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ECONOMIC DEVELOPMENT OF KENYA: A CRITIQUE OF KENYA'S
DEVELOPMENT PLAN

By

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It is now a commonplace to say that the attainment of political independence by African countries must be followed through by rapid economic reconstruction and development. After having been in office for less than a year, the present Kenya Government has produced a blue-print for the economic development of Kenya over the next six years.¹ It must be said at once that the need to produce a Plan in a hurry is responsible for many of the shortcomings of the new Development Plan for Kenya. The authors of the Plan mention more than once that owing to scarcity of data, manpower and time, it has not proved possible to draw up an adequately detailed and comprehensive plan; work has already started with a view to revising the Plan and we are promised a revised version sometime next year. It is hoped that the following remarks will be interpreted as a constructive contribution to the emergence of a revised Plan more suited to meet the economic needs and aspirations of an independent Kenya.

In general, the Plan targets represent a modest but not a highly ambitious attempt to force the pace of economic development in the country; this is evident whether we look at projections of income per capita or of public investment. The former is expected to increase by a mere 2.2% per annum, thereby raising the per capita income from £28.3 in 1962 to £33 in 1970; while the latter, excluding transfer payments, averages out at £20m. per annum, which is only one-third greater than the capital expenditure by the Public Sector in the period 1954-62. It would appear that a substantially greater effort would have been justified in a country with Kenya's economic potential and appeal for foreign aid.

Perhaps the most important weakness of the Plan lies in a failure to integrate the Private Sector into the overall Plan. There is an estimate of the aggregate private investment expected over the plan period, but no detailed breakdown as between different industries; nor, with the exception of Agriculture, are

1. "Development Plan: 1964-70", Government Printer, 1964. Hereafter referred to as "The Plan".

there specific targets for the Private Sector to achieve in order to realize the overall growth rates laid down in the Plan. This omission is all the more serious in Kenya where the Private Sector has been a vitally important force in the development of the economy in the past and is likely to be so for many years in the future. Furthermore, it is the crisis of confidence in the Private Sector in recent years which has been at the heart of the current economic problems of Kenya. A detailed plan for the Private Sector is desired not for reasons of theoretical elegance but as an instrument to spur private enterprise to greater effort. Similarly, at the moment there is a lack of any effective machinery in Kenya to secure the co-operation and active participation of the Private Sector as well as of the Regional Authorities in the fulfilment of the targets embodied in the Plan.

The various sections of the Plan are of uneven quality. The Plan is at its best when dealing with Agriculture, where clearly a lot of hard thinking and detailed planning has been going on. But the same cannot be said of several other important sections of the Plan, in particular those on Industry and Manpower; which show evidence of lack of adequate thought and planning. There is, for instance, no detailed discussion of the industries that might be established in Kenya in the course of the Six Year Plan, such as was found in the Tanganyika Plan. The Plan talks of the establishment of over 200 small industrial ventures by African industrialists; but we are not given any indication of what these might be. Similarly on the manpower side, the Plan is content to rely on the very general and global projections of the supply and requirements of skilled manpower made by Guy-Hunter in 1962. But if manpower planning is to be any help in the allocation of resources, it is necessary to make specific rather than general projections of the required manpower eg. the number of doctors, technicians, quantity surveyors, agricultural officers etc. needed to carry out the Development Plan.

These are only some of the more important weaknesses of the Plan. The question of whether the Plan embodies an appropriate strategy of development for Kenya will be discussed in a later section. It is not suggested here that the Planners are unaware of the above limitations of the Plan. Indeed the contrary must be the case, for the earlier chapters contain an excellent and lucid discussion of the nature, purpose and requirements of planning in developing countries and display a lively awareness

of most of the important economic issues involved in such an exercise. But unfortunately the actual Plan does not live up to the promise of the theoretical discussion. It is to be hoped that the revised version of the Plan would fill most of these lacunae.

Before discussing the detailed recommendations of the Plan, it may be useful to make some general remarks on the structure and main characteristics of the Kenya economy in order to put the Plan in its proper perspective. The Kenya economy achieved an exceptionally high rate of growth until 1957. Two periods in particular stand out in this respect: 1947-51 and 1953-57. During the early post war years, Kenya along with other primary producing countries benefited considerably from a large improvement in her terms of trade, which was mainly responsible for the rapid expansion of the economy during that period. The rapid expansion experienced in the 1953-57 period was due in the main to an investment boom financed by a large capital inflow and to a massive increase in government expenditure because of the Emergency. What is more relevant for our purposes is to note a considerable slowing down in the rate of growth of the economy since 1957, caused both by a heavy and sustained fall in gross capital formation between 1957 and 1963 and by a substantial fall in export prices, especially in 1958 and 1961. The growth rate during this period would have been even lower but for a very creditable increase in the volume of exports both foreign and inter-territorial, and a substantial rise in government expenditure since 1960. The slowing down in the expansion of the economy has resulted in increasing unemployment, thus creating a major social and political problem for the Government. In these circumstances, the need to secure a rapid economic growth acquires an urgency that is lacking in most African countries.

The Kenya economy is often described as an underdeveloped, primary producing economy. But this text-book description obscures some of the features of the Kenya economy which mark it out from the general run of the underdeveloped countries and which have a bearing on any plan drawn up for the development of the economy. One of these features is the comparatively low importance of exports to countries outside East Africa; since 1954, domestic exports have formed from 18 to 23% of cash Gross Domestic Product (G.D.P.); the corresponding figures for Tanganyika are 40 to 50% and for Uganda 35 to 44%. This ratio rises somewhat when we include

Kenya's exports to the rest of East Africa, it also shows a steady upward trend, having risen from about 23% in 1954 to 33% in 1963. But exports to the other East African countries are mostly manufactured or processed goods and hence do not pose the problems of price fluctuations. In any case, even with inter-territorial exports included, the Kenya economy shows lesser dependence on external forces than most other African countries.

The corollary of this feature is the relatively greater diversity and self-sufficiency of the Kenya economy. The industrial sector, defined to include manufacturing, construction, mining and quarrying, electricity, water and transport, storage and communications, alone accounts for well over 30% of monetary G.D.P. Likewise commercial and financial activities produce slightly less than one-fifth of the monetary G.D.P. These characteristics of the Kenya economy are due in no small measure to the existence of the East African Common Market and Kenya's role as the commercial, financial and industrial centre of East Africa. With the attainment of independence by Uganda and Tanganyika, Kenya will no longer have the lion's share of the benefits generated by the existing economic integration in East Africa. This will have considerable repercussions on the growth of the industrial and commercial sectors in Kenya, which have derived a considerable benefit in the past from Kenya's central position in East Africa.

Lastly and perhaps most importantly, the Kenya economy is characterized by its overwhelming dependence on non-Africans. All sorts of consequences flow from this, which will be discussed later. It is not easy to get a quantitative estimate of the monetary G.D.P. in Kenya going to Africans. One approach to obtain this estimate is to add up the value of African marketed produce and African wages and salaries. These two components together amounted to just under 30% of monetary income in Kenya in 1963. This figure would of course be substantially higher if we were to include subsistence income in our estimate. Moreover, the above proportion of the total cash income going to Africans excludes the incomes of all self-employed Africans outside the agricultural sector. But even when we make an allowance for all this, it is remarkable how small a proportion of the total cash income goes to Africans. The share of Africans in cash income has risen steadily since 1954, when it was only 25%;

All of this means that the economic fortunes of Kenya will be significantly affected by the behaviour of the immigrant communities. It also means that one of the primary objectives of the Government's economic policy must, of political necessity, be to increase rapidly and substantially the share of Africans in the wealth of the country. It further implies that the objective of maximizing the rate of economic growth may have to be sacrificed to effect a redistribution of wealth and income from non-Africans to Africans. Understandably enough, the Kenya Plan lays considerable emphasis on the Africanization of the economy. Africanization of Politics and Civil Service was initiated prior to independence and is now being pursued vigorously. There is also a parallel need to accelerate the African participation in the economy of the country. A large part of the Plan is concerned with increasing the role of Africans in Kenya's agricultural sector; and tentative steps are proposed to enhance the stake of Africans in the commercial and industrial sectors of the economy. It is for this reason that the Kenya Plan may more appropriately be described as a Plan for both Reconstruction and Development.

Outline of the Plan

The Kenya Plan envisages a total capital expenditure of £318m to be spread over a Six Year period from July, 1964 to June, 1970. Of this expenditure, the share of the Public Sector, comprising the Central, regional and local governments, E.A.C.S.O. and para-statal organizations is estimated to amount to just over £132m. or about 41%. However, this amount includes transfer payments of £10.9m, which represent a transfer of assets from one section of the population to another, rather than a creation of new assets. The real capital expenditure of the Public Sector is therefore expected to amount to just over £121m. or about 39% of the total expenditure excluding transfer payments. This compares with the share of the Public Sector in total gross capital formation between 1954-62 at 38%. Thus the present Plan does not aim at increasing significantly the relative share of the Public Sector in the economy.

A capital expenditure of the order of £507m. in six years works out to an annual average of just over £51m. This compares with an annual average investment of about £42m over the period 1954-60 and £40m. during the period 1954-62. Thus the Plan envisages a rise of 21 to 27% in capital expenditure over that

achieved in recent years. This represents a substantial but by no means a striking advance over the earlier period. The Public Sector capital expenditure alone is expected on average to be only one-third greater than the expenditure in the period 1954-62; this again confirms our initial impression of a modest but not a really ambitious effort implied by the Development Plan. A further indication of the adequacy of real capital formation postulated in the Plan may be obtained by relating it to monetary G.D.P. The Plan states that by 1970, capital expenditure is expected to be £66m. and monetary G.D.P. £280.7m.; this ratio of 23% may be compared with 31.5%, 23.6%, and 15.0% for 1956, 1960 and 1963 respectively.

It is estimated that the above capital expenditure will generate a 5.2% increase in G.D.P. per annum. With population growing at approximately 3% p.a., this implies a rise in per capita income of 2.2% p.a. However, the increase in African incomes is expected to be substantially above the national average, as 'the several programmes in the Plan designed to increase African participation in the economy will modify the existing pattern of income distribution in favour of Africans'.^{1/} It is important to remember that this projection is made on the assumption of constant product prices. Any sizeable decline in export prices such as occurred during the period 1954-62, could wipe out most of the expected rise in per capita purchasing power.

Sectoral Distribution of Planned Capital Expenditure

The Plan does not give a sectoral classification of private capital expenditure - a serious weakness of the Plan. The rest of this paper will, therefore, be concerned only with the Public capital expenditure - over the Six Year period. Table I gives a broad distribution of public expenditure by sectors. It will be noticed that the Plan lays heavy emphasis on Agriculture and Basic Services which are expected to absorb 40% and 41% respectively of the entire Public Sector expenditure. The emphasis on Agriculture comes out even more clearly when we consider the Government expenditure alone: it accounts for no less than 60% of the total government expenditure. Even when we make an allowance for about £11m. of transfer payments included in this total,

^{1/} Op.cit. p.129.

the relative emphasis placed on Agriculture emerges as the most important element in the developmental policies of the Government. In the Basic Services sector, most of the expenditure will be absorbed by Power (15.5% of total expenditure) and railways and harbours (10.7%). The other notable feature of the Plan is the relatively small expenditure on Commerce and Industry (3.9%), Tourism (0.7%) and to a lesser extent on Social Services (12.5%).

The emphasis on Agriculture is in keeping with the earlier development plans and also with the recommendations of the World Bank Report on Kenya, which stated: "The mission believes that increased output of primary products will have to provide the basis for an expansion of the economy as a whole".^{1/} Furthermore, most of the increased agricultural output will have to be sold on the world markets. This again is reflected in the World Bank Report: "Kenya will depend, like so many other underdeveloped countries, largely upon production for export to achieve a satisfactory rate of income growth" (p24). The result is that the agricultural sector is expected to increase its relative importance in monetary G.D.P. over the period from 21% to 23%, and agricultural exports are estimated to maintain a constant proportion of monetary G.D.P.

The case for seeking development through concentration on Agriculture in low-income economies is well-known. In Kenya this case is strengthened by the need to enlarge foreign exchange earnings to pay for a substantially higher level of imports. Moreover, since Agriculture in East Africa is more labour intensive than Industry, emphasis on the former will make a greater contribution to the solution of the unemployment problem. In addition, it must be remembered that the high priority accorded to Agriculture reflects the political decision to Africanize the agricultural sector, as is evidenced by large sums of expenditure on resettlement schemes embodied in the Plan. Nevertheless, one cannot help feeling that the case for development in Kenya through industrialization has not received the priority it deserves. We saw earlier that the Kenya Economy has relatively well developed industrial, commercial and financial

^{1/} "The Economic Development of Kenya." Report of an Economic Survey Mission, December, 1962 p.23.

TABLE I: PUBLIC SECTOR EXPENDITURE: £m.

SECTOR	TOTAL	%	TOTAL GOV'T	%
A - AGRICULTURE	27.7	20.9	23.2	28.8
1) Agric. Finance Crop/Land Bank	(12.2)	(9.2)	(10.2)	(12.7)
2) Agriculture	(4.0)	(3.0)	(2.5)	(3.2)
3) Livestock	(2.0)	(1.5)	(1.0)	(1.2)
4) Irrigation	(7.6)	(5.8)	(7.6)	(9.4)
5) Land Reclamation	(1.8)	(1.4)	(1.8)	(2.3)
B - LANDS	15.7	11.9	15.7	19.5
6) Land consolidation	(2.5)	(1.9)	(2.5)	(3.1)
7) Land Settlement	(13.1)	(9.9)	(13.1)	(16.2)
C - NATURAL RESOURCES	9.3	7.0	9.3	11.5
8) Water Supplies	(5.6)	(4.2)	(5.6)	(6.9)
9) Forests	(3.2)	(2.4)	(3.2)	(4.0)
D - COMMERCE AND INDUSTRY	5.1	3.9	0.3	0.3
10) Major Industry	(4.5)	(3.4)	-	-
E - TOURISM	1.0	0.7	1.0	1.2
F - BASIC SERVICES	54.2	41.0	15.5	19.2
11) Roads	(6.8)	(5.2)	(5.1)	(6.4)
12) Airports	(1.2)	(1.0)	(1.2)	(1.5)
13) Railways and Harbours	(14.2)	(10.7)	-	-
14) Posts and Telecommunications	(2.3)	(1.7)	-	-
15) Power	(20.5)	(15.5)	-	-
16) Other buildings	(2.5)	(1.9)	(2.5)	(3.0)
17) Local authorities	(6.0)	(4.5)	(6.0)	(7.4)
G - SOCIAL SERVICES	16.5	12.5	13.0	16.1
18) Education	(9.8)	(7.4)	(6.3)	(7.8)
19) Health	(4.0)	(3.0)	(3.9)	(4.8)
20) Housing	(2.5)	(1.9)	(2.5)	(3.1)
H - SECURITY AND DEFENCE	2.8	2.1	2.8	3.4
TOTAL PUBLIC SECTOR	132.2	100.0	80.6	100.0

NOTE: Only the most important items in each sector are listed; hence they do not add up to the sectoral total

Source: Derived from Table 27 from "The Plan" pp 121-22.

sectors. Thus the base for a 'great leap forward' in industrial development already exists in Kenya. It is, therefore, not surprising that many economists have thought of Kenya as one of the most promising candidates for development through forced industrialization in Tropical Africa. The strategy of relying so heavily on Agriculture for development has its own dangers; it will perpetuate the dependence of the economy on world markets for primary products. The outlook for some of Kenya's most important exports, with the exception of sisal, does not look too bright. If the experience with coffee is repeated for tea, pyrethrum and other cash crops, it will be a major setback to the Governments' efforts to raise living standards of the people.

Distribution of Investment within Sectors

The pride of place in the Plan undoubtedly goes to the Agricultural Sector which is expected to account for a total expenditure of over £52 m. The sector dealing with Agriculture is also the most impressive part of the Plan. It represents an ambitious effort at agrarian revolution through a series of schemes for consolidation, land resettlement, irrigation and land reclamation, supported by a massive injection of capital and extension services. Of the total expenditure of £52m., very nearly £11m are to be used to purchase farms and are therefore not genuine development expenditure. Over £12m are to be utilized for agricultural credit to farmers, both small and large; of this, slightly less than half the loans are meant for the farmers who will be settled as a result of the Resettlement Schemes in the former scheduled areas. It is planned to settle 18,000 families during the Plan period on an area of roughly 496,000 acres. A further £13m. are to be spent on irrigation and water supplies development. The emphasis on irrigation is something new in the agricultural policy of the Government and is designed to relieve population pressure by utilizing some of the hitherto relatively unfavourable areas. Land consolidation, which has been going on since 1955 will absorb a further £2.5m. during the Plan period. It is hoped that all these schemes will make a powerful contribution to the enhancement of the role of Africans in the Kenya economy and to the establishment of agriculture on a modern, efficient basis. It is clear that the success of the Plan will depend in a large degree on the performance of this sector.

Other important projects in Agriculture include £3.3m expenditure on tea development, £1m on new milk manufacturing plants and a new abattoir and canning plant. Agricultural

research is expected to receive only £204,000 - a woefully inadequate figure considering the vital importance of research in promoting agricultural productivity.

These policies are expected to make Agriculture one of the faster growing sectors of the economy - at 6.8% p.a. compared with a 5.7% growth rate of the economy as a whole. Although coffee, tea and sisal will continue to be the three most important agricultural exports from Kenya, it is planned to diversify the agricultural output by a relatively much larger increase in the output of cotton, wool, sugar and rice.

Of the £54m. to be spent on economic infrastructure, railways and harbours and power are expected to account for £14.2m and £20.5m respectively. Slightly less than half the Railways and Harbours investment is due to rolling stock and equipment, and the rest to the construction of a new rail link between Nairobi and Moshi, and to the possible replacement of the track on the Nairobi/Nakuru section of the main line; and finally due to the construction of new berths and sheds at Kilindini Harbour. The expenditure on Power is due to the construction of a power station at Seven Forks, and the subsequent building of a reservoir dam. Kenya has hitherto been fortunate in being able to utilize the cheap electricity provided by the Owen Falls Dam. But it is estimated that the present capacity will be fully utilized by 1967 and hence the need to provide for new sources of power.

The other important item in this sector is roads, on which it is planned to spend about £6.8m., most of which will be devoted to the improvement and bitumenisation of roads. It is planned to increase the length of bitumenised roads from over 800 miles in early 1963 to 1087 miles by 1970. This includes the Eldoret/Tororo stretch. The bitumenisation of the Nairobi/Mombasa road is also included in the Plan provided it can be financed by toll road revenues. The relatively high priority accorded to Transport and Power in the Plan is a consequence of the neglect of these basic services in the past Development Plans.

Within the category of Social Services, education is expected to account for £9.8m. out of a total expenditure of £16.5m. There is no provision in the plan for the capital expenditure on primary schools; secondary education is expected to absorb about half of the total expenditure on education. A further £3.5m. is to be spent

on the University College, Nairobi. The rest of the money is to be used to expand facilities for technical education and to build a science teachers institute. The emphasis on scientific and technical education is surely right; concentration on the expansion of secondary and higher education is designed to redress the past imbalances in the educational system and to help ease the skilled manpower constraint on the development of the country. It is planned to raise the Form IV enrolment by 90% from an estimated 6,100 in 1964 to 11,600 in 1970 and Form VI enrolment threefold from 600 in 1964 to 1,800 by 1970.

Of the £4m. to be spent on health, over £1m. is due to 106 new health centres and £1.9m. on new hospitals and extensions to the old ones. But this rate of expenditure will not be adequate to maintain the present ratio of 1.22 beds per 1,000 population, so high is the rate of population growth in Kenya.

The Public Investment in manufacturing industry is expected to be a mere £4.5m. The Governments' main instrument for promoting industrial development is to be the Development Finance Company whose main purpose is stated to be 'to stimulate the flow of private investment by providing loans or share capital to fill marginal gaps in private project finance.'^{1/} There are no plans for the direct operation and management of industry by a public development corporation on the lines of Uganda Development Corporation. In this, the Plan follows the orthodox policy in Kenya of relying almost exclusively on the Private Sector for the industrial development of the country. But it does not contain a programme of vigorous industrialization by the Private Sector; consequently the manufacturing and construction sectors are expected to be among the slowest growing sectors of the economy. Unless the Private Sector shows sufficient vitality and surpasses the projections of the Planners in the industrial sector, Kenya may well lose the industrial leadership in East Africa.

In the field of Commerce, it is planned to increase the participation of Africans by the establishment of Peoples' Shops, which will be managed by a trading company to be formed under the aegis of the Industrial Development Corporation. However, no financial provision is made for this in the Plan and there is no

^{1/} Op. cit. p 81.

indication of the amount and source of finance needed for this project. It appears that not enough thought has gone into this project at this stage.

Financing the Plan.

The prospects for financing the Plan are excellent. By the time of the publication of the Plan, £38.1m. out of £42.8m. of the Government Expenditure for the first three years 1964/67 had already been obtained or were in prospect. Similarly, half of the estimated expenditure by the other Public Sector bodies during the same period was either available or in prospect. Perhaps one reason for the relatively modest size of the Public Sector expenditure was the difficulty of obtaining finance from abroad. It is to be hoped that the Government's spectacular success in attracting very substantial aid from the U.K., U.S.S.R. and Peoples' Republic of China in recent months will enable it to set its sights higher.

Of the £38.1m. available or in prospect for the next three years, £3.7m., just under 10%, is expected from local sources, including taxation. This represents a relatively small effort by the country to mobilize domestic resources for development. However, in the later years of the Plan it is hoped to secure upwards of £2m. p.a. for development from the operation of the National Provident Fund - one of the most imaginative schemes in the entire Plan.

Comparison with the Tanganyika Plan.

It may be of some interest to compare the Kenya Plan with that of Tanganyika which was reviewed in the last issue of this Journal. We can only compare the size and pattern of capital expenditure of the Public Sector in the two Plans because, as we have seen, the Kenya Plan does not give any details of the planned private capital expenditure. There is little doubt that the Tanganyika Plan is substantially more ambitious than the Kenya Plan. This can be seen in various ways. First, the Tanganyika Plan envisages an annual growth rate of 6.7% in the real G.D.P., while the Kenya Plan aims at 5.2% growth rate. Since the rate of population growth in Kenya appears to be in excess of the Tanganyika rate, the per capita income in Tanganyika is expected to rise from about £20 p.a. in 1962 to £29.3 in 1970; the corresponding rise in per capita income in Kenya is from £28.3 to £33.0. If the Plan targets are realized in both countries, the per capita income in Tanganyika should

rapidly approach that in Kenya.

The substantially greater effort implied by the Tanganyika Government comes out even more clearly when we compare the size of the Public Sector expenditure in the two Plans. The Tanganyika Plan represents an annual average public capital expenditure of £26m., while the Kenya Plan implies an average of £22m. p.a., and £20m. p.a. if we exclude the transfer payments. The former looks even more impressive when we remember that in 1962 the monetary G.D.P. in Kenya was over £180m. compared with Tanganyika's £123m. and that the total Government expenditure in Kenya then was a little less than double the Tanganyika figure.

But perhaps even more remarkable is the contrast in the basic strategy of development embodied in the two Plans. The Tanganyika Plan deliberately sets out to bring about a structural transformation of the economy by laying heavy emphasis on the industrial and services sectors, while the Kenya Plan lays primary emphasis on the Agricultural sector, with the result that the structure of the Kenya economy in 1970 will be largely similar to that in 1963. All this may perhaps be best summed up by saying that whereas the Kenya Plan seeks growth primarily through exports of primary products, the Tanganyika Plan relies more on import substitution and processing of primary exports as prime movers in the economy.