in 1982/83. We have scheduled a Poverty Update in the ESW program for FY87, which will analyze the new data to provide a description of poverty and income distribution in 1982, and draw inferences on trends over the past decade. Our agricultural operations have a smallholder orientation, and we hope that our industrial policy dialogue will encourage the Government to adopt industrial promotion policies more favorable to employment generation.

G. The Bank Group Lending Program

74. Over the last five years (FY1980-84), Bank Group commitments to Kenya have totalled US$849.6 million, with an average annual level of US$169.9 million. Almost half of these funds (US$410.5 million, or 48%) were IDA credits. The current approved lending program for FY85-89 (El Table dated November 16, 1984) envisages a 15% decline in the total amount over the five year period to US$721 million, and a shift downward in IDA's

proportion to 39% (US$281 million). The decline in the volume of commitments is consistent with the downward revision in our assessment of Kenya's absorptive capacity for both project lending and policy-based lending, and our concern about IBRD exposure. However, as indicated in Attachment 1B, the Bank Group disbursements are projected to be 23% greater during FY85-89 than during FY80-84, reflecting the large stock of undisbursed commitments.

75. We have slightly increased the number of projects in the current proposed lending program (two projects) since we want a work program (and a cofinancing effort) which gives us flexibility to expand our lending rapidly if justified and possible, and which is consistent with the manpower resources allocated and planned. The program includes a reactivation of the practice of having a Reserve List of projects on which staff resources may be expended, but which require incorporation in the lending program before appraisal. The result is that a number of proposed lending activities have had their commitment levels compressed to fit overall allocation totals in a manner which, in some cases, will require cofinancing to meet reasonable percentages of anticipated project costs. We have also endeavored to present a lending program which differentiates between the stable core elements (human resource development, maintenance and rehabilitation) which constitute 35% of the program and the part which is responsive to the quality of economic and financial management.

76. The proposed lending for FY1985-89 is summarized in Attachment IA. The amount of Bank Group assistance rises sharply from a very low level of US$46 million in FY85 to US$146 million in FY86, followed by increases to US$169 million in FY87, US$175 million in FY88, and US$185 million in FY89, averaging about US$144 million per year. This level of support is appropriate provided the Government continues to make significant progress in restructuring the economy and improving its performance in project implementation. The proposed support is also in line with the expected availability of domestic resources. The composition of the proposed program is consistent with the strategy outlined above. No change is proposed in the percentage of total project cost financed by the Bank Group, i.e. 75%, or 85% if cofinancing is involved.

77. Agriculture. Agriculture is the dominant sector in Kenya, employing nearly 70% of the population and contributing close to 35% of GDP. Continued growth in the agricultural sector is vital to providing foreign exchange and raw materials for economic development, and food and employment for Kenya's rapidly growing population. The fundamental constraints are population increases and shortages of arable land. Future growth in the sector will depend on intensification of smallholder production. Three major problem areas for intensification are:

(a) Agricultural Services: Weak input supply systems and inefficient credit delivery and repayment in traditional smallholder areas have hindered agricultural production. Moreover, ineffective and overly-regulated marketing channels discourage production. More needs to be done to strengthen the extension service, improve management of research resources, and generate appropriate extension messages for small farmers. To overcome these problems, our strategy is to support broad-based national programs aimed at streamlining the delivery of agricultural inputs and credit, strengthening extension and research, and improving market services.

(b) Resource Allocation and Sector Management: Shortages of financial and managerial resources, weak financial systems and institutions, and failure to allocate resources to priority activities have impeded project and policy implementation and undermined the impact of investment in agriculture. Our focus in this area is on using existing financial and management resources more efficiently, drawing on the financial and management capacity of other sectors of the economy (particularly the private sector), rationalizing the investment portfolio, training and technical assistance, and decreasing the role of the Government in the economy.

(c) Incentive Structure: Sectoral terms of trade have fallen and rigid price control systems have introduced distortions and disincentives for smallholder production. To increase farmers' incentives, we support policy initiatives and reforms in agricultural pricing and marketing, with emphasis on more flexible pricing systems, relaxation of market controls, and improving terms of trade.

On a subsector basis, we put special emphasis on developing traditional food crops (maize, beans and dryland crops), export crops (particularly improving the quality of coffee and tea), and livestock. Industrial crops (sugar, cotton and oilseeds) are a second priority.

78. Future structural adjustment operations will continue to press the Government for the implementation of agreed reforms in agricultural pricing and marketing, export promotion, and development of the private sector. To extend and strengthen our policy dialogue with the Government, a series of policy-based sector lending operations are being prepared to support the Government in rationalizing its agricultural portfolio, reforming agricultural parastatals, expanding private sector involvement in processing and marketing, and addressing cooperative issues. Ongoing and planned sector work will seek to develop approaches to lending and policy issues in critical areas of input supply, cooperatives, agricultural credit, and small scale irrigation.

79. Several ongoing projects support priority areas including extension, smallholder coffee production, and agricultural credit. A technical assistance project supports activities to improve financial and sector management, and the successful work of the Budget and Financial Management Task Force in agriculture will be continued and expanded to the Ministry of Finance and Planning. The trend in the portfolio is improving, largely as a result of several years of intensive supervision effort and discussions with the Government on the need to reformulate projects.

80. Because of managerial and financial constraints, we intend to focus our new projects on consolidating existing activities into national programs, assisting the Government in strengthening the management of these programs, and directing resources towards priority areas. An agricultural public sector management project will build on the successful Agricultural

Technical Assistance Project, expanding assistance for improving management and resource allocation (including the Budget and Financial Management Task Force) to several agricultural sector institutions. Stemming from the disaggregation of the Second Integrated Agricultural Development Project (IADP II), a livestock development project is under preparation which will support smallholder dairy and beef production. Also, we are helping the Government prepare a long-term national agricultural research program which will consolidate and strengthen Government research projects. We intend to support this effort by financing a slice of the program. In addition, a second phase of the successful National Extension Project is planned to strengthen the reorganization of the extension service begun under the first phase. In moving ahead in these subsectors, our approach is to launch pilot projects which emphasize the resolution of management problems and the testing of solutions in the field, as part of the project preparation effort.

81. Industry. Kenya's industrial sector, which accounts for about 13% of GDP, is excessively protected, relatively inefficient, and heavily dependent on imported inputs. Therefore, the Government should focus on policies designed to improve the performance of existing industries, increase their efficiency, and cope with Kenya's ongoing structural adjustment process. With respect to new investment, in addition to export industries, the Government should concentrate on providing the correct market signals to investors which would direct resources into efficient uses. Because of an inefficient pattern of industrialization in the past, and insufficient adaptation to the changes that took place during the 1970s in the neighboring countries and in the rest of the world, Kenya's industrial sector is still far from becoming a leading sector in the country's economic devélopment although it has more potential than in most other Sub-Saharan African countries. To turn industry into a leading, efficient sector, considerable changes will be required in the policy framework, both at the macro- and micro-economic levels, in the institutions, and in the overall Government approach to industrialization. In addition, the Government needs to maintain reasonable levels of investment in basic infrastructure in energy and power, transport, and telecommunications, improve industrial and commercial skills (vocational/on-the-job training and training in marketing, insurance and finance), and strengthen institutional support for existing and new agro-industries.

82. Our lending in the past has been largely in support of development finance companies, the Industrial Development Bank (IDB) and Kenya Industrial Enterprises (KIE), whose performance has been less than satisfactory. While our operations have focussed on institution-building objectives and in providing term financing for profitable projects, they have not succeeded in their objectives as both IDB and KIE have engaged in lending to projects of dubious merit and are now plagued with serious arrears problems. Recently, however, KIE has implemented a number of significant changes in policy, appraisal and collection procedures and a financial restructuring which enhances its prospects considerably. In addition, Kenya has benefitted from two loans extended to the East Africa Development Bank for the purpose of financing small scale productive enterprises in the three member countries of the now dissolved East African Community. Policy dialogue in the sector has also been disappointing and limited to structural adjustment operations which have moved at a slower pace than anticipated. There are still a number of industrial policy

reforms initiated under the first and second structural adjustment operations where further action is required, especially in trade liberalization and rationalization of the industrial structure.

83. The thrust of our policy dialogue in the future will continue to be aimed at (i) reformulating incentives for industry, (ii) promoting manufactured exports, (iii) redefining the role of Government in the sector, (iv) assisting small scale enterprises, and (v) increasing domestic resource mobilization and the availability of long-term financing for industry. The main vehicles for this dialogue will be structural adjustment lending and/or policy-based sector lending, assisted by increased policy conditionality in DFC-type operations. Another element will be lending for small scale enterprises with the view to achieving major institutional improvements in KIE, reconciling the multiple parastatal small scale industrial programs currently in operation, and increasing the coverage of the existing programs to expand the number of small firms benefitting from financial and technical assistance. Following from the recently completed industrial sector strategy paper, our future sector work will include the carrying out of an industrial sector review to assess progress in redefining industrial incentives and promoting manufactured exports, assessing the overall competitiveness of the sector, and designing additional policy measures to be supported by the Bank Group's proposed lending program. In addition, the next Country Economic Memorandum will include an analysis of the recent developments and the main policy issues in the manufacturing sector, and an assessment of the sector's prospects.

84. Energy. Kenya has two basic energy problems: (i) high dependency on imported oil, due to a limited and high-cost domestic resource endowment, and (ii) rapid deforestation and fuelwood consumption. Several important and interrelated policy issues need to be addressed:

(a) In the power sector, the most serious problems are (i) the fragmented organization of new regionally-oriented bulk supply entities vs. a reasonably well-run but decreasingly autonomous national power company; (ii) the increasing cost of meeting growing power demands from domestic sources; and (iii) the growing resistance to revision of electricity tariffs to cover increasing costs of operation and development. To deal with these problems, the Government needs to develop an overall strategy for the sector, based on sound economic criteria, which would include a serious look at potentially lower-priced imports from Uganda and possibly Tanzania, together with a least-cost development program of its domestic hydro and geothermal resources, and strengthening and extension of the present distribution system;

(b) Despite the efforts of the Government and various donors to deal with the decreasing forest resource base and rising costs of household fuels, there is no indication that either the present level of reforestation or the planning for the future adequately reflect expected needs.

85. Some actions are being taken by the Government to address its energy problems. A Government-sponsored study is under way to investigate

the feasibility of extending the oil pipeline from Nairobi to the Uganda border. To help stem fuelwood depletion, the ongoing Third Forestry Project contains a sizeable reforestation component, but more needs to be done. On the institutional side, the Government has agreed to undertake several studies in conjunction with the Second Structural Adjustment Operation, Olkaria Geothermal Expansion Project, the Geothermal Exploration Project, and the Kiambere Hydroelectric Power Project, including studies for the development of: (i) comprehensive energy policies (including pricing and tariffs) and investment programs; (ii) a least-cost power development program, including potential power imports; (iii) a geothermal subsector study; and (iv) a power sector organization study. None of these studies, however, are under way as yet. The ability of the Ministry of Energy and Regional Development to plan and manage the energy sector in the context of regional development needs to be strengthened.

86. Until now, we have helped the Government address energy policy issues and investment needs through structural adjustment operations and energy investments on a project-by-project basis (power, geothermal exploration, petroleum exploration promotion and technical assistance, and fuelwood), with little coordination among these activities, and without an overall development strategy. In the future, as the problems become more complex and the needs increase, the Government will be forced to deal with the energy sector on a comprehensive and integrated basis. To support this approach, we plan policy-based sector lending, supplemented with selected priority investments that fit within the overall strategy. To do so, however, our sector analysis will have to be updated (e.g. the Energy Assessment Report is now nearly three years old). Work is already under way on an energy strategy paper which is scheduled for completion by end-FY85. In addition, the Ministry of Energy and Regional Development has asked the Bank to assist in formulating an overall energy strategy and investment plan in conjunction with a CIDA-financed technical assistance program. This work will help to formulate a more soundly based lending program in energy, with emphasis on the need for strengthening policies, institutions, and investment planning. In the meantime, as a continuation of our energy assessment work, the joint UNDP/World Bank Energy Sector Management Program has identified several follow-up studies and investment possibilities, including a power loss reduction study, a solar water heating investment program, and a coal substitution program in industry. The first phase of the power loss reduction study has been completed and forms the basis for a power system rehabilitation and conservation project in which a number of bilateral financing agencies have shown great interest. Pending the completion of the energy strategy paper and an intensified dialogue with the Government and other donors, we are including two policy-based sector operations in the program. To improve the overall effectiveness of external aid, we plan to hold discussions with other donors aimed at coordinating sector strategies and lending operations. The Government has set up an energy local aid coordination group, but the group has yet to meet.

87. Transport. Key principles underlying the Government's objectives and policies in transport are: (i) transport is a service activity which should be developed in line with the needs of the productive sectors, and (ii) the relative distribution of traffic amongst the various modes should be based on the comparative advantage of the carriers and achieved through

the market mechanism. These principles are well balanced, and inadequacies which may arise in the performance of the sector are primarily due to weak implementation of Government policies, rather than poor policies.

88. Compared to neighboring countries, transport in Kenya performs reasonably well in its two essential tasks of serving small scale activities in the rural areas and of moving large volumes through Mombasa port and along the main arteries. Nevertheless, transport services are not being provided at the lowest possible cost to the economy, mainly because: (i) road transport system costs are higher than they should be due to inadequate road maintenance and vehicle overloading; and (ii) the road/rail distribution of traffic in Kenya's main transport corridor is suboptimal due to unequal treatment of infrastructure costs which favors roads over rail. The Fifth Highway Sector Plan (FY1984-88), supported by the recently approved Second Highway Sector Project, provides for adequate budgetary allocations and measures to improve road maintenance, and for strict enforcement of the new 10-ton axle-load limit. Also under the Project, the Government has undertaken to gradually increase license fees and other user charges on heavy commercial vehicles so that such levies will cover the short run marginal costs imposed by these vehicles on the road network.

89. The road user charges policy and the enforcement of the axle-load limit are expected to improve the road/rail modal split. Parallel improvements are needed in rail capacity, marketing, and tariffs and in adherence to the Government's policy of financial autonomy for parastatals if the market mechanism is to produce a significant shift in the distribution of traffic among modes. To supplement our past support for achieving these objectives, the proposed lending program includes a second railways project and a third highway sector project. In addition, the recent Transport Sector Memorandum (July 1984) focuses directly on these issues and includes recommendations for policies and measures to deal with them. As part of the proposed study of fuel pricing and energy use, an analysis of fuel pricing in transport will be made.

90. Telecommunications. With Bank Group assistance over the last eighteen years, Kenya has been able to: (i) begin to establish a modern long distance telecommunications network; (ii) expand the local telephone service in Nairobi and some of the larger towns; and (iii) create a financial basis and an institutional framework for the future development of the sector. In keeping with objectives and investment priorities of the Government's Fifth Plan, the Bank's lending for the telecommunications sector will continue to support the Kenya Posts and Telecommunications Corporation (KPTC) in its ongoing institution-building effort, particularly its long-term planning, management information system, tariff structure, and staff training work. In addition, the Bank will continue to take the lead in attracting and coordinating cofinancing, which has successfully supported KPTC in the past. While the bulk of the investment is expected to aid Government administration, service sector businesses, and industry and construction in the major urban centers, it is also expected to have a significant impact in support of the Government's plans to expand the agricultural base of the economy, disperse industry into regions outside Nairobi, and to encourage the growth of tourism. Access to telecommunications in these areas allows cooperatives and farmers to establish a much closer contact with their sources of agricultural expansion, farm inputs and credit. Similarly, telephone access makes it easier for businessmen to improve their marketing efficiency.

91. We are planning to make our third loan to KPTC to meet the large unsatisfied demand for new telephone service (about 76,000 applications at end-1983, or 44% of total expressed demand) and to relieve the overload on the existing system. These operations would focus on the expansion and modernization of facilities, rehabilitation of some parts of the network with the replacement of worn-out and obsolete equipment, and improvement and expansion of repair workshops and equipment. To help overcome the insufficiency of well-trained installation staff, support would also be provided for the construction of new buildings and the procurement of equipment for KPTC's central training centers.

92. Water Supply and Urban Development. Even under the most optimistic assumptions on rural labor absorption and population growth, Kenya's urban areas are expected to continue to grow rapidly, increasing from 15% of the total population at present to 28% or more by the year 2,000, while adding a three-fold growth to the urban labor force. At the same time, investments in urban infrastructure have failed to keep pace with this growth. Key priorities for the development of the sector are: (i) increased resource mobilization for urban investments; (ii) improved maintenance and staff training for operating existing systems; and (iii) improved resource allocation for supporting industrial growth while ensuring a basic level of urban services for the population.

93. In Nairobi, where we have a long-standing involvement (four projects in water supply and low-income housing), we plan to finance an engineering credit followed by an investment project aimed at further expanding Nairobi's water supply facilities to meet the increasing demand and at helping Government to establish a self-financing public water supply and sewerage utility. Included under the project would be an urban management study to bolster the financial and administrative capability of the Nairobi City Commission. In the secondary and smaller towns, which have grown over the past decade from 7% to 31% of the total urban population, our objective is to enhance the capacity of these towns to attract industrial growth (especially agro-industries) and retain potential migrants to the larger cities. Building on our ongoing work under the Rural Water Supply Project and the Secondary Towns Project, we plan to extend our involvement in water supply for small towns and adjoining rural areas through a focussed effort on sector policy and on improving the capabilities of the Ministry of Water Development in planning, project implementation and maintenance, and management. For the sector as a whole, an Urban Sector memorandum provides recommendations for improving the institutional and financial base for the sector and strengthening staff training in municipal management and services. In addition, a study of local government finances is planned which will deal specifically with resource mobilization and allocation issues.

94. As regards the implications for our next urban lending operation in Kenya, it is still too early to describe the next project in much detail. At this point, we foresee it focussing on our primary concerns of municipal finance, urban maintenance, and urban employment. We can say with some assurance that we intend to limit our involvement in sites-and-services programs of the type that we have financed up to now. Most of the objectives we intended to achieve through this involvement will have been achieved by the time the Secondary Towns Project is completed, and we feel the time is appropriate to begin addressing broader issues of municipal

management. The primary condition that would justify our continued involvement in housing projects in Kenya would be to achieve much greater involvement of the private sector in these types of projects, both through the provision of housing finance and by a greater role in development activities. The prospects for achieving this objective still need to be assessed.

95. Population. Kenya's rate of population growth, at about 4%, is among the highest in the world, and fertility has not yet started to decline. Past efforts to provide family planning services have been limited and education and information programs to motivate couples have been few and inadequate. Through two lending operations, our strategy to date has been simultaneously to strengthen the availability and quality of family planning services and programs addressed at demand generation. Through an upcoming third project, in addition to finishing the task of incorporating family planning into all health care facilities (both national and municipal), emphasis should be placed on providing responsive family planning services in urban areas, where the bulk of any existing demand for contraception is to be found. In addition, support should be provided for the operation of a service statistics system for monitoring family planning targets. The establishment of targets should be incorporated into the conditionalities of our lending for both structural adjustment and population projects. In conjunction with our lending in family planning, a health sector study is planned focussing on: adolescent fertility, incentives and disincentives for family planning, social marketing and health sector financing.

96. Education. Kenya's literacy rate is less than 50% for the adult population. After 1978, when the Government undertook a rapid expansion of the education and training system, the efficiency of the system declined due to the administrative burden and high costs. The main objective of the Government's new policy is to install a universal eight-year primary education program. Although this is a reasonable objective from a technical standpoint, it would result in significantly higher recurrent expenditures without necessarily ensuring a higher cost effectiveness of the education and training sector at large. With regard to secondary and vocational education, there is a lack of coordination and supervision within the sector, and the duplication of efforts with numerous non-governmental institutions is mushrooming. As the whole education and training system is being jeopardized by increased financial constraints and uncoordinated expansion, the education development process needs to be reassessed, with emphasis on the planning, financing and management of the sector. We are providing some assistance in this regard under our third, fourth, and fifth education projects, and will continue this support under the proposed sixth project. In addition, we are planning to carry out a specialized training survey to assist the Government in rationalizing vocational education and technical training.

Conclusion

97. After twenty years of relative prosperity and growth, post-independence Kenya is beginning to share some of the deepening crisis which faces all other Sub-Saharan countries. The significantly faster growth in per capita income than the low-income average of Sub-Saharan Africa has begun to erode, net external capital flows are declining and

debt servicing has reached levels not contemplated a decade ago. Agriculture has been growing more slowly than the population, industry is reaching new depths of inefficiency behind its overly protective barriers and population growth has outstripped that of the rest of the world. Environmental concerns are mounting and urban inadequacies in the provision of shelter, employment and services are beginning to surface. The need for domestic policy reforms to accelerate growth is becoming critically urgent, but because of a combination of political nervousness, divided commitment and bureaucratic and managerial deficiencies, Government continues to procrastinate over the steps so crucially necessary to increase the efficiency of production in agriculture and industry, to improve the country's energy balance, to reduce the population growth rate, to redefine and rationalize the role of Government in order to economize in the use of its scarce management and technical resources and to strengthen key public sector agencies.

98. Against this background, the evolution of an appropriate strategy for the Bank has been beset with uncertainty and indecision, made more intense by the reduction this year of the resources available for lending, the inmensity of the task, the range of alternative approaches which presented themselves and the difficulty in prioritizing and selecting among the many crucial demands on these resources.

99. However, we remain convinced of the urgent need for further structural policy reform and implementation and, after much deliberation, are satisfied that the political will and capacity to prosecute such measures expeditiously is in serious doubt. We have, therefore, opted for a sub-structural adjustment lending approach, while endeavoring to intensify our dialogue on structural adjustment. This new strategy involves the disaggregation of the structural adjustment program into policy based sector lending in agriculture, industry and energy and our proposed lending program has been modified to accommodate these initiatives. The main thrust of our strategy will be supported and strengthened by project lending, economic and sector work, and improved performance on existing projects. It is this scenario which dictates and forms the basis of our creditworthiness analysis and lending program. At the same time, we remain deeply concerned over the deterioration of the environment and its potential for debasing the quality of life in Kenya and have, therefore, incorporated in our strategy, not only an element of "core program" lending to support health, education and population control, but also several operations designed to maintain and operate essential infrastructure.

100. We remain appreciative of the fact that domestic reforms, core program activities and maintenance operations cannot be fully effective unless supported by appropriate levels and types of other external assistance, and will devote more of our energies and staff resources to aid coordination.

Population : 18.9 million (1983)
Area : 582,647 km^2
GNP Per Capita : $340 (1983)
Literacy Rate : 47% (1981)

Attachment 1A

KENYA: ACTUAL AND PROPOSED PROGRAM OF LENDING OPERATIONS THROUGH FY89
($ million)

		Through FY79	Actual FY80	FY81	FY82	FY83	FY84	Current FY85	Program FY86	FY87	FY88	FY89	Total FY80-84	Total FY85-89	Reserve
Agriculture															
Early Agric. Projects	IBRD/IDA	190.5/141.4													
Agricultural Credit IV	IBRD/IDA			25.0/10.0											
Agricultural Sector I	IBRD/IDA								30.0/15.0						
Agricultural Sector II	IBRD/IDA										30.0/25.0				
Agric. Pub. Sec. Mgt.	IDA								6.0						
Agricultural Research	IDA								20.0						
Cotton Proc. & Marketing	IDA				22.0										
Fisheries I	IDA		10.0												
Integrated Agri. Dev. II	IDA		46.0												
Smallholder Livestock	IDA										15.0*				
Forestry III	IBRD/IDA				21.5/16.0										
Baringo Semi-Arid Areas	IDA		6.5												
National Extension I	IDA					15.0									
National Extension II	IDA									40.0					
Agricultural Credit V	IDA														20.0
Education															
Education I-IV	IBRD/IDA	10.0/36.1													
Education V	IDA			40.0											
Education VI	IDA									34.0*					
Industry															
DFC I-III	IBRD	35.0													
DFC IV	IBRD		30.0												
DFC V	IBRD											40.0*			
Small Scale Enterprise I	IDA	10.0													
Small Scale Enterprise II	IDA								10.0						
Industry Sector	IBRD										65.0*				
Population															
Population I	IDA	12.0													
Int'd Rural Health & Family Planning	IDA				23.0										
Population III	IDA									30.0					
Energy															
Early Energy Projects	IBRD	95.0													
Petroleum Exp. & Promotion	IBRD				4.0										
Petroleum Exp. & Promo. II	IDA								5.0M						
Olkaria Geothermal	IBRD		31.0												
Olkaria Geothermal Expn.	IBRD					12.0									
Geothermal Expl'n.	IDA						24.5								
Kiambere Hydro.	IBRD						95.0								
Energy I	IBRD									50.0					
Energy II	IBRD											40.0*			
Transport															
Highways I-V	IBRD/IDA	52.5/37.2													
Highway Maintenance	IDA	12.6													
Highway Sector I	IBRD	90.0													
Highway Sector II	IBRD/IDA(SF)						50.0/40.0								
Highway Rehab.	IDA											30.0			
Oil Products Pipeline I	IBRD	20.0													
Oil Products Pipeline II	IBRD									15.0*					
Nairobi Airport	IBRD	29.0													
Rural Access Roads	IBRD/IDA	4.0/4.0													
Railways I	IBRD			58.0											
Railways II	IBRD								60.0						
Telecommunications															
Telecom. I	IBRD	20.0													
Telecom. II	IBRD				44.7										
Telecom. III	IBRD							40.0							
Water Supply and Urban															
Early W.S. Projects	IBRD	73.3													
Nairobi W.S. (Eng.)	IDA							6.0							
Nairobi W.S. II	IBRD										40.0*				
Rural Water Supply I	IBRD	20.0													
Rural Water Supply II	IBRD/IDA											10.0/30.0*			
Sites & Services	IBRD/IDA	8.0/8.0													
Urban Development II	IBRD/IDA	25.0/25.0													
Secondary Towns	IBRD/IDA					7.0/22.0									
Urban Development IV	IBRD/IDA											20.0/15.0*			
Wildlife and Tourism I	IBRD	17.0													
Structural Adjust.															
Program Loan	IBRD	30.0													
Structural Ad. I	IDA		55.0												
Structural Ad. II	IBRD/IDA					60.9/70.0									
Structural Ad. III	IBRD/IDA														50.0/75.0
Technical Assistance															
Export Promotion	IDA		4.5												
Agricultural	IDA					6.0									
LEN 'NG PROGRAM	IBRD	719.3	61.0	83.0	70.2	79.9	145.0	40.0	90.0	65.0	135.0	110.0	439.1	440.0	
	IDA	286.3	122.0	50.0	61.0	113.0	64.5	6.0	56.0	104.0	40.0	75.0	410.5	281.0	
	Total	1,005.6	183.0	133.0	131.2	192.9	209.5	46.0	146.0	169.0	175.0	185.0	849.6	721.0	
No. of Projects		52	7	3	5	5	3	2	5	5	4	5	(23)	(21)	
(of which, IDA)		(27)	(5)	(2)	(3)	(4)	(2)	(1)	(4)	(2)	(2)	(3)	(16)	(12)	
Lending Program in Constant FY84 Commitment $			223.4	158.5	149.9	207.4	209.5	42.6	125.5	135.6	131.8	131.1			
Commitment Deflator (FY84 = 100)			81.9	83.9	87.5	93.0	100.0	108.0	116.3	124.6	132.8	141.1			
Standby Projects	IBRD							-	-	15.0	110.0	110.0			
	IDA							-	-	34.0	15.0	45.0			
	Total							-	-	49.0	125.0	155.0			
	Number							(0)	(0)	(2)	(3)	(4)			

* Standby projects
M Supplemental projects

EAIKU
March 1985

KENYA - SUMMARY OF BANK GROUP AND OTHER LENDING

SECTORAL DISTRIBUTION OF BANK GROUP COMMITMENTS (%)	Actual					Projected					Total	Total
	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY80-84	FY85-89
Agriculture	34.1	26.3	45.4	7.8	.0	.0	48.6	23.7	40.0	.0	20.3	25.1
Education	.0	30.1	.0	.0	.0	.0	.0	20.1	.0	.0	4.7	4.7
Industry	16.4	.0	.0	.0	.0	.0	6.9	.0	37.1	21.6	3.5	15.9
Population	.0	.0	17.5	.0	.0	.0	.0	17.7	.0	.0	2.7	4.2
Energy	16.9	.0	3.0	6.2	5.7	.0	3.4	29.6	.0	21.6	19.6	13.2
Transport	.0	43.6	.0	.0	43.0	.0	41.1	8.9	.0	16.2	17.4	14.6
Telecommunications	.0	.0	34.1	.0	.0	87.0	.0	.0	.0	.0	5.3	5.5
Water Supply and Urban	.0	.0	.0	15.0	.0	13.0	.0	.0	22.9	40.6	3.4	16.8
Structural Adjustment	30.1	.0	.0	67.9	.0	.0	.0	.0	.0	.0	21.9	0.0
Technical Assistance	2.5	.0	.0	3.1	.0	.0	.0	.0	.0	.0	1.2	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

BANK GROUP DISBURSEMENTS (US$ Million)	Actual					Projected					
	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY74-78
IBRD o/s incl. undisbursed /a	824	816	851	905	941	950	1005	1083	1111	1167	-
disbursed only /a	369	341	371	459	549	583	622	669	724	782	-
IBRD Gross Disbursements	43	47	60	103	139	60	65	60	149	112	195
Repayments	9	9	13	17	20	31	32	42	53	54	6
Net Disbursements	34	38	48	86	119	58	64	58	46	59	189
Interest and Charges	29	31	30	31	41	53	53	64	64	71	52
Net Transfer	5	7	18	55	78	-56	-60	-54	42	-12	136
IBRD/IDA Gross Disbursements	60	115	76	189	162	126	138	148	157	155	249
(of which: SALs)	(-)	(55)	(-)	(80)	(50)	(-)	(-)	(-)	(-)	(-)	
(of which: other loans)	(60)	(60)	(76)	(109)	(112)	(126)	(138)	(148)	(157)	(155)	
Repayments	10	10	13	18	21	32	37	43	55	57	7
Net Disbursements	51	106	62	171	142	94	101	105	102	98	241
Interest and Charges	30	32	32	33	44	54	58	63	68	75	55
Net Transfer	21	74	31	132	98	40	43	42	34	23	186

IBRD/IDA EXPOSURE (%) /b	Actual (CY)					Projected (CY)					
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1990
IBRD Disbursements/Total Gross Disbursements /c	6.9	7.0	12.9	15.8	25.0	19.6	18.7	20.7	21.0	21.7	16.6
IBRD DOD/Total DOD	14.1	12.8	13.9	15.3	18.0	19.2	19.9	20.9	21.5	21.8	20.1
IBRD Debt Service/Total Debt Service	17.6	15.9	13.6	12.1	14.1	15.3	16.2	18.5	21.7	24.1	26.3
IBRD/IDA Disbursements/Total Gross Disbursements /c	10.5	18.3	16.1	31.0	30.0	31.6	31.2	34.1	32.3	32.9	25.4
IBRD/IDA DOD/Total DOD	21.7	31.0	23.2	26.8	29.9	32.2	33.9	36.3	37.5	38.3	36.1
IBRD/IDA Debt Service/Total Debt Service	18.1	16.7	14.2	12.9	14.8	16.2	17.1	19.7	23.0	24.5	28.1

PUBLIC MLT LOAN COMMITMENTS (US$ MILLION)	Actual (CY)					Projected (CY)					
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1990
Concessional Loans	214	383	109	285	79	210	276	270	292	311	330
Bilateral - DAC	104	129	54	159	3	100	115	132	150	160	184
Bilateral - OPEC	-	50	-	13	-	20	21	23	25	26	30
IDA	27	122	47	113	57	65	21	54	75	60	
Other	83	82	9	-	19	35	40	40	43	46	52
Nonconcessional Loans	538	163	264	282	69	125	135	167	194	230	178
Official export credits	32	37	7	54	24	25	30	32	14	34	39
IBRD	110	70	83	131	19	145	70	180	80	110	
Other official-source	20	26	29	18	22	-	-	-	-	-	-
Private-source /d	376	30	145	79	4						
Total Commitments	752	546	372	568	147	335	411	438	486	542	508

January 1985

/a As of the end of the fiscal year.
/b Transactions with the IMF are included in total disbursements, total debt outstanding, and total debt service.
/c Excludes grant disbursements.
/d Private suppliers' credits and financial markets.

KENYA - SOCIAL INDICATORS DATA SHEET

	KENYA 1960/b	KENYA 1970/b	KENYA MOST RECENT ESTIMATE/b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b LOW INCOME AFRICA SOUTH OF SAHARA	MIDDLE INCOME AFRICA S. OF SAHARA
AREA (THOUSAND SQ. KM)					
TOTAL	582.7	582.7	582.7	.	.
AGRICULTURAL	53.7	59.1	60.8	.	.
GNP PER CAPITA (US$)	80.0	120.0	390.0	249.1	1112.9
ENERGY CONSUMPTION PER CAPITA					
(KILOGRAMS OF OIL EQUIVALENT)	114.0	141.0	147.0	62.8	529.0
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	8189.0	11253.0	18115.0	.	.
URBAN POPULATION (% OF TOTAL)	7.4	10.2	15.2	19.2	29.7
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			39.5	.	.
STATIONARY POPULATION (MILL)			153.3	.	.
POPULATION MOMENTUM			2.1	.	.
POPULATION DENSITY					
PER SQ. KM.	14.1	19.3	29.8	32.5	55.8
PER SQ. KM. AGRI. LAND	152.5	190.4	285.8	119.2	111.5
POPULATION AGE STRUCTURE (%)					
0-14 YRS	47.7	48.9	50.4	45.6	45.4
15-64 YRS	49.8	48.6	47.3	51.5	51.7
65 AND ABOVE	2.6	2.5	2.4	2.9	2.9
POPULATION GROWTH RATE (%)					
TOTAL	2.4	3.2	4.0	2.8	2.8
URBAN	5.2	6.4	7.3	6.2	5.2
CRUDE BIRTH RATE (PER THOUS)	54.7	54.7	54.8	48.6	47.0
CRUDE DEATH RATE (PER THOUS)	23.6	17.8	12.3	17.7	15.2
GROSS REPRODUCTION RATE	3.9	3.9	3.8	3.2	3.2
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	30.9	63.0 /c	.	.
USERS (% OF MARRIED WOMEN)	..	6.0 /d	7.0 /e, f	..	..
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	99.0	100.0	88.0	85.8	91.6
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	99.0	95.0	88.0	86.4	98.2
PROTEINS (GRAMS PER DAY)	68.0	65.0	56.0	49.9	56.7
OF WHICH ANIMAL AND PULSE	27.0	27.0	24.0 /g	18.3	17.0
CHILD (AGES 1-4) DEATH RATE	21.0	18.0	13.0	23.3	18.7
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	46.5	52.0	56.7	48.4	51.7
INFANT MORT. RATE (PER THOUS)	112.0	96.0	77.0	117.5	102.7
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	15.0	17.0 /h	21.3	35.6
URBAN	..	100.0	100.0 /h	61.5	54.1
RURAL	..	2.0	4.0 /h	14.2	27.3
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	50.0	55.0 /h	32.0	..
URBAN	..	85.0	98.0 /h	69.2	..
RURAL	..	45.0	48.0 /h	24.8	..
POPULATION PER PHYSICIAN	10690.0	7830.0 /k	7890.0 /k	27477.8	11948.3
POP. PER NURSING PERSON	2270.0 /i,k	1470.0 /k	550.0 /e,k	3396.2	2248.9
POP. PER HOSPITAL BED					
TOTAL	790.0	770.0	620.0 /e	1089.0	986.9
URBAN	80.0 /i	..	620.0 /j	395.2	368.7
RURAL	..	..	830.0 /j	3094.0	4012.1
ADMISSIONS PER HOSPITAL BED	..	..	9.7 /j	..	..
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	..	4.7	..	..	..
URBAN	4.9 /i	4.7	..	..	..
RURAL	..	4.7	..	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	..	..	..	..	..
URBAN	2.5 /i	..	..	..	..
RURAL	..	..	..	..	..
ACCESS TO ELECT. (% OF DWELLINGS)					
TOTAL	..	..	..	..	..
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..

KENYA - SOCIAL INDICATORS DATA SHEET

	KENYA 1960/b	KENYA 1970/b	KENYA MOST RECENT ESTIMATE/b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b LOW INCOME AFRICA SOUTH OF SAHARA	MIDDLE INCOME AFRICA S. OF SAHARA
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	47.0	61.0	109.0	69.2	91.0
MALE	64.0	72.0	114.0	78.8	90.5
FEMALE	30.0	50.0	101.0	57.6	73.6
SECONDARY: TOTAL	2.0	9.0	19.0	13.1	17.4
MALE	3.0	13.0	23.0	17.6	23.7
FEMALE	2.0	6.0	15.0	8.3	14.8
VOCATIONAL (% OF SECONDARY)	12.2	1.8	2.0	7.2	5.3
PUPIL-TEACHER RATIO					
PRIMARY	42.0	34.0	38.0	46.1	38.6
SECONDARY	15.0	21.0	25.0	25.9	24.3
ADULT LITERACY RATE (%)	19.5 /i	30.0	47.1	44.3	35.6
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	7.9	8.5	6.8	3.8	20.7
RADIO RECEIVERS/THOUSAND POP	7.0	44.4	32.4	41.9	100.8
TV RECEIVERS/THOUSAND POP	0.3 /i	1.4	3.9	2.0	18.5
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	11.2	13.8	9.7 /c	5.4	17.2
CINEMA ANNUAL ATTENDANCE/CAPITA	0.9	..	0.4 /g	1.4	0.3
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	3296.0	4314.0	6363.0	.	.
FEMALE (PERCENT)	34.6	34.4	33.3	36.5	33.8
AGRICULTURE (PERCENT)	86.0	82.0	78.0	77.4	57.1
INDUSTRY (PERCENT)	5.0	7.0	10.0	9.8	17.4
PARTICIPATION RATE (PERCENT)					
TOTAL	40.3	38.3	35.1	41.0	36.3
MALE	53.3	50.9	47.2	52.1	47.6
FEMALE	27.5	26.1	23.3	30.2	25.1
ECONOMIC DEPENDENCY RATIO	1.2	1.3	1.5	1.2	1.4
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5% OF HOUSEHOLDS	..	20.2 /1	..	..	..
HIGHEST 20% OF HOUSEHOLDS	..	52.6 /1	..	..	..
LOWEST 20% OF HOUSEHOLDS	..	3.9 /1	..	..	..
LOWEST 40% OF HOUSEHOLDS	..	11.7 /1	..	..	..
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	150.0 /e	168.3	525.3
RURAL	..	..	112.0 /e	90.8	249.0
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	179.0 /e	107.7	477.4
RURAL	..	..	106.0 /e	65.0	186.0
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	10.0 /e	34.7	..
RURAL	..	..	55.0 /e	65.4	..

.. NOT AVAILABLE
. NOT APPLICABLE

NOTES

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1980 and 1982.

/c 1979; /d 1967; rural areas only; /e 1978; /f Ages 15-50; /g 1977; /h 1975; /i 1962; /j 1976; /k Registered, not all practicing in the country; /l urban only.

JUNE, 1984

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time amount the country and

AREA (thousand sq.km.)

Total - Total surface area comprising land area and inland waters; 1960, 1970 and 1981 data.

Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1960, 1970 and 1981 data.

GNP PER CAPITA (US$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1980-82 basis); 1960, 1970, and 1982 data.

ENERGY CONSUMPTION PER CAPITA - Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of oil equivalent per capita; 1960, 1970, and 1981 data.

POPULATION AND VITAL STATISTICS

Total Population, Mid-Year (thousands) - As of July 1; 1960, 1970, and 1982 data.

Urban Population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1982 data.

Population Projections

Population in year 2000 - Current population projections are based on 1980 total population by age and sex and their mortality and fertility rates. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these nine combinations of mortality and fertility trends for projection purposes.

Stationary population - Is one in which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction rate=1). In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

Population Momentum - Is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, even after the net reproduction rate has reached unity. The momentum of a population in the year t is measured as a ratio of the ultimate stationary population to the population in the year t, given the assumption that fertility remains at replacement level from year t onward, 1980 data.

Population Density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1982 data.

Per sq. km. agricultural land - Computed as above for agricultural land only; 1960, 1970 and 1981 data.

Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentage of mid-year population; 1960, 1970, and 1982 data.

Population Growth Rate (percent) - total - Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-82.

Population Growth Rate (percent) - urban - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-82.

Crude Birth Rate (per thousand) - Annual live births per thousand of mid-year population; 1960, 1970, and 1982 data.

Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1982 data.

Gross Reproduction Rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1982.

Family Planning - Acceptors, Annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family Planning - Users (percent of married women) - Percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception to all married women. Women of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

FOOD AND NUTRITION

Index of Food Production per Capita (1969-71=100) - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.

Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961-65, 1970 and 1980 data.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961-65, 1970 and 1980 data.

Per Capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.

Child (ages 1-4) Death Rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group, for most developing countries data derived from life tables; 1960, 1970 and 1981 data.

HEALTH

Life Expectancy at Birth (years) - Average number of years of life remaining at birth; 1960, 1970 and 1982 data.

Infant Mortality Rate (per thousand) - Annual deaths of infants under one year of age per thousand live births; 1960, 1970 and 1981 data.

Access to Safe Water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to Excreta Disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per Physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per Nursing Person - Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

Population per Hospital Bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

Admissions per Hospital Bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average Size of Household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

Average number of persons per room - total, urban, and rural - Average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Access to Electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted Enrollment Ratios

Primary school - total, male and female - Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

Secondary school - total, male and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

Passenger Cars (per thousand population) Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses, and military vehicles.

Radio Receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV Receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper Circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper," defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema Annual Attendance per Capita per Year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

LABOR FORCE

Total Labor Force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1982 data.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1981 data.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1981 data.

Participation Rate (percent) - total, male, and female - Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1981 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

Economic Dependency Ratio - Ratio of population under 15 and 65 and over to the working age population (those aged 15-64).

INCOME DISTRIBUTION

Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.

Estimated Absolute Poverty Income Level (US$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated Relative Poverty Income Level (US$ per capita) - urban and rural - Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

Estimated Population Below Absolute Poverty Income Level (percent) - urban and rural - Percent of population (urban and rural) who are "absolute poor."

Comparative Analysis and Data Division
Economic Analysis and Projections Department
June 1984

Attachment 3a

Population: 18.9 million (1983)
GNP per Capita: US$340 (1983)

KENYA: ECONOMIC INDICATORS

Indicator	Amount (million US$ at current prices) 1983	Annual growth rate (%) at constant prices: Actual 1979	1980	1981	1982	1983	Est. 1984	Projected 1985	1986	1987	1990
Gross domestic product a/	5,723	3.9	4.8	4.1	1.8	3.9	-0.6 c/	4.0	4.0	4.3	4.3
Agriculture	1,640	-0.7	-1.1	6.2	4.6	4.1	-4.0 c/	6.0	4.0	4.0	4.0
Industry	1,009	6.8	5.8	4.2	-0.3	2.7	2.1	3.0	4.5	4.5	4.5
Services	2,296	7.4	5.8	5.2	4.3	4.2	2.1	3.0	4.5	4.5	4.5
Consumption	4,615	6.5	-1.5	-1.4	5.2	1.0	1.5	4.8	2.5	4.4	4.2
Gross Investment	1,209	-27.1	39.0	-2.1	-22.8	-2.6	-1.9	4.9	4.9	4.9	4.9
Exports of GNFS	1,456	-5.0	5.5	-4.5	1.2	7.1	0.5	3.0	4.0	3.9	3.9
Imports of GNFS	1,556	-19.4	10.5	-21.0	-13.3	-11.3	5.6	6.2	-0.7	4.5	4.0
Gross national savings	1,035	6.9	-1.4	2.0	6.0	12.7	-1.6	-7.2	11.3	5.8	5.5
PRICES											
GDP deflator (1983=100 in Ksh)		70.2	76.9	84.8	92.6	100.0	109.0	-	-	-	-
Exchange rate (Ksh/US$)		7.5	7.4	9.0	10.9	13.3	14.4	-	-	-	-

	Share of GDP at market prices (%) (at current prices) 1975	1980	1983	1985	1990	Average Annual Increase (%) (at constant prices) 1970-75	1975-80	1983-85	1985-90
Gross domestic product a/	100.0	100.0	100.0	100.0	100.0	9.4	6.0	1.7	4.3
Agriculture	30.2	27.5	28.7	28.2	27.8	5.9	3.2	0.9	4.0
Industry	17.9	18.8	17.6	17.9	18.1	15.4	7.9	2.5	4.5
Services	40.3	38.6	40.1	40.8	41.1	7.5	5.4	2.5	4.5
Consumption	86.5	81.4	80.6	83.0	81.3	11.5	6.2	3.1	4.0
Gross Investment	18.1	30.0	21.1	21.0	21.6	-3.5	12.2	1.4	4.9
Exports of GNFS	29.8	28.6	25.4	25.5	25.0	1.7	1.3	1.8	3.9
Imports of GNFS	34.5	40.0	27.2	29.5	27.9	-2.0	6.4	5.9	3.3
Gross national savings	10.6	16.7	16.5	16.0	17.9	-0.9	11.2	-4.4	6.7

CENTRAL GOVERNMENT FINANCE b/	As % of GDP 1980/81	1981/82	1982/83	1983/84	1984/85
Revenue and Grants	26.1	25.7	24.8	24.6	26.2
Revenue	25.3	24.4	23.2	23.3	23.6
Grants	0.8	1.4	1.6	1.3	2.6
Expenditures	34.8	33.1	28.6	29.2	31.3
Current expenditure	24.7	23.3	22.4	21.3	23.4
Capital expenditure	10.1	9.8	6.2	7.8	7.9
Overall cash deficit	9.5	6.6	3.1	4.6	5.1
Foreign financing	4.9	1.7	1.7	1.0	1.6
Domestic financing	4.6	4.9	1.4	3.6	3.5

OTHER INDICATORS	1960-70	1970-75	1975-80	1980-83	1983-85 c/	1985-90
GNP growth rate (%)	5.2	5.5	4.8	3.2	1.5	4.6
GNP per capita growth rate (%)	2.2	2.2	1.3	-1.1	-1.6	1.4
Energy consumption growth rate (%)	-	-	4.9	-	1.5	2.0
ICOR	6.1	4.2	4.8	7.0	12.4	4.9
Marginal savings rate d/	.27	0.00	.21	.22	-0.49	0.25
Import elasticity	0.9	-0.2	1.1	-4.5	3.5	0.8

a/ At market prices; components are expressed at factor cost and will not add due to exclusion of net indirect taxes and subsidies.
b/ Fiscal years ending June 30.
c/ These numbers reflect the impact of the drought in 1984.
d/ Based on current price data through 1983.

Attachment 3b

Population: 18.9 million (1983)
GNP per Capita: US$340 (1983)

KENYA - EXTERNAL TRADE

Indicator	Amount (million US$ at current prices) 1983	Annual growth rates (%) (At constant 1983 prices) Actual 1979	1980	1981	1982	1983	Projected 1984	1985	1986	1987	1990
EXTERNAL TRADE											
Merchandise exports	947	-2.1	3.2	-5.2	-3.3	7.1	-1.9	1.7	3.8	3.8	3.8
Primary	816	4.8	-7.3	6.7	13.9	7.2	-2.0	2.0	3.7	3.7	3.8
Manufactures	131	-3.1	29.6	-16.3	-16.5	6.5	-0.8	1.0	4.0	4.0	4.0
Merchandise imports	1391	-18.3	14.7	-22.8	-12.5	-11.3	7.3	5.5	0.6	4.4	4.4
Food	125	-19.2	57.6	-48.4	58.4	-10.1	8.8	25.0	-23.5	7.7	8.1
Petroleum	508	0.9	16.7	-21.5	-6.7	-18.2	0.4	0.6	1.4	2.5	2.2
Machinery & Equipment	315	-28.4	19.0	-22.0	-19.2	-13.4	12.1	5.1	5.1	5.4	5.2
Others	443	-8.3	5.0	-7.1	-3.6	-1.3	11.5	5.5	4.6	4.8	4.8
PRICES											
Export price index	100.0	58.2	70.0	77.3	84.5	100.0	116.3	113.8	120.2	127.2	150.6
Import price index	100.0	46.6	61.1	77.7	89.8	100.0	106.0	112.0	117.9	124.5	146.8
Terms of trade index	100.0	124.8	114.6	99.5	94.1	100.0	109.8	101.5	102.0	102.2	102.6

	Composition of merchandise trade (%) (at current prices) 1979	1981	1983	1986	1990	Average annual real increase 1974-79	1983-85	1985-90
Exports	100.0	100.0	100.0	100.0	100.0	-	-0.1	3.3
Primary	84.9	87.7	86.6	86.6	86.2	2.1	-0.0	3.2
Manufactures	15.1	12.3	13.4	13.4	13.8	-11.3	-0.4	4.0
Imports	100.0	100.0	100.0	100.0	100.0	-	6.4	3.8
Food	5.3	4.8	9.0	9.0	10.3	-10.4	16.6	2.8
Petroleum	23.7	36.9	36.5	30.2	27.7	-2.8	0.5	2.2
Machinery & Equipment	35.5	27.2	22.6	25.0	26.1	1.7	8.5	5.2
Others	35.5	31.2	30.4	35.8	35.9	-	8.4	4.8

Direction of Trade

	Share of trade with industrial countries (%) 1979	1981	1983	Share of trade with developing countries (%) 1979	1981	1983	Share of trade with capital surplus oil exporters (%) 1979	1981	1983
DIRECTION OF TRADE									
Exports	54.4	42.1	47.2	34.0	45.0	39.2	1.8	2.3	3.0
Imports	67.4	57.3	50.8	10.0	8.2	15.4	20.3	33.5	32.3

Population: 18.9 million (1983)
GNP per Capita: US$340 (1983)

KENYA - BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT
(millions US$ at current prices)

	Actual					Est.	Projected				
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1990
BALANCE OF PAYMENTS											
Exports of goods and services	1,666	2,084	1,746	1,599	1,500	1,604	1,684	1,853	2,049	2,269	2,783
Exports of goods	1,032	1,315	1,136	1000	947	1,030	1,033	1,207	1,321	1,445	1,726
Exports of services	634	769	610	599	553	574	651	646	728	824	1,057
Imports of goods and services	2,254	3,119	2,583	2,130	1,787	1,943	2,182	2,275	2,497	2,716	3,280
Imports of goods	1,832	2,682	2,148	1,722	1,391	1,579	1,740	1,868	2,060	2,271	2,763
Imports of services	422	437	435	408	394	364	445	407	437	445	517
(of which: interest)	(87)	(141)	(139)	(172)	(169)	(182)	(181)	(179)	(187)	(196)	(215)
Transfers (net)	91	148	95	68	116	138	138	110	110	110	110
Current Account Balance	-497	-887	-742	-463	-171	-201	-363	-322	-339	-337	-387
Direct investment (net)	78	78	60	60	74	60	70	70	70	70	70
Public MLT loans (net)	393	444	275	213	80	147	147	314	326	336	417
Gross disbursements	469	562	437	393	258	375	406	514	520	535	632
Repayments	76	118	162	180	178	228	259	199	195	199	215
IMF Credit (net)	72	57	27	147	96	-12	77	-96	-91	-73	-98
Purchases	111	78	35	165	142	48	138	-	-	-	-
Repurchases	39	9	8	19	46	60	61	96	91	73	98
Other capital (net) /a	236	155	132	23	86	25	30	50	50	50	50
Change in Gross Reserves	282	-153	-248	-20	165	25	-38	15	17	46	52
Memorandum items:											
Gross reserves at year's end	652	499	251	231	396	421	383	398	415	463	558
Reserves as weeks imports	13	10	7	8	13	13	11	11	10	11	11
Current account deficit as % of GDP											
Including official grants /b	8.2	12.5	11.0	7.4	3.0	3.4	5.6	4.8	4.4	3.9	3.5
Excluding official grants /c	9.7	14.2	12.3	8.6	5.0	5.9	7.8	6.4	5.9	5.2	4.6
EXTERNAL CAPITAL AND DEBT											
Gross Disbursements											
Official grants /d	88	124	82	81	125	144	144	110	110	110	110
Concessional loans	146	178	146	190	84	174	205	247	238	252	290
Bilateral-DAC	94	66	104	89	41	70	85	112	122	130	158
Bilateral-OPEC	-	-	2	5	2	29	35	32	24	23	27
IDA	22	72	15	85	20	38	59	75	66	68	64
Other	31	41	13	9	31	37	27	28	26	31	41
Nonconcessional loans	323	384	291	203	174	202	245	267	283	281	342
Official export credits	12	16	32	15	46	27	28	28	31	32	38
IBRD	40	45	61	88	100	87	101	115	124	131	120
Other multilateral	7	15	15	22	14	17	13	8	6	5	1
Private-source	264	297	183	79	14	70	60	116	122	113	183
Public MLT loans - total	469	562	437	393	258	375	406	514	520	535	632

/a Includes short-term capital, commercial bank's net foreign position, errors and omissions, and valuation adjustment.
/b Including official grants "above the line" as an item contributing to the determination of the current account deficit.
/c Treating official grants as a "below the line" item which contributes to the financing of the current account deficit.
/d "Government transfer receipts" in the balance of payments.

	Actual 1979	1980	1981	1982	1983	Est. 1984	Projected 1985	1986	1987	1988	1990
External Debt Outstanding											
Public debt outstanding and disbursed (excl. IMF)	1,809	2,216	2,315	2,423	2,384	2,701	2,861	3,197	3,567	3,948	4,886
Official-source	1,064	1,264	1,397	1,619	1,740	2,158	2,437	2,717	2,985	3,260	3,814
Private-source	746	952	919	803	644	543	424	480	582	688	1,072
Undisbursed debt	1,431	1,388	1,235	1,361	1,131	1,157	1,070	1,136	1,177	1,196	1,277
IMF credit outstanding	139	198	207	341	426	399	483	244	135	52	-
Public debt outstanding and disbursed (incl. IMF)	1,948	2,414	2,522	2,764	2,810	3,100	3,344	3,441	3,702	4,000	4,886
Debt service /a											
Total debt service payments	202	268	309	371	379	447	519	505	508	512	583
Of which: interest	87	141	139	172	169	182	190	187	198	198	247
Payments as % exports of goods and services	12.1	12.9	17.7	23.2	25.2	27.3	30.8	27.2	24.8	22.6	21.0
Average interest rate on loans /b	7.0	3.4	9.2	5.9	6.5	5.2	5.3	7.0	6.7	6.7	6.9
(%) Official-source	3.4	3.0	5.3	5.2	-	-	-	-	-	-	-
Private-source	10.6	9.3	15.4	10.1	-	-	-	-	-	-	-
Average maturity of loans	21.1	30.7	22.8	30.4	25.0	27.2	25.5	22.5	23.3	22.9	21.4
(years) Official-source	33.8	31.6	31.8	33.3	-	-	-	-	-	-	-
Private-source	8.3	14.7	8.8	14.1	-	-	-	-	-	-	-

	As % of debt outstanding at end of 1983
Maturity structure of debt outstanding	
Principal due within 5 years	42.8
Principal due within 10 years	75.2
Interest structure of debt outstanding	
Interest due within first year	5.7

/a Including IMF repurchases and charges.
/b Excluding new IMF loans.

ECONOMIC AND SECTOR WORK PROGRAM

Past Work and Government Receptivity

1. Major ESW tasks completed during FY83 and FY84 include the Basic Economic Report, an updating CEM, a comprehensive agricultural sector report, and reports on the transportation and urban sectors. The Basic Economic Report, work on which began in 1978, analyzed issues of long-term agricultural and industrial growth, population, and poverty. The CEM reviewed economic and policy developments during the 1979-83 Plan period, particularly the implementation of the structural adjustment program, and provided an overview of medium-term prospects.

2. Bank ESW and non-Bank economic work on Kenya over the past decade have displayed an impressive degree of consensus and continuity. For example, broadly consistent analysis and policy recommendations may be found among: the ILO report on Employment, Incomes, and Equality (1972); the Bank's first basic economic report, Kenya: Into the Second Decade (1974); the Bank's second basic economic report, Growth and Structural Change in Kenya (1982); and the large volume of academic work generated by researchers attracted by Kenya's relatively good data base. The Bank has made ample provision for technical assistance to the Government in designing the implementing details of economic and sector policy reforms recommended in major reports. For example, the Bank has committed $10 million of technical assistance funds in the Agricultural Technical Assistance project, the Export Promotion Technical Assistance project, and the UNDP-financed Bank-executed Technical Assistance in Economic Planning project. Other donors have also made substantial provision for these purposes.

3. Judged by the superficial criterion of Development Plan documents, this large effort would appear to have made a considerable impact. Judged by the more relevant and meaningful criterion of actual implementation of policy reform, the results of our economic and sector dialogue on the most fundamental issues, such as trade policy, agricultural marketing, and population, can only be deemed disappointing. On the basis of the Government's actual policy behavior, it appears that the key decision-takers are not committed to significant policy reform on the most fundamental issues.

4. In our view, the quality of our Kenya ESW has been generally good, and the relative ineffectiveness of our dialogue, in terms of yielding concrete policy results, is explained more by the political/bureaucratic situation in Kenya than by deficiencies in our work. That having been said, we should try to make our ESW as well-prioritized and as persuasive as possible. In the past, there have been substantial slippages in the preparation of a number of economic and sector reports, in some cases due to inadequate staffing or inadequate pre-mission conceptualization, and there have been occasional complaints from Government about excessive, inadequately justified, or inadequately coordinated staff and consultant

travel to Nairobi, some of it in connection with activities which had not been sufficiently explained to Government and agreed with Government in advance.

5. In last year's Indicative Statement the Region noted its strategy of strengthening the focus of our ESW by reducing the number of studies through consolidation, and increasing the realism of staff input budgeting. This will continue to be important in our Kenya work as well as our work on other countries in the Region. We expect that the posting of a country economist at the Resident Mission will assist us in better perceiving proposed Bank ESW in the context of the total economic and sector work on Kenya, and in obtaining Government agreement to, and cooperation with, high-priority ESW activities.

Program for FY85-87

6. The proposed program continues to be focussed on supporting the structural adjustment dialogue, with particular emphasis on (a) structural adjustment in the directly productive sectors and (b) public finance.

7. Among the three productive sectors included in the structural adjustment program, our knowledge of industry and energy is less current and less complete than in the case of agriculture. In the area of industry, the Government and consultants have started on the long-awaited effective protection studies in December 1984, to be followed by studies of selected industries. The findings of these studies and other industrial sector work (such as industrial finance) will be integrated in our Industrial Sector Review. The Energy Strategy Paper will update the data base and perspective of the FY82 Energy Assessment Report. In the area of agriculture, a comprehensive sector report was recently prepared, and we are in more or less continuous contact with Government on agricultural issues through our Agriculture Section in Nairobi. The agricultural inputs review is examining a subject of critical importance to improving the productivity of smallholder agriculture.

8. In the area of public finance, we are undertaking a quick review of the Government's forward budget and investment program in early 1985. The 1985 CEM will also have a strong public finance focus as it will attempt to assemble data on the parastatal sector and estimate the overall public sector flow of funds. The proposed energy, education, and health sector studies will have significant public finance elements, and a local government finance study has been scheduled.

9. Other particularly important studies include public sector manpower, an area in which deficiencies have contributed to weaknesses in both project implementation and policy formulation/implementation, and a poverty update.

Attachment 4
Page 3 of 3

KENYA
SUMMARY OF PROPOSED STUDIES: FY85-87
(STAFFWEEKS)

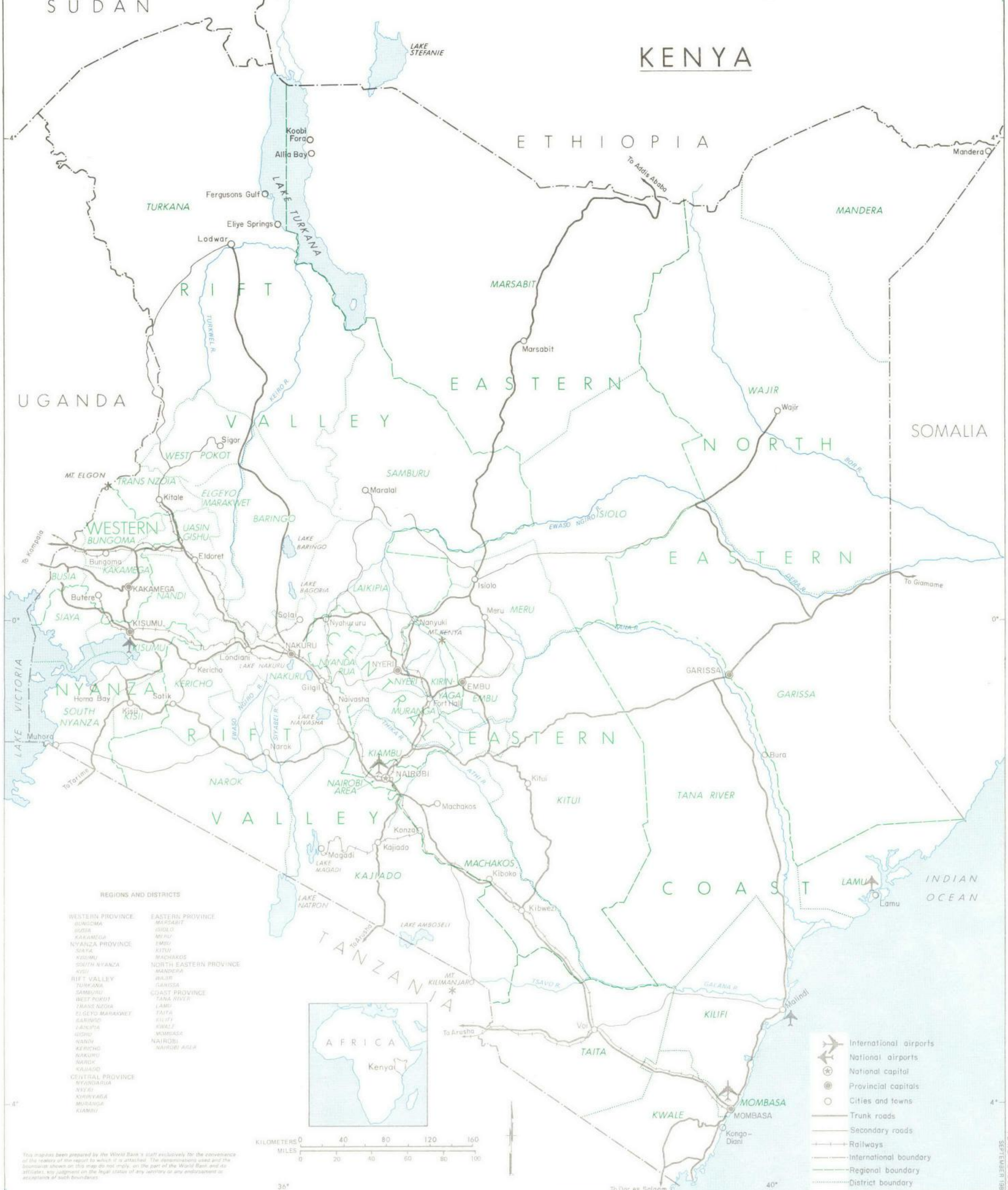
RUN DATE
07-Mar-85

KENYA STUDY/REPORT TITLE	FY85 INDICATIVE STATEMENT	PROGRAM OBJECTIVES	FY85	FY86	FY87	TOTAL	FY OF COMPLETION	FUNC/ CLASS CODE
ECONOMIC REPORTS (ERA)						0		
						0		
(10) CEM *	40	a,d	20	63	0	83	86	1.0
(19) CEM	0	a,d	0	0	20	20	88	1.0
(21) Poverty Update	0	d	0	0	50	50	87	8.0
						0		
SPECIAL STUDIES (ERA)						0		
						0		
(8) Public Investment Review	0	b	34	0	0	34	85	6.5
(18) Public Investment Review *	0	b	0	0	50	50	88	6.5
						0		
SECTOR REPORTS (SRA)						0		
						0		
(a) Regional						0		
(1) Agricultural Credit	0	a	10	0	0	10	85	12.0
(3) Industrial Strategy Paper	0	f	5	0	0	5	85	2.0
(4) Energy Strategy Paper	0	h	16	0	0	16	85	2.0
(5) Agricultural Inputs Review *	45	e	30	0	0	30	85	12.0
(6) Education Subsector Study	22	c	20	0	0	20	85	18.0
(11) Forestry Sector Review	0	e	0	20	0	20	87	13.0
(12) Livestock Subsector Paper	0	e	0	15	0	15	86	13.0
(13) Household Energy	0		0	6	0	6	86	17.0
(15) Industrial Sector Review *	38	f	0	30	30	60	87	14.0
(16) Farming Systems Study	0	e	0	0	45	45	88	12.0
(17) Public Sector Manpower Devt. **	0	c	0	0	30	30	87	18.0
						0		
(b) COPD								
(2) Industrial Finance	0	f	14	0	0	14	85	15.0
(7) Health Expenditure and Financing	25	g	5	20	0	25	86	19.0
(9) Population Program Study	0	g	20	5	0	25	86	19.0
(14) Petrol Suppl and Distr.,K,T,U /a	0		0	2	0	2	86	17.0
						0		
CPP	7		10	0	0	10	85	2.0
CPN	0		0	10	0	10	86	2.0
CPP	0			0	20	20	87	2.0
						0		
						0		
TOTAL	177		184	171	245	600		

* Core program.

** In the event of a reduction in the FY87 program, this study would be dropped from that year's program.

/a This is a six-staffweek study, with two staffweeks shown in the IS for each of the three countries.


KENYA
SUDAN
ETHIOPIA
UGANDA
SOMALIA
TANZANIA
INDIAN OCEAN
LAKE STEFANIE
LAKE TURKANA
LAKE VICTORIA
LAKE BARINGO
LAKE BAGORIA
LAKE NAKURU
LAKE NAIVASHA
LAKE MAGADI
LAKE NATRON
LAKE AMBOSELI
MT. ELGON
MT. KENYA
MT. KILIMANJARO
RIFT VALLEY
EASTERN
NORTH EASTERN
CENTRAL
WESTERN
NYANZA
COAST
TURKANA
MARSABIT
MANDERA
WAJIR
WEST POKOT
TRANS NZOIA
ELGEYO MARAKWET
SAMBURU
BARINGO
UASIN GISHU
BUNGOMA
KAKAMEGA
BUSIA
NANDI
SIAYA
KISUMU
KERICHO
SOUTH NYANZA
KISII
LAIKIPIA
NAKURU
NYANDARUA
NYERI
KIRINYAGA
EMBU
MERU
ISIOLO
MURANGA
KIAMBU
NAIROBI AREA
NAROK
KAJIADO
MACHAKOS
KITUI
GARISSA
TANA RIVER
LAMU
KILIFI
TAITA
KWALE
MOMBASA
Koobi Fora
Allia Bay
Fergusons Gulf
Eliye Springs
Lodwar
Marsabit
Mandera
Wajir
Sigor
Kitale
Maralal
Eldoret
Bungoma
KAKAMEGA
Butere
KISUMU
Londiani
Kericho
NAKURU
Nyahururu
Nanyuki
Isiolo
Meru
Solai
NYERI
EMBU
Fort Hall
Gilgil
Naivasha
Narok
Homa Bay
Kisii
Sotik
Muhoro
NAIROBI
Machakos
Kitui
Konza
Kajiado
Magadi
Kiboko
Kibwezi
GARISSA
Bura
Lamu
Malindi
Voi
MOMBASA
Kongo-Diani
To Addis Ababa
To Kampala
To Torime
To Arusha
To Dar es Salaam
To Giamame
TURKWEL R.
KERIO R.
EWASO NGIRO R.
EWASO NGIRO R.
THIKA R.
ATHI R.
TANA R.
DERA R.
BOR R.
TSAVO R.
GALANA R.
36°
40°
4°
0°
AFRICA
Kenya
REGIONS AND DISTRICTS
WESTERN PROVINCE
BUNGOMA
BUSIA
KAKAMEGA
NYANZA PROVINCE
SIAYA
KISUMU
SOUTH NYANZA
KISII
RIFT VALLEY
TURKANA
SAMBURU
WEST POKOT
TRANS NZOIA
ELGEYO MARAKWET
BARINGO
LAIKIPIA
UASIN GISHU
NANDI
KERICHO
NAKURU
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KAJIADO
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KIAMBU
EASTERN PROVINCE
MARSABIT
ISIOLO
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MACHAKOS
NORTH EASTERN PROVINCE
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LAMU
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NAIROBI
NAIROBI AREA
KILOMETERS 0 40 80 120 160
MILES 0 20 40 60 80 100
International airports
National airports
National capital
Provincial capitals
Cities and towns
Trunk roads
Secondary roads
Railways
International boundary
Regional boundary
District boundary
IBRD 12438R2
SEPTEMBER 1982

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 30, 1984

TO: A. W. Clausen, President

THROUGH: Shahid H. Husain, Acting SVPOP

FROM: Edward V.K. Jaycox, RVPEAN

SUBJECT: KENYA - Grain Marketing

8-3-84 SAVE FOR PETER McPHERSON'S call!

276

He has not as yet! HH

1. We have been informed by our Nairobi Office that Mr. McPherson, Administrator of USAID, who was in Nairobi last week, proposes to contact you on the matter of U.S. emergency food relief measures, the Government of Kenya's food strategy, and the Bank's intentions in relation to grain marketing and the proposed third structural adjustment operation.

2. At a meeting with the Minister of Finance, Mr. Saitoti, and Mr. Nyachae, the Permanent Secretary in the Office of the President responsible for Development Coordination and Cabinet Affairs (who is also, incidentally, chairman of the monopoly grain marketing parastatal, NCPB) Mr. Nyachae apparently told Mr. McPherson with considerable emotion and vehemence that the Government has no intention of liberalizing grain marketing through the introduction of private buying agents. M!

3. We believe that the force with which this viewpoint was represented derives to some extent from the U.S. recent position on their concessionary food aid -- that it should be channeled through the private sector -- a condition which they have now withdrawn during the negotiation of a US$10 million PL480 Title 1 commitment. The U.S. Government is a strong supporter of the conditionality contained in our second structural adjustment operation in Kenya on the restructuring and liberalization of the grain market and they have made it part of their conditionality for the commitment of economic support funds for several years. We understand that Mr. McPherson's main purpose in approaching you (now that the U.S. has abandoned its own leverage in respect of the Title 1 commitment), is to seek assurances that the Bank will maintain its position on the liberalization of grain marketing in the context of any possible third structural adjustment operation. N.B.

As you know, we are awaiting a letter from the Kenyans, outlining their present intentions on structural adjustment and the manner in which they propose to deal with outstanding issues including grain marketing. Informally we have been told (by Mr. Nyachae, inter alia) that Government intends to comply with the policy statement it made last December on grain marketing liberalization; that measures to implement organizational changes in the marketing parastatal will be put in hand. However, given their serious reservations concerning the integrity and financial and distributive capacity of private buying agents, they prefer to initiate the liberalization process by the use of cooperatives rather than private buying agents. As further background, I attach a memorandum on grain marketing, as discussed by you with David Dunn.

You should tell Mr. McPherson that we continue to believe NCPB is an inefficient and ineffective organization, and that one way to reform the system is to decentralize grain marketing, and introduce some competition, by authorizing activities of other marketing agents, e.g. private traders and cooperatives. However, in the present crisis atmosphere, questions of appropriate timing may be important.

cc: Messrs. Wyss, Dunn, Krafft (EAPCA), Thomas, Jones, Ibrahim, McBride, Kwaku
Mss. Marshall (EAPCA), Wardle, Lee

DMIThomas:mlh

Rec'd
Aug. 2, 1984

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE : July 30, 1984

TO : Files

FROM : Katherine Marshall, Division Chief, EAPCA
David A. Dunn, Division Chief, EA1EA DAD Dunn

SUBJECT : KENYA - Grain Marketing

This note summarizes the status of the Bank's dialogue with Government of Kenya on maize marketing, touches on some of the issues that President Moi raised with President Clausen, and prepares the ground for the contact that Mr. McPherson , head of USAID, is expected to make with President Clausen.

Somewhat over 50% of the 20-30% of maize production marketed in Kenya is handled by the National Cereals and Produce Board (NCPB), a government parastatal1/. The balance is handled by a flourishing parallel market made up of hundreds of small traders dealing in small amounts of maize in small markets. This trade, though technically illegal, is generally accepted but regulated on a local basis. Larger traders, moving lorry loads of maize between districts, also operate in the parallel market. This trade is illegal, is often subject to harassment and bribes but is important in equating supply and demand between surplus and deficit regions. The parallel market is especially important for smallholders since it handles about 70% of marketed smallholder production.

The Bank has been concerned at the inefficiency of the NCPB operations and at the substantial financial burden placed on Government by its operations (for example, the operating loss in 1981/82 alone was over US $20 million). Moreover, NCPB's monopoly has had other effects. It has tended to concentrate on supplying maize to the politically important urban areas and has not played an active role in stabilizing maize supplies throughout the country. Indeed Government controls on the movement of maize have probably exacerbated rather than helped solve the equalizing problem. In 1977/78, NCPB was unable to handle the surplus maize production. In sharp contrast to the private sector, NCPB has frequently kept farmers waiting 3-4 months before making payment--a major disincentive to smallholder production. In short, NCPB is doing badly what could be handled largely by the private sector, with more efficiency, at lower cost, and without tying up limited managerial talent in the Government sector.

The Bank's objective in this area (which has been under review for many years), has been to build on the strengths of the private sector

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1/ There is considerable disagreement about these figures, which also vary substantially from year to year. Nevertheless, there is no doubt that the proportion of grain marketed in the private sector is very significant.

and to free controls, while, at the same time, ensuring that valid political concerns of Government are met (e.g., to ensure sufficient maize stocks for domestic food security and to ensure that all producers receive a fair price). For this reason, the second SAL provided for a major study to determine the appropriate market structure. This was to include an investigation into the optimal division of functions between Government, the cooperatives and the private sector; recommendations on an appropriate food security plan; and recommendations on a system of market development. This was to be followed by an action program to implement Government's decisions. The study was completed in late 1983 at which time Government wrote to the Bank that they generally accepted the consultants recommendations which included:

(i) defining NCPB's role as a buyer and seller of last resort and as manager of the security reserve of grain;

(ii) participation of the private sector in grain marketing by those traders who could demonstrate that they had adequate resources; and

(iii) relaxing of grain movement controls.

While the Government agreed to these recommendations, the consultant study did not propose that Government implement all the recommendations straight away. Rather, it was agreed that these were the long term objectives. Initially, NCPB would continue to handle the major share of marketed maize, in addition to carrying out its role of buyer and seller of last resort. In their response, Government also noted that NCPB would need strengthening to carry out its crucial role of food reserve control and market stabilization. Efforts would be focused on NCPB helping NCPB, to set up a commercial wing to market maize, encourage private sector participation, and gradually relax controls on the movement of maize. The Bank has always supported the need for a phased program.

Government's position is now unclear. Having said it accepted the consultant study recommendations, it now appears to be backing off. Arguments include the following. "If they free the grain sector, smuggling will become prevalent and Kenya will lose maize across the borders." While smuggling will always continue, it is unlikely that, with border and other controls, really significant quantities of grain will cross the border. Logistically, it would also be difficult. "The (Asian) middlemen will dominate this vital sector." This could occur if Government completely and immediately "freed" the market, but by adopting a slow transition, and controlling licensing, and providing aid to black African entrepreneurs, this could be controlled. "The private sector lacks the financial, physical and managerial capacity to market maize." This would be true only if the transition were instantaneous. This is not recommended by the consultants (or the Bank). As noted also, 50% of marketed maize is already handled by the private sector showing that it does have considerable capacity and experience. "The private sector lacks storage capacity". Since it already handles significant quantities of grain, this is unlikely to be a major problem. Moreover, the private sector could rent (or buy) storage from NCPB. "The private sector will not take care of the poor during food shortages in isolated areas". This is almost certainly true. In areas such as the North-East, NCPB does have a role to play in distributing food in times of hardship. The Bank supports this role for NCPB. "The Government cannot liberalize during the current drought." It is not difficult to understand why Government is reluctant to make substantial changes in a drought year. But, why not allow private traders to move grain from surplus to deficit areas?

In short, Government has some legitimate concerns. It seems, however, to be using the present crisis to avoid action. Moreover, it has consistently misinterpreted (possibly deliberately) the Bank's position, caricaturing the Bank as insensitive to political realities, and as advocating a "completely free market at any cost." It portrays the Bank as demanding the total abolition of NCPB and wanting to give the private sector a totally free hand. This is simply not true. We are asking for some liberalization, and to build on existing traders. We are also asking for a phased action plan that should include support for private market development (possibly through credit from commercial banks) and for NCPB reform and strengthening. In recent weeks, Government has announced the creation of a new Apex Consumers Union to play a major role in grain marketing and input supplies. We are not yet sure exactly what that role will be. We have not had an opportunity to discuss this initiative with Government. In principle, we support the participation of viable and well managed cooperatives. Unfortunately, the bulk of existing cooperatives in Kenya are poorly managed and are subject to political interference and manipulation. Thus, a cooperative monopoly to replace the NCPB monopoly, given the past record of the cooperative movement, raises immediate concerns. We would argue that both viable cooperatives and the private sector should play a role.

One other factor needs to be brought into the equation: the personal and financial interests of one or two very senior Kenyan officials are being furthered under the present system.

Whatever the cause, it is clear that discussion could become acrimonious and lead to a general deterioration in relations. We believe that this is partly because Government does not fully understand the Bank's stance on this complex and somewhat imprecise subject. Certainly it appears that the Bank's real position has not been made clear to President Moi. If they are prepared to listen, we feel that it will be clear that we are not that far apart--at least as conveyed to us in their official response after the consultant study. If, however, Government is adamant against allowing any official private sector role, it is difficult to see how we can make progress on this issue. We can compromise to a point to accomodate political realities but beyond that point, progress and analysis to date will have been in vain.

cc: Messrs. Wyss, Krafft, Thomas, Jones, Ibrahim, McBride, Kwaku
Mss. Cox, Wardle, Lee

NKrafft/dkp:dl:mlh

OFFICE MEMORANDUM

TO: Files

DATE: September 8, 1982

FROM: Robert Calderisi, Loan Officer, EA1DA *RC.*

SUBJECT: Mr. Clausen's Meeting with the Kenya Delegation

1. Mr. Arthur Magugu, Minister of Finance of Kenya, called on Mr. Clausen on September 7, 1982. Mr. Magugu was accompanied by Mr. D. N. Ndegwa, Governor of the Central Bank of Kenya; Mr. Y.F.O. Masakhalia, Permanent Secretary at the Ministry of Economic Planning and Development; Mr. J.P. Mbogua, Ambassador of Kenya to the United States; and Mr. S. Abdulai, Executive Director. Messrs. Wapenhans, Kraske, Humphrey and I were also present at the meeting.

2. Mr. Clausen said that he was pleased to be able to meet with the Minister and he asked about recent developments in Kenya. Mr. Magugu said that the challenge to the country's political stability on August 1 had now been contained. Mr. Clausen then enquired about progress under the Structural Adjustment Program, which the Minister characterized as "50:50". The Government was having some difficulty assuring the International Monetary Fund of its satisfactory progress under the tandby Credit arrangements; the Minister had had one meeting with IMF officials on September 6 and would be having a second one on September 8.

3. Mr. Clausen urged the Minister to pay particular attention to debt management, as international confidence was now being shaken about the ability of developing countries to meet their external obligations. While Kenya's debt was still manageable, it was less so than before, as a result of a rapid increase in external borrowing in recent years. The Government had to find some means of bringing the debt situation under control. Mr. Wapenhans added that part of the solution was to continue to promote export sales. Mr. Magugu said that the Government was hoping to evolve workable schemes for export promotion. He was also concerned about Kenya's debt service requirements, as his Government wanted to remain in firm control of the situation as well as protect the country's credibility in capital markets.

4. Mr. Clausen emphasized that good performance in this area involved not only sound management but also perceptions of the international community that the Government was dealing seriously with its problems. From this point of view, it was most important that the Kenyans reach a full agreement with the IMF. It was also important that the loose ends of the first Structural Adjustment Program be tied together and that SAL II should be well implemented. Only in this way could additional Bank lending of this kind be approved and the

.../2

Government's room for manoeuvre in economic management increased substantially. The poor record of project implementation was also harmful to Kenya's international image.

5. Mr. Magugu thought that there was a problem of perceptions on the IMF side about Kenya's seriousness in respecting the standby agreement. However, Mr. Woodward had proposed an early meeting in Nairobi to review progress. The Minister agreed that Kenya's project implementation record had to be improved. Mr. Clausen suggested that perhaps there were ways in which the Bank could assist the Government in reducing difficulties in the portfolio; one requirement would be to reassess domestic priorities in the light of new and difficult international circumstances. As part of this review, Mr. Wapenhans said that certain projects might need to be dropped.

6. Mr. Clausen commended President's Moi's efforts in putting the spotlight on the population issue, as the benefits of economic growth in Kenya were being greatly diminished by rapid population increases. Mr. Magugu said that his Government would welcome additional Bank advice on this subject; at the same time, the social dimensions of the problem had to be kept in mind. It was also his impression that population statistics overstated the country's difficulties. Mr. Clausen urged the Government to take additional steps to bring population growth under control and he assured the Minister that the Bank wanted to provide additional assistance in this area. Satisfactory progress in population control was another element in protecting Kenya's creditworthiness. Kenya also needed to accelerate the preparation of adjustment measure in agriculture, marketing and other key areas of economic management.

7. Mr. Magugu ended the meeting by saying that the Government was aware of the seriousness of the economic situation confronting Kenya. The last budget had been designed within the framework of the IMF agreement and certain standby ceilings had been exceeded only for very good reasons. The establishment of the Population Council had been a very significant step. By and large, he said, and despite inevitable difficulties, the adjustment process in Kenya was working.

cc: Messrs. Clausen, Stern, Wapenhans, Kraske, Dunn
RCalderisi/rmm

9-7-82

KENYA

BRIEFING PAPER

Meeting with the Honorable Arthur Magugu
Minister of Finance
September , 1982

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September 1982

KENYA

Meeting with the Honorable Arthur Magugu
Minister of Finance
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Key Points

We should open the discussion by congratulating Mr. Magugu on this first occassion of his attendance at an Annual Meeting as Governor, and on his recent appointment as Minister of Finance. We should mention Mr. Stern's visit to Kenya October 2 - 5.

An attempted coup early in August followed in the wake of growing unrest within the country and a clampdown on political opponents in recent months, some of whom have been detained without charges. The coup was accompanied by civil disturbances and looting, carried out mainly by university students and urban poor. At the time of writing, the country is returning to normal. The coup attempt was very badly organized and did not present a serious threat to the Governments stability, but it was indicative of a determination of the political situation in recent months. The Government reaction to internal security is further reflected by the regrettable incident involving a Bank staff member, who was interrogated by Kenya Special Branch officers who entered and searched his hotel room, and obliged him to accompany them to their Headquarters over protest of our Resident Representative. We are still awaiting an adequate apology and an assurance that such incidents will not occur in the future.

During the meeting Mr. Magugu is likely to cite the success of the first Structural Adjustment operation and thank the Bank Group for its continuing support for Structural Adjustment in a second operation. While recognizing the Government's efforts to date, we should discuss Kenya's balance of payments position and creditworthiness situation with Mr. Magugu. We should stress the need for prompt Government action on the conditions for disbursing the second tranche of the Second Structural Adjustment operation and the need for further reforms before any future structural adjustment operations. We should also express our concern about the deteriorating implementation of ongoing projects.

URGENCY OF POLICY REFORMS AND STRUCTURAL ADJUSTMENT

Despite some improvement in the current account deficit, which narrowed modestly from about 13 percent of GDP in 1980 to 11 percent in 1981, Kenya's overall balance of payments position continued to deteriorate, largely as a result of a decline in public and private capital inflow. In December 1981, gross foreign exchange reserves stood at around US$242 million, equivalent to about five weeks' imports. Kenya's external debt (excluding EAC loans) increased from about US$1.0 billion to over US$2.2

billion between 1977 and 1981, causing its creditworthiness for Bank lending to deteriorate. While the debt service ratio was a modest 3.9 percent in 1977, it rose to 18 percent in 1981 and is estimated to reach over 20 percent in 1982. If Kenya is to continue to be creditworthy, it must vigorously pursue structural policies, including effective demand management, export promotion and debt service monitoring.

We should commend Kenya's successful implementation of the first phase of the Structural Adjustment Program, in meeting the IMF recommendations, and the politicially difficult and courageous steps taken by the Government to date, which have all helped to curb inflation. Kenya's ongoing balance of payments and creditworthiness difficulties have, to some extent, resulted from external factors, such as worldwide oil price increase and reduction in coffee prices. These external factors are compounded by the absence of strong Government action and the need to address such problem areas as agriculture where growth has diminished, particularly food production; rapid population growth, the most fundamental constraint to Kenya's development; and sharply decreased exports resulting from industrial protection policies which encourage inefficiency.

The Second Structural Adjustment operation is designed to address policy measures and programs to: (i) continue the rationalization of the trade regime and the promotion of industrial exports, (ii) stimulate agricultural growth, (iii) encourage efficient production and conservation of energy, and (iv) reduce the population growth rate, which is among the highest in the world. We should say that we expect from the Government: (i) prompt action on all commitments under the second credit, and (ii) a strong program of action, not studies, on carry-over issues such as grain-marketing and land use. The implementation of the second credit program will be closely monitored by the Bank staff, with review missions scheduled for September 1982 and March 1983. The first review will focus on the public investment program (under preparation for the next 5-Year Development Program, 1984-88) and the ongoing studies in agricultural marketing and land policy which will provide the basis for further structural adjustment. The second review will cover the full Program, on which the release of the second tranche is contingent. The third structural adjustment operation is planned for FY84. In particular, as the results of the studies under the second operation unfold, we expect the Government to be prepared to introduce bold policy reforms and adjustments under the third operation, particularly in the areas of agricultural pricing and marketing, and land policy. Processing of the third Structural Adjustment operation will begin only after conditions of the second tranche of SAL II have been met.

PROJECT IMPLEMENTATION

We should advise Mr. Magugu that we remain seriously concerned about the poor record of project implementation. The level of disbursements versus commitments at the outset of the year, which was a dismal 8.5% in 1980, rose to 16.5% in 1981 but fell to 10.8% in 1982. The increase in FY81 was largely due to disbursement of the first Structural Adjustment operation. We recognize that the conditions outlined above have contributed to development budget shortfalls resulting in severe under-funding of local costs and that complex project design in some cases is a limiting factor to project implementation. However, other problems exist including lack of interministerial coordination, indecisiveness, and administrative and technical problems. These issues have been discussed on numerous occasions with Government officials at every level. Recommendations have been made to cancel, reduce the size or restructure those projects which are not being implemented. It is essential that the Government address the administrative, technical and other problems, identify fiscal priorities, and take decisions to cancel low priority projects, since any future aid commitments by the Bank Group will be dependent on the acceptable performance in project implementation. These subjects will be discussed with the Government during a Country Implementation Review scheduled for the week of September 20.

EAST AFRICAN COMMUNITY

The EAC mediator has advised us of his recommendations to EAC Governments to hold an informal ministerial meeting to settle the questions of weights to be attached to geographical locale and equality. We should congratulate the Government on the progress made to date and the cooperation extended to the mediator, reaffirm our confidence in the mediator, and emphasize the need for continued compromise and cooperation by all parties to the ongoing negotiations to effect an early and satisfactory conclusion.

Biographical Information

MAGUGU, Arthur Kinyanjui
Minister of Finance

Career

Since 1982	-	Minister of Finance
1981-1982	-	Elder of the Order of Golden Heart
1979-1981	-	Minister of Health and Reelected MP for Githunguri
1974-1979	-	Minister of Finance and Planning and Reelected MP for Githunguri
1969-1974	-	MP for Githunguri
1966-1969	-	Estates Manager, Ministry of Lands and Settlement

Education

- Diploma and Masters Degree from University of Stockholm, Sweden
- Bachelors of Arts Degree from La Verne, California, USA
- Kangaru School, Embu
- Kambui Intermediate School

Personal

- Born in Kiambu in 1935

Biographical Information

NDEGWA, Duncan N.
Governor, Central Bank of Kenya

Career

Since 1967	-	Governor, Central Bank of Kenya
1964-1967	-	Permanent Secretary/Secretary to the Cabinet, Office of the President
1963-1964	-	Permanent Secretary, Ministry of Finance
1962-1963	-	Under Secretary, Treasury
1959-1962	-	Assistant Secretary, Treasury
1956-1959	-	Statistician
1951-1956	-	Teacher in Kagumo, Kenya

Education

- Master of Arts (Honors) in Economics from St. Andrew's University in 1956.
- Diploma in Education from Makerere University in 1950.

Personal

- Born on 11th March, 1925, in Nyeri, Kenya
- Married with 6 children.

Biographical Information

MASAKHALIA, Yekoyada F. Omoto
Permanent Secretary, Ministry of Economic Planning and Development

Career

Since 1980	-	Permanent Secretary, Ministry of Economic Planning and Development
1978-1980	-	Chief Economist, Ministry of Economic Planning and Development
1972-1978	-	Chief Economist, Ministry of Finance and Economic Planning
1970-1972	-	Principal Economist, Ministry of Finance and Economic Planning
1967-1970	-	Economist/Statistician, later promoted to Economics Social Development Planner

Education

- M.P.A. (Economics) Howard University
- M.A. (Economics) Denver University
- B.A. (Economics) University of Delhi

Personal

- Born on 20th January, 1938, Kenya
- Married with 3 children.

TABLE 3.1
KENYA: SUMMARY BALANCE OF PAYMENTS
(KL MILLION)

ITEM		1972	1973	1974	1975	1976	1977	1978	1979
MERCHANDISE EXPORTS (FOB)	187	120.5	164.5	226.1	232.4	311.2	468.0	366.5	380.3
MERCHANDISE IMPORTS (CIF)	188	186.4	219.2	384.8	361.0	407.9	529.3	723.3	665.0
TRADE BALANCE	189	-65.9	-54.7	-158.7	-128.6	-96.7	-61.3	-356.8	-284.7
SERVICES (NET)	190	28.0	0.1	39.8	26.2	48.3	45.2	64.5	69.0
FREIGHT AND INSURANCE	191	11.6	11.4	18.5	7.5	22.9	27.0	26.6	27.8
OTHER TRANSPORTATION	192	11.8	14.3	44.6	33.9	47.9	49.3	57.1	52.3
FOREIGN TRAVEL	193	17.4	13.3	13.9	28.7	29.9	43.2	48.5	50.6
INTERNATIONAL INVESTMENT INCOM	194	-12.2	-35.7	-36.1	-35.4	-47.6	-65.5	-55.0	-49.2
GOVERNMENT TRANSACTIONS, NES	195	-5.7	-5.3	-2.9	-9.4	-3.1	-9.2	-7.6	-7.7
OTHER SERVICES	196	5.1	2.1	1.8	0.9	-1.7	0.4	-5.1	-4.8
TRANSFERS (NET)	197	13.6	7.8	6.9	18.5	13.5	27.5	39.8	37.4
PRIVATE	198	0.4	0.3	0.8	-0.4	-2.1	1.4	7.5	9.0
GOVERNMENT	199	13.2	7.5	6.1	18.9	15.6	26.1	32.3	28.3
CURRENT ACCOUNT BALANCE	200	-24.3	-46.6	-112.0	-83.9	-34.9	11.4	-252.5	-178.3
CAPITAL MOVEMENTS									
PRIVATE LONG-TERM	201	15.3	31.3	41.6	14.7	25.1	48.0	76.4	80.7
GOVERNMENT LONG-TERM	202	15.1	16.8	21.8	30.4	34.9	36.4	84.0	103.8
GOVERNMENT CORPORATIONS	203	0.2	0.0	8.3	10.8	5.0	-0.5	-3.0	-3.5
SHORT-TERM	204	3.7	5.0	14.1	13.0	8.0	18.5	13.6	69.9
TOTAL	205	34.3	53.1	85.8	68.9	71.0	102.4	171.0	250.9
MONETARY MOVEMENTS									
TRANSACTIONS WITH IMF	206	0.0	-0.2	25.4	18.1	8.3	-22.7	3.0	-3.9
OTHER CHANGES IN ASSETS AND LIABILITIES	207	-10.5	-10.7	5.0	-1.2	-44.0	-90.0	74.6	-66.7
TOTAL	208	-10.5	-10.9	30.4	16.9	-35.7	-112.7	77.6	-70.6
ERRORS AND OMISSIONS	209	0.5	4.6	-4.2	-1.9	-0.4	-1.1	3.9	-2.0

SOURCE: CENTRAL BUREAU OF STATISTICS, ECONOMIC SURVEYS.

ANNEX 1

TABLE 2 - KENYA

SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL PUBLIC DEBT

PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC. 31, 1981

INCLUDES ONLY DEBT COMMITTED JAN. 1, 1900 - DEC. 31, 1981
DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
(IN THOUSANDS OF U.S. DOLLARS)

YEAR	DEBT OUTSTANDING AT BEGINNING OF PERIOD		TOTAL TRANSACTIONS DURING PERIOD					OTHER CHANGES	
	DISBURSED ONLY	INCLUDING UNDISBURSED	COMMIT-MENTS	DISBURSE-MENTS	SERVICE PAYMENTS			CANCEL-LATIONS	ADJUST-MENT •
					PRINCIPAL	INTEREST	TOTAL		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1972	330,017	471,613	117,277	69,597	10,997	14,453	25,450	1,202	-20,706
1973	373,807	555,985	96,954	81,919	12,959	16,781	29,740	2,049	8,720
1974	447,304	646,651	175,018	71,145	14,948	19,340	34,288	3,539	19,498
1975	516,257	822,680	456,768	97,069	15,840	20,772	36,612	26,805	-51,855
1976	561,079	1,184,948	275,673	188,671	25,938	24,214	50,152	1,454	-30,711
1977	699,250	1,402,518	450,746	324,926	30,958	33,321	64,279	33,302	78,467
1978	1,004,026	1,867,471	594,742	366,608	76,827	50,208	127,035	130,876	110,228
1979	1,245,557	2,364,738	716,901	442,565	79,420	71,037	150,457	8,337	42,952
1980	1,631,849	3,036,834	541,908	560,637	104,882	106,193	211,075	602	-34,329
1981	2,080,150	3,438,929	375,045	476,165	177,926	115,779	293,705	21,851	-209,984
1982	2,228,333	3,404,213							
	• • • • • • THE FOLLOWING FIGURES ARE PROJECTED • • • • • •								
1982	2,228,333	3,404,213	-	359,948	173,004	151,790	324,794	-	-360
1983	2,414,914	3,230,849	-	268,405	168,793	150,154	318,947	-	1
1984	2,514,529	3,062,057	-	211,918	182,752	145,673	328,425	-	-3
1985	2,543,685	2,879,302	-	143,570	214,490	137,750	352,240	-	1
1986	2,472,766	2,664,813	-	89,234	210,624	125,355	335,979	-	7
1987	2,351,381	2,454,196	-	49,877	194,877	111,403	306,280	-	-6
1988	2,206,378	2,259,313	-	28,608	187,713	97,094	284,807	-	5
1989	2,047,276	2,071,605	-	15,414	176,923	83,218	260,141	-	1
1990	1,885,769	1,894,683	-	6,594	149,006	70,457	219,463	-	8
1991	1,743,367	1,745,685	-	2,026	149,595	60,387	209,982	-	8
1992	1,595,806	1,596,098	-	283	122,564	50,872	173,436	-	8
1993	1,473,533	1,473,542	-	9	114,881	44,342	159,223	-	6
1994	1,358,667	1,358,667	-	-	109,910	38,151	148,061	-	-1
1995	1,248,756	1,248,756	-	-	97,677	32,300	129,977	-	2
1996	1,151,081	1,151,081	-	-	99,966	27,082	127,048	-	1
1997	1,051,116	1,051,116	-	-	96,460	21,912	118,372	-	4
1998	954,660	954,660	-	-	89,798	17,101	106,899	-	1
1999	864,863	864,863	-	-	79,497	12,888	92,385	-	3
2000	785,369	785,369	-	-	62,479	9,553	72,032	-	-9
2001	722,881	722,881	-	-	48,364	7,719	56,082	-	-2

• THIS COLUMN SHOWS THE AMOUNT OF ARITHMETIC IMBALANCE IN THE AMOUNT OUTSTANDING INCLUDING UNDISBURSED FROM ONE YEAR TO THE NEXT. THE MOST COMMON CAUSES OF IMBALANCES ARE CHANGES IN EXCHANGE RATES AND TRANSFER OF DEBTS FROM ONE CATEGORY TO ANOTHER IN THE TABLE.

ANNEX 2

ANNEX

KENYA

COUNTRY IMPLEMENTATION REVIEW

MARCH 2-3, 1982, NAIROBI

Overview

The last Country Implementation Review was held on March 2 and 3, 1982, in Nairobi. The purpose of the Review was to continue our dialogue with the Government on the deteriorating project implementation performance in Kenya and to seek remedial steps. The meetings were attended by senior Government officials, and the discussions were frank and carried out in a cooperative spirit. The level of preparation for the Review was high and several decisions were made on issues which had been under discussion with the Government for a number of years. The outcome of the Review was reporteddirectly to President Moi, at his request.

a. A Task Force on Disbursements has been established in the Ministry of Finance to monitor reimbursement claims. Greater use of Disbursement Procedure III (direct payment to suppliers) is being made for projects which are being carried out by ministries with effective implementation capacity (e.g., projects in highways, telecommunications, and petroleum exploration promotion). The use of Procedure III is expected to be extended to the Ministries of Agriculture and Livestock Development soon.

b. A Procurement Seminar was successfully held in Nairobi in June. In the future, procurement matters will be discussed in greater details at project negotiations.

c. To improve project monitoring and coordination, a Project Implementation Committee has been established comprising Permanent Secretaries from the Office of the President and Ministries of Finance and Economic Planning and Development. The Committee prepared a paper entitled "Project Implementation and the Claiming of Disbursements," which includes sections on the monitoring of physical schedules and performance targets, and the financial monitoring of projects. The paper is currently being discussed within the Government. In addition, a room has been set up in the Office of the President where, with the use of audio and visual aids, the progress of project implementation is being continuously monitored, problems identified, and corrective measures taken. To support the operations of this facility, the Bank is assisting the Government in establishing a project implementation reporting system.

d. On agricultural cost recovery, Government policy is that financial institutions giving credit to farmers should recover the loans and be fully accountable for these funds, without blanket Government guarantees as in the past.

e. The Government is establishing priorities for rationalizing existing project commitments in order to keep within its present financial and administrative limitations. Working in close collaboration with the Bank, the Government is considering reducing the scope of some projects, eliminating some altogether, and stretching out the implementation periods of others. A technical team, comprising Government and RMEA staff, has been established for this purpose. Decisions on the rationalization of the Bank Group, portfolio will be taken at the next Country Implementation Review in late September.

KENYA

FY83-84

LENDING PROGRAM

BY SECTOR

FY		PROJECTS	US$ Millions			
			Amounts		Totals	
		Sector	IBRD	IDA	Sector	Grand
83	(i)	Agriculture				
		Agricultural Technical Assistance	-	6.0	6.0	
	(ii)	Power				
		Olkaria Geothermal III	12.0	-		
		Kiambere Hydroelectric	85.0	31.0	128.0	
	(iii)	Structural Adjustment Lending				
		Structural Adjustment Credit II	60.9	70.0	130.9	
	(iv)	Urban				
		Urban Transport	-	15.0	15.0	279.9
					(IBRD 157.9)	
					(IDA 122.0)	

FY		PROJECTS	US$ Millions			
			Amounts		Totals	
		Sector	IBRD	IDA	Sector	Grand
84	(i)	Agriculture				
		Extension and Training*		20.0	20.0	
	(ii)	Energy				
		Refinery Conversion Eng. Studies*	6.0		6.0	
	(iii)	Industrial Development and Finance				
		Industrial Development Bank IV*	45.0		45.0	
	(iv)	Structural Adjustment Lending				
		Structural Adjustment Credit III	90.0	45.0	135.0	
	(v)	Urban				
		Small Towns*	15.0	24.0	39.0	245.0
					(IBRD	156.0)
					(IDA	89.0)

*Standby projects