McNamara Papers.

Travel briefs - Ken...
Lesotho, Jan 15 -

Folder 1 of 6

When will 1st SA loan go to Bd – amt $\frac{1}{15}$ 55/15
review provisions
what is sched, amt, + conds for 2nd
shouldn't we not ask for the plan for "acceptable rates" in terms of DF over the adj period, e.g. 5 yrs

COUNTRY BRIEFING

KENYA

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why int rate not solved (5-10%)
should we cancel

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81	~~205~~ 143

Mr. McNamara's Arrival Statement

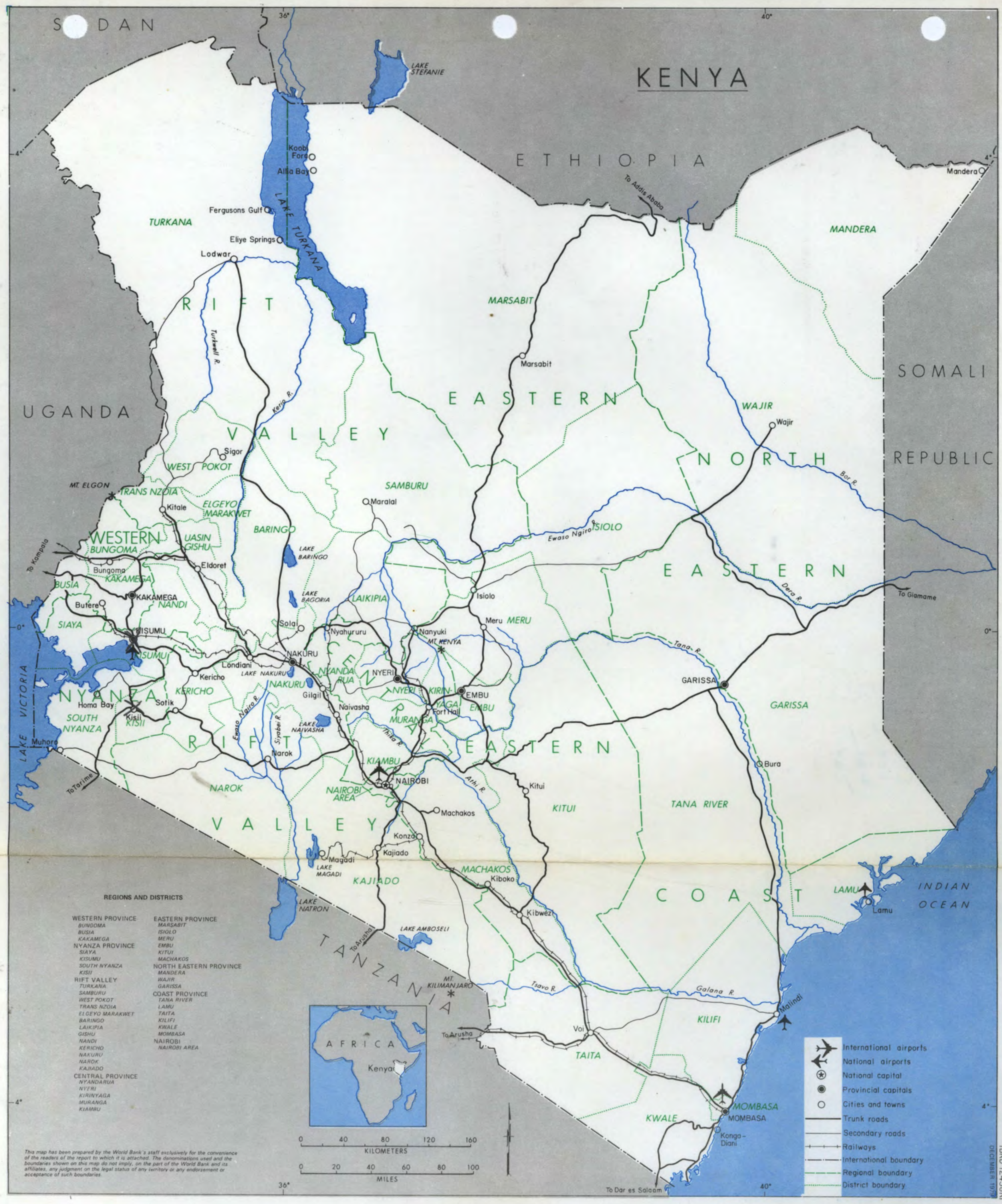
KENYA

I am very happy to be back in Kenya again and to have the opportunity to see your country's progress since my last visit in 1973 when the Annual Meetings of the Bank and the International Monetary Fund were held in Nairobi. I look forward to meeting with President Moi and to hearing from him about your country's achievements and future plans. During my visit here, I hope to look at some of the development projects which the World Bank is assisting both in rural and urban areas.

Kenya is the largest borrower from the World Bank in Eastern Africa. The Bank has committed close to $1 billion to support 52 different projects in Kenya. The projects assisted are in virtually every economic sector -- transport, energy, water supply and sewerage, industry, urban development, telecommunications, agriculture and rural development, population and health, education and tourism.

The Bank has assisted the Government in its efforts to develop the economy by lending to sectors which have high growth potential, particularly agriculture. Just last month, two important new projects were approved for agriculture and rural development. We are ready to support your Government's priority development projects in arid and semi-arid areas and to assist smallholders through integrated development schemes.

The ability of Kenya and the World Bank together to deal with the country's fundamental problems is illustrated by our commitment during the last fiscal year of $251 million for seven projects. We will continue to assist Kenya, now and in the future, to diversify its exports, to reorient its industrial growth, to increase its food and agricultural production, to tackle its population and human resource problem, and to create fuller employment opportunities.


KENYA
SUDAN
ETHIOPIA
SOMALI REPUBLIC
UGANDA
TANZANIA
INDIAN OCEAN
LAKE TURKANA
LAKE STEFANIE
LAKE VICTORIA
RIFT VALLEY
EASTERN
NORTH EASTERN
CENTRAL
NYANZA
WESTERN
COAST
NAIROBI
MOMBASA
KISUMU
NAKURU
NYERI
EMBU
GARISSA
Lodwar
Marsabit
Wajir
Mandera
Isiolo
Kitale
Eldoret
Kakamega
Kericho
Narok
Machakos
Kitui
Voi
Malindi
Lamu
Kibwezi
Kiboko
Bura
To Addis Ababa
To Kampala
To Arusha
To Dar es Salaam
To Giamame
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
GISHU
NANDI
KERICHO
NAKURU
NAROK
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CENTRAL PROVINCE
NYANDARUA
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MURANGA
KIAMBU
EASTERN PROVINCE
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NORTH EASTERN PROVINCE
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WAJIR
GARISSA
COAST PROVINCE
TANA RIVER
LAMU
TAITA
KILIFI
KWALE
MOMBASA
NAIROBI
NAIROBI AREA
AFRICA
Kenya
KILOMETERS
MILES
International airports
National airports
National capital
Provincial capitals
Cities and towns
Trunk roads
Secondary roads
Railways
International boundary
Regional boundary
District boundary
This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.
IBRD 12438R1
DECEMBER 1976

background notes

Kenya

department of state • january 1978

OFFICIAL NAME: Republic of Kenya

PEOPLE

Kenya's population is richly varied. Ochre-painted Masai tend their herds with spear in hand and black-robed Arab women stroll beneath Moslem minarets, while many other Kenyans have adopted the cosmopolitan life-style of Nairobi. The great majority of city workers retain close links with their extended family groups in the rural areas. However, many leave the city periodically to help work on the family farm. At any given time, about three-fourths of Kenya's working population are engaged in agriculture, while some 900,000 are employed in the modern sector of the economy.

The national motto of Kenya is "Harambee," which means "pull together." Every year, in the spirit of this slogan, Kenyan volunteers in hundreds of communities build schools, clinics, and other needed facilities and collect funds to send deserving students abroad. The University of Nairobi has about 4,000 students but is only able to accept half of the Kenyan students who qualify for admission.

PROFILE

People

POPULATION: 14.2 million (mid-1977 est.). ANNUAL GROWTH RATE: 3.3% (1976). DENSITY: 63 per sq. mi. (24 per sq. km.) ETHNIC GROUPS: Of the African population, Kikuyu 20%, Luo 14%, Luhya 14%, Kamba 11%, Kisii 7%, Meru 5%; about 2% of total population are non-African (Asians, Europeans, Arabs). RELIGIONS: Animist 38%, Protestant 37%, Roman Catholic 22%, Muslim 3%. LANGUAGES: English, Swahili, and many tribal languages. FUNCTIONAL LITERACY: 15-20%. LIFE EXPECTANCY: 51 yrs. YEARS OF MANDATORY EDUCATION: None. However, the first 4 years of primary school are provided free by the Government.

Geography

AREA: 224,900 sq. mi. (582,488 sq. km.); slightly smaller than Tex. CAPITAL: Nairobi (pop. 800,000). OTHER CITIES: Mombasa (351,000), Nakuru (66,000), Kisumu (46,000).

Government

TYPE: Republic. INDEPENDENCE: December 12, 1963. DATE OF CONSTITUTION: 1963.

BRANCHES: *Executive*—President (Chief of State, Head of Government, Commander in Chief of the Armed Forces). *Legislative*—unicameral National Assembly (parliament). *Judicial*—High Court, various lower courts. POLITICAL PARTY: Kenya African National Union (KANU). SUFFRAGE: Universal over 21.

ADMINISTRATIVE SUBDIVISIONS: 40 rural Districts, joined together to form 8 rural Provinces. Nairobi area has special status.

FLAG: Black, red, and green horizontal bands from top to bottom, separated by narrow, white stripes. A warrior's shield and crossed spears are centered on the flag.

Economy

GDP: $3.0 billion (1976, current prices). ANNUAL GROWTH RATE: 5.1%. AVERAGE GROWTH FY 72-76: 3.8%. PER CAPITA INCOME: $217. PER CAPITA GROWTH RATE: 1.7%. AVERAGE RATE OF INFLATION (last 5-year period): 14%.

AGRICULTURE: *Land* 10-15%. *Labor* 23%. *Products*—corn, wheat, rice, sugar cane, coffee, tea, sisal, pyrethrum, meat and its products, hides, skins.

INDUSTRY: *Labor* 14%. *Products*—petroleum products, cement, beer.

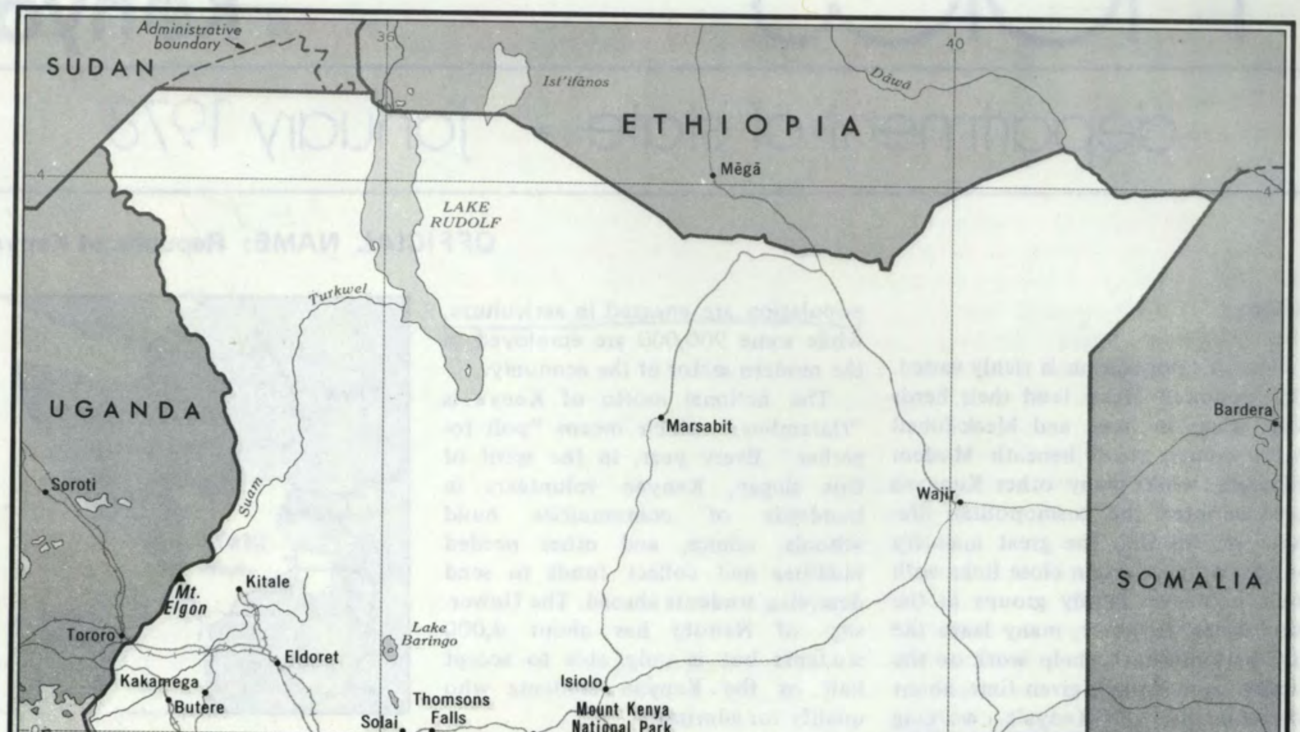
NATURAL RESOURCES: Wildlife, land.

TRADE: *Exports*—$828.1 million (1976 f.o.b.): Coffee, petroleum products, tea, hides and skins, meat and meat products, cement, pyrethrum, sisal, soda ash, wattle extract. *Partners*—European Economic Community (EEC), US, Canada, Zambia, Iran, Japan, Australia, India, People's Republic of China. *Imports*—$976.7 million (1976 c.i.f.): crude petroleum, machinery and vehicles, iron and steel, paper and paper products, pharmaceuticals, fertilizers, fabrics. *Partners*—EEC, US, Canada, Zambia, Iran, Japan, Australia, India, People's Republic of China.

OFFICIAL EXCHANGE RATE: 8.31 KSh (Kenya shillings)=US$1.

ECONOMIC AID RECEIVED: *Total*—Over $1.16 billion (est. through FY 1977). *US only*—$172 million (FY 1954-77): grants and loans.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN and several of its specialized agencies, OAU, Commonwealth of Nations, INTELSAT.


SUDAN
Administrative boundary
ETHIOPIA
Ist'ifanos
Dawa
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LAKE RUDOLF
Turkwel
UGANDA
Soroti
Suam
Marsabit
Bardera
Wajir
SOMALIA
Mt. Elgon
Kitale
Tororo
Lake Baringo
Eldoret
Kakamega
Butere
Isiolo
Thomsons Falls
Solai
Mount Kenya National Park
Kisumu
Nanyuki
Mt. Kenya
LAKE VICTORIA
Nakuru
Aberdare National Park
Nyeri
Embu
Garissa
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BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE
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GEOGRAPHY

Kenya, situated astride the Equator on the east coast of Africa, is bounded by Ethiopia, Sudan, Tanzania, Uganda, Lake Victoria, Somalia, and the Indian Ocean.

It is a country of striking topographical and climatic variety. The northern three-fifths is arid, much of it near-desert, inhabited only by nomadic pastoralists. Eighty-five percent of the population and almost all economic activity are located in the southern two-fifths of the country. South of the Tana River, along the coastline, tropical temperatures and beautiful beaches have provided the setting for a well-developed tourist resort industry centered at the port city of Mombasa. Thornbush scrubland extends about 175 miles (280 km.) inland from the coast.

The Great Rift Valley, extending south from Lake Rudolf in the west, is from 30 to 40 miles (48-64 km.) wide and often 2,000 to 3,000 feet (610-915 m.) lower than the surrounding country. Mt. Kenya (17,040 feet–5,194 m.–high) and Mt. Elgon (14,000 feet–4,267 m.–high) are in the Aberdare Mountains and Mau Escarpment of the Great Rift. High, sweeping plateaus, varying in altitude from 3,000 to 10,000 feet (915-3,048 m.) above sea level, stretch between the mountain ranges and have some of Africa's most fertile soil. The land descends gradually from the western rift formation to the shores of Lake Victoria.

In an effort to preserve Kenya's priceless wildlife heritage, the Government has set aside more than 6 million acres (2,424,000 hectares) for national parks and game preserves. While hunting of game has been banned, poaching still poses a major threat to elephants, lions, cheetahs, leopards, and other species. Most game preserves have fine lodges where tourists can "rough it" with all the comforts.

Nairobi, the capital city of Kenya, at an altitude of 5,400 feet (1,646 m.), is temperate year-round. Adorned with flowering trees and shrubs, beautiful homes and public buildings, Nairobi has become a hub of communications, international conferences, and commercial and industrial activities in east and central Africa.

Kenya generally has two rainy seasons, the "long rains" from April to June and the "short rains" from October to December. On the coast and the immediate interior the average temperature is 80° F (27° C). Elsewhere, due to the altitude, the Kenya climate is cool and invigorating. At Nairobi the mean maximum temperature is 77° F (25° C) and the mean minimum is 57° F (14° C).

A Samburu tribesman

HISTORY

Bone fragments and stone tools found in Kenya indicate that protohumans roamed the area that is now East Africa over 2 million years ago. Recent anthropological finds near Lake Turkana (formerly Lake Rudolph) may soon push those estimates of the origins of man back even further.

The Cushitic, Bantu, and Nilotic-speaking peoples who migrated to the area in historic times were visited by the Arabs at an early date. Kenya's proximity to Saudi Arabia invited colonization as long ago as the 8th century. The Swahili language, a mixture of Bantu and Arabic, developed as a lingua franca for trade between the two peoples. The Arabs were followed 7 centuries later first by the Portuguese and then by the British.

The colonial history of Kenya dates from the Berlin Conference of 1885, when the European powers first partitioned East Africa into spheres of influence. In 1895 the British Government established the East African Protectorate and, soon after, opened the fertile highlands to white settlers. The settlers were allowed a voice in Government even before it was officially made a British colony in 1920, but Africans were not allowed any direct political participation until 1944.

From October 1952 to December 1959 Kenya was under a state of emergency arising from the Mau Mau rebellion against British colonial rule. During this period African participation in the political process increased rapidly. The first direct elections for Africans to the Legislative Council took place in 1957. Kenya became independent on December 12, 1963, and 1 year later, chose to assume the status of a Republic within the Commonwealth of Nations.

Jomo Kenyatta, a member of the predominant Kikuyu tribe and head of the Kenya African National Union (KANU), became the first President of Kenya. The minority party, Kenya African Democratic Union (KADU), representing a coalition of small tribes who had feared dominance by larger tribes, dissolved itself voluntarily in 1964 and joined KANU.

A small but significant leftist opposition party emerged in 1966 when Jaramogi Oginga Odinga resigned as Vice President and started the Luo-based Kenya People's Union (KPU). A prominent Government minister, Tom Mboya, was assassinated early in 1969 as the country prepared for its first general election since independence. Political tension grew throughout the country, and several months later the KPU was banned and its leaders put into detention.

Despite the demise of the KPU, 600 candidates (all KANU members) contested the 158 elective Parliamentary seats in 1969. More than half of the incumbents were unseated in both the 1969 and 1974 elections. In both elections President Kenyatta ran unopposed.

GOVERNMENT

The President is elected by the National Assembly to serve a 5-year term. However, if he dissolves the Assembly during his term, a new Presidential election must be held. The President appoints the Vice President and other members of the Cabinet from among those elected to the Assembly.

The unicameral National Assembly consists of 158 Members, elected to a term of up to 5 years, plus 12 who are chosen by the elected Members. In addition, the Attorney General is an ex officio Member of the National Assembly.

The judiciary is headed by a Supreme Court consisting of a Chief Justice and at least 11 Puisne Judges, all appointed by the President.

The basic local administrative divisions are the 40 rural Districts, each headed by a Commissioner appointed by the President. The Districts are joined together to form eight rural Provinces. The Nairobi area is not included in any District or Province but has a special status of its own. The administration of Districts and Provinces is closely supervised by the Central Government.

Principal Government Officials

President–Jomo Kenyatta
Vice President; Minister for Home Affairs–Daniel arap Moi

Other Ministers

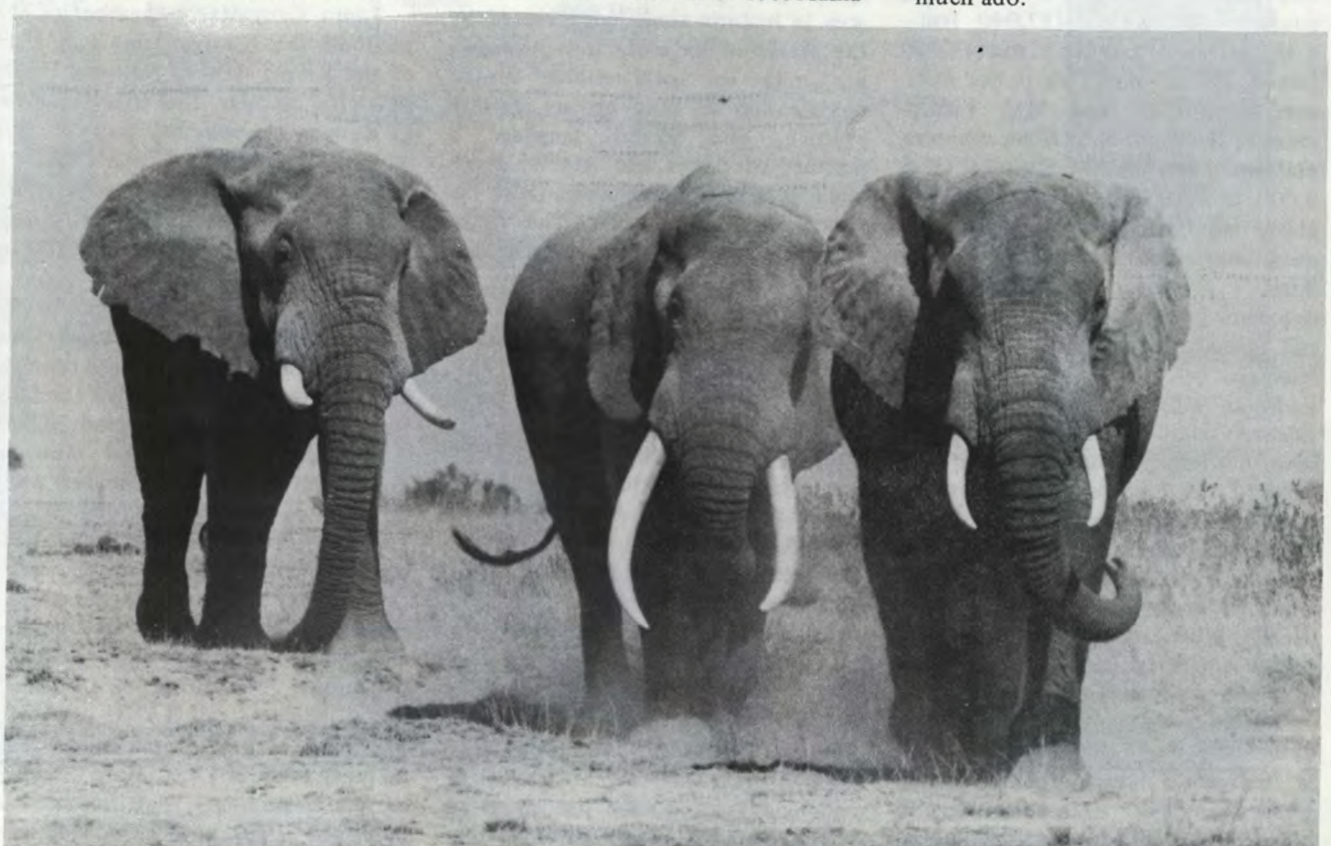
Minister of State–Mbiyu Koinange
Foreign Affairs–Munyua Waiyaki
Defense–James S. Gichuru
Finance and Planning–Mwai Kibaki
Attorney General–Charles Njonjo
Commerce and Industry–Eliud T. Mwamunga
Power and Communications–Issak E. Omolo Okero
Local Government–Robert S. Matano
Cooperative Development–Paul Ngei
Labor–James Nyamweya
Agriculture–Jeremiah J. M. Nyagah
Ambassador to the U.S.–John P. Mbogua
Ambassador to the U.N.–C. J. Maina

Kenya maintains an Embassy in the U.S. at 2249 R St. NW., Washington, D.C. 20008 (tel. 202-387-6101).

POLITICAL CONDITIONS

Since independence Kenya has maintained remarkable stability within the context of a relatively open democratic system. Although the Government continues to pursue a policy of Africanization of the economy and employment, significant participation by Asians and Europeans is accepted. Internal development remains the dominant priority of the Government.

Over the last few years Kenyatta's government has become less tolerant of significant opposition either within or outside KANU. Five Members of Parliament were arrested or detained for their insistence on probing possible Government involvement in the 1975 assassination of J. M. Kariuki, a popular Member of the Assembly. Since then Parliament has been content to approve executive proposals without much ado.



Elephants in one of Kenya's 10 National Parks and 4 game preserves

Kenya's major political problem is achieving national consensus on an eventual successor to President Kenyatta. An effort in 1976 and 1977 to approach such a consensus by going ahead with the long-delayed election of new KANU leadership failed when the elections were called off at the last minute. Attention has also increasingly focused on African regional problems, especially instability in the Horn of Africa and the collapse of the East African Community. Until 1977, the EAC had provided Kenya, Uganda, and Tanzania with a common market, customs union, and major transportation and communication services.

Nairobi, chief city and capital of Kenya, and the commercial hub of East Africa

ECONOMY

Kenya is primarily an agricultural country. However, only about 10 percent of the total land area is considered to have a high agricultural potential. Another 5.5 percent has a medium potential, mostly for stockraising. The rest is arid.

Land pressure during the colonial period was particularly strong and was aggravated by the traditional system of reserving certain areas for certain tribal groups. Some relief has been achieved by the Government's program, begun before independence, of purchasing land from European farmers. Under the third development plan (1974-78) the Government is continuing to resettle numbers of African farmers on unused or mismanaged land.

Although agriculture is still the mainstay of the economy, accounting for over 55 percent of total exports in 1976, the industrial sector is increasing in importance. A wide range of light industries have come into existence since World War II, involving mostly small-scale consumer goods, agricultural processing, and oil refining. Industrial production has continued to increase rapidly in the past few years. The index of industrial production for 1974 stood at 123.9 and for 1976 at 140.6, with 1972 as the base year.

Petroleum products made from imported crude oil processed at the Mombasa refinery are exported to neighboring countries and are an important foreign-exchange earner. Production of soda ash and fluorspar is increasing but has not yet made a large contribution to Kenya's economy.

In 1976 the country's total exports were worth \$828.1 million, of which \$159.7 million went to Uganda and Tanzania, the former partners in the now moribund East African Community. Imports from all sources totaled \$976.7 million, but despite the trade deficit, Kenya managed to obtain an overall balance-of-payments surplus of \$86 million, enabling the Government to increase its fiscal year 1978 budget by 25 percent. Major programs in water and agricultural development, somewhat neglected during the slump which followed the 1973 quadrupling of world oil prices, are expected to regain new momentum. Kenya also plans to take advantage of its record foreign exchange levels to repay some high-interest external loans and replace IMF drawings previously granted as balance-of-payments relief. Kenya's new multiyear development plan is to be released in mid-1978.

The Government encourages foreign investment, and the country's mixed economy has attracted a number of private foreign businesses. Nairobi's favorable location on major transportation routes has made this area the center of eastern African operations for many firms.

TRAVEL NOTES

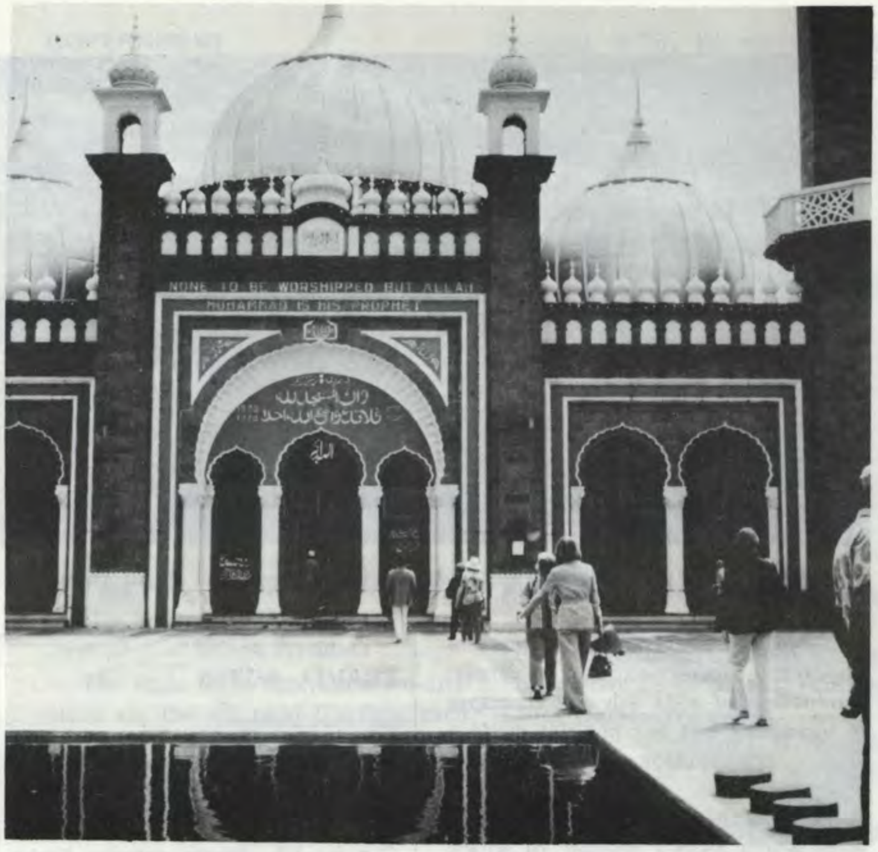
Climate and Clothing—**Light- and medium-weight clothing is worn most of the year. Sweaters and light raincoats are needed during the rainy season.**

Customs—**US citizens entering Kenya need a passport, visa, and up-to-date health certificates showing immunizations against smallpox, yellow fever, and cholera.**

Health—**No special precautions are needed in Nairobi. Outside the capital, avoid tap water and unwashed fruits and vegetables. If possible, take antimalarial tablets. Adequate hospital and outpatient treatment is available in Nairobi.**

Transportation—**Many international air carriers serve Nairobi. Most major towns are linked by internal air services operated by Kenya Airways, by good passenger train service, and by intercity bus. Places of special tourist interest are served by local light-aircraft companies. Taxis are abundant in Nairobi. Direct travel between Kenya and Tanzania may be impossible (check ahead). Travel by Americans into Uganda is discouraged. The United States has no diplomatic or consular mission there.**

Tourist highlights—**Masai Mara game reserve, Amboseli National Park, Tsavo National Park, Aberdare National Park, Lake Nakuru (flamingo sanctuary), Mombasa (beach and ocean sports), Nairobi National Park, National Museum of Kenya.**



A Nairobi Mosque

The two largest donors of economic assistance to Kenya are the United Kingdom and the International Bank for Reconstruction and Development (IBRD). Other significant donors include the United States, the Federal Republic of Germany, Italy, Canada, Japan, Sweden, Norway, the Netherlands, and the United Nations.

FOREIGN RELATIONS

Kenya's foreign policy is based on (a) nonalignment, (b) promotion of African unity, including self-determination for the peoples of southern Africa, (c) support for the principles of the U.N. Charter, and (d) support for international economic policies which will lead to an increased flow of resources and transfer of technology to the developing nations.

Kenya enjoys good relations with Sudan and Ethiopia. Relations with Uganda have been cool since early 1975, when Uganda's President Idi Amin appeared to be trying to establish a Ugandan claim to a large portion of western Kenya. Tanzania reacted to the 1977 collapse of the East African Community by closing the border with Kenya. Informal Governmental contacts continue, but an agreed disposition of the assets and liabilities of the Community and its corporations will take considerable time to negotiate. Kenya's relations with Somalia are strained, due to Somalia's claims on the northeastern region of Kenya, where ethnic Somalis predominate. Kenya maintains a low, moderate profile in Third World politics. Its ties with Western countries are generally friendly.

U.S.-KENYA RELATIONS

U.S.-Kenya relations are warm and friendly. About 5,000 U.S. citizens reside in Kenya, and more than 50,000 Americans visited there in 1975. The resident community includes some 1,100 missionaries and their families. In addition, over 100 U.S. firms are represented in Kenya. U.S. business investment totals approximately $200 million, primarily in commerce, light manufacturing, and the tourist industry.

The current program of U.S. bilateral assistance to Kenya is directed toward agricultural development—with programs to assist small holders and pastoralists—and toward improvements in health and family planning. Current projects include support of the Kenya Government's 5-year program to extend family-planning and mother/child health services into rural areas; assistance for range and ranch development for pastoralists in the northeastern and southern parts of Kenya; a preinvestment study of the agricultural potential of marginal and semiarid areas; and provision of services to traditional small farmers. Development

READING LIST

These titles are provided as a general indication of the material published on this country. The Department of State does not endorse unofficial publications.

Daily Nation, (daily newspaper) Nairobi: Nation Newspapers.

Adamson, Joy. *The Peoples of Kenya.* New York: Harcourt, 1967.

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Odinga, Oginga. *Not Yet Uhuru.* New York: Heinemann, 1966.

Ogot, B.A., ed. *Zamani.* Nairobi: East African Publishing House, 1968.

Rosberg, Carl, and John Nottingham. *The Myth of "Mau Mau" Nationalism in Kenya.* New York: Praeger, 1966.

Wildlife and Safari in Kenya. Nairobi: East Africa Publishing House, 1968.

assistance is provided both as loans and grants. In fiscal year 1977 the total U.S. A.I.D. program in Kenya reached nearly $30 million.

The United States has an active Peace Corps program in Kenya, where Volunteers are concentrating their efforts in agriculture and education. The U.S. Information Service maintains a library at Nairobi and conducts an active educational and cultural exchange program. Frequent visits to Kenya are made by representatives of American business and educational institutions, as well as by Fulbright-Hays scholars and specialists in a variety of fields. Each year the U.S. Government also invites a number of prominent Kenyans to visit the United States.

The modern University of Nairobi

Principal U.S. Officials

Ambassador—Wilbert J. Le Melle
Deputy Chief of Mission—John Blane
Director, U.S. A.I.D. Mission—Charles J. Nelson
Public Affairs Officer (USIS)—Irwin K. Teven

The U.S. Embassy in Kenya is located in Cotts House, Wabera Street, Nairobi, P.O. Box 30137 (tel. 334141).

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Office of Media Services, Bureau of Public Affairs

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Kenyans for meeting at 5 p.m. Thursday 17th

Professor Joseph Mungai	Vice Chancellor, Nairobi University. University teacher (Anatomy) since 1963. Aged 47, Kikuyu.
Professor Douglas Odhiambo	Former Deputy Vice Chancellor, Nairobi University. Aged 50, Luo.
Professor P. Mbithi	Chairman, Dept. of Sociology. (ILO Employment mission, Consultant on Population II project). Sociologist. M'Kamba.
Mr. John B. Wanjui	Leading businessman. Chairman, East African Industries. Chairman, Kenya Industrial Trade Authority. Aged 42, Kikuyu.
Mr. Godfrey Tetu	Managing Director, Kenya Breweries. Aged 48, Kikuyu.
Mr. Madatalli Manji	Leading industrialist. Chairman, House of Manji Group. Aged 59, Kenyan Asian.

SELECTED BIOGRAPHICAL SKETCHES

Daniel T. arap Moi
President of the Republic

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Mr. Moi, who was born in 1924, succeeded Mr. Kenyatta as President at the time of the latter's death in August 1978. Since that time he has considerably increased his popularity in Kenya through frequent and wide-ranging travel to various provinces. Mr. Moi was the Vice-President from 1967 until his succession to the Presidency in 1978.

Formerly a leader of the opposition party KADU (Kenya Africa Democratic Union) Party, which was wound up in 1964, Mr. Moi is reported to have firmly established his influence with most politicians within the ruling KANU (Kenya African National Union) Party , the sole legal party in the country. He is, however, from a minority tribe (the Kalenjins of Baringo District) which, until his ascension, was always considered a disadvantage in the face of the political power Kikuyu tribe. Mr. Moi has a reputation for firmness and moderation; his reputation has been bolstered by his success in effecting a smooth transition following the death of Mr. Kenyatta, the conclusion of Parliamentary elections in November 1979 and the appointment of Cabinet which more closely bears his stamp.

Mr. Moi was a teacher before being elected to the Kenya Legislative Council in 1955. He was Minister of Education for a brief period in 1962 and his interest in education continues. Following the November elections, he split the former Ministry of Education into the Ministry for Higher Education and the Ministry for Basic Education. Mr. Moi left the former Ministry of Education to become Minister of Local Government in 1962. Following his election to the House of Representatives in 1963, he became Shadow Minister of Agriculture and First President of the Rift Valley Region. After KADU was dissolved in 1964, he was appointed Minister of Home Affairs.

Mr. Moi has participated in various summit conferences in Africa and has travelled widely.

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Hon. Mwai Kibaki, Vice President and Minister of Finance

Governor for the Bank and Fund. A Kikuyu, he was born in 1931 and educated at Makerere (BA) and the London School of Economics (BSc). He was a lecturer at Makerere from 1959 to 1960, became a national executive officer of KANU in 1961 and in this position was appointed to the Central Legislative Assembly in 1962. He was elected to the House of Representatives in 1963 and became Parliamentary Secretary to the Ministry of Finance. Prior to his appointment as the Minister of Finance and Planning in February 1970, he was Minister of Commerce and Industry. Mr. Kibaki headed the Kenya delegation to the Consultative Group meetings in 1970, 1972, 1974, 1976 and again in May 1979. He has also attended the Annual Meetings each year since 1970 except for 1976, 1978, and 1979, In October 1978, Mr. Kibaki was appointed Vice President and Minister of Finance, and a new Ministry of Economic Planning and Development was formed to take over the planning functions previously performed in the Ministry of Finance and Planning. Mr. Kibaki is one of Kenya's ablest Cabinet members and his long experience as Minister of Finance has given him the opportunity to acquire considerable knowledge of Bank Group operations. He has the support of the major tribes in Kenya, and holds a position of great influence.

Mr. Nicholas Ng'ang'a, Permanent Secretary, Ministry of Finance

Alternate Governor for the Bank. Born 1938 in Fort Hall and educated at Nyeri Secondary School and Makerere College where he received a B.A. in 1962. He was appointed Assistant Secretary in the Ministry of Natural Resources in 1963, and later became a Deputy Secretary in the Ministry of Finance and Planning. He was Permanent Secretary in the Ministry of Finance and Planning from September 1974 until February 1977, at which time he was transferred to the post of Permanent Secretary in the Ministry of Foreign Affairs. In October 1978 he was reassigned to the position of Permanent Secretary in the Ministry of Finance. Mr. Ng'ang'a led the Government Delegation at the 1976 and 1979 Annual Meeting, and also attended the Consultative Group meeting in 1976. He is thoroughly competent, and well known to Bank staff.

Mr. Harris Mule, Permanent Secretary, Ministry of Economic Planning and Development

Born in 1936, Mr. Mule obtained his master's degree in economics in 1963 at the University of Denver, Colorado. In 1966-67 he obtained a Master's degree in public administration at Harvard University. He has more than 15 years of experience with planning in Kenya, and for several years held the post of Deputy Permanent Secretary, Planning, in the Ministry of Finance and Planning. In October 1978, upon the formation of the new Ministry of Economic Planning and Development, Mr. Mule assumed the post of Permanent Secretary He has had close links with the Bank for a number of years, and is highly respected. He was a member of the Government's Annual Meeting delegation in 1977, and attended the Consultative Group meetings held in Paris in 1976 and in May 1979.

Mr. Zachariah Onyonka, Minister of Economic Planning and Development

Born 40 years ago on June 28, 1939 at Kaaga, in Meru where his father was an army officer. Zacharia Onyonka attended Mosocho and St. Mary's Nyabururu primary schools prior to joing St. Mary's Yala for his Secondary School education until 1958. The following year he was employed as an accountant to the Gus County Council.

In 1961, he proceeded to Puerto Rico where until 1962 he studied at the Inter-American University and graduated with a BA degree in economics. In 1963 to 1968 he pursued his academic studies at the Syracuse University, New York from where he obtained his master's and PHD degrees in economics. He later became a research fellow at the Institute of Development studies, University of Nairobi. Later on he was appointed lecturer in economics in the same university until he resigned his post upon his election to Parliament in 1969.

Onyonka has served among other Ministries : Health, Education, and Information and Broadcasting.

Dr. Munyua Waiyaki, Minister of Energy

Munyua Waiyaki was born in Kikuyu Division of Kiambu District in 1926. After his Secondary education at the Alliance High School, Kikuyu Waiyaki left the country for further education in South Africa and later in Europe. In 1946 he joined Adams College in Natal, South Africa from where he graduated in 1951 with a Bachelor of Science Degree. In 1952 Waiyaki proceeded to Scotland where he enrolled in the Faculty of Medicine at St. Andrews University. He graduated in medicine in 1957. He returned to the country after completing a specialized medical course at the University of Lund, Sweden, and joined the Ministry of Health as a doctor.

In 1961, Waiyaki was first elected as the M.P. for Nairobi East prior to the reorganization of the current constituencies. In 1963's pre-independence elections, he was returned to Parliament as the M.P. for Mathare.

He has held the positions of Assistant Minister in the Ministry of Health and Housing and during the transition period between independence and Republic status, he was Parliamentary Secretary (Ass. Minister) for internal Security in the Prime Minister's office. Until the dissolution of the second Parliament in 1974, Waiyaki was the Deputy Speaker of the National Assembly.

Between 1974-79, he was Foreign Minister and assumed his present portfolio after the November, 1979 elections.

Mr. Jeremiah Nyagah, Minister of Livestock Development

Mr. Nyagah was born on November 24, 1920 in Embu. He received his early education at Kigari C.M.S. Primary School and Kangaru Government School, Embu. Later, Nyagah went to Kabere mission school Kagumo and Alliance High School prior to proceeding to Makerere University where he received a diploma in education. Nyagah took a two-year study course at the Oxford University and later became an assistant education officer in Kiambu soon upon his return in 1957. In 1961, Mr. Jeremiah Nyagah, contd

Mr. Nyagah was elected MP for the Embu/Kirinyaga constituency. He has served as assistant minister and was the first African Deputy Speaker of the National Assembly. He has also held various cabinet portfolios.

For ten years now, Nyagah has been the Minister of Agriculture. Until 1974, the ministry was one of the largest and embraced the water development department which was elevated to a ministry of its own after the 1974 elections. He assumed his present portfolio, following the recent elections after which the Agriculture Ministry was split into Agriculture and Livestock Ministries.

Mr. Godfrey Gitahi Kariuki, Minister of State

Kariuki, 42, the new Minister of State in the President's Office, was born at Lariak, Laikipia District. He first joined politics in 1959 as one of the founders of the then Central Rift Labour Party. This party was dissolved in 1960 and he became one of the founder members of Kanu.

Mr. Kariuki contested for a Parliamentary seat in 1961 but was defeated. He took a six-month study course in cooperative management at Ahus University, Denmark and returned to Kenya before the pre-Madaraka elections in 1963.

He contested the Laikipia-Nanyuki Constituency which he won with a handsome majority and became a Kanu backbencher.

Mr. Kariuki remained in the back bench until October 1970, a year after the 1969 General Elections, when he was appointed to the post of Assistant Minister for Lands and Settlement until his new appointment.

Professor Jonathan Arap Kimet Ng'eno, Minister for Water Development

Professor Ng'eno was born at Kapkatet, Kericho District in 1929. He attended several primary schools in Kericho after which he went to the US in 1963.

He attended Greenville College and Southern Illinois University where he obtained an MA and Ph.D. in political science in 1968. After graduation in 1968, Professor Ng'eno worked as an assistant professor at the University of Puget Sound - Tacoma, Washington, until 1973.

Mr. Arthur Magugu, Minister for Health

The new Minister for Health first went to Parliament in 1969 as the MP for Githunguri.

He was appointed as Assistant Minister for Commerce and Industry, and later as Assistant Minister for Finance.

Mr. Charles Wanyoike Rubia, Minister for Local Government and Urban Development

Mr. Rubia has been MP for Starehe since 1969. He was an Assistant Minister for Education but lost that post after the 1974 elections.

Mr. Elijah Mwangale, Minister for Labour

Mr. Mwangale was first elected to Parliament in 1969 as Bungoma East MP. He was born in 1939 and was educated in Western Kenya and the U.S. where he obtained a diploma, B.Sc. and M.Sc. in agriculture. On his return to Kenya, he taught at Egerton College, Njoro, before resigning to join politics in 1969.

Mr. Moses Mudavadi, Minister for Basic Education

Mr. Mudavadi was first elected to Parliament as Vihiga MP in 1976 by election after the former MP Peter Kibisu was jailed. Born in 1923 in Maragoli, Mr. Mudavadi was educated at Maseno and Alliance High schools before he went to Leeds University where he studied for a diploma in education between 1956-57. After returning to Kenya, he worked for some time before going to Harvard University, U.S. between 1962-63.

Mr. J. H. Wairagu, Permanent Secretary for Water Development

Mr. Wairagu was born in 1929 and educated at the AIM Kapsabet and African Union School (1942-48), the Alliance High School (1949-52) with a diploma in Education. He has been primarily a teacher and education officer. In 1968, he was appointed Secretary General of the Jomo Kenyatta Foundation dealing with school books publishing and in 1969 principal Finance and Establishment Officer, Ministry of Education. In 1972 he became Budgetary Supply Officer Treasury and 1974 head External Aid Division dealing with World Bank and other donors. In 1976 he was promoted Deputy Secretary (Admin.) Ministry of Education and became Deputy Permanent Secretary Min. Education in May 1978. He was appointed to his present post in November 1979.

Andrew Ndooli Ligale, Permanent Secretary for Local Government and Urban Development

Mr. Ligale was born in 1940. His high school education was at Friends School Kamusinga (1957-60) and the Alliance High School (1961-62). He attended Makerere University (1963-66) from where he graduated with an Honor's B.A. Degree in Geography. He obtained an M.A. Degree in Urban and Regional Planning from Nottingham University - United Kingdom, 1966-68. He had worked mainly in the Ministry of Lands and Settlement where during (1971-1979) he was the Director of Physical Planning. In this position, he was in charge of all aspects of Planning at National, Regional and Local levels in the country, Urbanization Strategy for Kenya, advising both Central Government and local authorities, including industries. He has also been part-time lecturer on M.A. Degree Planning Course at University of Nairobi. In November 1979 he was appointed Permanent Secretary for Local Government and Urban Development.

He is a past President of the Architectural Association of Kenya and a member of the Editorial Boards of Urban Ecology, Habitat, and International Encyclopedia.

Mr. John Henry Okwanyo, Minister for Commerce

Okwanyo was born in 1928 in South Nyanza. He attended Kisii School from 1945 to 1950 and the Medical School between 1955 and 1956 where he qualified as a radiographer.

Between 1957 and 1963, he was an African District Councillor. He was first elected to the House of Representatives in 1963. He successfully regained his Migori seat in the recent elections.

Mr. John Andrew Omanga, Minister for Environment

Mr. Omanga was born at Keumba, Nyaribari, Kisii District on March 15, 1932. He attended primary schools in Kisii and then joined Mangu High School.

In 1950, he went to Makerere University College where he obtained an MA degree. Later, he went to Tata Institute of Social Science, India, where he obtained an MA degree and a diploma in Social Science.

He was among the first Africans to be appointed Permanent Secretaries.

Mr. John Joseph Kamotho, Minister for Higher Education

Mr. Kamotho was first elected to Parliament in 1974. He was born at Gacharageini, Kiriti Location, Kangema, Murang'a District in 1941.

He went to Muthangari Primary School in 1949. He later went to Njumbi Intermediate School and joined Nyeri High School in 1959 and sat for his school certificate examination in 1962. In 1964, he was one of the first Kenyan students to be sent to the Soviet Union. He returned nine months later.

Mr. Kamotho went to Syracuse University in the U.S. where he got his first degree in economics and political science. In 1969, he went to Birmingham University, for a masters degree in development administration and local government. He graduated in 1970 and went back to teaching at the KIA.

Mr. Gilbert Kabeere M'Mbijiwe, Minister for Tourism

Mr. M'Mbijiwe was born in Meru in 1929. He received his education at Kagumo and Alliance High schools, Makerere University College before joining the North of Scotland College of Agriculture, Aberdeen, where he obtained two diplomas in agriculture.

Mr. M'Mbijiwe holds a B.Sc (Agriculture) degree from the University of Reading, U.K. He was a KAU member and a founder member of the Meru Welfare Country Helping Association. When the State of Emergency was declared, he was detained at Manyani for several years. After his release he worked as a farm planning officer and land consolidation officer in Meru before proceeding to U.K. for further studies.

Mr. Archie Winston Mbogho, Permanent Secretary for Basic Education

Mr. Mbogho was born October 3, 1936 and was educated at the Shimo-la-Tewa at Mombasa, Alliance High School at Kikuyu, Makerere University and the University of Oregon in the USA where he received the Master of Science degree in 1965. He has worked essentially in education administration prior to being appointed Permanent Secretary, Ministry of Lands and Settlement in May 1979, a position from which he transferred to his present post in November 1979.

Mr. Joseph Tendenei arap Leting, Permanent Secretary for Higher Education

Mr. Leting was born 39 years ago in Lessos, Nandi District. He attended Terige Primary School before joining the then Government African School, Kapsabet in 1954. In 1962, he attended Strathmore College, Nairobi, the first multiracial institution in the country, where he continued with "A" level studies before joining Makerere University College from where he received the B. A. degree in Education. Before joining the Ministry of Education headquarters in 1968, Mr. Leting was a secondary school teacher. Since then, he has served that Ministry in various capacities. Countries he has visited for educational purposes include the USA, USSR and several European countries.

Kenya - Nairobi 9/73

Block, John - Friends of Hume Cronyn and Jessica Tandy. At his house I met again the Bruce McKenzies ~~and~~ whose appeal to support the Kenyan Wildlife Fund I accepted. With his brother, he owns the New Stanley Hotel and the Norfolk Hotel. Their son, upon graduating from Harvard, went to work for Salomon Brothers. We met Block's brother and his wife at the Strong dinner party.

Kenya - Nairobi

Rev. Andrew Hake - popular church leader with a penchant for socio-economic work

Kenya - Nairobi 9/73

Muhoho, Father - Extraordinarily bright, sophisticated, Vatican diplomat. Former Ambassador to the Common Market. Brother of Keynatta's young wife.

Kenya - Nairobi 1/70

Mwai Kibaki, Minister of Finance. Educated at the London School of Economics. Former professor at Makerere College. An intelligent, influential political leader.

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Not the most likely successor to Kenyatta, but still in the running. 9/73

Kenya - Nairobi 1/70

Dr. Louis S.B. Leakey. World famous anthropologist. The most articulate, best informed spokesman on political and social affairs in each of the countries of East Africa.

DEC -

Kenya - Nairobi

1/70

Robert Ouko, Minister of Finance, East African Community. A former Kenyan civil servant. He is articulate, quiet, and strong.

Kenya - Nairobi

9/73

Parker, Mr. and Mrs. - We met at Maurice Strong's dinner party. An American, former owner of a chewing gum factory in France, which he sold to General Foods; present owner of a 160,000-acre ranch in Kenya (near Naromoru Lodge), and part owner of another 120,000-acre ranch in Kenya.

Kenya - Nairobi

1/70

Philip Ndegwa. Young; bright; articulate; well informed. Former Permanent Secretary in the Ministry of Planning, but at the time of my visit, a recently appointed Permanent Secretary in the Department of Agriculture.

Permanent Secretary in the Finance Ministry. Aggressive, rude, unsophisticated, but very bright. 9/73

Kenya - Nairobi

Njonjo, Attorney General - Said by Bruce McKenzie to be very close to Kenyatta, and likely to have major influence in the choice of his successor.

TOPICS FOR DISCUSSION

We have included briefs for seven topics: Population Growth, Employment, Structural Adjustment and Export Promotion, the Bura Project, Interest Rate, IDA Commitment Authority and the East African Community (EAC). In view of the importance in maintaining progress in the first three areas as well as the serious agricultural implementation problems facing the fourth subject,you may wish to raise them with the Kenyan officials should the appropriate occasion arise. On the interest rate issue, we believe that sufficient progress is being made at present so that there would be no need to raise the issue at the time of your visit. The issue of the IDA commitment authority is likely to be raised during your meeting with the Vice President (also Minister of Finance). Regarding the EAC, we do not believe that anything more than encouragement of the Kenyans to take a positive attitude towards settlement would be appropriate at this time in view of the Mediator's ongoing efforts.

Population Growth

Sector Context

Rapid population growth is central to Kenya's development problems. In August 1979, at the time of the recent census, the country's population stood at about 15.3 million, about 50% higher than the 10.9 million counted in 1969. Not only has mortality come down, but fertility has apparently increased. Recent data indicate that Kenya's fertility rate has risen from 7.6 in 1969 to an estimated 8.1 in 1977, while infant mortality has declined dramatically from over 120 per thousand in 1969 to around 85 per thousand in 1977. The current crude birth and death rates are estimated at around 53 births and 14 deaths per thousand. The combination of the high and recently increased level of fertility with rapidly declining mortality has resulted in continuing increases in the population growth rate now estimated at about 3.9% per annum which makes it one of the highest in the world. Both this decline in the death rate and the increase in fertility, which have been pronounced during the past decade, are the result of improved health, sanitation, and nutrition. If this growth rate were to continue, Kenya's population will reach 33 million by the year 2000. If fertility were halved by 2000, Kenya's population would be around 28 million by the turn of the century. While the population growth rate is not likely to decline significantly in the near future, the recent rapid decline in the infant mortality rate hopefully means that fertility will begin to decrease as parents recognize the greater likelihood of the survival of their children.

3/2 by 2000 + stabilize at 97

Government Support and Programs

In 1967, Kenya was the first sub-Saharan country to adopt a family planning program as an integral part of its health services. With initiation of the first IDA-supported population project in 1974, crucial steps were taken to institutionalize the program as part of maternal and child health (MCH) services.

During the Third Development Plan period (1974-78), the main emphasis of the Maternal and Child Health-Family Planning (MCH-FP) program was to begin reducing major constraints on the supply side by developing the necessary institutional infrastructure and management support, improving and extending the availability of MCH-FP services, and training nursing personnel to provide MCH-FP services in rural areas. In addition, a new cadre of extension workers (Family Health Field Educators) was launched and low-keyed information and education (I&E) activities initiated.

The original target of over 600,000 FP acceptors over the five-year period 1975-79, based on the experiences of other countries, especially in Asia, is widely recognized as having been unrealistic. Consequently, the ambitious demographic goals for the first phase program were not reached. Some 270,000 FP acceptors, a little more than half of the target, were recruited during the first four years of the program, and the discontinuation rate has proven to be high. In part, this poor performance can be attributed to the existence of strong "demand" constraints, which continue to impede acceptance and practice of FP. The service delivery system also continues to require strengthening, as does the management support being provided by the Ministry of Health. Performance on the MCH side of the program, however, has shown marked improvements year-by-year with over one million mothers and children registering for service in 1978.

Recent speeches by President Moi and other leading politicians have emphasized the heavy burden of rapid population growth, thus bringing the issue to the forefront of national concern. The current Fourth Development Plan (1979-83) makes promotion of family planning a matter of high priority. In addition to identifying the need to continue building up the facilities and technical staff to ensure that family planning practice levels are not limited by supply factors, the Plan calls for increasing public awareness of the consequences of the high rate of population growth and the benefits of family planning at both the national and family levels by involving all the relevant ministries as well as major non-governmental organizations. With the assistance of IDA and other donors, the Government (GOK) is drawing up an Integrated Rural Health and FP Program as an operational basis for responding to this increased concern.

Bank Role and Lending Strategy

The Bank's role, in close coordination with other donors, has been to focus on strengthening the institutional basis for an expanded and improved MCH-FP program through, initially, a US$12 million credit provided in 1974. The first project, which closed on December 31, 1979, has largely been successful in meeting its operational targets: over 350 full-time service delivery points have been established, representing 90% of the target; training of clinic staff has for most cadres far exceeded original targets; a new cadre of family health field educators and their supervisors has become well established although recent research suggests that some adjustments are required in their work; the intended network of training institutions and associated rural health centers is fully in place and largely operational; and the institutional support structure in the form of the National Family Welfare Center is relatively well established. We plan to continue our dialogue with the GOK in helping to pinpoint the factors affecting Kenya's high population growth rate and in clarifying population policy options. We are assisting the Government in preparing the second-phase population and rural health program by identifying broad objectives, strategy elements, and preparation activities for the Integrated Rural Health and FP Program, which will be considered for support by IDA and other donors during 1980. This program will assist the GOK in achieving the closely related goals of bringing about a decline in the birth rate and in reducing infant and maternal morbidity and mortality. The second IDA project is likely to include training and manpower support, policy-oriented research on population-development of community-based health and family planning services, and construction of rural health facilities in underserved areas.

Possible Issues

(i) The MCH-FP program will continue developing a sound foundation for bringing about future declines in fertility and mortality through improved infrastructure, personnel and management. However, due to the continuing existence of both supply and demand constraints, it will be difficult for the program to achieve a significant reduction in fertility in the short run. what are the constraints

(ii) Total users of FP services at present represent only about 7% of the target population. why so?

(iii) There is considerable geographic variation in levels of use (from 2-3% in western Kenya to 9% in Central Province, to nearly 40% in Nairobi), partly because service delivery points are still far from being equally accessible throughout the country. how what can be done to change

(iv) Expansion of the number of static service points in underserved areas, provision of FP services through community health workers and traditional birth attendants need to be explored. do so gradually

(v) Kenya's rural health delivery system continues to be overburdened by curative demands, which greatly distracts from the effective provision of FP and other highly cost-effective promotive and preventive services. While the Fourth Development Plan recognizes that the MCH/rural health delivery system needs to be strengthened and expanded, the Plan still focuses lopsidedly on the expansion of curative services, which tend to absorb scarce manpower and funds into the elite-oriented, urban-based, curative sector. why - rebalance

(vi) The high fertility aspirations of Kenyans and the low status of women in Kenyan society continue to contribute to the high birth rate and to high program dropout rates. what is base? high fert. aspiration - note change in Nairobi

(vii) The strategies related to the demand for the MCH/FP services can be grouped into two: (a) the long-range strategies related to altering the socioeconomic environment that tends to promote fertility, and (b) the short-range strategies related to considerably improving and broadening the information and education program.

(viii) Understanding of effective measures for dealing with the former is still limited in the Kenyan context so that care will have to be taken before new policies and programs are implemented. Enough is known about the determinants of fertility in two areas, though, that Kenya can move ahead. Kenyans have large families in part because infant and child mortality rates have traditionally been high, and the proportion of children that are likely to survive to adulthood is perceived as being low. Improving the level of health care, particularly of preschool children, and increasing parents' perceptions of their children's chances of survival will provide an incentive for acceptance of FP. Last note drop sharply in both rate + inf. mortality

(ix) A longer term solution is to improve the status of Kenyan women through access to education and wage employment. Significant reduction in fertility in Kenya is likely to take place only if there are changes in fertility-related attitudes and an improvement in the role of women. motivate what have our things done

(x) Finally, an improved and greatly intensified information and education program, which uses culturally acceptable messages and all available channels, is necessary for reaching and motivating a greater number of acceptors.

(xi) Continued stimulation of high level political support and participation by local political leadership are also vital in generating the necessary broad community understanding and action. At present the strong endorsement of FP is limited to a few top political leaders. Most civil servants do not perceive the MCH/FP program to be a Government priority and probably will not until the positive statements from the top are backed by clear-cut directives. Action by the President and others in this regard would be particularly timely at the current crucial stage of the preparation of the second phase project/program to assure that adequate priority and resources, including sorely needed management skills, are allocated to the program.

why
why not
what kind

You may wish to ask the President or Vice President what the public's reaction to the President's recent speeches on the heavy economic burden of rapid population growth has been to date and whether more specific policy actions from the Government may be expected in the near future.

Employment

From 1973 to 1978, the period covered by Kenya's Third Development Plan (1974-78), total wage employment grew at 3.7% per annum, adding a total of 150,000 new jobs. These results fell short of the targets of a total of 234,000 new jobs and an average yearly increase of 4.5% in wage employment set for the Plan. Employment in the private sector grew at an even slower pace of 2.5% per annum due to the nearly 3% decline a year in agricultural employment. Most of this employment was on plantations producing coffee, tea, sisal, pyrethrum and pineapples which were adversely affected by poor weather. Excluding agriculture, therefore, wage employment in the private sector grew at an average annual rate of 5.7%, close to the average annual growth rate of 6% of monetary GDP. Wage employment in the public sector grew at 5.5% per annum during the period, and accounted for 60% of the total increase in employment.

Because of Kenya's high population growth rate, currently estimated at 3.9% per annum, the provision of adequate employment continues to be high among Kenya's development problems. The current Fourth Development Plan (1978-83) estimates that some 1.1 million productive work opportunities will have to be generated to accommodate the growing labor force in the next five years. The formal sector is expected to absorb 50,000 new entrants to the labor market each year, thus providing 22% of productive work opportunities during the Plan Period. The Plan, while recognizing fully that the rural sector will have to continue to be the major source of new employment, proposes some measures to improve the employment-generating capacity of the modern sector. First, investment allowances will be modified to link incentives to the capital cost per job. Second, the existing training levy, which is based on the wage bill of firms, will be converted into a tax on depreciation. Third, the Social Security Fund's regulations will be reviewed to permit earlier retirement, in order to encourage the return to rural areas of individuals who have acquired land and capital during their working years in urban areas. Fourth, the Government intends to review school curricula to ensure that the educational system is providing skills appropriate to employment opportunities being generated. Finally, wage policy will be geared to ensuring that workers share in increases in productivity, with increases moderated to encourage new employment.

how?

To tackle the problem in a broader context requires measures to raise the income-earning opportunities of those who live in the rural areas who constituted over 80% of Kenya's population. An analysis of the Integrated Rural Survey of 1974/75 indicates that 40% of all smallholder income came from off-farm sources--wage employment, trading and handicrafts, and remittances from urban areas. Further, there appears to be a close link between the additional income earned from urban based off-farm sources and the undertaking of agricultural innovation and investment. As industry and the distribution of employment tend to be heavily concentrated in Nairobi and the Central Province Region, policy measures would need to be taken to increase the accessibility of off-farm sources of income to smallholders. The issue of industrial location has not been adequately addressed by the Government. Therefore an industrial location policy which equalizes the regional distribution of urban formal sector job opportunities, and the institution of a regionally differentiated employment allowance would serve as policy measures in this direction. Also, to the extent that industrial location decisions are influenced by economies of agglomeration, and these in turn are dependent upon the provision of various public services, a more equitable provision of regional industrial infrastructure will be an important policy instrument in obtaining a regional diversification of industry.

Another factor is that access to formal sector job opportunities has been demonstrated to depend upon levels of education. Therefore, in addition to the Government's policy of ensuring that the educational curricula are relevant to the job market, policies which improve and expand education opportunities, especially to the rural poor, will be important.

Policies will need also to be taken to correct the pattern of industrialization which emphasizes high protection and tends to depress the relative returns to agriculture and industries using labor-intensive techniques. Exchange rate and interest rate policies have, in general, contributed to a capital-intensive pattern of industrialization.

The informal sector continues to absorb the effects of urban unemployment; as, for example in 1978 when formal wage employment grew by only 1% while the number engaged in informal sector enterprises grew by 10%. However, activities in this sector tend to be harassed rather than promoted. There is need to protect the sector and target resources such as credit, extension services, provision of simple infrastructural facilities, including water, electricity, etc. specifically at the informal sector.

The Government is also trying to assist smallholders in raising the productivity of their farms through more intensive use of land, improved credit facilities and extension services; and efforts will be made to improve the productivity and access to markets of those living in pastoral areas.

In view of the importance of the rural areas to absorb many of the 225,000 Kenyans who will join the labor force each year, you may wish to ask the Government: (i) what degree of progress it has achieved in expanding rural employment, and (ii) what mix of policy actions it is considering to accelerate the creation of new employment opportunities.

Structural Adjustment and Export Promotion in Kenya

Kenya's industrialization has taken place behind a wall of heavy protection afforded by tariffs, quotas, licensing and other quantitative restrictions. Rapid growth of industry in the past has been largely based on investments in import-substitution industries. To a lesser extent, manufacturing production was also oriented to the East African Community (EAC) market. However, the scope for further industrialization along these lines is limited, as most of the easy or economic import-substitution possibilities have been exhausted and the EAC has collapsed. Thus, sustaining rapid growth by continuing this strategy is going to be increasingly difficult.

This pattern of industrialization has had some unfavorable side effects. First, the industrial sector has become increasingly dependent on imported raw materials, components and spare parts. Declines in exports or deteriorating terms of trade which force reductions of imports, therefore, have repercussions on industrial production and employment. Second, the high levels of protection result in an "anti-export" bias by making it more profitable to produce for the domestic market than to export. Finally, the structure of production is relatively capital-intensive and is not sufficiently based on use of domestic resources, including labor. To maintain rapid industrial growth it will be necessary to change the system of industrial protection and incentives to improve the efficiency of the sector and reorient industry toward increased production for export, and increased use of domestic resources.

The Government intends, over the period covered by its Fourth Development Plan, 1979-83, to carry out a major structural adjustment by completely revamping its system of industrial incentives, including the trade and tariff regime, and by making a serious effort to promote exports. Commitments to carry out such policies are included in the Letter of Intent to be sent by the Government to the Bank in connection with the forthcoming program loan (credit).

The initial phase of the process of reform of industrial incentives will involve a review of existing tariffs and quantitative restrictions to determine the level and variability of protection; development of recommendations for the system of protection to be implemented, including appropriate provisions for import-substitution industries, export industries and producers of agricultural inputs; determining the impact of the new system on import levels and on individual firms; and, preparing proposals to help the economy and the individual firms adjust to the new regime. The Government has also prepared a schedule for carrying out the studies and implementing the reform. The schedule calls for completion of studies and recommendations by the end of 1980 and of phasing in of the new protective system by the end of 1983.

The Government recognized that reduction of the anti-export bias in the trade regime and increased industrial efficiency, while necessary for mounting a sustained export drive, will not be sufficient to attain a rapid growth and diversification of exports. The Government intends, therefore, to bolser the Kenya External Trade Authority, strengthen and extend the role of the Kenya National Trading Company as an export agency, implement an export insurance and financing system and simplify the existing system of export incentives. A proposal for establishment of an export insurance and financing program has been completed by the Kenya External Trade Authority (with UN technical assistance) and should be ready for implementation in the first half of 1980. The system of export incentives, which is administratively complex to the point that exporters cannot be certain that they will qualify, is being simplified.

There is evidence that Kenyan exporters have been losing their industrial competitiveness over the last few years. This is the result of pegging the Kenya shilling to the SDR combined with generally higher inflation in Kenya than in her main trading partners. Both the Bank staff and the IMF feel that an exchange rate change while not critical would certainly be a useful step. It would provide a necessary boost for exports and make tariff reform easier. In addition, it would improve the domestic terms of trade for the agricultural sector. The Government is committed, as a condition of its Stand-by Arrangement to reach understandings with the IMF on exchange rate policy as part of the first review of performance under that agreement in January, 1980.

You may wish to ask the Kenyans:

(1) What is the current status of the studies and measures planned for rationalization of the trade regime and for promotion of exports?

(2) Has the Government encountered any opposition from the private sector to its plans to reduce the level of protection afforded to domestic industry and, if so, how will this affect these plans?

The Bura Project

The Bura Irrigation Settlement Project (Approved June 7, 1977; Bank Loan $34.0 million, IDA Credit $6.0 million)

In recognition of the fact that only 19% of Kenya's total land area of 57.7 million hectares is of high or medium agricultural potential and the strong population pressures on good agricultural land, the Government decided to embark upon this project in an attempt to cultivate hitherto unproductive areas through irrigation schemes. A large and highly successful irrigation scheme involving rice production was carried out at Mwea involving 5,700 hectares and some 3,000 families.

The Bura Project provides for the construction of an irrigation system to service 6,700 hectares and the settlement of over 5,000 families (about 36,000 people) on this land with the required social, educational, and administrative services as well as the management for the scheme and research facilities. The project is expected to have an impact on 65,000 people by 1985. The estimated project cost (including local taxes and duties) at the time of appraisal was about US$92 million. In addition to the Bank Group which provided financing for 44% of the project cost, the Dutch, European Development Fund, and the United Kingdom (ODA) joined the financing of the Project.

While project implementation is proceeding satisfactorily, the Project has incurred serious cost overruns. The revised cost estimate shows estimated project cost to be US$167 million which is about 80% over the appraisal estimate. The Bank asked the Government its views on the appropriateness of proceeding with project implementation considering the project's expected marginal contribution to economic development, and the heavy subsidization required from Government. Government confirmed its intention to implement the Project and to meet the financing gap. Why proceed

Under the present financing plan, Government finances about 55% of the total Project cost (about US$91 million), the Bank/IDA about 24% (US$40 million), and the balance of about US$36 million is financed by the Government of the Netherlands (US$12 million), the UK (US$10 million) and the European Development Fund (US$14 million). It is possible that Government would ask the Bank/IDA to increase its financing for the Project. Bank staff would find it difficult to recommend additional Bank/IDA financing in view of the marginal economic viability (EROR estimated at the 5-10% range) this project can expect to have in view of the significant cost increases without additional benefits.

In your meeting with Government officials, you may want to stress that, if Kenya plans to go ahead with this project, Government must make adequate financing available in a timely manner to ensure efficient implementation. In addition, if the opportunity presents itself, you may want to seek confirmation from the Government that the Bura Project continues to rank high among the list of major Government projects listed in the earlier years of the current Development Plan.

Interest Rate

In the past, the Bank and the Government have had frequent discussions on the appropriate level and structure of interest rates in Kenya, and the role an effective interest rate policy can play in encouraging financial savings, provide reasonable returns to financial intermediaries, and encouraging the rational use of more labor-intensive means of production. These discussions reached a high point in mid-1979 during the negotiations for the Smallholder Coffee Improvement Project when the Government, in recognition of the importance of this issue, agreed to undertake a review of the level and structure of interest rates in Kenya by the end of 1979. While the completion of the review has slipped beyond December 1979 due to the unavailability of specific consultants for the final phase, we expect to hold full discussions with the Government on the outcome of the review during the first quarter of CY1980. We expect these discussions will lead to a more rational and effective interest rate mechanism in Kenya; however, we also recognize the sensitivity of this issue at the political level to any upward adjustment in the rates.

IDA Commitment Authority

In the course of your visit, you are likely to be asked by Kenyan officials about the current status of the IDA commitment authority. Specifically, the Kenyans are particularly concerned about IDA funding for the Integrated Agricultural Development Program II (IADP) Project (IDA US$46.0 million, Board approved on December 4, 1979) which will not be signed until sufficient IDA funds become available. Another point of concern would be the recently negotiated Program Credit (IDA US$55.0 million, EEC Special Action Credit US$15.0 million) which is tentatively scheduled for Board presentation on February 12, 1980. We have offered to convert this to Bank lending if there is no IDA commitment authority by January 15 in view of the need for early availability of quick - disbursing assistance. NO

East African Community

Mediation

Following the failure of the Partner States in mid-1977 to agree on the EAC General Fund Services (GFS) budget and the withdrawal of Kenya and Uganda from the EAC Headquarters in Arusha, the Bank assisted the three Governments in appointing Dr. Victor Umbricht as the mediator to assist them in reaching an equitable settlement. The Mediator and related services are being financed by UNDP and proceeds from the Third East African Railways Project (674-EA). The Mediation exercise which started in February 1978 is now nearing completion and the Mediator is expected to present his draft proposals for a permanent and equitable division of the assets and liabilities of the EAC Corporations and General Fund Services by the spring of 1980. The Mediation exercise has experienced difficulties in the fact-finding process because of long delays in submission of required information from the various sources. These delays have also caused an upward revision of the budget for the whole exercise. Although according to the Mediator's latest report, some gaps in the information still exist especially in respect of the railways sector, he has indicated that he has adequate information in hand to proceed and to frame equitable and fair mediation proposals. To date, the Mediator has succeeded in obtaining ministerial agreement to proposed amendments of the East African Development Bank (EADB) Charter and approval of a new treaty. While you may wish to encourage the President and Vice President to do everything in their power to provide for a positive outcome of the Mediation effort, we do not recommend any further, detailed discussions of this matter as the Mediator's draft proposals are still under preparation.

Debt Service Payments

The Partner States are meeting, with occasional minor delays, their obligations towards the Bank in accordance with the May 1976 agreement (among the Partner States) which established the share of each Partner State of the external debt obligations of the EAC Corporations.

EAC-Related Projects in Kenya

Since the de facto breakup of the Community, the Bank has approved a Telecommunications Project (Bank US$20.0 million, Loan 1680-KE, Approved March 27, 1979). This was the first project designed to provide assistance to a Kenyan National Corporation established to take the place of one of the former East African Community Corporations. Because mediation efforts are ongoing, the loan was made to the Government rather than to the Kenya Posts and Telecommunications Corporation (KPTC). The loan became effective on August 16, 1979.

The Bank is currently processing a railways project for Kenya for FY81 which will be the first with the Kenya Railways Corporation (KR) since its establishment in 1978. Prior to KR's incorporation, the railway system was operated by the East African Railways Corporation.

Political Situation

The transition of leadership after President Kenyatta's death in August 1978 was peaceful and smooth and in accordance with the Constitution. The former Vice-President, Daniel arap Moi, became President; Mwai Kibaki became Vice-President and retained the Finance portfolio and Charles Njonjo remained Attorney General. The politicians who had participated earlier in a "change the Constitution" movement aimed at blocking Moi's succession and who had been stopped by the Attorney General, kept a low profile during the actual transition.

Before the general elections which were held in November 1979, President Moi made only a few changes in his Cabinet of Ministers and Permanent Secretaries - the backbone of Kenya's Government structure. As he had hoped, the electorate rejected many incumbent Ministers during the elections and on the basis of these results the President undertook a major renovation of the Cabinet. He also introduced many changes in the Permanent Secretaries. However, Vice-President Kibaki again retained the Finance portfolio, and Njonjo continued to serve as Attorney General. The Permanent Secretaries for Finance and for Economic Planning also retained their positions.

Since his election, President Moi has travelled widely throughout Kenya and he has introduced several programs such as adult literacy and free school milk distribution which were his personal initiatives. His position vis-a-vis the two other major politicians in his Government, Njonjo and Kibaki, however, is not clear. For the time being, Moi's style appears to be to put national unity first, and hence he balances personalities and regional interests very carefully in his Government and other appointments. For example, after having barred Oginga Odinga, the former Vice-President and leader of the now defunct opposition party, KPU, from running for Parliament, he subsequently appointed him Chairman of the parastatal Cotton Lint and Seed Marketing Board.

In balancing regional interests, Moi is following Kenyatta's example, with the difference that Kenyatta favored the major tribe, the Kikuyu, while Moi is now tipping the balance slightly in favor of the smaller tribes, including his own, the Kalenjin.

Kenyans are rather pragmatic people. There is widespread acceptance of the fact that the long period of political stability under Kenyatta has enabled Kenya to realize a relatively rapid economic development. Many leading politicians, including those Kikuyu leaders who saw their influence reduced after Kenyatta's death, recognize the importance of maintaining that stability in the years to come. At the level of the electorate, matters which could lead to serious discontent but not necessarily to political instability, are continued steep price rises (partly caused by oil price increases), failure to absorb larger number of schoolleavers in modern sector employment (for which the Presidential directive that all employers should employ 10% more workers was at best a temporary remedy) and serious shortage of maize, Kenya's basic staple (timely imports could make up for shortfalls in case the rains fail again). Finally, while one does encounter corruption at various levels of Government, it is not yet a part of the social fabric in Kenya and the President could gain much support among ordinary citizens by seriously combating it.

Economic Situation

Kenya's long term economic growth prospects and problems are described in the Country Program Paper included in this briefing book. The Fourth Five-Year Development Plan, 1979-1983, correctly identifies the key problems Kenya faces and sets forth a development strategy appropriate for their solution. The most fundamental problems are a rapid population growth (estimated in excess of 3.5% possibly as high as 3.9%) which creates increasing pressure on limited arable land and budgetary resources; a sub-optimal pattern of industrialization which has failed to contribute significantly to export growth and has a capital- rather than a labor-intensive bias; and an increasing vulnerability for developments outside Kenya such as oil price increases.

Since the Plan was issued in March 1979, achievement of its goals has been jeopardized by a severe deterioration in the country's international terms of trade (caused by a sharp drop in coffee prices and by an equally sharp rise in oil prices 1/); moreover, the Government found it had to make extraordinary expenditures for national security which place a heavy burden both on the budget and the foreign exchange reserves.

The Government responded to the change in conditions by formulating a comprehensive program for short term stabilization, medium term recovery and long term development of the economy; this included revising the Plan targets to more modest levels while maintaining its resolve to carry out the important structural reforms and social policies in the Plan. It also turned to its traditional donors and IMF and requested special balance of payments support in order to maintain its imports on the levels required to realize this more modest growth, and at the same time carrying out the industrial policy change. Donors' response during the Consultative Group Meeting in Paris in May 1979 was very positive; the Bank contributed by agreeing to consider a Program Credit of $55 million coupled with a Special Action Fund Credit of $15 million. The IMF's reaction has been equally positive. Details of the Government Program which served as a basis for both IMF and Bank action follow.

In order to stabilize the economy, the Government's economic program aims at limiting the loss of foreign exchange reserves to K£ 50 million (US$133 million) for 1979-80 combined and gradually reducing the rate of inflation to less than 10% by 1980/81 (compared to 12.5% in 1978). The major policy targets involved in accomplishing this will be a reduction in the overall Government deficit from 9% of GDP to about 6% in 1979/80, a substantial reduction in domestic borrowing by the Government, a moderate expansion of credit to the private sector and a continuation of incomes policy which holds wage increases below the inflation rate. Increases in indirect taxes have been included in the 1979/80 budget in support of the Government's program and are estimated to yield an amount equivalent to about 1.6% of GDP.

The Government's program has been incorporated in a standby-agreement with the IMF. The agreement was concluded in August 1979, will be for a period of two years and involves the use of the Special Fund Facility (SFF) as well as

1/ See Attachment A "Kenya and the Oil Price Increase."

the upper credit tranches, through the fourth tranche. It will provide an amount of SDR 122.5 million (US$157 million at the current rate). In addition, Kenya has been permitted to purchase the equivalent of SDR 69 million (US$89 million) under the Fund's Compensatory Financing Facility. As of December 21, 1979 Kenya had not drawn any amounts under the standby-credit; drawings are scheduled quarterly, ending after March 31, 1981. The performance criteria which the IMF will apply during the first year concern (a) net borrowing by the Government and (b) domestic assets of the Central Bank (net credit to the Government plus discounts and advances to the private sector). The next IMF mission is scheduled for January 1980. The issue of a devaluation of the Kenya shilling will be discussed at that time.

The combination of access to IMF resources, negotiation and signing of a US$200 million Eurocredit loan (of which US$100 million has been drawn) and decline in import volumes has resulted in a substantial improvement in the country's gross international reserves. As a result, the Government was able in December 1979 to substantially reduce the quantitative restrictions on imports that had been introduced at the end of 1978. However, it is clear that the measures the Government has taken have largely resulted in pushing the balance of payments problem from 1979 into 1980 and later years without so far correcting the underlying factors.

To complement the stabilization-oriented agreement with the IMF, the Government intends to enter into a Program Credit Agreement with the Bank, which is based on a draft Letter of Intent covering a number of policies for medium term recovery and long term development of the economy. The principal measures and policies included in the draft Letter of Intent (see Attachment B) are:

(a) Revision of the Public Investment Program

(i) scaling down of expenditures during the remainder of the Plan period based on new macroeconomic parameters;

(ii) restructuring of expenditures to give priority to export promotion and agriculture while reducing the growth of administrative services and social infrastructure;

(iii) reviewing all programs and projects in the light of new information on costs and benefits. Bou?

(b) External Borrowing and Debt Management

(i) limitation on contracting new, nonconcessionary debt during the remainder of the Plan period;

(ii) improvements in debt management including a survey of public and publicly-guaranteed debt, strengthening the Treasury's debt unit with technical assistance from the Bank and a commitment to establish a register of external private debt.

(c) Rationalization of Industrial Protection

(i) a phased program of studies and measures designed to produce a more moderate and rational system of industrial protection through tariffs;

(ii) elimination of quantitative restrictions on imports, including Letter of No Objection Privileges, as a first step in the process of reform.

(d) Export Promotion

(i) a commitment to maintaining the competitiveness of exports;

(ii) administrative simplification of existing export subsidies;

(iii) consideration of proposals for implementation of an export insurance and financing scheme.

(e) Government Role in Private Investment

(i) improved review procedures and guidelines for projects for which special government incentives are being sought;

(ii) better monitoring of and improved guidelines for investment in private enterprises by the Government and parastatal bodies;

(iii) slowing down the pace of direct public sector participation in private enterprises.

(f) Interest Rate Policy

review of the level and structure of interest rates and agreement on terms of reference for background studies.

There is evidence that Kenyan exports have been losing their international competitiveness over the last few years. This is the result of pegging the Kenya shilling to the SDR combined with generally higher inflation in Kenya than in her main trading partner countries. Both the Bank and the IMF feel that an exchange rate change while not critical would certainly be a useful step. It would provide a necessary boost for exports and make tariff reform easier. In addition, it would improve the domestic terms of trade for the agricultural sector. The Government is committed, as a condition of its standby arrangement with the IMF, to reach understanding with the IMF on exchange rate policy as part of the first review of performance under the agreement in January 1980. The Fund is prepared to make a significant devaluation, for example at least 10%, a condition of Kenya's continued eligibility for use of IMF resources. It should be noted that exchange rate adjustments would by necessity have to accompany any reduction of Kenya's overall level of protection.

ATTACHMENT A

Kenya and the Oil Price Increase

I. The Country Situation Before Oil Price Increase

1. Even before the most recent round of oil price increases, Kenya was facing a prolonged period of balance of payments difficulties. This was due to declining real prices for coffee, the burden of recent heavy military expenditures and rising amortization payments due to commercial, non-concessionary borrowing in part to replace equipment of defunct EAC corporations.

2. The country's balance of payments situation had deteriorated dramatically in 1978 as imports continued to soar (up 35% in nominal terms from the previous year), reflecting the lagged effect of expansionary policies followed during the coffee boom of 1976/77. At the same time, exports fell by more than 20% largely as a result of declining coffee prices toward more normal levels and poor production as a result of heavy rains. Thus the current account balance swung from a surplus of K£25 million (US$58 million) in 1977 to a deficit of K£252 million in 1978 (US$654 million). Despite heavy capital inflows there was a reserve loss of roughly US$200 million.

3. The Government began to take contractionary measures in mid-1978, restricting the growth of credit, somewhat slowing approval of import licenses and eventually instituting an advanced import deposit system. It even negotiated a one credit tranche standby arrangement with the IMF in November 1978, but its ceilings were quickly broken as the Government was still not on top of the monetary and fiscal situation.

4. On the whole, the Kenyan economy cannot be said to have been operating at less than its full potential because of foreign exchange constraint in 1978. Although the growth of GDP rate declined from 8.6% in 1977 to 5.7% in 1978 this was largely due to the sharp decline in the growth of agriculture. Industrial growth tapered off somewhat but still exceeded 10%. There appears to have been a very substantial inventory accumulation since 1975 and there was no indication of shortages of import inputs. Of course, Kenyan industry would always exhibit excess capacity but this is a result of the structure of industrialization through import substitution. (However, no capacity utilization figures are available).

II. Impact of 1979 Oil Price Increase

5. Kenya has no domestic supplies of petroleum and its other energy resources are extremely limited. Oil accounted for more than 80% of total energy consumption in 1978. Its share of total consumption in 1977 was 85%. The decline can be attributed to the installation of additional capacity for generation of hydroelectric power which was added to the system in 1978. As a result, the share of hydro and thermal electric increased from about 12%

in 1977 to 15% in 1978. Coal and coke accounted for the remainder. The non-conventional sources of energy, i.e. fuelwood and charcoal, which serve the vast majority of the population are, however, not included in this calculation. If they were included the relative share of oil in total consumption of energy would be significantly reduced.

6. Kenya is an importer of crude petroleum and an exporter of refined products. Prior to 1973, the refinery at Mombasa exported about 55% of its output to the EAC, other African countries, and as aircraft and ship stores. There has been a fairly steady decline in exports as a result of changed trading conditions and by 1978 they were down to 41% of the output of the refinery. Thus, while the gross volume of Kenya's petroleum imports has been declining, net imports and the import value have increased substantially. In 1978 net imports of petroleum and petroleum products amounted to K£47 million or US$122 million and gross imports were K£116 million or US$300 million. Gross petroleum imports in 1978 accounted for 18% of total imports. Net imports were equivalent to about 19% of the current account deficit. Kenyan authorities estimate that oil import volume will increase very little in 1979 and that the overall oil import bill will be up about 40%. Oil imports will probably account for 22% of the import bill in 1979. We estimate that the most recent increase in oil prices will cost Kenya an additional K£23 million (or US$62 million) in 1980. In sum, net oil imports which absorbed around 8% of gross export earnings in 1976-77 will probably require close to 21% in 1980.

KENYA: Net Oil Imports as a Percent of Gross Export Earnings

	K£ Million		
	Net Oil Imports	Gross Imports 1/	%
1976	33.9	312.1	8.6
1977	32.4	470.9	7.9
1978	47.0	366.5	12.8
1979 (est.)	65.8	371.9	17.7
1980 (proj.)	89.0	423.5	21.0

1/ including reexports and ship's stores.

7. The increase in oil prices is unlikely to have much effect on Kenya's export performance. The exports of the principal agriculture commodities do not demonstrate much income elasticity. The only commodity which is likely to be affected in a significant manner is refined petroleum and this is likely to be more sensitive to developments in Uganda and Tanzania than to anything else. In any event, very little increase has been projected in the volume of these exports although some increase in refining margins is possible. However, it should be pointed out that tourism, which earned Kenya approximately K£60 million in 1978 could be adversely affected by both recession in OECD countries and the effect of increasing fuel prices on airfares.

III. The Bank's Role

8. The Kenyan Government's energy policy consists basically of passing increased world prices along to consumers. There has been no subsidization of energy. The Government is concerned about its lack of a positive energy policy and possible alternative sources of energy and may ask the Bank for an energy sector mission. It is also concerned about its access to petroleum supplies and the prices it is paying for petroleum. The country has no direct contractual arrangement with any exporting country and is wholly dependent upon a few multinational corporations for its supplies. It is very uneasy about this relationship and has already asked the Bank for technical assistance to improve its knowledge of the petroleum market and of possible alternative supply arrangements.

Table 10.1

QUANTITY AND VALUE OF IMPORTS AND EXPORTS OF PETROLEUM PRODUCTS, 1974–1978

	1974		1975		1976		1977		1978	
	Quantity '000 tonnes	Value K£'000	Quantity '000 tonnes	Value K£'000	Quantity '000 tonnes	Value K£'000	Quantity '000 tonnes	Value K£'000	Quantity '000 tonnes	Value K£'000
IMPORTS—										
Crude Petroleum	2,902·9	67,027·0	2,824·9	86,822·4	2,496·7	93,469·5	2,551·5	100,158·4	2,369·2	92,337·6
Petroleum Fuels	129·9	6,279·7	16·7	1,249·1	47·7	3,345·7	104·7	8,269·9	258·3	16,899·4
Lubricating oils	100·5	6,885·4	77·6	6,1581	53·0	5,678·9	73·9	6,927·7	65·4	6,636·1
Lubricating greases	0·4	95·9	0·3	73·7	0·1	41·5	0·2	65·1	0·2	75·2
TOTAL	3,133·7	80,288·0	2,919·5	94,343·3	2,597·5	102,535·6	2,730·0	115,421·1	2,693·1	115,948·3
EXPORTS—										
Petroleum Fuels	1,588·7	37,981·3	1,318·1	45,988·4	1,372·0	57,603·4	1,365·0	72,398·3	1,173·3	60,372·6
Lubricating oils	60·4	6,728·5	57·3	8,670·7	57·3	10,584·7	50·0	10,253·8	38·9	8,172·2
Lubricating greases	2·7	469·8	2·2	478·7	1·5	372·2	1·5	350·3	1·3	378·7
TOTAL	1,651·8	45,178·8	1,377·9	55,137·4	1,430·8	68,560·3	1,416·5	83,002·4	1,213·5	68,923·5

REPUBLIC OF KENYA ATTACHMENT B

OFFICE OF THE VICE-PRESIDENT AND MINISTRY OF FINANCE

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THE TREASURY
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DRAFT LETTER OF INTENT

Mr. Robert S. McNamara
President
International Bank for Reconstruction
and Development
1818 H. Street, N.W.
WASHINGTON, D.C. 20433
U.S.A.

Dear Mr. McNamara,

1. In March of 1979 Kenya issued its Fourth Development Plan, covering the period 1979-1983. The focus of this new Plan is on the alleviation of poverty in urban, and especially in rural, areas through continued economic growth and greater employment generation. The Plan also calls for expansion of government services aimed at meeting the basic needs of the populace. The Plan recognizes, however, that this must also be a period of better utilization of capacity, when more efficient use is made of the investment, both public and private, that has been carried out during our nation's first three development plan periods. Moreover, the Plan recognizes that the time has come to begin the difficult task of making the industrial sector more efficient and competitive and to encourage a shift in the pattern of industrialization toward a more resource based and export-oriented strategy. stress these pts

2. Unfortunately, achievement of the goals of the Fourth Development Plan has been jeopardized by a severe deterioration in the country's international terms of trade caused by a precipitous drop in coffee prices and by an equally sharp increase in the price of imported petroleum, upon which we are heavily dependent. Moreover, the task of the Government has been further complicated by the need to make extraordinary expenditures for national security as a result of external factors.

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Mr. McNamara

The traditional policy of the Government has been to spend one of the lowest proportions of its national resources on defence when compared with other nations of the World.

3. The Government intends, nevertheless, to carry out the important structural reforms and social policies incorporated in the Plan. This letter indicates the types of adjustments that have been required and will be made to ensure financial stability and international creditworthiness and to reiterate and put a time frame on our plans to reorient industrial strategy.

A. Measures to Ensure Creditworthiness

4. Monetary and Fiscal Management - The Government's programme includes an increase in taxes, restructuring of the 1979/80 budget and ceilings on government and total borrowing from banking system. The major components of this programme have been incorporated into a Stand-by arrangement with the International Monetary Fund which will cover the period from July, 1979 through March, 1981. The agreement also provides that Kenya will undertake an intensive study of developments in exchange rate regimes and reach an agreement with the I.M.F. on an exchange rate policy.

5. Revision of the Public Investment Programme - The Government has, in addition, undertaken a major revision of the Forward budget which will provide the framework for public outlays during the remaining three fiscal years of the Plan period (FY 1980/81 - FY 1982/83). The expenditure guidelines issued to the ministries and their individual budget ceilings take into account the slowing down of the overall rate of growth of the economy and of the planned rate of expansion of government activities. The macroeconomic and balance of payments parameters used for the projection of revenue and expenditures have been discussed with the Bank staff. Individual ministry ceilings and allocation of expenditures between "development" and "recurrent" categories have, in general, followed

Should we not set quantifiable & monitorable targets for 5 & 6

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those set forth in the Development Plan. The ministries have been informed of these allocations.

6. In submitting their expenditure proposals the ministries have been instructed to:

(a) give priority to promotion of exports, to increasing domestic production of agricultural commodities and use more labour-intensive techniques;

(b) reduce the rate of growth of administrative services and social services and infrastructure, concentrating instead on projects and programmes which promise more immediate returns in added production and employment;

and

(c) review programme and projects in the Development Plan both in relation to new information on costs and benefits and in relation to revised economic guidelines.

7. Submissions from Ministries will be reviewed by working groups of the Ministry of Finance and Ministry of Planning and Economic Development. These groups will authorize inclusion and/or modification of all projects or programmes in the Budget. They will, inter alia,

(a) ensure that sufficient funds are available for completion of approved ongoing projects and for operation and maintenance of completed investments;

(b) approve all projects for discussion with external aid agencies; and

(c) ensure that the thrust of the Government's objective of improving rural incomes and employment opportunities is maintained.

REPUBLIC OF KENYA

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8. External Borrowing and Debt Management

Because of the suddenness of the deterioration of the country's external terms of trade and uncertainties surrounding the availability of rapidly-disbursing external assistance on concessional terms, the Government found it necessary to bolster its international liquidity by arranging US$200 million in Eurocredit financing.

9. Because of the onerous terms of such commercial borrowing the Government intends to minimize recourse to this market. However, given the country's balance of payments outlook for the Plan period, it is clear that such borrowing cannot be dispensed with entirely. The Government shall, beginning with its fiscal year 1980/81, establish annual programs for new public and publicly guaranteed debt which will set realistic limits for new borrowings by various categories of maturities with the objective of maintaining prudent levels of debt service obligations. It is not the intention of the Government to use external commercial borrowing for budgetary support throughout fiscal year 1980/81 over and above the $200 million which has already been negotiated, nor does the Government intend to enter into any new commitments for the provision of foreign exchange until July 1980.

10. In order to ensure that this policy objective is adhered to, the Government intends to improve its approval process and its system of recording of external debt as follows:-

(a) a comprehensive survey of all debt outstanding of government corporations, statutory boards and other public enterprises is already underway in order to establish the exact amount of public and publicly guaranteed debt obligations;

(b) the Government will strengthen the machinery for processing of external borrowing which will include continued consultations between the Treasury, Ministry of Planning and Economic Development and the Central Bank of Kenya. Towards this end the office of the Treasury charged with recording all public and

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publicly guaranteed debt will be strengthened with additional staff during the current fiscal year. The World Bank will be requested to supply short-term technical assistance for improving the unit's operations;

(c) the Central Bank will prepare balance-of-payments estimates and an annual foreign exchange budget. In addition, it will have the responsibility for monitoring private foreign debt. For this purpose it will maintain a register of all private corporation and individual external debt in excess of KShs 1 million and of greater than one year maturity. However, this will require significant strengthening of its staff which will be undertaken as soon as practicable.

B. Reorienting Industrial Development Strategy

II. Rationalization of Protection - The Fourth Development Plan calls for effecting a "transition from an industrial sector primarily serving the domestic market to one that is actively and competitively engaged in export sales". In order to induce greater industrial efficiency the Plan states that" .... reliance on various forms of quantitative restrictions (on imports) will be phased out and tariffs will become the major form of protection". We consider that the shift away from such restrictions will be the first step leading to a more uniform, rational and moderate system of tariff protection. In this connection, the following measures have been or will be taken as part of implementing the first phase of the process:

(a) Although it has been ascertained that no new firms are being given the privilege of Letters of No Objection the Government has issued further instructions that no new investment agreements should include provisions for Letters of No Objection privilege.

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(b) the Government has issued instructions that no new Letters of No Objection should be issued administratively.

(c) The Government will examine in detail provisions of all existing investment agreements, covering Letters of No Objection privilege and issue guidelines as to how best these should be phased out as soon as possible, depending on the extent to which the agreements are legally binding.

(d) At the appropriate time the Government will issue guidelines to the Ministry of Commerce and Ministry of Industry and the Central Bank of Kenya on the phasing out of other quantitative restrictions.

12. The second phase of the process will involve standardizing and reducing the level of protection. In order to ensure minimum disruption and dislocations for the economy in general and for individual firms, this will require a series of studies to:-

(a) determine the appropriate general level of incentives to be provided and the role of various fiscal and monetary instruments in this respect.

(b) design necessary complementary programmes such as export compensation, financing and insurance and fiscal incentives for industrial investment;

(c) prepare recommendations for the phasing in of the new protective regime; and,

(d) ascertain the effects on industry subgroups and individual firms and recommend measures to assist them in the adjustment or transitional period.

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13. In order to facilitate this complex task, the Government has obtained UNDP financing of a study to provide the technical background for these changes and to make recommendations for implementing the acceptable proposals. Work on the study has already started and a Bank staff member seconded to the Government to help carry out the required studies has taken up duties on September 1st, 1979.

14. We envision the following schedule for carrying out the studies and implementing the reform. Given the complexity of the task, however, it may not be possible to complete all steps on schedule. However, we will keep in contact with the Bank and review progress periodically.

Activity	Timing
a. Examine provisions of all existing investment agreements covering letters of No Objection privilege, determine tariff level equivalent of these and other quantitative trade restrictions, and recommend time schedule for phasing out quantitative restrictions and replacement with tariffs.	September 1979 – April 1980
b. Begin replacement of restrictions with tariffs in accordance with time schedule based on the study referred to in (a)	June – July 1980
c. review of existing levels of effective protection and cost structure of firms and preparation of recommendations for new protective system	Sept. 1979 – Sept. 1[illegible]

	Activity	Timing
d.	preparation of recommendations to alleviate short term adjustment impact and new export compensation scheme	Sept. 1980 - Dec. 1980
e.	internal government consideration of policy package and consultations with industry	Jan. 1980 - March 1981
f.	first round of tariff adjustments	April - May 1981
g.	completion of rationalization process	December, 1983

15. Export Promotion The Government recognizes that in order to sustain acceptable rates of GDP growth, exports must be accelerated. It therefore intends to ensure that there are sufficient incentives for domestic production of exportables and that their prices are competitive in world markets.

16. Kenya's present system of export subsidies has proven to be administratively difficult and has not entirely achieved the objective for which it was established. Pending the outcome of the study mentioned in para 14 (a) the Government intends to make the existing system within the next year administratively simpler and ensure that it provides greater certainty to exporters. The necessary consultations are being conducted with relevant institutions involved in the processing of documents for export compensation to determine how best existing bottlenecks can be removed so as to speed up payments. Measures to implement this will be introduced during the fiscal year 1980/81.

17. A study by Kenya External Trade Authority for the formation of an Export Insurance and Financing Scheme is near completion. The Government will examine the proposals and decide on an appropriate line of action early next year. In order to facilitate review of this proposal and implementation of an appropriate programme the Government intends to obtain expert advice by March, 1980. and it is expected that an export insurance and financing system will be introduced by September, 1980.

18. Government Role in Private Investment Projects submitted to Government by entrepreneurs to obtain approved enterprise status will be subject to a thorough review of technical, financial and economic viability by the New Projects Committee prior to any decision with Government on incentives, financial assistance or special treatment with regard to foreign exchange transactions.

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Standardized guidelines have already been issued for this purpose.. Government financial intermediaries dealing with industrial enterprises will be required to apply similar criteria in project analysis.

19. A report prepared for the Government has indicated that the growth of the parastatal sector, which includes government and government owned investment development and regulatory corporations and Boards as well as companies and corporate entities in which the government is a main shareholder (or their subsidiaries), has not always been accompanied by development of management systems to ensure that the sector plays its role in an efficient manner. The Government has, therefore, taken the following actions:-

(a) a division on parastatals has been established in the Ministry of Finance, to monitor activities of this sector;

(b) new guidelines will be issued for government and parastatal investment; and

(c) a budgetary decision has been made to slow down the pace of direct participation in private enterprices and, instead, channel funds through existing banks and development finance companies.

20. Interest Rate Policy - The Government recognizes that the structure of interest rates can play an important role in the development process by encouraging financial savings and providing adequate returns for financial intermediaries.

21. The Government has, therefore, agreed to undertake a review of the level and structure of interest rates in the country. The terms of reference of the review have been reviewed by the Bank staff. We expect that the review and discussion with Bank staff will be completed by the end of April, 1980.

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22. Conclusion

The above should not be taken as a complete summary of the objectives and policies stated in Kenya's Fourth Development Plan. These have been described in greater detail and analysed effectively in the Economic Memorandum prepared by the staff of the Bank and distributed to the Executive Directors in March, 1979. The Government remains fully committed to the objectives of that Plan and intends to carry out to the fullest extent possible, limited only by its technical capacities and available resources. In all these respects, we hope that we can count on the continued support of the International community through project loans and through additional programme assistance. In particular it is our hope that additional resources will be made available by the World Bank through further programme assistance during the Plan Period 1979 - 1983. In this context we realize that due to the changed economic conditions substantial revisions and adjustments will need to be made to the strategies outlined in the plan. Work on such revision is expected to commence in the immediate future.

Yours faithfully,

VICE PRESIDENT AND MINISTER FOR FINANCE

NAIROBI SITE AND SERVICE PROJECT (KENYA I)

Loan 1105-KE, Credit 543-KE of May 1975

Borrower:	Republic of Kenya
Amount of Loan:	US$8.0 million
Amount of Credit:	US$8.0 million

Project Cost	TOTAL	FOREIGN CURRENCY
Appraisal:	US$29.05 million	US$7.08 million
Current Estimates:	US$31.82 million	US$7.95 million

Cumulative Disbursements:	Appraisal Est (09/30/79)	Actual (12/07/79)
	US$15.55 million	US$7.87 million

Project Description and Objectives

1. The project represents the first large-scale implementation by the Government and the Nairobi City Council (NCC) of a low-cost solution to the shelter needs of the urban poor. The project consists of preparation and servicing of 6,000 residential lots with individual water supply and sewer connections for self-help housing, together with related infrastructure and community facilities; finance for materials loans to enable families to construct self-help dwellings on their lots; trunk sewerage to serve the project site; costs of a new NCC Department set up to implement the project; studies of (a) Nairobi City Council's housing operations and ways to improve them, (b) preparation of future site and service squatter upgrading projects in Nairobi and other cities, (c) municipal finance in Kenya, and (d) project monitoring and evaluation.

Implementation

2. Construction on Phase I (1,000 plots) began in October 1975 and was completed on schedule with no major problems. All plots have been allocated and about 80% have at least the minimum required construction complete. Progress on construction of off-site sewerage (Phase I and II) has also been satisfactory. However, the second phase of the residential component (5,000 plots) was substantially delayed because of disagreements on standards (particularly secondary roads) and because of cumbersome administrative procedures at times. Provision of community facilities is also

behind schedule for the same reasons. Technical problems have also been experienced in water and sewer reticulation in Phase II. Revised construction timetables project completion of Phase II, including community facilities, by February 1981. Three of the studies attached to the project have been completed with satisfactory results; the fourth, monitoring and evaluation, is in progress.

3. While the project unit (Housing Development Department--HDD) is satisfactorily managing the implementation of the project only about 50% of the established posts are filled. Several of the vacancies involve key positions. A full staff complement is essential now that the much larger Phase II of the project is under way and the implementation of the second project is beginning. HDD is stepping up its recruiting efforts.

Major Issues

Slippage in Implementation and Disbursement Schedules

4. Administrative bottlenecks and disagreements on standards coupled with delays in the execution of on-site infrastructure works and community facilities in Phase II have resulted in an overall slippage of two years in the implementation schedule. Disbursements are similarly behind schedule. These delays have implications for the project costs as they inevitably cause cost overruns. Standards issues appear to be resolved (the Bank refused to disburse on the first health center constructed because it far exceeded the standards agreed at negotiations) and NCC has agreed to expedite decision-making in relation to the project so further delays in project implementation are not foreseen.

Maintenance of Project Areas and Facilities

5. Maintenance of roads and refuse removal have been poor. Beneficiary charges for Phase I do include an amount for refuse removal but not for road maintenance and surveys indicate beneficiaries would be unwilling to pay such an additional charge.

6. Phase II roads are being constructed to a somewhat higher standard, entailing easier maintenance. HDD is preparing estimates for upgrading Phase I roads to this standard. NCC has accepted responsibility for maintaining project roads, has agreed to supply bulk and individual refuse containers and to increase frequency of collections to at least once a week.

7. Because maintenance and refuse removal are chronic city-wide problems due to budget and managerial constraints NCC's ability to meet these problems will require gradual build-up. We propose to work with the Council in building up its maintenance capacity by including a maintenance component in the proposed urban transport project.

Special Features

8. Phase I of the project (1,000 plots) has resulted in house consolidation that is remarkable for its rapidity and high quality. The limited but appropriate mechanization of individual beneficiary accounts produces cost recovery data immediately available and usable on site and is contributing to good collections performance thus far.

KENYA

SECOND URBAN PROJECT

Loan 1550-KE; Credit 791-KE of May 1978

Borrower:	Republic of Kenya
Amount of Loan:	US$25 million
Amount of Credit:	US$25 million

Project Cost		TOTAL	FOREIGN CURRENCY
	Appraisal:	US$69.4 million	US$50.0 million
	Current Estimates:	US$69.4 million	US$50.0 million

Cumulative Disbursements:	Appraisal Est. (09/30/79)	Actual 12/07/79)
	US$2.7 million	US$ - 0 -

Project Description and Objectives

9. The project is intended to accelerate low-income housing programs in Nairobi and to initiate similar programs in Mombasa and Kisumu through upgrading of existing settlements, servicing of additional plots, low-cost health services, stimulation of employment and assistance to local and central government in the implementation of urban development.

10. The project includes the following components:

(a) Settlement upgrading: servicing of five existing settlements, affecting about 10,000 households;

(b) Site and Services: 11,770 plots;

(c) Settlement plots: preparation of about 2,500 surveyed plots with public water and sanitary facilities and unpaved roads.

(d) Low-cost housing plots for market sale: 3,240 plots.

(e) Community facilities: 35 primary schools; 14 health centers, 11 community centers, 9 social halls and 2 sports centers.

(f) Nutrition/family planning: improvement of services including home visiting, staff training, nutritional monitoring, prevention of malnutrition, and evaluation of benefits.

(h) Employment opportunities: space for 350 kiosks, 1,830 market stalls, 960 serviced sites for small industries and loans for construction of workshops.

(h) Technical assistance: consultants' services for detailed design and engineering, studies, training, institutional strengthening, monitoring and evaluation, and future project preparation.

Implementation

11. The Loan and Credit Agreements were signed on May 5, 1978, and became effective on November 5, 1978. Housing Development Departments in the three cities are organized and staffed. At least one site in each municipality has been acquired. No major land acquisition problems are foreseen for any of the other sites. Consultants for detailed design and engineering for all of the sites have been appointed. However, the project is on the whole about 15 months behind schedule, mainly due to delays in the appointment of consultants. Better inter-agency coordination and firm deadlines for tendering should prevent further substantial delays.

12. According to revised schedules tendering of all the Phase I sites (10 of the 13 project sites) should be completed by April 1980 and construction should commence on the first of the Nairobi sites in January 1980.

Major Issues

Disbursement Conditions

13. There have been no disbursements on this project because several disbursement conditions remain to be met. The first of these is the establishment of a plan satisfactory to the Bank by the Nairobi City Council (NCC) for the revaluation of real property in the city. The Bank had previously acceded to the government's request to change the original disbursement condition from the appointment of valuation consultants for NCC and the Mombasa Municipal Council (MMC) to the expansion of in-house valuation staff. MMC has satisfied this revised condition but NCC has yet to do so.

14. NCC has also failed to satisfy a revised disbursement condition related to its finances which requires the restructuring of its revenue collection operations, improvement of debt collection performance and the re-transfer to the proper account of loan funds used to meet recurrent expenditure.

15. NCC's fiscal base and overall financial health cannot be assured if the above conditions are not met. NCC has recently begun to implement an action plan which should result in the satisfaction of the remaining disbursement conditions.

Municipal Finance Reform

16. The Government is to undertake a number of measures to improve the financial situation of local authorities to, in turn, enable these authorities to better meet their development and maintenance responsibilities. A Cabinet Paper embodying these measures was prepared by the Ministry of Local Government but Cabinet action was postponed due to the upcoming elections (which took place in November). Government action is essential if the local authorities, particularly the smaller cities and towns are expected to effectively participate in the government's urban development program.

Special Features

17. This project not only initiates large scale low-income shelter development to the second tier cities of Mombasa and Kisumu but also introduces officially-sanctioned squatter upgrading, including the upgrading of the highly visible and politically sensitive Mathare Valley settlement in Nairobi. The settlement plots component significantly lowers the site and service standards of Kenya I.

THE STATUS OF BANK GROUP OPERATIONS IN KENYA

Statement of Bank Loans and IDA Credits as of November 30, 1979

Loan or Credit #	Year	Borrower	Purpose	US$ Million Amount (Less Cancellations) Bank 1/	TW	IDA 1/	Undisbursed
Seven (7) Loans and twelve (12) Credits fully disbursed				96.0		74.1	
224	1970	Kenya	Road Maintenance			12.6	1.6
826	1972	Kenya	Nairobi Airport	29.0			0.6
932	1973	Kenya	Highways	29.0			0.8
946	1973	IDB	DFC I	5.0			0.1
468	1974	Kenya	Population			12.0	0.4
477	1974	Kenya	Livestock			21.5	17.1
993	1974	Kenya	Tea Factories	10.4			2.7
1093	1975	Kenya	Group Farm Credit	7.5			7.5
537	1975	Kenya	Group Farm Credit			7.5	4.0
1105	1975	Kenya	Site and Service	8.0			8.0
543	1975	Kenya	Site and Service			8.0	0.1
565	1975	Kenya	Agriculture - Forestry			10.0	0.2
1132	1975	Kenya	Agriculture - Forestry	9.9			4.8 2/
1133	1975	Kenya	Transportation - Pipeline	20.0			0.3
1147	1975	TRDC	Hydroelectric Development	59.5			2.9
1148	1975	IDB	DFC II	10.0			0.3
1167	1975	Kenya	Mombasa & Coastal Water Supply	35.0			15.8
1184	1975	Kenya	Education III	10.0			8.8
650	1976	Kenya	Integrated Agri. Development			10.0	8.8
1303-T	1976	Kenya	Integrated Agri. Development		10.0		10.0
1304-T	1976	Kenya	Wildlife and Tourism		17.0		13.6
651	1976	Kenya	Rural Access Roads			4.0	2.4
1305	1976	Kenya	Rural Access Roads	4.0			4.0
1389	1977	Kenya	South Nyanza Sugar	25.0			17.5
692	1977	Kenya	Agricultural Credit III			20.0	7.1
1390-T	1977	Kenya	Agricultural Credit III		5.0		5.0
1438	1977	IDB	DFC III	20.0			13.6
722	1977	Kenya	Bura Irrigation Settlement			6.0	4.4
1449	1977	Kenya	Bura Irrigation Settlement	34.0			34.0
750	1977	Kenya	Small Scale Industry			10.0	10.0
1520	1978	NCC	Second Nairobi Water Supply	30.0			28.5
791	1978	Kenya	Second Urban			25.0	25.0
1550	1978	Kenya	Second Urban	25.0			25.0
797	1978	Kenya	Education IV			23.0	22.5
S-12	1978	KPC	Olkaria Engineering Loan	9.0			6.6
1636	1978	Kenya	Sugar Rehabilitation	72.0			72.0
1637 3/	1978	Kenya	Rural Water Supply	20.0			20.0
858	1978	Kenya	Narok Agricultural Development			13.0	13.0
1680	1979	Kenya	Telecommunications	20.0			20.0
1684	1979	Kenya	Highway Sector	90.0			90.0
914 3/	1979	Kenya	Smallholder Coffee Improvement			27.0	27.0
			Total	678.3	32.0	283.7	556.0
			of which has been repaid	23.8	-	1.3	
			Total now outstanding	654.5	32.0	282.6	
			Amount sold 11.8				
			of which has been repaid 10.2	1.6			
			TOTAL now held by Bank and IDA 1/	652.9	32.0	282.6	
			TOTAL undisbursed	383.8	28.6	143.6	556.0

1/ Prior to exchange adjustment.
2/ Includes US$3.8 million undisbursed grant participation.
3/ Not yet effective.

STATEMENT OF IFC INVESTMENT IN KENYA AS AT
November 30, 1979

Fiscal Year	Obligor	Type of Business	Amount in US$ Million Loan	Equity	Total
1967, 1968 and 1973	Kenya Hotel Properties	Hotels	5.2	0.7	5.9
1970, 1974, 1977 and 1979	Pan African Paper Mills	Pulp and Paper	17.2	6.3	23.5
1972	Tourism Promotion Services	Hotels	2.4	-	2.4
1976	Rift Valley Textiles Ltd.	Textiles	6.3	2.8	9.1
1977	Kenya Commercial Bank Ltd.	Capital Market	2.0	-	2.0
	Total Gross Commitments		33.1	9.8	42.9
	less cancellations, terminations, repayments and sales		9.2	1.8	11.0
	Total Commitments now held by IFC		23.9	8.0	31.9
	Total Undisbursed		4.9	-	4.9

PAST LENDING TO KENYA
(By Fiscal Year and in 5-year Sub-periods)

	PROJECT NAME	US$ MILLION BANK	US$ MILLION IDA
FY 1960-65			
Loan 256	Agriculture & Roads	5.6	
Loan 303	Land Settlement	8.4	
Cr. 64	KTDA Tea Development I		2.8
Cr. 70	Highways I		4.5
Cr. 77	Tea Roads		3.0
FY 1966-70			
Cr. 105	Agricultural Credit		3.6
Cr. 93	Education I		7.0
Cr. 104	Agricultural Roads		5.3
Cr. 119	KTDA Tea Development II		2.1
Cr. 120	Highways II		10.7
Cr. 129	Livestock		3.6
Ln. 641	Forestry	2.6	
Cr. 185	Education II		6.1
Ln. 639	Highways III	23.5	
FY 1971-75			
Ln. 745	Kamburu Hydro Power	23.0	
Cr. 224	Road		12.6
Ln. 714	Nairobi Water Supply	8.3	
Ln. 826	Nairobi Airport	29.0	
Cr. 276	Highways IV		22.0
Cr. 344	Agricultural Credit II		6.0
Cr. 477	Livestock II		21.5
Ln. 993	Tea III	10.4	
Ln. 946	DFC I	5.0	
Cr. 468	Population I		12.0
Ln. 932	Highways V	29.0	
Ln1093/Cr537	Group Farm Rehabilitation Credit	7.5	7.5
Ln1132/Cr565	Forestry II	10.0	10.0
Ln. 1132	Oil Pipeline I	20.0	
Ln. 1117	Program Loan	30.0	
Ln1105/Cr543	Nairobi Urban Development	8.0	8.0
	SUB-TOTAL	220.0	148.3
	TOTAL	719.3	286.3

	PROJECT NAME	US$ MILLION BANK	IDA
FY 1976-79			
Ln. 1148	DFC II	10.0	
Ln. 1184	Education III	10.0	
Ln. 1147	Power II	63.0	
Ln. 1167	Water Supply II (Coast)	35.0	
Ln1390/Cr692	Third Agricultural Credit	5.0	20.0
Ln1303/Cr650	Integrated Agricultural Development	10.0	10.0
Ln. 1389	South Nyanza Sugar Project	25.0	
Ln1449/Cr722	Bura Irrigation Settlement	34.0	6.0
Ln. 1438	Third IDB Loan (DFC)	20.0	
Ln. 1304	Tourism I - Wildlife	17.0	
Ln1305/Cr651	Rural Access Roads	4.0	4.0
Cr. 750	Small Scale Industry		10.0
Cr. 797	Education IV		23.0
Ln1550/Cr791	Urban Development II	25.0	25.0
Ln 1520	Water Supply III - Nairobi Extension	30.0	
Cr. 858	Narok Mixed Farming		13.0
Ln. 1636	Sugar Production II	72.0	
Cr. 914	Smallholder Coffee Improvement		27.0
Ln. 1680	First Telecommunications	20.0	
Ln. S-12	Engineering Loan/Olkaria Geothermal	9.0	
Ln. 1684	Highway Sector Loan I	90.0	
Ln. 1637	Rural Water Supply I	20.0	
	SUB-TOTAL	449.0	138.0
	TOTAL	719.3	286.3

KENYA

PROJECTS IN EXECUTION

AS OF

NOVEMBER 1979

These notes are arranged by sector in the following order:

Loan No. 993-KE - Tea Factories: US$10.4 million Loan of June 5, 1974; Effective Date: September 23, 1974; Closing Date: June 30, 1980.

The Project will help finance 17 KTDA factories to process previously planted tea and will assist KTDA to set up new departments to organize factory construction and equipment, provide management training and supply adivce on tea marketing and administrative matters to the factories.

Although international tea prices have dropped from the extraordinarily high figures in 1976/77, growers continue to show considerable interest in tea as a cash crop. Yields continue to rise, and from 1979/80 onward the appraisal projections are likely to be exceeded. The project factory building program is behind schedule and, due to cost escalations, funds from the Bank and Commonwealth Development Corporation (CDC) loans will cover only 12 of the 17 factories included in the project. However, the OPEC Special Fund and CDC have agreed to provide additional financing for the remaining five factories. An economic analysis of the project indicated that despite substantial cost increases the economic rate of return on investments in new tea factories is over 40%.

Credit No. 477-KE - Livestock: US$21.5 million Credit of June 5, 1974; Effective Date: December 2, 1974; Closing Date: December 31, 1980.

The Second Livestock Development Project is a broadly based, integrated program which will increase beef production in Kenya over five years through ranch development, and the improvement of essential infrastructures. It will also provide for wildlife conservation and development. It continued a program begun in the First Livestock Project and aims at tripling the achievements of the first project. It includes credit for the development of 60 ranches in pastoral areas, 100 commercial ranches, 21 company ranches and 3 feedlots.

Project implementation has been slow and recruitment of ranches is very much behind appraisal estimates. In spite of the satisfactory livestock price structure which was adopted in early 1978, removing the most serious constraint to ranch development and viability, recruitment of ranches continues to be slow. Some progress has been made in organization of the pastoralists in the range development components. In addition, Government services in ranch water development planning and in the company ranch sector have been improved.

Loan No. 1093-KE/Credit No. 537-KE - Group Farm Rehabilitation Project: US$7.5 million Loan and US$7.5 million Credit of March 26, 1975; Effective Date: September 30, 1975; Closing Date: December 31, 1981.

The Project will aid in the rehabilitation of about 90 group-owned large-scale mixed farms and about 46 group-owned coffee estates, which are now urgently in need of credit and improved management services, by (i) providing medium and long-term loans for on-farm investments in machinery and infrastructure and short-term loans for incremental working capital and (ii) providing improved management and technical services to the individual farms and estates.

The Project faces major problems. Few new farms have come under rehabilitation in the past two years for a variety of reasons: legal, social, political, and financial. Physical rehabilitation work on participating mixed farms and coffee estates is satisfactory. Coffee estates are achieving recoveries in yields, and mixed farms are generally expanding areas cropped and improving grazing. However, achievement of a satisfactory rate of financial rehabilitation on most mixed farms is in doubt.

Loan No. 1132-KE/Credit No. 565-KE - Second Forestry Plantation Project: US$9.9 million Loan and US$10.0 million Credit of June 27, 1975; Effective Date: September 25, 1975; Closing Date: December 31, 1981.

The Project will extend a program which the Government has undertaken for many years to establish industrial pine plantations on land set aside as Government-owned forest reserves. Specifically, the Project will: (i) establish 38,000 ha sawlog and 8,000 ha for pulpwood plantations; and (ii) assist in further development through weeding, pruning and thinning of 120,000 ha of established plantations.

Although the planting program is now progressing fairly satisfactorily, the total area planted is about 20% below target, largely because of a slow project start up and unfavorable weather. The building and road construction programs are also considerably behind schedule. However, these shortfalls should be substantially reduced during the last two years of the project.

Loan No. 1303T-KE/Credit No. 650-KE - Integrated Agricultural Development Project: US$10.0 million Loan and US$10.0 million Credit of July 9, 1976; Effective Date: March 15, 1977; Closing Date: December 31, 1981.

The Project constitutes the first phase of an Integrated Agricultural Development Program for the development of smallholder agriculture. It will promote the establishment of whole farm systems through the provision of inputs and the strengthening of extension services and institutions to meet the needs and support required for a wide range of crop and livestock activities in four of Kenya's provinces. The Project is expected to encourage the production of maize, beans, cotton, potatoes, passion fruit, oil seeds, meat and milk by about 70,000 small farmers operating some 56,000 holdings.

The changed focus of the project towards assisting large numbers of subsistence farmers rather than progressive smallholder farmers has led to a number of difficulties, but the objective of improving the productivity and incomes of smallholder farmers continues to be met. Late release of credit funds in the past led to delayed application of farm inputs and expected yield increases were therefore not achieved; measures have now been taken to ensure availability of credit funds at the appropriate time. Steps are also being taken to improve the low rates of credit repayment and loanee reparticipation.

Loan No. 1389-KE - South Nyanza Sugar Project: US$25.0 million Loan of April 15, 1977; Effective Date: November 3, 1977; Closing Date: March 31, 1983.

The Project will be implemented over a 5-year period and consists of: development of a 3,410 ha nucleus estate and 9,000 ha outgrower land; sugar factory; construction of roads and tracts in the estate and outgrowers' areas; construction of staff houses and ancillary facilities; strengthening of the National Sugar Research overseas training to meet industry manpower needs; strengthening of the Kenya Sugar Authority and special studies related to its sugar industry.

Agricultural development has advanced well; land clearance has been completed in about 40% of the area, and 2,500 ha have been planted. Yields from outgrowers' cane have been higher than anticipated, probably because of excellent and well distributed rainfall and heavy fertilizer applications. About 20% of the drainage component has been completed, and the benefits can already be seen. Although several components are slightly behind schedule, progress is generally satisfactory.

Loan No. 1390T-KE/Credit No. 692-KE - Third Agricultural Credit Project: US$5.0 million Loan and US$20.0 million Credit of April 15, 1977; Effective Date: September 14, 1977; Closing Date: December 31, 1980.

The Project is to help finance AFC's on-going lending program in 28 districts, to smallholder farmers over a 3-year period (FY77/78-FY78/80), with a portion of the credit for medium-sized wheat and maize farmers. Specifically the project provides: (i) seasonal and medium-term credit for smallholders and medium-scale commercial wheat and maize farms; (ii) medium-term credit for input suppliers to ensure the availability of adequate stocks in rural areas and (iii) technical assistance for the Ministry of Agriculture and AFC including staff for a Project Evaluation Unit to be established within the Ministry of Agriculture.

Disbursements have been delayed because of a backlog in updating loan reimbursement requests by the Agricultural Finance Corporation (AFC). The lack of consolidated information on AFC's lending trends toward different categories of farmers and the current high arrears situation also pose problems. However, the disbursement situation is improving, and cumulative commitments in the smallholder and medium-scale farmer categories now account for almost all funds available for on-lending under the project.

Loan No. 1449-KE/Credit No. 722-KE - Bura Irrigation Settlement Project: US$34.0 million Loan and US$6.0 million Credit of June 22, 1977; Effective Date: June 27, 1978; Closing Date: June 30, 1984.

The Project will be implemented over a 5 1/2 year period and will provide for: the construction of an irrigation system to service 6,700 ha; the settlement of 5,150 families (36,000 people) on this land with the necessary social, educational and administrative services; the agricultural management of the scheme; the establishment of research facilities; and feasibility studies of a possible future site for irrigation and settlement and food producing opportunities in the Bura area. The Project will have an impact on 65,000 people by 1985.

Despite a slow start-up, project implementation is proceeding satisfactorily. However, a detailed review of cost estimates indicates that the Project will experience serious cost overruns; the revised estimate is about 80% above the appraisal figure, and there seems to be little scope for reduction. The Government has indicated that it will proceed with the Project despite the significant burden on its finances.

Loan No. 1636-KE - Sugar Rehabilitation Project: US$72.0 million Loan of December 20, 1978; Effective Date: September 20, 1979; Closing Date: March 31, 1985.

The Project seeks to reduce Kenya's import dependence in sugar and to promote balanced regional economic growth and employment by rehabilitating existing factories, nucleus estates and outgrower areas. The Project includes: (i) improvement of outgrower and nucleus estate sugar production; (ii) factory rehabilitation and expansion; (iii) provision of modest staff housing plus utilities; (iv) road upgrading and construction; (v) drainage; (vi) irrigation; and (vii) research.

Progress has been made in equipment procurement, and selection and appointment of consultants for factory rehabilitation, road works, drainage and irrigation is in progress. Coordination of project activities has improved considerably, but a proposal, now under Government consideration, to withdraw executive power from the Kenya Sugar Authority could have a negative impact on project implementation if brought into effect.

Credit No. 858-KE - Narok Agricultural Development Project: US$13.0 million Credit of December 20, 1978; Effective Date: June 28, 1979; Closing Date: December 31, 1983.

The Project will be the first stage of a long-term (10-20 year) program for development of mixed farming in Narok District. It will include: development of improved extension services for crops and livestock and farmer training; improved credit services for mixed farming; seasonal credit for wheat and rapeseed inputs and medium-term credit for farm development; development, upgrading and maintenance of access and feeder roads; soil conservation measures and development of tree nurseries; a wildlife control program to limit damage to crops by wild animals; studies to establish baseline data on the district, monitoring and evaluation of Project progress, and studies and field trails to prepare projects for the future development of Narok District.

Early stages of implementation are proceeding satisfactorily, although slow progress in land adjudication will limit the number of farmers eligible for loans during the first season. Engineering consultants are being selected for the roads component, and terms of reference for baseline studies are under preparation.

Credit No. 914-KE - Smallholder Coffee Improvement; US$27.0 million Credit of June 11, 1979; Closing Date: March 31, 1984.

The Project will, over a four year period, assist in the rehabilitation of the cooperative coffee industry. The project aims to (i) improve the quality of coffee produced by the country's cooperative processing facilities; (ii) rehabilitate about 15,000 ha of neglected coffee plantings; and (iii) provide incentives to smallholder farmers, who achieved higher yields because of the recent boom in coffee prices, to maintain those yields despite lower coffee prices forecast for the next four years. Within the implementation period, the target of the project would be the active participation of approximately 70,000 registered coffee growers through the provision and coordination of essential services to the cooperative coffee sector.

This Credit is not yet effective.

Loan No. 1184-KE - Third Education Project; US$10.0 million Loan Of December 31, 1975; Effective Date: March 17, 1976; Closing Date: June 30, 1982.

The purpose of the Project is to help improve primary education by providing finance for the following: (i) buildings, furniture and equipment for the following new facility - one Educational Broadcasting and Multimedia Service Station (EMS); (ii) equipment for, improvements to and rebuilding, where required, of the following teaching facilities - the Kenya Institute of Education (KIE) and 17 Primary Teachers' Colleges (PTCs); (iii) buildings, furniture and equipment for the following to support improvements in primary schools - Primary School Equipment Services and Examinations Research and Development Unit; (iv) the cost of specialists' services and fellowships for: development of the KIE; the Educational Broadcasting and Multimedia Service Station; the Examinations Research and Development Unit; and the National Committee for Educational Objectives and Priorities (NCEOP); (v) support for the NCEOP to meet general operational costs.

Physical implementation is about two years behind the appraisal schedule, basically due to delay by the Ministry of Works in completing the tender documentation for certain project institutions. Action has been proposed to alleviate the problem. The total cost of the project has increased by about 6% in terms of US Dollars. Implementation of educational objectives continues to be satisfactory. The views presented in the project-financed report of the National Committee on Educational Objectives and Policies have been incorporated in the Fourth Five-Year Development Plan 1979-83. Evaluation of the efficiency of educational broadcasting has started, as has the revision of primary school examinations to make them more work-oriented. However, the Government continues to be reluctant to finance technical assistance specialists from the loan proceeds, and this may lead to delays in implementation of the project's educational objectives. The dialogue with the Government regarding the hiring of required specialists is continuing.

Credit No. 797-KE - Fourth Education: US$23.0 million Credit of June 7, 1978; Effective Date: August 25, 1978; Closing Date: December 31, 1982.

The Project will, over a 4 1/4 year period, implement some of the highest priority items recommended in the National Committee on Educational Objectives and Policies (NCEOP) report. Its components would (i) improve and increase agricultural, technical, and administrative training by expanding two agricultural institutes and the University's Faculty of Agriculture, constructing a new Animal Health and Industry Training Institute, and strengthening management and development courses at the Kenya Institute of Administration; (ii) improve equity in access to primary and post-primary levels of education through the construction of 13 Nomadic Boarding Primary Schools, provision of equipment for 30 Craft Training Centers and storage facilities for rural primary schools, and provision of further support for Craft Training Centers through expansion of the Karen Centre for Research and Training; (iii) provide supporting educational services, largely through technical assistance to the Kenya Institute of Education (KIE) and the Ministry of Education's Planning Unit and Educational Facilities Unit.

Physical implementation of the project is proceeding in line with appraisal estimates. Implementation of the project's educational objectives is also satisfactory. A five-year plan for revision of the Basic Education Curricula has been prepared by the Kenya Institute of Education, and subject review panels have started their work. The Kenya Institute of Administration and the Faculty of Agriculture are also well on their way in the preparation of courses and the planning of staffing and staff training. Steps are being taken to recruit specialists needed for the Education Planning, Education Facilities and Examinations Research and Development Units in the Ministry of Education. Final information on the selection of the 30 Craft Training Centers to be assisted under the project is expected shortly.

Loan No. 1167-KE - Mombasa and Coastal Water Supply; US$35.0 million Loan of October 15, 1975; Effective Date: January 13, 1976; Closing Date: June 30, 1980.

The Project consists of surface water abstraction from the Sebaki River near Baricho, a water treatment plant, pumped water transmission facilities, storage reservoirs, distribution networks, a headquarters building for Coast Province Water Branch (CPWB), telecommunications system for the water supply operations, technical training of personnel and evaluation of existing and preparation of new rural water supply systems. Details of the principal components of the project are as follows: (i) raw water intake and transmission facilities; (ii) water treatment plant; and (iii) treated water transmission facilities.

Physical execution of the major parts of the project is about nine months behind schedule, while completion of some of the smaller components may be as much as 15 months late. Progress has now improved but lost time cannot be recovered. However, operations are expected to begin in the next few months at one-third to one-half of production capacity, although there is an estimated cost overrun of about 45% (expressed in US dollars), about 80% of which is in local currency. Government, however, is committed to project completion as soon as possible and as the project expenditures are now spread over four years instead of three, the required annual budget appropriations would be manageable. Institution building is proceeding slowly due to difficulties in recruiting staff, and accelerated efforts are needed to strengthen staffing and training for the Coast Province Water Branch.

Loan No. 1520-KE - Second Nairobi Water Supply: US$30.0 million
Loan of March 27, 1978; Effective Date: December 20, 1978; Closing
Date: December 31, 1982.

The Project will improve the existing water supply system and extend distribution to new areas resulting in a net increase of about 23 IMgd (104,500 m^3/day) to the amount of treated water delivered to Nairobi on an average daily basis. Major components include treatment and transmission facilities, trunk mains, pumping stations, and distribution systems. The project also provides for training of staff of the Water and Sewerage Department (WSD) of NCC, technical assistance for improving the accounting and financial management system for water supply and sewerage operations, and consulting engineering services for detailed design and construction supervision.

Implementation started on schedule and is proceeding satisfactorily. However, completion is now expected to be about nine months behind schedule due to difficulties with tender evaluations and delays by the Borrower (Nairobi City Council) in making contract award decisions. Most supply contracts financed by other donors and the first construction contract being financed by the Bank have been awarded. The evaluation procedure for water treatment equipment was abortive and this contract is being retendered. Good progress is being made on detailed design and tendering for the remaining contracts. Satisfactory arrangements for construction supervision are now being finalized.

Loan No. 1637-KE - Rural Water Supply Project: US$20.0 million
Loan of December 20, 1978; Closing Date: July 1, 1985.

The Project, which forms part of the Government's fourth rural water supply program, will provide convenient, safe and reliable water to a rural population of about half a million, and will also strengthen the Ministry of Water Development's (MWD) organization and management capability to plan expansion programs and to operate and maintain water supply schemes. The Project consist of : (i) construction of 33 rural water supply schemes; (ii) strengthening of MWD's operation and maintenance and direct labor sections; and (iii) technical assistance for implementation of the recommendations of the management study aimed at strengthening MWD, and for preparation of the fifth rural water supply program. The schemes would supply between 100 and 10,000 households each, through a mixture of individual connections, communal water points and kiosks.

This loan is not yet effective. New tariffs have been introduced, and management consultants are assisting with implementation of the first phase of the program to strengthen the organization and management of the Ministry of Water Development (MWD). Key project staff have been appointed except for the cost and management accountant; recruitment efforts are underway to fill this post as soon as possible. Preparation for construction of schemes is about eight months behind schedule, but MWD is planning to revise the implementation schedule to compensate for delays.

Loan No. 932-KE - Fifth Highway Project: US$29.0 million Loan of September 6, 1973; Effective Date: November 9, 1973; Closing Date: December 31, 1979.

The Project comprises the following: (i) improvement of the Nairobi-International Airport road (14 km) to dual carriageway standard; (ii) construction or improvement of several roads (totalling 315 km) to service rich agricultural area; (iii) construction or improvement of 388 km of roads of varying standards required for the Mumias Sugar Development Scheme; and (iv) technical assistance for investment planning and coordination.

Implementation started 18 months behind schedule due to changes in design standards by the Ministry of Works and financial constraints. Construction of 593 km of roads has been completed, and work on the Kisiani-Bondo road is continuing. In view of heavy cost overruns, tenders for the construction of two roads were delayed; agreement was ultimately reached to delete the Thuchi-Nkubu (51 km) road from the project. The Closing Date, which was postponed from December 31, 1977 to December 31, 1979, is likely to be postponed further to allow time for completion of the Kisii-Mogonga road where construction has recently begun.

Loan No. 1133-KE - Mombasa-Nairobi Oil Product Pipeline Project: US$20.0 million Loan of June 27, 1975; Effective Date: December 31, 1975; Closing Date: March 31, 1980.

The Project will help finance the construction of a 452-kilometer white oil products pipeline from Mombasa to Nairobi to replace the current more costly mode of transport by rail and road. Main features include a 452-km pipeline from the Mombasa refinery to the industrial area southwest of Nairobi, pump stations along the pipeline route, a 2-km lateral pipeline to the new Nairobi Airport at Embakasi, storage facilities and other works.

Construction was completed in October 1977 and commercial operations commenced in January 1978 as originally planned. The final project cost overrun is only US$9.5 million or 11%, the increase being primarily due to escalation in construction costs. KPC's long-term financial prospects are quite satisfactory although there could be cash flow problems in the initial few years of operation because of the preponderance of short and medium-term loans in the financing package. About 99% of the loan has been disbursed. The Closing Date has been postponed to March 31, 1980 to allow time for completion of procurement of equipment related to the operation of the pipeline.

Loan No. 1305-KE/Credit No. 615-KE - Rural Access Roads Project: US$4.0 million Loan and US$4.0 million Credit of July 9, 1976; Effective Date: October 7, 1976; Closing Date: June 30, 1981.

The Project will assist the Government in implementing the first phase of the Rural Access Road Program (RARP) by: (i) equipping and operating eight construction units for three years each; and (ii) equipping the STD Training Expansion Program; (iii) technical services for RARP; (iv) evaluating and monitoring the RARP; and (v) maintenance and repair of the roads constructed under the RARP.

Progress on the Rural Access Roads Program was reviewed in depth by all donors and discussed with Government during the annual review meeting held in June 1979. The project is about 15 months behind schedule but is now progressing satisfactorily. All eight Bank-financed construction units are fully equipped and are now operational. By March 31, 1979, 304 km of access roads had been constructed, of which 16 km were gravelled. Annual output averages 41 km per annum for all units, about 4 km below the appraisal estimate.

Loan No. 1684-KE - Highway Sector Project: US$90.0 million Loan of April 30, 1979; Effective Date: June 18, 1979; Closing Date: June 30, 1985.

The Project will support the middle years (1980-82) of the Government's five-year Highway Sector Devleopment Plan (1979-83), and the Loan will finance a portion of new commitments entered into during 1980-82. The main objective of the Sector Plan are to preserve investment in existing paved roads; to selectively upgrade the existing road network; to establish equitable levels of road access through out Kenya, with special emphasis on rural areas; to maintain existing classified roads to acceptable standards; to strengthen the Ministry of Works; and to enforce traffic regulation.

Implementation of the Government's Highway Sector Plan may be delayed because a critical shortage of funds has caused a reduction in the highway work program. While this has not yet affected the project appreciably, the continuation of this trend in FY81 could touch projects included in the Sector Loan. In general, detailed engineering has been completed for road construction and upgrading scheduled to start in FY80, and the designs for roads to start in FY81 are completed or under preparation.

Credit No. 468-KE - Population: US$12.0 million Credit of April 1, 1974; Effective Date: July 31, 1974; Closing Date: December 31, 1979.

The four-year population project forms an integral part of Kenya's Five-Year MCH/FP program, FY1975-79. All of the IDA-financed components of the project are proceeding satisfactorily. Nearly 99% of the construction has been completed (only two out of 36 facilities are still in the final stages of construction), and more than 75% of the equipment and furniture has been procured. Some delays in furnishing, equipping and staffing of facilities in rural areas are occurring, but arrangements to improve the situation, including hiring of a hospital secretary or commissioning engineer, are being explored by the Ministry of Health. All other elements of the project have been completed. The program components financed by other donors and the Government are moving ahead and, with a few exceptions, are expected to be completed as planned.

Loan No. 1147-KE - Gitaru Hydroelectric Project: US$59.5 million Loan of July 25, 1975; Effective Date: January 29, 1976; Closing Date: June 30, 1980.

The Gitaru Hydroelectric Project will be located between the existing Kamburu and Kindaruma hydroelectric power stations. The three power stations will operate in cascade in that they would all use the same water, one following the other. Gitaru will complete the development of the hydro potential of the Upper Tana River referred to as the "Seven Forks" development. Specifically, the Project comprises (i) low diversion dam with an integral spillway; (ii) vertical intake shafts with short headrace tunnels to the underground power station designed for three 67 MW generating sets (rated at 72 MW for individual operation), with two sets installed under the project; (iii) a long tailrace tunnel (4.7 km) to the Kindaruma reservoir; (iv) transformers, substations and associated transmission lines; and (v) a management review and a study of EAP&L's tariff structure.

Construction of the project was completed satisfactorily in June 1978 on schedule and within estimated cost. On the basis of contracts awarded for civil works and electrical and mechanical equipment, present estimates show that the project cost in Kenya shillings is likely to be about 1% lower than the appraisal estimate. Due to the devaluation of Kenyan currency in October 1975, however, the project cost saving expressed in US dollar equivalent will be about 15% of the appraisal estimate. This will result in a saving in the Bank loan of about US$4.0 million, in spite of the increase made on June 15, 1977 in the percentage of civil works expenditures to be financed under the Bank loan from 60% to 80%. At the request of the Borrower, US$3.5 million of the loan has been cancelled. A further cancellation of US$1.9 million is expected shortly along with a postponement of the Closing Date to allow for disbursements.

Loan No. S-12-KE - Olkaria Geothermal Engineering Project: US$9.0 million Loan of December 1, 1978; Effective Date: April 30, 1979; Closing Date: June 30, 1981.

This engineering loan will finance: (i) drilling equipment and supplies to drill production wells for the recovery of steam at Olkaria sufficient to power an electric generator with the capacity of 15 MW, to be followed by further drilling for a second unit of 15 MW; (ii) the cost of consultants for the preparation of specifications for the drilling equipment and for the supervision of the drilling program; (iii) the cost of expatriate drill operators; and (iv) the training of local personnel.

Drilling is proceeding on schedule; specifications for the new drill rig and accessories have been completed and tenders are being evaluated. Miscellaneous supplies and equipment have been purchased under International Shopping procedures.

Loan No. 946-KE - Industrial Development Bank Project: US$5.0 million Loan of November 30, 1973; Effective Date: March 26, 1974; Closing Date: September 30, 1979.

The Project proposes to meet IDB's financial requirements for the financing of the foreign exchange component of large- and medium-scale industrial projects through 1975.

The first Bank loan of US$5.0 million to IDB, which became effective on March 26, 1974 was fully committed in March 1978, two years behind schedule. This delay was due to the cancellation prior to disbursement of a number of projects previously approved.

Loan No. 1148-KE - Second Industrial Development Bank Project: US$10.0 million Loan of July 25, 1975; Effective Date: October 9, 1975; Closing Date: June 30, 1980.

This Project proposes to meet IDB's financial requirements for the financing of the foreign exchange component of large- and medium-scale industrial projects through 1978.

The second Bank loan of US$10.0 million became effective on October 9, 1975. The loan was fully committed in August 1978 and US$9.7 million had been disbursed as at November 30, 1979. The Closing Date has been postponed to June 30, 1980.

Loan No. 1438-KE - Third Industrial Development Bank Project: US$20.0 million Loan of June 22, 1977; Effective Date: November 10, 1977; Closing Date: July 1, 1982.

The purpose of this Project is to assist the Industrial Development Bank (IDB) in implementing investment programs, as well as Kenya's industrial development. More specifically, the project will enable IDB: (i) to provide term financing on suitable terms to medium and large-scale manufacturing projects in Kenya that have been well-conceived on economic, financial, and technical grounds; and (ii) to maintain and increase the momentum generated to date in establishing IDB as a major industrial development finance institution and to enhance its ability to carry out its future activities in the framework of Kenya's evolving industrial strategy.

This loan was declared effective on November 19, 1977. Twelve subprojects have been approved. As at November 30, 1979, US$10.0 million had been committed and US$3.3 million had been disbursed.

Credit No. 750-KE - Small Scale Industry Project: US$10.0 million Credit of November 28, 1977; Effective Date: June 26, 1978; Closing Date: December 31, 1982.

The Project will further the development of small scale industry in Kenya. It will, over a five-year period, support the reorganization and strengthening necessary to establish KIE, a semi-autonomous Government-supported industrial promotion agency, as the principal financial intermediary and promoter for small scale industries in the country, provide for the construction of support facilities for modern small scale industries and rural urban workshops, and provide credit through KIE to assist these enterprises in establishing themselves successfully. Training and technical assistance is also included.

Kenya Industrial Estates (KIE) continues to make progress in institutional development, particularly as regards financial discipline, project appraisal procedures and operating performance. KIE's management is determined to implement agreed policies to improve profitability, but continued attention is required in a number of areas; a comprehensive plan of action for reducing arrears is particularly important. Eight subloans totalling US$244,000 have been committed, but no funds have been disbursed as yet under the line of credit. A small amount has been disbursed, however, under the technical assistance component.

Loan No. 1680-KE - First Telecommunications Project: US$20.0 million Loan of April 11, 1979; Effective Date: August 16, 1979; Closing Date: June 30, 1983.

The Project will improve telecommunications services by extending local services and providing high quality long-distance circuits, and would also provide basic telecommunications facilities to rural areas which are currently poorly served. Major components include the installation of: (i) a total of about 46,200 additional lines of local automatic exchange equipment with associated cables and subscribers' plant, and a total of about 46,000 additional connections; (ii) long distance public call offices to provide services in about 200 urban, rural and market areas currently without telephone services; (iii) eight microwave radio systems each with a capacity of 960 channels; three UHF radio systems with a total of 540 channels; about 190 UHF/VHF channels; and multiplex equipment to provide about 3,100 additional channels; (iv) eleven long distance automatic exchanges with a total of about 3,600 terminations; and extensions to existing exchanges by a total of about 1,800 terminations; and (v) buildings to house equipment.

This loan became effective on August 16, 1979. Initial delays in procurement of goods are likely to cause about a year's delay in project completion.

Loan No. 1105-KE/Credit No. 543-KE - Sites and Services Project: US$8.0 million Loan and US$8.0 million Credit of May 6, 1975; Effective Date: September 25, 1975; Closing Date: June 30, 1980.

The proposed project will provide 6,000 serviced lots for self-help housing, together with related on-site infrastructure and community facilities finance for materials loans to enable allottees to construct self-help dwellings on their lots; trunk sewerage to serve the project site and other areas in Nairobi, and technical assistance comprising: the operational costs of a new NCC Department set up to implement the project; studies of (i) Nairobi City Council's housing operations and ways to improve them, (ii) preparation of future site and service and squatter upgrading projects in Nairobi and other cities and (iii) municipal finance in Kenya; (iv) design and engineering works; (v) project monitoring and evaluation; and (vi) a pilot study of nutrition needs in Nairobi.

Overall project execution continues to be satisfactory but there are mounting delays in implementation. Infrastructure has been completed for the first 1,000 plots and most beneficiaries have constructed satisfactory houses. Infrastructure for an additional 2,700 plots is about 30% complete and construction of infrastructure for the remaining 2,300 plots is expected to begin soon. Cost recovery continues to be good. One primary school is now operational, but designs for the remaining schools are behind schedule and tendering is not expected to take place before December 1979. One health center is under construction; however, the Bank does not plan to disburse against its costs as its design was too expensive and was not approved by the Bank. The design of the other health center should be submitted for approval soon. Tenders have been invited for all other community facilities. Technical assistance components are completed or scheduled for completion in conjunction with the project. Project costs for the first phase remain close to appraisal estimates but are expected to exceed original estimates for the remaining components because of delays incurred.

Loan No. 1550-KE/Credit No. 791-KE - Second Urban Project:
US$25.0 million Loan and US$25.0 million Credit of May 5, 1978;
Effective Date: October 3, 1978; Closing Date: December 31, 1983.

The Project seeks to strengthen institutional capabilities of Government and municipal authorities in implementing and managing urban development. It provides for construction of physical infrastructure and community facilities to serve existing unserviced squatter settlements, preparation of new housing areas with serviced plots, credit for house improvements and new house buildings, and employment opportunities. In Kenya's three largest cities Kisumu, Mombasa and Nairobi, more than 30,000 low-income households will benefit directly from the project. There are no special risks. However, the economic rate of return could be reduced from 16% to about 14% should overall market rental levels be substantially lower than expected. Other uncertainties relate to the long run effectiveness of measures for fiscal reform started under the project.

Progress in implementation of physical components of the project is generally satisfactory. Consultants for detailed design and engineering of Phase I sites in all three cities (Nairobi, Mombasa and Kisumu) are making good progress. Appointment of consultants for Phase II sites has now been completed and design work is underway. The Housing Development Departments are operational in all three cities with most key posts filled. Recruitment of other staff is underway. Progress in meeting disbursement conditions for the Nairobi component is slow, and progress on studies included in the project is also slower than expected. Municipal finance reforms have been delayed pending Cabinet approval of a paper on the subject.

Loan No. 1304T-KE - Wildlife and Tourism Project: US$17.0 million
Loan of July 9, 1976; Effective Date: November 10, 1976; Closing
Date: June 30, 1982

The purpose of the Project is to support the Government in implementing its policies on the conservation of wildlife resources and development of tourist attractions by providing finance for the following: (i) facilities to increase the tourist capacity and local development impacts of the Amboseli National Park, the Masai Mara National Reserve, and the Reserves of the Inner Northern Circuit comprising Samburu National Reserve, Buffalo Springs National Reserve, Shaba National Reserve, and the Marmar Ranch; (ii) improvements at Lake Turkana (formerly Lake Rudolf) National Park; (iii) game-proof barriers; (iv) a Wildlife and Fisheries Training Institute; (v) buses for Wildlife Clubs of Kenya; (vi) a Wildlife Planning Unit; (vii) policy and feasibility studies on wildlife and tourism development; (viii) support for anti-poaching activities and (ix) Project Management.

After initial delays, project implementation is accelerating. Officers for the Project Management Unit have been appointed, and six key Wildlife Planning Unit positions have been filled. The Ministry of Works has appointed various consultants for the design and construction of all physical project components. The draft final report of the Tourism Pricing Study has been reviewed with Government and consultants in the field, and the final report is expected to be submitted soon. The Very Large Herbivores Study is in progress. Satisfactory agreements have been reached with the Amboseli ranchers on guaranteed minimum returns, thus meeting the disbursement condition relating to this component. The anti-poaching units are fully staffed and deployed, and initial effectiveness of the units appears satisfactory. Draft amendments to the Wildlife (Conservation and Management) Act of 1976 to fulfill the requirements of the supplementary letter giving detailed proposals for anti-poaching operations have been approved by the Ministry of Wildlife and Tourism and are now in the final stages of processing.

what are Regeni's & Kenya's rates of conversable debt '79, '80, '85

will disbursement be in tranches? conditional on what?

Conditions for Program Lending to Kenya

* 55m IDA
15m ECA

(a) Revision of the Public Investment Program

The Fourth Development Plan (79-83) was overly optimistic about the country's growth prospects and estimates of resource availability for public investment were unrealistic. In addition, expenditure plans did not take into account the effect of recent military purchases. As a condition of the loan the Government has agreed to:

(i) scale down a) current expenditures by 2% and b) development outlays by 15% during the Plan period;

(ii) restructure expenditures to give priority to a) export promotion and b) agriculture; what specific action will be taken

(iii) review all programs and projects in the light of new information on costs and benefits.

(iv) provide sufficient funds for a) completion of 'ongoing' projects and b) full use of completed facilities. how much rigid

(b) External Borrowing and Debt Management

Because of concern about the recent rapid rise in Kenya's external debt due to military purchases, borrowing by national successors to EAC Corporations and Eurocredit financing, the Government has agreed to:

(i) establish annual external borrowing plans in conjunction with the fiscal budget beginning in FY1980/81 (July, 1980) and refrain from new nonconcessionary external borrowing until then;

(ii) improve debt management, by conducting a survey of public and publicly-guaranteed debt, strengthening the Treasury's debt unit, and establishing a register of external debt.

(c) Rationalization of Industrial Protection

In line with the Government's goal of ensuring a more efficient, outward-oriented and domestic resource-based industrial sector, the Government will:

(i) carry out a phased program of studies and measures designed to produce a more moderate and rational system of industrial protection through tariffs; when will new tariffs be announced

(ii) eliminate quantitative restrictions on imports, including Letter of No Objection Privileges, as a first step in the process of reform. what are these no objection

(d) Export Promotion

what are quantitative export goals

In order to help finance a more rapid and diversified growth of exports the program loan provides for:

(i) a government commitment to maintaining the competitiveness of exports; crawling peg exch rate?

(ii) administrative simplification of existing export subsidies; how important

(iii) consideration of proposals for implementation of an export insurance and financing scheme. " "

(e) Government Role in Private Investment

Because of concern about the adequacy of the decision-making process involving investment incentives and government investments in private ventures, the government will:

(i) improve review procedures and guidelines for projects for which government incentives are being sought;

(ii) establish institutional mechanisms for better monitoring of and improved guidelines for investment in private enterprises by the government and parastatal bodies;

(iii) slow down the pace of direct public sector participation in private enterprises.

(f) Interest Rates

The loan provides for review of the level and structure of interest rates and agreement was reached on terms of reference for background studies.

studies to be completed when — what do we believe rates should be at present

January 9, 1980

WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. R. McNamara (through Mr. W. Wapenhans)

DATE: January 18, 1980

FROM: Hayley J. Goris, Deputy Resident Representative HG

SUBJECT: Oil Price Impact on Kenya's Current Account Deficit

Please find attached :

1. Revised Projected Current Account Deficits Kenya 1974-85. An upward revision for net oil imports was made; Government officials could not yet provide actual figures for other goods.

2. Net Oil Imports Kenya 1974-1985 (Volume, Price, Value) After talking with Kenyan officials, I think the projections provided by EAN in Mr. Wapenhans' note to you of January 9, 1980 are more realistic than those of DPS. I therefore attach a reprint of the EAN data in the requested presentation.

HJGoris/dbg

Projected Current Account Deficits Kenya 1974-1985

	1974	1978	1979	1980	1985
Current Account					
Deficit in US$ mln[1/]	-314	-655	-595	-526	-467
of which net oil imports[1/]	- 98	-112	-148	-170	-297
revised net oil imports[2/]	-98	-122	-149	-237	-476
Revised Current Account Deficit[2/]	-314	-665	-596	-593	-646
GNP	2,730	5,364	6,383	7,131	13,169
CAD as % GNP	11.5%	12.4%	9.3%	8.3%	4.9%

1/ EAN, CPIA projection November 23, 1979 (President's Report Program Loan II)
2/ Memorandum Wapenhans to McNamara January 9, 1980 and discussions with Kenyan officials.

Kenya's Oil Import Cost

Net Cost of Oil to Kenya ("Net Imports")	1974	1978	1979	1980	1985
Volume (mln bb)	10.8	10.7	n.a.	11.0	13.4
Price ($/b)	9.10	11.40	n.a.	21.2	35.5
Value ($ mln)	98.2	121.8	149.0	237.0	476.0

Source: Memo Wapenhans to McNamara January 9, 1980; discussions with Kenyan officials.

SUMMARY DESCRIPTIONS

PROPOSED BANK GROUP LENDING TO KENYA

DURING FISCAL YEARS 1980 AND 1981

Fisheries Development (IDA US$9.5 million, FY80): The project is aimed at assisting the development of shore facilities, including the provision of transport boats, provision of small fishing craft and gear to fishermen, the establishment of a Fish Farming Development Center to produce tilapia, supply fingerlings and train staff, and provide training for fish producers the boat builders and studies and pilot development activities. Although the estimated project cost is still being firmed up, the present IDA allocation is expected to provide about 75% of the net project cost.

DFC IV: Fourth Line of Credit to the Kenya Industrial Development Bank (IDB) (Bank US$30.0 Million, FY80):

As a general objective, the proposed loan would support industrial development in Kenya in line with the Government's strategy under the Fourth Development Plan (1978-83). The loan would specifically provide a continuation of Bank Group assistance to IDB, a key development institution in Kenya's medium-to-large scale industrial sector to help cover part of IDB's foreign exchange requirements from mid 1980 to end 1982. It is expected that the proposed loan would finance projects with a total cost of about US$213 million during mid 1980-82 and create about 5,500 jobs. Three previous loans totalling US$35.0 million have been provided to IDB since 1973.

Second Program Assistance Project (IDA US$55.0 million, EEC Special Action Credit (US$15.0 million, FY80): The proposed credit would provide general balance of payments and budgetary support for the Government's Fourth Development Plan (1979-83); more specifically on a program of economic measures agreed upon with the Government and outlined in a Letter of Intent from the Government to the Bank. Foreign exchange would be used for essential imports of raw materials, intermediate goods, spare parts and balancing equipment. Counterpart funds would be used for development-related expenditures in the Central Government budget. The credit would be disbursed in two tranches -- $35.0 million would be available after effectiveness and another $35.0 million would be disbursed after a performance review in April 1980.

Olkaria Geothermal Power Project (Bank US$40.0 million, FY80): The primary objectives of the project are to provide a firm source of power and energy within the country to meet the growth of demand expected from 1981 to 1985, and to assist in reducing the country's heavy dependence on imported oil. The project would consist of the construction of an electric generating station containing two 15 MW steam driven turbine generators, and related transmission facilities. The project would also include the provision of consulting engineering, training, and studies for further geothermal potential and the next power project. The total project cost, including interest during construction, is estimated to be about US$89.0 million. The proposed Bank loan of US$40.0 million would finance about 90% of the estimated foreign exchange costs. Funds were also provided for the preparatory drilling of steam wells under a previous loan (Olkaria Geothermal Engineering Project Loan S-12-KE). A part of the proposed loan would be used to refinance the total amount disbursed under the engineering project loan when the proposed loan becomes effective; the amounts left undisbursed would be cancelled on the same date.

Technical Assistance Project for Export Promotion (IDA$5.0 Million, FY81S):

This project is intended to serve as a complement to the proposed program credit and provide for the achievement of the objectives of a general trade policy study for which the Bank has seconded a staff member to work with the Kenyan Government. The proposed credit would also facilitate feasibility and marketing studies sponsored by the Government in support of improving industrial efficiency and promoting diversification.

Industry I - Soda Ash (US$25.0 Million, FY81):

The proposed project would be the first phase in a long-term program for Kenya to develop its comparative advantage in the world natural soda ash market. The project's importance is underlined by the fact that soda ash is one of the few mineral resources available in Kenya with a good export prospect. The initial phase project will consist of removing bottlenecks in the existing operation to increase soda ash production from 220,000 tons/year to 300,000 tons/year, improvement of rail and road facilities associated with soda ash movement, provision of a new bulk berth and bulk handling facilities at Mombasa port and a pilot plant to test a new process required for producing flouride-free soda ash to enhance its marketability. The project would be implemented during 1980-83.

Education V - (IDA US$40.0 Million, FY81):

The proposed project would focus on the development of middle and higher level specialized professionals in technical and management fields. This objective would be achieved primarily through the expansion of existing specialized institutions, for example agriculture, industrial training, water development, whose activities fit into the priorities stated in the current Development Plan. An important component is a Water Resources Training School and pre-investment studies would also be financed under the project.

Second Population Project (IDA US$30.0 million, FY81): As a follow-on to the First Population Project which is nearly completed, the proposed strategy of this project is to (a) improve the coverage and quality of basic health care for the rural population towards the goal of health-for-all by the year 2000, (b) bring together the various rural health developmental activities into an overall framework and operational paln, and (c) develop and strengthen existing rural health services and community-based health activities and (d) to promote local inter-agency program of information and education in support of the above. This project may include a large number of co-financiers including UN Fund for Population Activities, SIDA, DANIDA, ODA, USAID and NORAD. The Bank Group is working closely with the Government in its preparation of the Integrated Rural Health and Family Planning Program of which this Second Population Project would form an integral part.

First Railways Project (Bank US$40.0 million, FY81): The proposed project will be the first with the Kenya Railways Corporation (KR), since its incorporation in 1978 following the dissolution of the East Africa Railways Corporation (EARC). KR would also be affected by the outcome of the mediation exercise to determine the equitable distribution of the assets and liabilities of the Community Corporations. Due to delays in the implementation of Bank financed projects by the EARC, extensive rehabilitation of the railway system is required. The proposed project is based on the last three years (1981-83) of KR's five year investment plan. The total project cost is currently estimated at $155 million with foreign exchange costs of $93 million. The project will aim at improving KR's overall efficiency by providing material and equipment necessary to improve the utilization and effective capacity of KR's existing assets. It will also provide for further long-term improvements, and training of senior and middle managers and technical assistants in key railway operations.

Urban Transport Project (Bank US$23.0 million, FY81): The problems of urban congestion in Kenya (though not as critical as those experienced in other cities in developing countries), will be addressed under the proposed project which will concentrate on the two largest cities - Nairobi and Mombasa. The proposed project would promote the establishment of an institutional structure and a policy framework to improve public transportation and access to services and employment within the central area, the industrial area and the rest of the city through a series of low cost transportation improvement measures. The project would be implemented by the Nairobi City Council and the Municipality of Mombasa. The components would include provision of civil works and equipment for public transport, pedestrian facilities and improved access roads to low income areas; provision of equipment, lines of credit and technical assistance to operators and owners of low cost transport (matatus); provision of facilities for the maintenance of present and future transport infrastructure; and technical assistance particularly to define and establish an appropriate urban public transport authority.

12/15/79

KENYA - Proposed Lending Program

(FY 80 - 84)

FY	Project	US$ Million Bank	US$ Million IDA	Total
80	Integrated Agricultural Development II		46.0	
	Baringo Arid and Semi-Arid Areas Project		6.5	
	Fisheries Development		14.5	
	DFC IV	30.0		
	Program Credit II		55.0 1/	
	Power III - Olkaria Geothermal	31.0		
		61.0	122.0	(183.0)
81	Industry I - Soda Ash	25.0		
	Education V		40.0	
	Population II		30.0	
	Railways I	40.0		
	Urban Transport	23.0		
	*Technical Assistance I	10.0		
		73.0	70.0	(143.0)
82	Small Scale Enterprise		30.0	
	Technical Assistance II (Supplementary)		5.0	
	*Agricultural Credit IV	40.0		
	*Cotton Ginning and Marketing		45.0	
	*Forestry III	40.0		
	*Industry II - Leather Production	35.0		
	Highway Sector Loan II	69.0		
		184.0	80.0	(264.0)
83	*Integrated Agricultural Development III		40.0	
	Agricultural Processing-Horticulture	40.0		
	Rural Water Supply II		35.0	
	*Urban Development - Small Cities	40.0		
		80.0	75.0	(155.0)
84	*Grain Marketing and Storage		40.0	
	Arid and Semi-Arid Areas II		30.0	
	*DFC V	40.0		
	*Telecommunications II	50.0		
	Population III	55.0		
	Industry III - Unidentified	50.0		
		195.0	70.0	(265.0)
	Total 29 Projects	593.0	417.0	(1010.0)

(*) = Standby Projects

1/ An EEC Special Action Credit of $15.0 million will supplement this amount.

RURAL ACCESS ROADS PROJECT

Loan No. 1305/Credit No. 651-KE of July 9, 1976

Borrower: Republic of Kenya

Beneficiary: Ministry of Works (MOW)

Amount: US$8.0 million, Loan US$4.0 million and Credit US$4.0 million

Terms: Loan amortization in 20 years including five-year grace period with interest at 8.85 percent, and IDA credit on standard terms.

Project Description Assistance in implementing a Rural Access Roads Program (RARP) consisting of equipping and operating 8 construction units for three years each, implementing and expanding the highway training program, providing technical assistance, evaluation and monitoring of RARP and purchasing the road maintenance equipment for maintenance of roads constructed under RARP.

Estimated Cost: (including price and physical contingencies)

	US$ Million		
	Local	Foreign	Total
Appraisal	4.9	5.7	10.6
Current	4.9	5.7	10.6

Financing Plan:

	US$ Million	Percent
IBRD	8.0	75
Government	2.6	25

Economic Rate of Return 12 percent

Estimated Date of Project Completion:

Appraised	Revised
June 1980	June 1982

Current Status

1. The project is part of a wider Rural Access Road Program (RARP), which started in 1975 with two units. Originally the aim was to set up 72 construction units in 22 districts to construct 14,000 km of rural access roads. However, given the complexity of organizing such a large program, the Government has decided to only set up 42 construction units, which should now all be fully operational. The objective is to still construct 14,000 km of roads, but over a longer time period, so that the program will be completed in 1986 instead of 1982, as originally planned. The roads are constructed by labor-intensive methods; at present about 7,000-8,000 casual laborers are employed at a rate of just over US$1 a day. The 42 units are financed by the Bank Group (8), USAID and DANIDA (8 each), NORAD (7), Netherlands (6), and the UK (5).

2. The roads are initially selected by the District Development Committees (DDC), according to selection criteria drawn up by the Ministry of Works (MOW). The proposed roads are then 'vetted' by MOW, by sending out engineers to the field to inspect all of the roads, and a final list is then agreed. Some concern has been expressed by donors about the selection criteria, which largely focus on the economic benefits of increased agricultural production. Unfortunately, the poor quality of the agricultural data used in the present analysis have caused doubts as to the usefulness of the economic evaluation. The original intent was to modify or replace the present economic analysis in the light of the findings of the monitoring and evaluation study. However, the study has been delayed owing to confusion over which agency was to finance expatriate staff for the study; the coordinator of the study will only take up her position in early January. Therefore, it has been decided that the first task of the new coordinator will be to propose and implement a revised set of selection criteria.

3. The construction program is about 18-24 months behind schedule, owing to procurement problems with the tools and spare parts, and recruitment of expatriate staff. However, since these problems have been resolved, implementation has been going well. Productivity of the units, in terms of km of road built per year, varies considerably, according to the terrain involved, labor supply, length of time the unit has been in operation, and, often most important, the initiative and energy of the construction unit engineer himself. In future, donors who finance these engineers have agreed to scrutinize more thoroughly prospective candidates. The fact that all field engineers, except one, are expatriate is a cause of concern to all donors including the Bank Group, even though a Kenyan engineer has now been appointed as Program Coordinator. There is a distinct lack of interest in this kind of program among Kenyan engineers who have graduated from the University, as it does not have the same prestige as a design engineer, etc. MOW hopes to overcome this problem by assigning field supervisors with a lower qualification from the local polytechnic, rather than field engineers with a B.Sc. qualification.

4. The use of labor-intensive methods appears to have been successful; they were established after several years of research by a Technology unit financed by ODM and the Bank. In most areas there are more laborers applying for jobs, which are allocated on a casual labor basis, than there are positions available. Therefore, a lottery system is used to ensure equal opportunity of employment. In some areas, notably tea and coffee growing areas,

there have been considerable problems recruiting labor at the fixed rate. This, among other factors, has led to a fall in overall program productivity. However, MOW does not want to offer different wage rates for different areas, therefore, the only solution is to include in the selection criteria an appraisal of local labor availability,and possibly a commitment from the local chiefs to make sure such labor is forthcoming.

5. The labor-intensive methods have been extended to the maintenance of the roads after construction. Local people, most of whom have worked on the construction of the road, are employed on a casual basis for twelve days a month to maintain an average of 2 km of road. They usually live alongside the road, and are given simple tools to assist them with their work, which is inspected by road supervisors before payment is made.

6. The creation of employment opportunities in rural areas, albeit temporary, has undoubtedly had considerable impact in the area of the road constructed. Preliminary information collected by USAID financed consultants, working on a review of the monitoring and evaluation study, indicates that employees are using their wages firstly on clothes and other consumer items, and secondly on inputs for their farms such as fertilizer, seed, chickens, calves, tools, etc. No work has yet been finalized on the impact of the road itself, although the consultants did obtain high school childrens' perception of the impact of rual access roads, which you will find attached.

7. Training of road construction overseers and officers-in-charge, as well as drivers, etc., has been proceeding well. The training school operated by MOW has managed to meet the needs of the program, except for recruiting candidates with the necessary qualifications for officer-in-charge training, partly because of a lack of career prospects for them. Career development prospects have recently been made available by MOW, therefore, the school hopes to be able to attract more candidates now.

8. The actual direct construction costs of the roads being built by construction units financed by the Bank Group are in line with appraisal estimates, despite the delay in implementation. Overall program direct construction costs are 20% higher than originally estimated by the Kenyan Government, although they are approximately in line with the Bank Group's original estimates. However, these costs do not include the substantial technical assistance costs, provided on a grant basis, for training and research costs, etc.

Attachment:

ATTACHMENT

Impressions of Kenyan Students

Students wrote on "How improved rural roads will affect my home area." The students, from Forms II to VI (i.e. about 13 to 18 years of age) wrote insightful, thoughtful and for the most part fairly realistic essays. Some vivid statements were made, for example:

> "A man near my place hanged himself when he could not transport his sugarcane harvest to the factory so as to obtain money for his two sons who had been invited to the University to further their studies."

> "Good rural roads can also destroy families - with the money he gets from the harvest (cane) a drunkard might buy nothing but alcohol---he might meet an accident and die---leaving a widow---------."

> "With all the (expected) developments some traditional customs will disappear, like the traditional way of taking out you lower teeth ------ roads will bring civilization."

> "Many teachers do not like my area-----when they want to carry their things they have to trouble the pupils and this makes the pupils very unhappy. Also, when school equipment such as chalk, books, as well as milk are to be brought, pupils have to carry them."

> "During the rainy seasons the many streams flood and the children are unable to cross (to go to school) because there are no bridges-----so they miss going to school. Roads and bridges would improve attendance."

> "Communication is very difficult when a person dies and his relatives are away in towns, it is not easy to inform them of the death-----if roads are improved, we can tell people quickly."

> "Some people want to build permanent houses-----it is not easy to transport sand and cement and sheets of corrugated iron-----the lorries have to pass through cultivated fields which causes quarrels between the owners of the fields and the person who has made the lorries destroy the crops."

"A person might want his maize to be ground and he goes to the maize-meal mill----he might be told that the machine broke down and lack of transport has not enabled the obtaining of spare parts----improved roads would ease such minor problems and make the peoples live happy."

"One day I asked my uncle why he had chosen to plant only a quarter of an acre with sugar cane. He answered me with sorrow. 'My son, have you ever heard the sound of a vehicle here? If you plant four acres, where will you take the sugar-cane when it is a distance of 20 kilometres to the road?' I had nothing to say."

"Government officers are not ready to come and work in such areas----one teacher resigned----he argued 'how can a person be posted in such a remote area where a month can end without seeing a newspaper?'"

"Tea leaves are perishable and therefore require quick transportation to the processing factories. This can only be done if rural roads are improved."

"Due to many vehicles using the roads there will be air pollution which choke the residents who live near the roads."

"There would be robbery because we will be connected to the outside world----robbers can use the roads and come and rob innocent citizens."

"Films and magazines and books will be available. We will be entertained by acrobats."

"Smuggling from Uganda will increase."

"Land Rovers will flock in and out looking for chang'aa (illicit liquor) brewers."

"Roads will attract members of parliament, trade magnates, or rich academicians."

"Some rude teachers rarely go to school, increasing failure in examinations but they will fear immediate inspection from high authority (and will improve their ways)."

"Our people cannot easily sell fish from the lake, but with better roads fishermen will easily transport their catch, either smoked or even fresh as refrigerated lorries can be used."

UNDP Activities

UNDP commitments to Kenya for the period 1978-81 is estimated to be about US$21.7 million. The major portion of the funds provided (about 62%) has been allocated to rural development, mainly agriculture and livestock projects. About a fifth has been provided to the industrial sector and the balance to all other sectors, with particular emphasis on educational projects.

The volume of assistance to the two main sectors, agriculture and industry, is in line with Government's priorities. In the agricultural sector almost all the projects are research oriented, and if successfully implemented are intended to help smallholders in the rural areas. The main focus of the projects will be on the future development of arid and semi-arid zones, coastal fisheries and forestry. In the industrial sector, substantial experience has been obtained in the support of small scale enterprises and this would be a continuing feature. Most of the projects are institution building in nature, but the proposals also pay attention to research on and development of manufacturing processes and technologies appropriate to Kenya. Manpower and Development Training would receive increased emphasis in the education sector, while projects are also proposed for the roads (particularly rural access roads) and energy sectors.

Mr. Robert Kitchen is the UNDP representative in Kenya. He has been in this position since 1978.

The Bank has been the executing agency for a number of UNDP financed projects. A brief description of these projects is given in the following pages.

UNDP FINANCED/BANK - EXECUTED PROJECTS IN KENYA

KEN/72/017 Assistance to the Industrial Development Bank

$608,617 1973-80

The assistance is designed to facilitate the establishment of the Bank on a sound managerial and operational basis and to assist the Bank to become a competent development finance institution capable of playing a leading role in Kenya's industrial development.

The services of four advisers (Operations, Financial, Engineering, and Industrial Economist) have been provided as well as short-term consultants and training of Kenya staff.

KEN/79/001 Trade and Tariff Policy

$395,700 1979-81

The project is to provide the background studies required in order for proposed changes in the trade and industrial incentive system to be implemented. The services of two economist have been provided for the Ministry of Economic Planning and Development to review existing tariffs and prepare recommendations for a future industrial protection system. The advisers will also monitor the impact of the new system once implemented.

RAF/77/039 East African Mediator Services (Kenya, Tanzania, Uganda)

UNDP Contribution: $500,000
Cost-sharing from Loan 674EA: $1,200,000 1979-80

The project provides for the services of a Mediator to recommend to the Partner States proposals for the permanent and equitable division of the assets and liabilities of the East African Community Corporation and General Fund Services and to assist the Partner States in reaching a definitive settlement on the basis of these recommendations. In addition, the Mediator is to make recommendations as to the future structure and operations of the East African Development Bank.

UNDP FINANCED/BANK-EXECUTED PROJECTS IN KENYA

In addition to the on-going projects listed above, the following project documents have been drafted and are likely to be signed before the end of the year:

KEN/79/004 Senior Economic Adviser (Finance)

$200,050 1980-81

This project is intended to provide a Senior Economic Adviser (Finance) who will advise the Ministry of Finance on all aspects of fiscal and monetary policy relating to development planning.

KEN/79/005 Senior Economic Adviser (Planning)

$203,900 1980-82

This project will provide a Senior Economic Planning Adviser to the Ministry of Planning and Development to advise on macro-economic policy formulation necessary to implement the Fourth Five-year Development Plan

RAF/79/044 Director-General, East African Development Bank
(Kenya, Tanzania, Uganda)

$372,000 1980-82

The project will provide the services of an interim Director General of the EADB until a permanent appointment can be made. The Director General will assist to reorganize the EADB to enable it to play a wider role as a multi-sector financial institution.

News Media in Kenya

Press

The two major English daily newspapers in Kenya are: the Daily Nation (circulation 96,000, Editor-in-Chief: J. Rodrigues, founded in 1960), and The Standard (circulation 35,000, Editor-in-Chief: Henry S. Gathigira), which was formerly known as the East African Standard. Both newspapers also publish a larger Sunday edition: the Sunday Nation (circulation 108,000) and The Sunday Standard, which started publication in November this year.

The Nairobi Times (Editor: Hilary Ng'weno, founded in 1977) comes out once a week. The Weekly Review (circulation 18,000), whose Editor is also Mr. Ng'weno, is the most widely read and influential weekly among professional and business circles. Mr. Ng'weno studied at Harvard under Hollis Chenery.

The largest vernacular (Swahili) newspaper is the Taifa Leo (circulation 51,000, Editor: G. Mbugguss, founded in 1960). It has close editorial links with the Nation newspapers. The present Editor-in-Chief of the Daily Nation was the former editor of Taifa Leo. The Sunday edition is called the Taifa Weekly (circulation 63,000). Both daily and Sunday papers are widely circulated in the Swahili-speaking areas of East Africa.

The newspapers are all privately owned. The Nation and the Taifa papers are owned by the Aga Khan. The Standard is controlled by the British trading company, Lonrho. The Stellascope Ltd. a Kenyan company owned by Mr. Ng'weno, publishes both The Nairobi Times and The Weekly Review.

The World Bank gets good coverage in the Nation newspapers and the Bank's Resident Representative reports good relations with both the Editor-in-Chief and the Editor of the Nation's Business Bureau (or the economic and business section), Mr. Kul Bushan. The Standard also gives the Bank good coverage, but at present its financial and economic reporting is not very strong. The Editor of The Nairobi Times and The Weekly Review knows the Bank well and the Bank gets good coverage in both of these publications. Editors of The Nation and The Standard participated in the First Pan-African Seminar on Reporting Development organized by the International Press Institute with World Bank (IPA) support in late 1977.

Of the three English newspapers, The Nairobi Times is the most independent. The reporting in The Standard and the Nation is generally pro-government, although over the years the Nation has been outspoken on matters sensitive to the government (e.g. the murders of Tom Mboya and Josiah M. Kariuki, Member of Parliament, in 1975, and the involvement of senior Kenyans in illegal game poaching and trading in animal skins.

News Agencies

The domestic news agency is the Kenya News Agency which operates under the Ministry of Information and Broadcasting. It was founded in 1964 and is headed by Mr. L. Kabiru. Several foreign news agencies maintain offices in Nairobi: AFP, AP, Reuters, UPI, Tass, the Italian ANSA, German

DPA, the Czech CTK, and the Ghana News Agency.

Radio and TV

The Voice of Kenya (VOK), so named in 1964, is the national broadcasting agency; it succeeded the former Kenya Broadcasting Corporation. The VOK radio broadcasts about 17 hours a day in English from Nairobi. Extensive broadcasts are made from Nairobi, Kisumu, and Mombasa in Swahili and in 17 other local languages. Programs include frequent newscasts in all languages and information on health and hygiene, especially in rural areas. Some 6,000 receivers were known to have been installed for community listening in public places as of 1975. The news of the Bank's Annual Report and Mr. McNamara's Annual Meeting speech, as well as the May UNCTAD speech, have been carried regularly, several times a day on VOK radio newscasts.

The VOK television operates over an area extending from Nairobi to Kisumu as well as from Mombasa. It began broadcasting in October 1962.

Both the radio and television are under the control of the Ministry of Information and Broadcasting. In 1977 approximately 525,000 radio and 60,000 television receivers were reported to be in use in the country. The revenue for both radio and TV is derived from license fees on the receivers, advertising, and government subsidy.

Attachments: news clippings

The Nairobi Times
June 3, 1979
Page 3

Work Force Problems Exploding

WASHINGTON, Saturday, (*AFP*) — The biggest problem facing developing countries such as Indonesia and Mexico is their mushrooming urban work force, Robert McNamara, president of the World Bank, said yesterday.

"Urban and non-farming rural labour forces are literally exploding," he said at the close of a press seminar organised by the bank.

For 10 years the World Bank had been striving through its loans to prompt the population masses in poor countries to participate in development, mainly by improving the productivity of the lowest-paid classes, he said.

"There has been too little progress, not as much as I would have hoped for," McNamara added. In future, he went on, the World Bank would concentrate on helping poor countries to create jobs by financing, for example, programmes to promote small and medium-sized businesses.

He said he hoped that industrialised states would in future give aid priority to the poorest countries in Africa and Asia, and expressed satisfaction at the efforts already made by Japan and West Germany to boost their aid, in keeping with earlier promises.

McNamara concluded by saying he hoped the current negotiations with the bank's member countries aimed at increasing its capital would be successfully concluded in a month's time.

The Standard
January 16, 1979
Page 8

ANTI-POVERTY FIGHT IS BANK TOP PRIORITY

THE ERADICATION of absolute poverty among the populations of the developing world is a first priority of the next ten years of development, World Bank vice-president William Clark, said.

WINDSOR, England, Monday.

Addressing a World Seminar of Development Journalists, Mr. Clark said last night: "The Bank now realises that the most urgent action must be in rural areas so that people can produce food. But eradicating absolute poverty is the high priority.

"It is better to tackle water supplies and eliminate grinding poverty than to try to increase annual income to 1,500 to 2,000 dollars a year throughout a country's population. It's true that with that level of income grinding poverty would disappear but it would take well beyond the year 2000".

He told participants at the seminar organised by the World Bank and the independent British Overseas Development Institute, that "the developing countries were now asking if there be more transfer of resources from rich States to the poor and how much part they would have in the decision-making process".

"After the Opec price increase, members of the Third World have seen how to get money out of the rich by right and not charity", he said. "This has meant a renewed militancy by the Third World countries who want to see a new international economic order".

Asked how effective aid had been to developing countries from the Arab Opec States, he said: "At first it has been directed at particular friends and not particular objectives. The original flows were erratic. However, today Arab aid is being directed to a lot of very good projects though there is a certain amount of largesse which is being wasted".

— *Reuter*

The Daily Nation
May 11, 1979
Page 9

Big guns put 'poor to wall'

MANILA, Thursday

WORLD Bank President Robert McNamara accused industrialised nations today of attempting to punish weaker and poorer members of the international community. As a consequence — the developed world's consumer was the victim, he declared.

In a hard-hitting speech at the fifth session of the United Nations Conference on Trade and Development, the (American) World Bank chief said the developed countries, including the US, France and Australia, had introduced a large number of new restrictive measures in the last four years.

McNamara said the progress made in economic development and international co-operation during the last 25 years could be undermined if nothing was done to resist and roll back trade protectionism.

The World Bank's Vice-President for External Relations, William Clark, said the significant part of McNamara's speech was his proposal that the major concerns of poorer countries should be met through future negotiations both in and outside the framework of the Tokyo round agreement, which began in September 1973, to formulate a new framework of rules of conduct governing international trade.

McNamara said protectionism in developed countries triggered inflation and penalised those in society least able to afford it.

He added that a recent study had shown that the effects of protectionist measures imposed by the US between 1975 and 1977 had resulted in a cost to consumers of $600 million in sugar, $1.25 billion in carbon steel, $400-800 million in meat, $500 million in TV sets and $1.2 billion in footwear.

Such effects meant that the consumer cost per job protected was more than $50,000 annually in terms of the short-term gain in jobs.

McNamara proposed that the international community's agenda should include:

- Evaluation of possibilities of further liberalisation and expansion of trade — from the point of view of the Third World.
- A regular and systematic review of developments in the international trading system between contracting parties.

The Standard
May 24, 1979
Page 8

World Bank boss calls for arms budget cut

CHICAGO, Wednesday.

FORMER U.S. Defence Secretary Robert S. McNamara, now head of the World Bank, yesterday, urged the world's nations to take some of the 400 billion dollars they spend on arms and use it instead to reduce world poverty.

"We cannot build a secure world on a foundation of human misery," McNamara said in a speech prepared for a ceremony at which he was being given the first Albert Pick Jr. award at the University of Chicago for contributions to "international understanding."

The award has been established in memory of the late head of the Alber Pick Hotels chain, who was an alumnus and trustee of the university.

McNamara said that nations must have "appropriate and reasonable" levels of defence but that "excessive military spending can erode security rather than enhance it."

He said public expenditure on weapons research and development now approaches 30 billion dollars a year worldwide, more than is spent on the problems of energy, health, education and food combined.

- African, Caribbean and Pacific (A.C.P.) countries want a European Common Market aid package worth 13.8 billion dollars for 1980-1984, informed A.C.P. sources said yesterday.

Ministers of the 57 A.C.P. states were discussing the size of their request in Brussels.

- Sweden will give Tanzania 250 million dollars worth of aid over the next three years under an agreement signed yesterday.

The Daily Nation
July 26, 1979
Page 9

BUSINESS BUREAU

Sub-Sahara nations face a hard time

GENEVA, Wednesday

THE outlook for sub-Sahara African countries is bleak — according to World Bank President Robert McNamara.

He told the UN Economic and Social Council that per capita growth would average only 1.2 per cent in the next decade, as opposed to 4.2 per cent for industrial countries and 5.6 per cent for developing nations.

He said the projections were based on what seemed most realistic from the situation this year.

If the slow growth of world output and trade in the years immediately following 1973 were to continue until 1990, the growth rate for industrial economies would average 3.5 per cent, he said.

This would probably limit developing countries to a 2.5 per cent per capita growth in income and result in "absolute poverty" for more than 700 million people.

Mr. McNamara added that, even on an optimistic projection that the world economy would recover to the level of the last decade, there would still be around 470 million people "living literally on the margin of life".

Average income per head in poor countries would remain less than one-twelfth that of industrial countries in 1990, he forecast.

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October 24, 1979
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BANK LOANS TO KENYA TAKES LEAP

WORLD Bank commitments to Kenya in the past year reached $251 million for seven projects.

This compares favourably with commitments of $113 million in 1978 and $155 million in 1977.

And, although it is unlikely that this high level will be matched next year, it looks as if the World Bank will not return to the earlier average, but do a bit better than that, as long as the Government of Kenya and the World Bank continue in the excellent spirit now characterising their partnership in development.

Commitments to projects are not the same as money actually paid to Kenya. Most projects take several years to be implemented and hence the actual transfer of money from the Bank to the Government is spread over that period.

But since World Bank has been committing increasing amounts to Kenya over the years — in fact the cumulative figure for commitments now stands at over $1,000 million, excluding Kenya's share in East Africa Community loans — actual payments, or disbursements — are growing from year to year.

They were $46 million in 1977, $57 million in 1978 and $77 million in financial year 1979.

World Bank loans to Kenya have an average duration of about 20 years and IDA credits have to be repaid, although over such a long period (50 years) that is certainly not a heavy burden.

Kenya's payments to the Bank (for both amortisation and interest) are in the order of $20 million a year, so on balance Kenya receives a considerable net inflow of funds from the bank group.

The following projects are included in the World Bank's financial 1979 programme.

- Olkaria Geothermal Engineering $9 million.
- Sugar Rehabilitation project — $72 million.
- Rural water supply — $20 million.
- Narok wheat — $13 million (IDA)
- Telecommunication — $20 million
- Highway sector loan — $90 million.
- Small holder Coffee Improvement Project — $27 million.

In East African total lending for the year reached $646 million for 35 projects, about 22 per cent above the average of the previous five years.

Major increases occurred in lending for agriculture and rural development and transportation, with these two sectors accounting for 31 and 41 per cent respectively of the total.

In all loan and investments, commitments amounting to $10,435.9 million were made to developing countries.

"Suggested Background Reading on Visit to Kenya"

A revisit to rural development in Eastern Africa


World Bank photo

Since the mid-1970s, the international community has reoriented its lending to the developing world to emphasize self-sufficiency in food and the development of subsistence agriculture. The author points out the progress made in rural development policies and projects in Africa, the major constraints still remaining, and briefly explores ways in which they can be overcome.

Uma Lele

Since the world food crisis of 1973-74, the emphasis of lending to the developing world by the international community has shifted from developing infrastructure and the industrial and commercial agricultural sectors to achieving national self-sufficiency in food and developing the subsistence agricultural sector. There has been a corresponding shift in the "means" of development—from increasing production and expecting the benefits to trickle down to the poor to taking direct action to improve their living conditions. Lending for agricultural and rural development has consequently increased significantly—World Bank lending to agriculture and rural development in the Eastern Africa Region rose from an average of $70.4 million a year between 1970 and 1974 to $198.6 million in 1979.

The World Bank's experience with rural development work in Eastern Africa since the early 1970s is instructive. There are some 70 Bank-financed agricultural and rural development projects currently in progress in these countries. Many involve cofinancing by other donors; the Bank's experience is therefore generally valid both for the countries and other donors. There is also a substantial body of experience in the World Bank, based on systematic evaluations of selected projects, as well as on routine in-house reviews of ongoing and completed projects or their component parts. This article is derived mainly from these sources of information. Based on the lessons of this experience, there has been a very considerable evolution in the World Bank's lending policies and projects over time. However, in spite of this evolution, rural development in many African countries is likely to take longer than in other parts of the world and to need higher levels of investment (not only in agricultural projects but also in sectors such as infrastructure and education,) because these countries are at an early stage of development.

Eastern Africa is defined by the World Bank as Botswana, Burundi, the Comoros, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Zaïre, and Zambia.

Comparative performance

Experience with the development of predominantly agricultural nations elsewhere in the world has shown that policies and programs can be devised and implemented successfully to benefit subsistence producers and to increase overall food production, employment, and incomes. In Malaysia, for example, new investments in paddy production, the introduction of new high-yielding varieties, and a favorable producer price policy led to the country's ability to meet over 90 per cent of its rice consumption in 1972, compared with only about 60 per cent in 1957. The high priority given by a number of Far East Asian countries to agriculture has also led to impressive overall economic performance and export growth.

In Tanzania, too, following increases in producer prices of foodcrops and improved weather subsequent to the 1973-74 drought, officially marketed production of foodcrops increased from 160,000 metric tons in 1975-76 to 613,000 metric tons in 1978-79, indicating substantial producer responsiveness to economic incentives. On the whole, however, with a few exceptions, such as Ivory Coast and Kenya, efforts to increase smallholder agricultural productivity, especially of foodcrops, have not yet brought about sustained results in Africa.

It is particularly urgent to come to terms with the problem in these countries, since many of them fall in the least developed category. Moreover, the growing number of the poor in Africa live mainly in the rural areas, and most of their income is derived directly from agriculture. Yet, according to the estimates made by the International Food Policy Research Institute, during 1960-75 food production in sub-Saharan Africa increased at an annual rate of only 1.3 per cent, compared with annual rates of 2.9 per cent in Asia and 3.5 per cent in Latin America. More worrying are the World Bank's projections in the *World Development Report* of 1979 that growth rates in Africa will drop even lower over the next decade, implying a widening gap between sub-Saharan Africa and the rest of the developing world. If present trends continue, by 1990 the food deficit in sub-Saharan Africa is expected to rise to 24 million tons from the level of 2 million tons in 1975.

These trends can be reversed if the underlying causes of the poorer performance in Eastern Africa are identified and tackled. The main reason for the slower growth of

the rural areas in Africa seems to be that most least developed African countries have lower levels of institutional development, trained manpower, and physical infrastructure than do their counterparts in the rest of the world. Most also have extremely low densities of population, a situation which increases the problems and the costs of developing infrastructure, communications, and marketing systems. These differences imply that more time and greater efforts are needed to lay the basic foundation for broad-based agricultural development in Africa than elsewhere before noticeable success can be achieved.

Achievements

In the 1960s, even the few projects involving low-income producers tended to have relatively narrow objectives, such as increasing export crop production, without regard to the subsistence consumption needs of producers. They also tended to be "enclave" projects with autonomous project entities geared to achieving short-term visible results that carried out relatively little training of nationals. Projects now reflect wider national concerns. These include improving the planning and implementing capability of national and regional institutions responsible for agricultural activities; gearing policies and planning more closely to agricultural priorities; making provision for a fuller financing of recurrent costs; and generally showing greater awareness of the need to make the design and implementation of projects more flexible.

At the project level, there is also increasing emphasis on trying to adjust to wider local needs and conditions—by developing agricultural research systems to make them more appropriate to particular local environments; substantially raising the resources allocated to the training of nationals; assisting with health and water supply; monitoring and evaluating the impact of projects; and expanding the time horizon in which to expect results. The new approach to rural development thus reflects substantial efforts to overcome the shortcomings of the previous strategy.

But despite this progress, and despite substantially increased lending, achievements have fallen far short of expectations. The causes are many and varied. Generally, the national and expatriate staff needed by the projects have not been available in time and in the numbers required; fewer agricultural trials have been carried out than envisaged and few of those undertaken have yet been able to develop methods and technologies suited to different locations; inputs, such as fertilizer or improved seed, have not been bought and distributed on time in quantities proposed, and thus committed resources have not been disbursed at the rate anticipated. Not surprisingly, the results of the projects have also fallen short of targets. On the whole, yield increases from the new projects have been less than predicted; fewer farmers have used innovations; fewer nationals have been trained, and less data collected than had been envisaged; and not all the data collected have been analyzed for planning or evaluation.

Uma Lele

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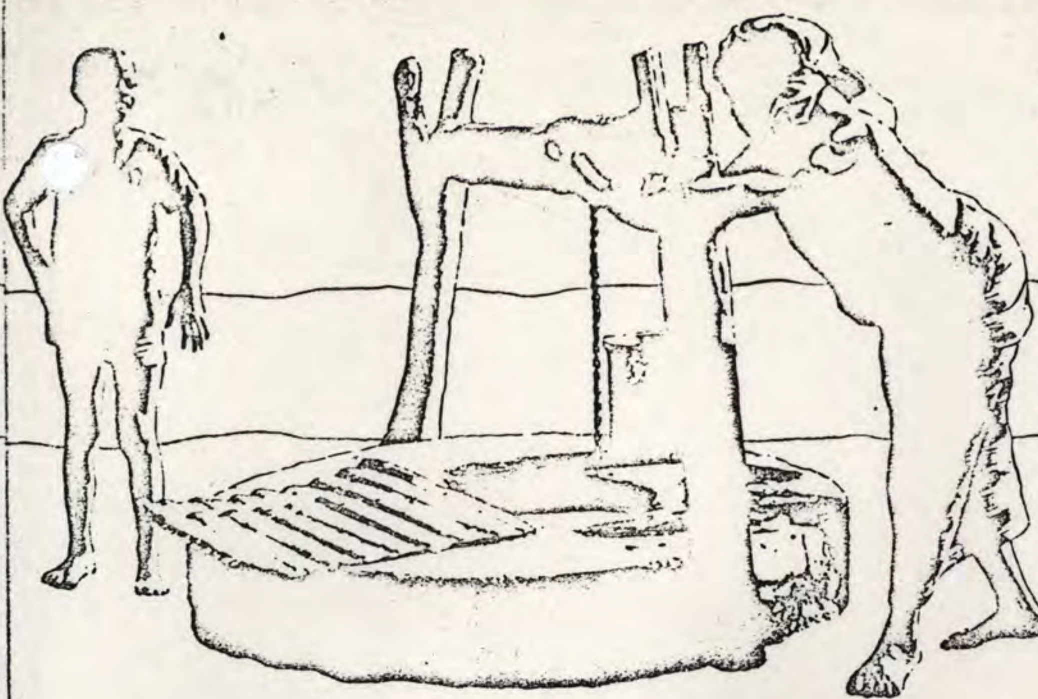
Giuseppe Franchini for F&D

What explains the limited achievements? Even with the wider recognition that development in these countries proceeds more slowly than had first been expected, the foremost reason has undoubtedly still been overambitious expectations—on how quickly projects can be established, as well as on their results. Also, despite lessons of past experience that point to the need for modest projects, the new projects have been excessively complex. Both these causes reflect the fact that the majority of the donor-assisted projects are still being designed by outsiders, due to the extreme shortage of local personnel. But the limited results of these projects also frequently reflect the more basic constraints. Not surprisingly, some of the problems identified in earlier evaluations—such as inadequate policy framework and manpower shortages—are even more apparent now under the new approach, while additional constraints, such as shortages of recurrent financing, have emerged. As the discussion below will show, many of these obstacles can be overcome through a continuing evolution of government and donor policies in the right direction.

National priorities

An unstable political environment has undoubtedly been one of the major hindrances to development in many parts of Africa in recent years. This has meant that resources sorely needed by the rural areas have been diverted to maintain domestic law and order and national defense.

Within these political constraints, however, many governments in sub-Saharan Africa do attach considerably greater importance to food self-sufficiency and the development of the subsistence sector now than they did prior to the catastrophic food crisis of 1973-74. Some steps are also being taken to improve food production in the subsistence sector, including raising producer prices of foodcrops and increasing the supply of fertilizer available. Neverthe-



Line conversion by Robert B. Townsend from FAO and United Nations photos

less, in many of these countries, policymakers still frequently conceive of development in terms of immediate industrialization, urbanization, and the use of modern technology. If the modernization of the agricultural sector is seen to be necessary, it is mainly to support industrialization—primarily to generate food surpluses quickly to feed the urban masses or to earn export surpluses to help capital formation. Moreover, too often the best way to increase agricultural surpluses quickly is believed to be through heavily capitalized large-scale farms rather than by devoting resources to aid the output of smallholder peasants.

Experience indicates, however, that large-scale farms dependent on tractor cultivation, especially in the public sector, are generally economically inefficient in comparison with small peasant plots. And they do not achieve broad-based rural development. Neither are food surpluses generated more quickly or mobilized more cheaply than on peasant plots—if the latter are provided with appropriate services and incentives.

Even when governments do attach importance to smallholder production, they often tend to overlook the need to support it sufficiently—through providing appropriate technology, for example, or a timely delivery of low-cost services. They may attempt to modernize by changing the organization of traditional agriculture—that is, by establishing cooperatives or collective cultivation instead of encouraging individual farming; or by constructing modern silos for surpluses, instead of improving traditional storage methods. In countries such as Kenya, where smallholder farming is more effectively supported by incentives and services, growth in the productivity and incomes of small farms has been significant—6 per cent annually between 1960 and 1970. The changes in attitudes and policies, which are already noticeable, show that longer exposure to problems of development, more widespread education, and greater participation of the educated in policymaking will undoubtedly make it possible to tailor policies more closely to the needs of the rural areas in low-income African countries.

The public sector

Government is almost the sole source of services, especially in the traditional rural sector in many African countries. Several side effects of this role can, and do, limit development: the excessive growth of bureaucracy; the frequently inadequate public accountability in the use of public resources; the high cost of services; administrative and political problems in cost recovery; and the consequent need for indiscriminate subsidization of services. Often, the use of scarce government revenues and trained manpower to provide high-cost, subsidized public services—such as parastatals, or officially instituted cooperatives—has also resulted in shortages of these resources for such other important activities as road construction and maintenance or an effectively operating educational system. International agencies can assist in improving the mobilization, allocation, and accounting of funds.

In parts of the world with relatively more abundant supplies of experienced and trained manpower and a more diversified institutional structure, the inefficiency of government is not so serious a limitation as it is in many African countries. Most African countries need to nurture a more diversified institutional structure with a larger role for the private commercial sector and traditional local and community organizations. However, this is not a matter that external development agencies can directly influence. Some governments have not only had extensive control of services but they have also promoted techniques and the organization of production at a more rapid pace than can be justified by potential profits or by the farmers' willingness to accept them. The high level of fertilizer application being promoted in Lesotho is one example. The pace of cooperative production attempted in Tanzania in the mid-1970s is another. Both cases paradoxically arose out of a concern to promote self-reliance. Where government control has been extensive, agricultural growth has not been sufficient to improve the distribution of its benefits. Where a diversified institutional structure has been tolerated, as in Kenya, the smallholder agricultural sector has grown more rapidly, but the distribution of benefits has not necessarily been equitable.

Capacity of the bureaucracy

The recent shift in the focus of international lending agencies from depending on autonomous project entities for project implementation to improving the effectiveness of the normal governmental agencies has increased the demands on national institutions. Yet the task of orienting national institutions to development has begun in only a few African countries.

Tanzania is one country that has attempted to reorganize its institutions, through the settlement of rural people in organized villages, decentralization, the abolition of the cooperative movement, and the appointment of village managers. In the long run, the decentralized administrative structure in Tanzania has considerable potential to be responsive to local needs and constraints. In the short run, however, decentralization has exacerbated the problem of realistic planning and effective implementation. A particular problem has been the shortage of trained staff now needed both by the regional and the central administrations.

Trained manpower is scarce at the policy, planning, and budgetary levels in all African countries. Consequently, important policy decisions related to pricing of inputs and crops, interest rates, and the allocation of trained manpower and budgetary resources among regions and sectors frequently have to be made without an orderly review of policy options and without examination of long-term objectives and the effects on their realization or of the availability of manpower and financial resources for effective implementation of these decisions. In Zambia, for instance, the recent decline in copper earnings led to across-the-board cuts in government expenditures, delaying payments to farmers for their sales and thus reducing the plantings of foodcrops in the 1978-79 season. Similar sudden cuts in development budgets due to unplanned expenditures are not rare in other countries.

Manpower is also short in project work, where the problem is compounded by the low prestige attached to being employed in the rural sector and by the shortage of budgetary resources for its development. If there are overall shortages in a country, even if the donor-aided project has full local staffing and realizes its objectives, it is usually only at the cost of increasing the number of vacancies in "nonproject" development activities, including those in parent ministries and departments. The additional consequence of overall manpower shortages is that the limited staff are frequently transferred and the planning and implementation of projects has little continuity, causing delays in achieving results and reducing the potential benefits of training and experience.

Education and training

Hitherto the emphasis of donors in the low-income countries of Africa has been largely on primary education and on short-term basic, functional, and nonformal education and training. While primary education is essential, the need for formally educated manpower in the modernization of the traditional rural sector cannot be overstated. The World Bank's review of training components in 95 projects in Eastern Africa indicated that there is a great shortage of Africans with the necessary formal education in agriculture at the middle and higher levels of management in nearly all sectors that rural development involves. The shortage persists, even though in many cases formal education requirements have been scaled down or specialized training has been split into many parts to accommodate the limited supply of the formally educated at all levels. The substantially increased training funds provided by donors, therefore, cannot be utilized fully due to the shortage of Africans with the necessary educational qualifications.

Official policies and general attitudes discourage educated Africans from seeking employment in the rural sector. Where the supply of the formally educated is geared very closely to the needs of the modern sector, the problem is aggravated. It is the general "oversupply" of the formally educated for the modern sector in many Asian countries that has eased their supply to the rural sector. In addition to providing assistance for improving manpower planning and allocation procedures, donors will have to increase assistance to education at all levels and to be ready to meet likely rises in recurrent costs.

Infrastructure, technical assistance

Another constraint on rural development in many African countries is the inadequacy of resources allocated to major transport systems. In spite of increased loans for feeder roads in recent years, in many countries there has been a net deterioration in the quality of the trunk road system. This has led to such problems as the frequent breakdown of vehicles and the spoilage of crops, as well as a reduction in the returns to the feeder road system. The difficulties in attracting educated, qualified staff to take up positions outside the capital city because of the poor amenities provided—and thus the adverse effect on the quality of planning and implementation of governmental services in rural areas—needs no documentation for those who have visited rural development projects in Africa. Aid to infrastructure that has been relegated to the background in recent years will have to be increased considerably if rural development is to be achieved.

Even if investment in education and infrastructure is expanded, technical assistance is still needed in the short run in parent ministries and policymaking bodies in these countries. But not all governments are willing to use outside assistance in politically sensitive areas, such as budget and manpower allocations. And even where technical assistance is accepted, for it to be effective, it has to be carefully selected and used.

Provisions of technical assistance are usually ample at the project level but the cost of staff recruited on international terms has been high—typically $60,000 to $100,000 per annum compared with $15,000 to $30,000 for technical assistance staff recruited directly from other developing countries. The quality of staff has not necessarily been commensurate with the costs. There is a need to examine ways of providing technical assistance on a more competitive basis, even though there are difficulties in assessing the benefits of such a service. Again, the World Bank has gone considerably further in encouraging the use of low-cost technical assistance than have many bilateral donors.

There is also the problem of lack of continuity in technical assistance. With relatively few long-term career prospects, most internationally recruited staff stay only three to five years in a country and have relatively little motivation to be effective. Moreover, neither donors nor recipients give adequate attention to the effective training—both formal and practical—of nationals so that they may continue to do the jobs efficiently. These shortcomings of technical assistance are a strong argument for the expansion of educational programs to prepare nationals for the planning and implementation of their own projects.

Recurrent costs

Shortage of local recurrent budgetary resources is a pervasive constraint to rural development programs over time, limiting the operating funds available to utilize the investments already made, causing lack of adequate maintenance of past investments, and thus partly explaining the delays in meeting targets and the slower realization of project benefits.

This shortage appears to be a result of a number of factors. These include clashing priorities in the allocation of resources referred to earlier; the failure of governments to recover costs; extensive subsidization; and the wide, unpredictable fluctuations in the export earnings of primary producing African countries. As would be expected, the problem of budgetary shortages has been compounded by the almost simultaneous shift to an emphasis on poverty alleviation by the entire donor community, as the new projects are more demanding of the recurrent budgetary resources per unit

This article is based on a chapter in the new edition of Design of Rural Development: Lessons from Africa *(Johns Hopkins, 1975) by Uma Lele.*

of investment than those financed previously. There has also been an absence of commensurate increases in allocations by governments. Moreover, donors tend to finance capital rather than operating costs, partly because they wish to promote exports from their own countries, partly because they do not fully recognize the importance of operating costs, and partly because they want to raise government allocation. These factors in turn create a bias at the national level in favor of capital expenditure and against the allocation of domestic resources for operating costs and maintenance.

The effects of the donor's policies can be positive, too. In many cases, they have strengthened financial and administrative discipline and resulted in increased government support for these expenditures. Besides, donor policies have begun to evolve considerably. Agencies such as the World Bank, for instance, now provide capital costs for the maintenance of infrastructure and other development—as in the case of the roads projects in Kenya. They also finance incremental recurrent costs (such as salaries and travel allowances during the project period) as with the Shire Valley project in Malawi, and expect graduated government contributions of recurrent funds in projects. Donors will, therefore, have to provide greater assistance for overall development planning to improve budgetary allocations, and may well have to follow even more liberal policies toward the financing of recurrent local costs.

Donors' role

Given their current limited capacity to plan and implement rural development projects, African countries will continue to need greater external assistance in the form of project aid of the type now being given than other more advanced countries. Even with the evolution of the project concept and lending policies described earlier, projects alone cannot bring about the immediate alleviation of poverty and the wider institutional development required in Africa. This means first that, in addition to project aid, external assistance will have to include greater assistance for overall development planning than before. Second, especially if the new broader rural development objectives are to be realized, in addition to direct poverty-oriented projects greater emphasis will have to be placed by donors on allocating their own resources to education and infrastructure. Even with these changes, however, rural development will be a slow and difficult process in Eastern Africa. But a stronger foundation would have been laid.

World Bank Gives Kenya Record Loan

KENYA continues to attract more aid from the World Bank and its affiliate, the International Development Association (IDA). For the fiscal year 1979, which ended on June 30, the bank and IDA gave Kenya a total of shs. 1,857.4 million, making Kenya the largest recipient of development aid from the bank and IDA among the 29 African countries south of the Sahara. The second and third positions are occupied by Nigeria and Tanzania, with shs. 1,346.8 million and shs. 868.1 million respectively.

Kenya received shs. 836.2 million in 1977 and shs. 1,147 million in 1978. Out of the shs. 1,857.4 million given this year, shs. 814 million is being spent on the development of the highway sector and telecommunications, including installation of additional telephones, long distance public telephone offices as well as the installation of eight microwave, three UHF radio systems and 11 long distance automatic exchanges.

The Kenya Posts and Telecommunications Corporation will get shs. 148 million, while shs. 666 million will be spent on road development and maintenances. The agricultural sector is one other area to which large sums are being directed. Shs. 518.8 million will be spent mainly in the rehabilitation and expansion of the sugar industry. This will involve three sugar factories in Nyanza's sugar belt — Miwani, Chemelil and Muhoroni — and the Ramisi Sugar Factory at the Coast. The programme is expected to benefit about 10,800 small-holder families in and around the four sugar factories, and save about shs. 222.0 in foreign exchange every year.

Other projects accounting for the world bank commitments are rural water supply schemes (shs. 66.6 million). Apart from the sum already made available, the bank and the Kenya Power Company are currently involved in negotiations for a further loan of shs. 07.5 million to help finance the shs. 600 million project. Two commitments of shs. 199.8 million and shs. 96.2 million by IDA are for small-holder coffee improvement and wheat development in Narok.

Releasing the 1979 report in Kenya this week, the director of the bank's regional mission in Eastern Africa, Mr. John D. North, said that although the bank and its affiliate could not promise that the all-time record commitments of 1979 would always be matched, it was unlikely that the commitments would return to the figures of the past years.

The bank's aid to Kenya over the years now stands at more than shs. 7,400 million, making Kenya one of the major beneficiaries of the bank's loans. Kenya's payments to the bank, for both amortisation and interest, amount to shs. 140.0 million per year.

DEVELOPMENT

Ups and Downs

World Bank assesses Africa

GIVEN their heavy reliance on the export of a very narrow range of primary products and their dependence on rainfed agriculture for a major share of total income, it is not surprising that economic fortunes in the eastern Africa region continue to be strongly affected by the weather and international commodity prices. Fiscal 1979 was marked by varying weather conditions throughout the region — heavier-than normal rains in Madagascar and Somalia; floods in Sudan; and drought in Zambia and in parts of Ethiopia. In general, however, the weather did not adversely affect harvests which were expected to be in the normal range. Encouragingly, food production continued to rise in usually foodshort Tanzania; analysts gave as a major reason, increased price incentives offered to farmers.

Increases in agriculture production in the region were offset, however, by major, adverse movements in the international commodity terms of trade. Copper exports, which account for nearly a third of regional exports in dollar terms, recovered somewhat in value, but the 1978 price level still remained far below the long-term average. Nor did tropical beverages, which constitue 12 per cent of regional exports, fare well. Their prices fell sharply from the extraordinary peak reached in 1977. While the financial pressures accentuated by the economic turbulence of the period, 1973-74, had been relieved, in several countries, by the upswing in coffee and tea prices during 1976 and 1977, the sharp decline in beverage prices during 1978 revealed, once again, the structural weakness in government finances and the balance of payments. In 1978, the composite price index of eastern Africa's exports declined by 5 per cent (the fall in beverages was partially offset by the rise in beef, groundnut, sisal, and tobacco prices); commodity terms of trade deteriorated; and the persistent rise in import prices continued into 1979.

Adverse external conditions led to a decline in foreign exchange reserves in most countries, and several of them ended 1978 with a negative net foreign asset position.

These difficulties are expected to persist for some time. While prices of some primary exports are likely to rise soon (e.g., copper and sugar), recovery is not yet in sight in other cases, such as for tropical beverages. Furthermore, the rise in the price of imported oil and manufactured goods is not likely to be reversed in the shortrun.

The 23 countries that form the western Africa region continue to present a highly diverse picture of economic and social conditions. While in Fiscal 1978, the external factors, which always loom large in deciding the fate of these widely open economies, were mostly unfavourable because of a general decline in commodity prices and poor weather in much of the region. The same factors have been more neutral and, in some respects, more favourable in fiscal 1979 despite a continued decline in coffee prices.

Not surprisingly, some countries have fared better, for a variety of reasons, than others in fiscal 1979. Among the smaller countries Benin and the Gambia have maintained a financial balance despite having limited resources. Niger, although severely stricken by the drought of the early 1970s, has not met serious financial difficulties because of rapidly rising revenues from uranium exports; as a result, the government budget is now able to generate sizable surpluses for investment. The challenge in Niger is to choose judiciously those policies that can raise, in a sustainable fashion, the still very low standards of living of the majority of the population. In the east, through fairly conservative policies, Cameroon has managed to avoid acute domestic financial problems although its external position appears to have weakened recently. Ivory Coast has managed to resume growth at its historical rate of about 7 per cent a year and, at the same time, reduce excessive levels of public investment associated with the heavy borrowings of 1976 and 1977.

To a great extent, Fiscal 1979 was a time of painful adjustment for Nigeria. Its economy of course, experienced a rather dramatic expansion following the petroleum boom of 1973-75. Fiscal 1978, however, saw the boom reverse itself, as petroleum exports fell by 25 per cent in volume and by an additional 4 per cent in price. An important factor in its economic recovery during Fiscal 1979 was the rapid revival of oil exports due, first, to more competitive pricing and, second, to the interruption of oil supplies from Iran. The Nigerian government also took a number of steps to bring expenditures into line with revenues. Those steps included a drastic reduction in public investments, the imposition and tighter enforcement of import restrictions, and borrowing $750 million in the Eurodollar market. (In Fiscal 1978, such borrowing amounted to $1,000 million). These various factors contributed substantially to a reduction in inflationary financing to a check in the rapid rise in imports, and to a stabilisation in the decline in foreign exchange reserves.

Other countries, where financial imbalances — whether associated with rapid overall growth or due to other causes — had become the main obstacle to social progress, have mounted serious rehabilitation programmes, generally with International Monetary Fund (IMF) assistance. These include Gabon, Ghana, Mauritania, Senegal, and Togo. Because of the magnitude of the problems, however, or the long history of balance, or both, recovery may be years away. Ghana is a good illustration of the kind of drastic — and, therefore, socially costly — action that may become unavoidable in such circumstances. ◼

FINANCE

A Good Year

World Bank lends more

LOAN and investment commitments amounting to $10,435.9 million were made to developing countries by the World Bank and its two affiliates during fiscal 1979. Details of the year's operations by the bank were released early this week with the publication of the bank's annual report.

World Bank lending for the year totaled $6,989 million, a new high, and $891 million more than in the previous year. Commitments by the International Development Association (IDA) the bank's affiliate that lends on concessionary terms to the poorest of the world's countries only amounted to $3,021.5 million, or $709 million more than in fiscal 1978. Almost four fifths of IDA commitments were to countries with annual per capita gross national products of $296 or less.

The International Finance Corporation (IFC), whose essential function is to assist the economic development of developing countries by promoting private sector growth, made 48 investments in the amount of $425.4 million, or $87 million above the mark set in fiscal 1978. (The IFC publishes its own Annual Report).

For the bank and IDA, lending for projects in the agriculture and rural development sector accounted for 25 per cent of the total. Transportation was next (19 per cent), and was followed by water and sewerage (10 per cent) industry (nine per cent) and lending to development finance companies and small enterprises 7%. Indonesia was the most active bank borrower in fiscal 1979, borrowing $704 million to help pay for projects costing a total of $1,342 million. Brazil borrowed $674 million from the bank in fiscal 1979, while Mexico borrowed $552 million. The bank's lending rate, fixed quarterly, is based on a formula that requires it to be 0.5 per cent higher than the cost of funds borrowed by the bank during the preceding 12 months. In the last quarter of fiscal 1979, the bank's lending rate was 7.9 per cent. Principal borrowers from IDA were India ($1,192 million), Bangladesh ($271 million), Pakistan ($164 million), and Egypt ($135 million). IDA credits are interest free, and are repayable over 50 years. An annual 0.75 per cent service fee is charged on the disbursed portion of IDA credits, however.

Disbursements to developing countries by the bank and IDA during fiscal 1979 totalled $4,824 million. Of that sum, the bank accounted for $3,602 million; IDA disbursements were $1,222 million. The bank's disbursement level was a new high. Repayment of principal and interest and other charges by developing countries amounted to $2,666 million. The net transfer of resources by the bank and IDA, therefore, amounted to $2,157 million, or $559 million higher than in fiscal 1978. ◼