AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

WORLD EMPLOYMENT PROGRAMME RESEARCH

Working Papers

International Labour Office, Geneva

WEP 2-46/WP. 11

WORLD EMPLOYMENT PROGRAMME RESEARCH

Working Paper

INTERNATIONAL EMPLOYMENT POLICIES

Working Paper No. 11

KENYA: STABILISATION AND ADJUSTMENT EXPERIENCES (1979-84) AND PROSPECTS FOR FUTURE DEVELOPMENT

by

R. van der Hoeven and J. Vandemoortele

Note. WEP Research Working Papers are preliminary documents circulated in a limited number of copies solely to stimulate discussion and critical comment. They are restricted and should not be cited without permission.

January 1987

Copyright © International Labour Organisation 1987

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorisation, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Publications Branch (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

ISBN 92-2-105876-X

First published 1987

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers. The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them. Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. A catalogue or list of new publications will be sent free of charge from the above address.

Printed by the International Labour Office, Geneva, Switzerland

Preface

This paper has been specifically prepared for the UNU/WIDER Stabilisation and Adjustment Policies and Programmes Project. The authors would like to acknowledge comments received on an earlier draft from John Harris, Gerry Helleiner, Tony Killick, Andreas Solimano and Lance Taylor, as well as from Francis Stewart and other participants at the WIDER Conference on Stabilisation and Adjustment Policies, Helsinki, 19-21 August 1986.

Table of contents

	Page
Preface	i.
1. Introduction	1
2. Some general characteristics of the Kenyan economy	3
2.1 Kenya's trade pattern	4
2.2 Development of fiscal and monetary policies	13
Budgetary policies	13
Monetary policies	16
2.3 Development of wages over time	17
3. An overview of stabilisation and adjustment programmes in Kenya	20
4. Causes of balance of payments deficits	24
5. Stabilisation policies and economic development	28
5.1 Monetary policies	29
5.2 Budgetary policies	32
5.3 Effects on saving and investment	33
5.4 Effects on the real side of the economy	36
5.5 Real wages, real wage costs and employment	39
5.6 Consequences for farmers	42
5.7 Effects on export performance	45
5.8 Causes and consequences of inflation	47
6. Conclusions and future prospects	49
Appendix I: A comparison of effects of changes in domestic policies and of external conditions on growth and poverty by means of a long-term simulation model	56
Appendix II: Decomposition of changes in current account deficits in Kenya	58
Appendix tables	63
References	68

1. Introduction

In this paper we want to illustrate the stabilisation policies Kenya applied during the first half of the 1980s and to attempt to trace how these policies have affected economic development in general and the level of living of certain groups in particular. It is common parlance to distinguish between stabilisation policies and adjustment policies, to the extent that the former aim at reducing an unviable balance of payments deficit in the short run, mainly by contraction of demand, while adjustment policies aim at increasing supply in general and supply of tradeables in particular in order to remove a balance of payments deficit.

Since secular changes in price and trade patterns have been the chief cause - but certainly not the only cause - of external disequilibrium in most African countries typical stabilisation programmes proposed by the IMF are in effect a mixture of demand management and supply policies, while World Bank structural adjustment programmes, by being tagged onto IMF proposed policies, also rely on policies affecting the demand side. Kenya is a particularly good example as it was one of the first countries eligible for World Bank structural adjustment loans.

Compared to other African economies Kenya has weathered the crisis of the 1980s somewhat better than the average African country, but compared to previous experiences and given particular constraints the situation still cannot give unconditional positive prospects for the future. Table 1 gives some comparative figures which can be summarised as follows.

Table 1. Kenya's development experience compared to sub-Saharan Africa's experience

	GDP per capita 1984	Per capita GDP growth 1965-84	GDP growth, 1973-83			
			Overall	Agriculture	Industry	Services
Kenya	300	2.3	4.6	3.4	5.3	5.3
Sub-Saharan Africa[1]	420	1.8	2.1	2.9	1.4	3.5
Low income[1]	200	...	2.1	1.5	1.6	2.4
Middle income oil importer[1]	620	1.2	3.0	2.4	1.0	3.3

	% increase exports 1973-83	% increase imports 1973-83	Debt service % GNP 1983	Debt service % exports 1983	Annual inflation rate, 1973-83
Kenya	-4.8	-4.6	6.1	22.9	10.8
Sub-Saharan Africa	-5.0	+3.3	4.2	18.1	14.8
Low income	-3.8	-2.1	2.8	15.1	18.5
Middle income oil importer	-0.8	-1.9	7.0	15.0	10.8

	% growth in food production 1973-83	% growth in agricultural production 1973-83	Population growth 1983	Crude birth rate 1983	Crude death rate 1983	Public revenue % GDP 1983	Public account deficit 1985
Kenya	2.7	2.4	4.0	55	12	22.8	-8.4
Sub-Saharan Africa	1.2	1.0	2.9	47	17	14.4	-7.0
Low income	0.2	-0.2	2.8	47	18	11.5	-6.1
Middle income oil importer	3.4	2.5	3.5	47	15	29.3	-13.3

[1] Middle income oil importers: Mauritania, Liberia, Zambia, Lesotho, Côte d'Ivoire, Zimbabwe, Swaziland, Botswana, Mauritius. Low-income countries: All sub-Saharan African countries except middle income oil importers and middle income oil exporters (Nigeria, Cameroon, People's Republic of Congo, Gabon and Angola).

Source. World Bank 1986: Financing adjustment with growth in sub-Saharan Africa, 1986-1990 (Washington, D.C.).

Kenya showed above average growth performance over the period 1973-83, in agriculture, industry and services. However, both exports and imports decreased more in Kenya than in other countries, accompanied by above average debt service ratios. In effect, Kenya's debt service ratio of 22.9 per cent is one of the highest in Africa, only exceeded by Togo, Somalia, Madagascar and Nigeria. Kenya's inflation rate, on the other hand, is at the average level and the public sector deficit falls within the averages for the low-income and middle-income group. Kenya has, however, managed to raise an increasing share of its GDP as public revenue which at a level of 22.8 per cent is double that of other low-income countries and approaches levels in middle-income countries.

As the crude death rate is low and the crude birth rate is high, Kenya has a far above average population growth rate of 4 per cent per annum (one of the highest in the world) compounding problems for policy-makers.

The rest of the paper is organised as follows. We first give in section 2 a brief overview of Kenya's development from the 1960s up to the final year of our analysis (198f) in order to provide the reader with a perspective of the economy. After that we briefly recall in section 3 some of major policy events with relation to stabilisation and adjustment policies. In the ensuing section 4 we decompose balance of payments deficit during the period of our analysis (1979-84) into external and internal causes and into domestic policy measures. This will pave the way for a discussion in section 5 on how various sectors of the economy have reacted to external trends and stabilisation and adjustment policies. A final section discusses some future prospects of the Kenyan economy.

2. Some general characteristics of the Kenyan economy

The Kenyan economy can be characterised by: (i) a predominant but

dualistic agricultural sector; (ii) a high investment ratio; and (iii) a very high degree of openness (see table 2).

Agriculture is still the most important sector of the economy although its relative size is decreasing. In 1964, the sector accounted for 42 per cent of total value added which declined to 30 per cent in the early 1980s. Moreover, the sector remains dualistic in nature, as the dichotomy between large commercial-oriented farms and small-scale subsistence-oriented holdings continues. The latter occupy less than half of total arable land, generate every year about two thirds of agricultural value added and employ about

Table 2. Characteristics of the Kenyan economy, 1964-84

Year	Share in total GDP of				Public consumption	Public gross fixed capital formation as per cent of total GFCF
	Agri-culture	Gross investment	Imports	Exports		
1964	42.0	13.1	26.4	32.1	13.6	25.3
1965	37.2	14.2	30.6	32.1	14.6	26.3
1966	39.9	18.1	30.5	33.0	13.5	32.0
1967	38.2	18.4	27.3	27.2	13.1	35.0
1968	36.1	19.6	27.7	27.8	15.0	37.1
1969	35.4	18.7	26.6	28.0	16.2	33.0
1970	34.8	23.7	29.1	28.3	16.1	30.6
1971	32.7	23.7	33.5	27.2	17.8	38.9
1972	33.8	22.6	28.7	26.6	17.6	38.5
1973	33.9	26.0	28.5	27.2	16.4	45.3
1974	33.9	25.7	40.7	33.5	17.0	45.2
1975	32.8	18.1	34.5	29.8	18.3	41.9
1976	36.5	20.2	31.8	32.5	17.5	42.2
1977	40.9	23.8	31.7	35.1	17.4	42.3
1978	35.5	19.8	38.7	29.0	19.5	37.7
1979	32.9	22.7	32.4	26.4	19.7	46.0
1980	30.8	30.0	40.0	28.6	20.3	45.2
1981	30.7	28.3	34.4	25.5	19.0	44.5
1982	30.8	22.4	29.5	24.8	19.0	45.0
1983	31.1	21.2	26.7	25.6	19.3	38.0
1984	29.7	22.6	30.8	28.3	19.9	37.7
1985	29.1	18.5	27.8	25.4	18.1	41.8

Source. Vandemoortele (1985).

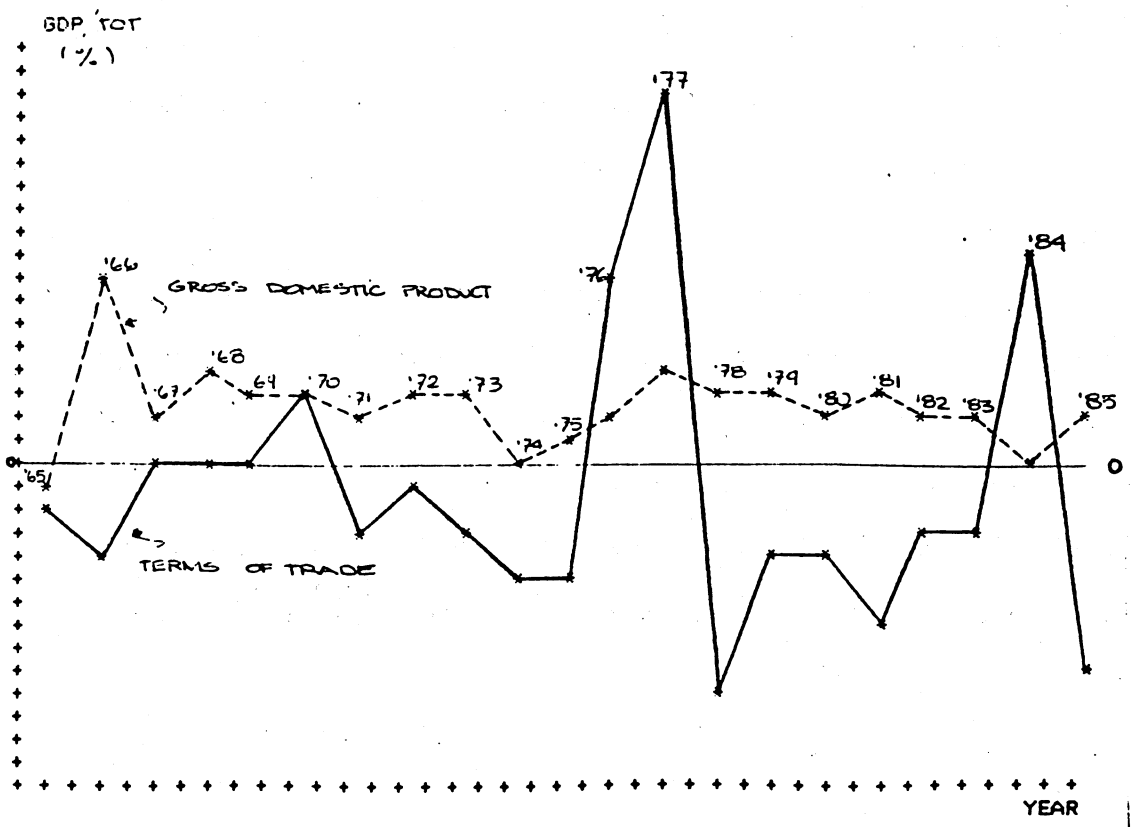
three-quarters of the labour force. Large farms essentially consist in plantations, ranches or mixed farms and are mainly export-oriented. For example, their share in coffee and tea production equals about 40 per cent and 60 per cent respectively.

The ratio of gross investments over GDP (at market prices) is relatively stable and averaged 22 per cent between 1964 and 1985. With respect to the openness of the economy, the country exchanges between one-quarter and one third of its GDP with the rest of the world. Both ratios are high compared to other developing countries. Investment and export ratios for low-income countries (excluding China and India) equal 16 per cent and 14 per cent respectively (IBRD, 1986).

2.1 Kenya's trade pattern

Economic performance has been strongly influenced by variations in international terms of trade (TOT). Figure 1 depicts the annual growth of real GDP and TOT between 1964 and 1985. It is striking to see how both evolved in the same direction in almost every single year. Until 1972, the terms of trade were relatively stable and GDP enjoyed a high growth rate.

Figure 1. Annual growth in real GDP and TOT, 1964-84



Between 1972 and 1979, the terms of trade declined steeply, except during the coffee boom years and the growth rate of GDP was particularly low in 1974-75. Since 1980, the terms of trade are more stable but declining and GDP growth remains sluggish. The upturn in the terms of trade in 1984, due to high tea prices, did not result in a more rapid growth of GDP because of the severe drought that affected the country in that year.

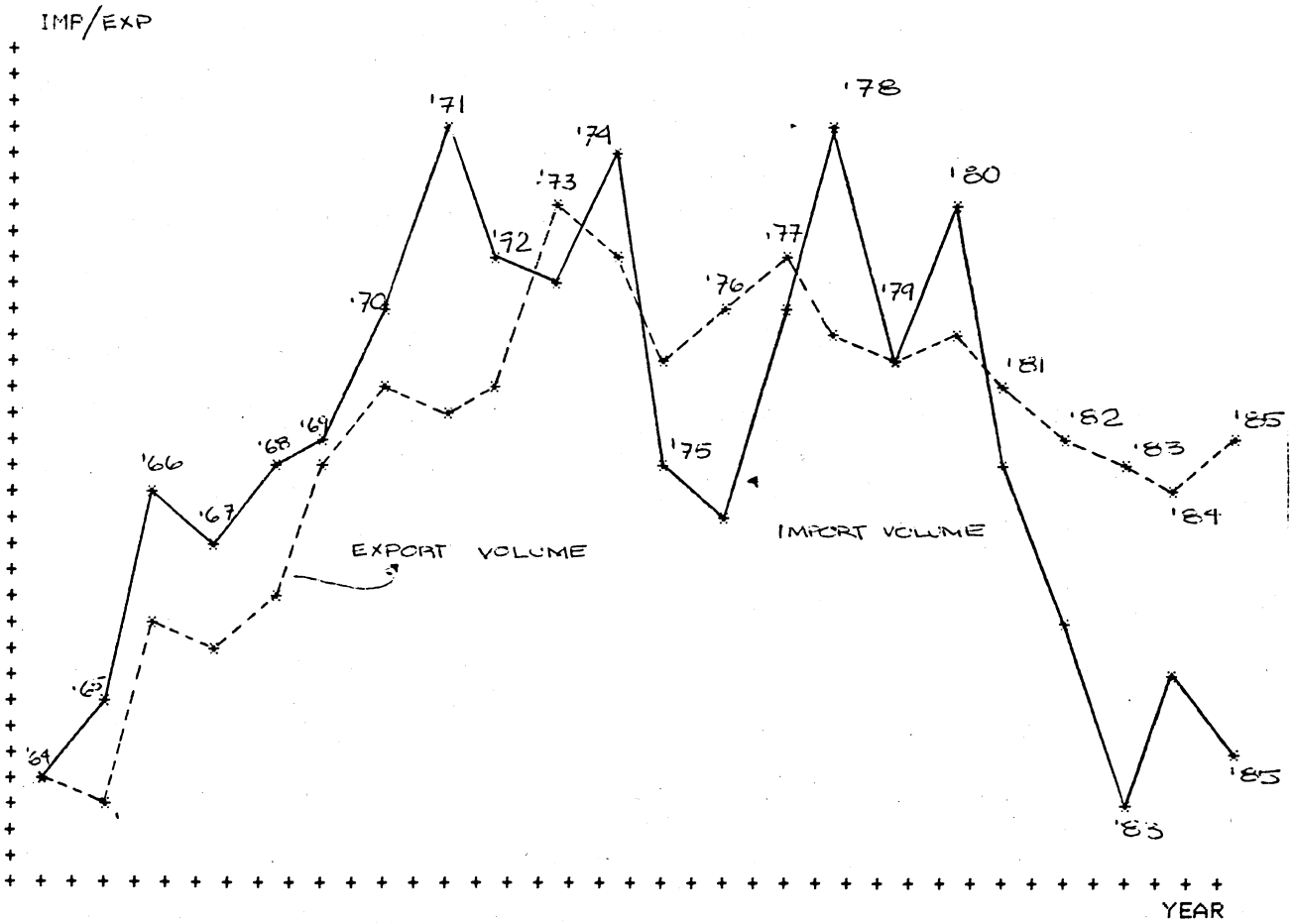
Thus, the figure clearly illustrates the sensitivity of Kenya's economy vis-à-vis external shocks (as one would expect from a country that trades about one third of its value added with the rest of the world) and it is therefore useful to depict a picture of trade performance and trade patterns over the longer period which we are considering in this section.

The coverage ratio of imports of goods and services (i.e. the export earning divided by the import bill) deteriorated sharply as a consequence of the 1973 and 1979 oil shocks. Therefore, it is useful to distinguish three sub-periods in the description of Kenya's trade performance with 1973 and 1979 as the turning years. During period I (1964-73) the country maintained grosso modo an external balance with an average coverage ratio of imports equal to 100.7 per cent. External imbalance occurred in period II (1974-79) and worsened further in period III (1980-85) when the coverage ratio fell to 89.6 and 83.6 respectively. In effect, the consequences of the first oil shock on the external balance were to some extent cushioned by the coffee boom of 1976-77.

The response to the growing import surpluses consisted mainly of tight import controls. Figure 2 depicts trade volume indices for the period 1964-84. Import volumes rose by 8.8 per cent per annum between 1964 and 1974, fell sharply in 1974-76 as a consequence of the first oil shock but rose quickly in 1976-78, following the coffee boom. Since then, import volumes have been declining by about 10 per cent per annum. The upturns in 1980 and 1984 were

mainly caused by dry weather conditions necessitating increased food imports. As a consequence of import controls, the import intensity of real GDP fell continuously from 100 in 1974 to merely 36 in 1985. This import-strangulation, of course, constrained domestic production so that the underutilisation of labour and capital increased markedly, as we will see later.

Figure 2. Trends in import and export volumes, 1964-84



Furthermore, import controls were selective in the sense that only essential imports were allowed. Thus the end use of imports changed in favour of intermediate and capital goods at the expense of final consumer goods. The share of the latter in total imports declined from 27 per cent in 1964 to 17 per cent in 1984 (table 3). It was especially private final consumption that

was most affected by the import controls with its share dropping from 24 per cent to 10 per cent respectively. On the other hand, the share of intermediate goods increased substantially as a consequence of the oil price hike, but this trend also resulted from a first-stage import substitution policy that was initiated in the 1960s so that imports of final consumer goods were progressively replaced by imports of capital and intermediate goods. Although the end use composition of imports changed significantly in 1974, it remained surprisingly constant after the first oil shock. This clearly indicates the limited potentials of an import substitution policy in a developing economy, in which industrialisation generally begins with the domestic production of previously imported non-durable consumer goods. Commodities such as food, textiles, shoes and soap are well suited for "first-stage import substitution" (Balassa, 1981), because they tend to be labour intensive, and skill and capital un-intensive. Also they are not subject to important economies of scale. Once the process of "easy" import substitution has been completeda normal pattern is for the economy to move into "second-stage import substitution" if high levels of industrial growth ought to be maintained. This involves the replacement of imported intermediate inputs and imported producers and consumer durables (e.g. fertilisers, cement, machinery and bicycles). However, such products are highly capital-intensive, and are subject to important economies of scale. Given the relative scarcity of human and physical capital as well as the small domestic markets, African economies are confronted with a serious disadvantage.

As can be seen from figure 2, export volumes also stagnated. Besides tourism, the three major (gross) export-earners for Kenya are, in decreasing order or importance: coffee, tea and petroleum products. On average, these three commodities account for three-fifths of total visible exports and their

share constantly increased from 50 per cent in 1964 to about 70 per cent in 1985. Table 4 shows the structure of total commodity export earnings.

Coffee exports (in value terms) increased by 4.5 per cent per annum since 1974 and on the average 80 to 90 per cent of the exported coffee entered the quota market while the remaining 10 to 20 per cent went to the non-quota market. Unfortunately, the price differential between the two markets is widening over time. In the 1960s, prices were about equal in both markets but the price differential widened further to 3:1. This implies that additional exports to non-quota markets become increasingly unattractive and will yield

Table 3. Imports by end use, 1964-84 (per cent of total)

Year	Intermediate consumption	Capital goods	Final consumption	of which: Private consumption	Public consumption
1964	57.9	15.1	27.0	24.0	3.0
1965	61.4	12.8	25.8	21.5	4.3
1966	56.6	16.2	27.2	21.2	6.0
1967	56.5	21.6	21.9	17.7	4.2
1968	58.4	17.6	24.0	19.6	4.4
1969	59.5	17.7	22.8	18.7	4.1
1970	57.7	19.4	22.9	18.8	4.1
1971	56.3	19.7	23.9	19.3	4.6
1972	55.3	22.5	22.2	17.7	4.5
1973	61.8	20.6	17.6	13.2	4.3
1974	72.2	13.3	14.5	10.0	4.5
1975	66.7	18.1	15.3	10.1	5.1
1976	63.1	19.0	17.9	12.1	5.9
1977	60.9	25.3	13.9	10.5	3.4
1978	55.5	29.3	15.2	10.1	5.1
1979	63.1	21.9	14.9	9.5	5.5
1980	69.8	15.4	14.8	9.0	5.8
1981	58.2	21.7	20.2	10.9	9.3
1982	61.5	22.1	16.5	9.7	6.7
1983	61.9	21.4	16.7	10.5	6.2
1984	64.3	21.5	14.2	9.8	4.4

Source. As table 2.

in the 1970s non-quota prices were only half of quota prices and in the 1980s, little foreign exchange.[1] Tea exports, on the other hand, rose very rapidly in volume terms by 9.2 per cent per year. Despite these remarkable increases and because of falling real prices, the share of coffee and tea in total visible export earnings remained relatively constant at the level of 28 per cent and 15 per cent respectively.

Table 4. Structure of commodity export earnings, 1964-85 (per cent of total)

Year	Coffee	Tea	Oil	Other
1964	32.7	13.0	4.7	49.6
1965	29.9	12.9	10.0	47.2
1966	32.3	14.9	10.1	42.7
1967	29.5	13.9	13.5	43.1
1968	22.1	17.3	10.9	49.7
1969	26.5	17.9	12.0	43.6
1970	31.1	17.7	11.5	39.7
1971	26.6	16.3	12.2	44.9
1972	27.4	18.1	9.8	44.7
1973	29.2	13.9	7.7	49.2
1974	23.6	11.9	16.1	48.4
1975	16.4	10.7	22.7	50.2
1976	29.3	10.0	18.1	42.6
1977	42.5	14.9	15.1	27.5
1978	33.7	17.1	16.3	32.9
1979	28.7	16.3	17.7	37.3
1980	22.2	11.9	31.1	34.8
1981	21.3	11.9	30.7	36.1
1982	26.5	14.2	26.0	33.3
1983	25.3	19.5	19.6	35.6
1984	27.0	25.1	17.4	30.5
1985	29.7	24.7	14.0	31.6

Source. As table 2.

[1] Unless the quota are lifted, as we will discuss in section 6.

Kenya exports also refined petroleum products which are obtained from imported crude oil. But in volume terms, petroleum exports are declining by 7.6 per cent per annum since the first oil shock, mainly because of the increasing refining capacities in the Gulf States. Until 1973, the export earnings of petroleum products payed off the cost of imported crude oil so that the net oil import bill was negligible. After the first oil shock, however, net oil imports accounted for 7.6 per cent of total imports and this share went up to 17 per cent after the second oil shock. Despite the fall in export volumes, but because of the important price hikes, the share of petroleum products in total visible exports increased from 10.2 per cent in 1964-73 to 17.7 per cent in 1974-79 and 30 per cent immediately after the second oil-shock. By 1985 its share was down to 14 per cent, because of falling oil prices.

The residual share of commodity exports consists in food and non-food agricultural commodities (mainly horticultural produce, canned pineapples and sisal) and manufactured products. Manufactured export volumes fell by 50 per cent between 1973 and 1985. The main causes of this poor export performance were exogenous in nature, comprising the break up of the East African Community, the closure of the border with Tanzania and the deterioration of the Ugandan market. Tanzania and Uganda absorbed 30 per cent of Kenya's exports in 1979, but only about 10 per cent in 1985. The re-opening of the Tanzania border and the signing of the PTA treaty in 1982 will provide new opportunities for Kenya's manufactured exports in the future.

Kenya has a small and open economy and is thus a price-taker in the inter-national markets so that the terms of trade are exogenously dictated. During the past two decade, the barter terms of trade seriously deteriorated and by the early 1980s they stood at merely half the level of the early 1960s. The only improvements occurred in 1976-77 and 1984 when the prices for

coffee and tea deviated markedly from their declining trend. As figure 1 illustrates, the impact of the deteriorating terms of trade on the economic performance of the country has been substantial. Output structure and export mix of a developing economy as shown in many cases respond only slowly to changes in the international terms of trade. Kenya is no exception to this rule.

Table 5: Export volumes by economic category (1976=100)

YEAR	FOOD	BEVER-AGES	CRUDE MATERIAL	FUELS	EDIBLE FATS & OILS	CHEMI CALS	MANU-FACTURED GOODS	EQUIP-MENT	MISC	ALL EXPORTS
1972	86	152	82	109	52	115	98	68	145	93
1973	101	191	92	112	86	141	119	116	174	109
1974	88	141	109	111	79	149	103	120	155	104
1975	86	94	98	102	69	105	101	97	130	94
1976	100	100	100	100	100	100	100	100	100	100
1977	116	155	85	107	25	85	74	53	78	104
1978	112	120	81	89	13	89	68	46	77	96
1979	115	129	93	80	18	75	66	41	81	94
1980	105	319	90	102	16	66	82	68	103	97
1981	117	192	89	77	19	65	66	45	93	92
1982	131	236	77	55	9	52	74	44	86	89
1983	138	366	78	47	14	48	61	22	65	85
1984	134	248	85	46	41	49	58	17	71	84
1985	149	545	89	38	18	55	57	19	89	88

Table 5 shows the export performance (in volume) by type of commodity between 1972 and 1985. Exports of food and beverages increased steadily over time, while all other export items, such as mineral fuels, chemicals, manufactures and equipment decreased sharply. This means that the export pattern is towards more agricultural and less industrial products, indicating that the decline in terms of trade is not expected to reverse anytime soon, except for a short-lived coffee boom as in 1985/86.

Thus, the picture that emerges from table 5 is that the export mix did not prove to be very price elastic during the past decade. In addition, it should be stressed that non-oil terms of trade deteriorated as rapidly as the total terms of trade, indicating that it would be incorrect to attribute the worsening trade balance of the oil-importing developing countries solely to the oil shocks. Exports were quite unresponsive to changes in prices and exchange rate. Kenya's major export sectors are agriculture and manufactures. While agricultural production is of individual crops quite price responsive (mainly through intensified harvesting) exports are often governed by quotas and by poorly managed parastatals (uncertain marketing, lower prices and late payments). Manufacture lost its major export markets (Tanzania and Uganda) and remains severely constrained by irregular and uncertain supply of imported inputs.

2.2 Development of fiscal and monetary policies

Besides looking at foreign trade, it is also important to review stabilisation and adjustment policies that were introduced in order to cushion the impact of external shocks of the 1970s. In fact, Kenya faced several external shocks, starting with the first oil shock of 1973, the coffee boom in 1976-77, the second oil shock in 1979 and the tea boom in 1984. In addition, those external events occurred while the domestic conditions deteriorated due to the demographic explosion, the growing land pressure and the general bias of most economic policies in favour of the urbanised economy at the expense of agriculture. Hence, it is difficult, if not impossible, to disentangle the exogenous factors from the domestic ones in assessing the causes of economic instability.

Budgetary policies

The first important set of measures concerns the fiscal and budgetary policy. Throughout the post-independence period, the budget deficit has

Table 6. Level and structure of government revenue and expenditure, 1964-84 (per cent)

Year	Ratios of			Tax structure		Expenditure structure			
	Public revenue as per cent of GDP	Public expenditure as per cent of GDP	Public deficit as per cent of GDP	Direct taxes as per cent of revenue	Indirect taxes as per cent of revenue	General expenditure	Interest Payments	Basic needs expenditure	Economic expenditure
						as per cent of total public expenditure			
1964	14.1	20.1	6.0	29.4	51.9	25.3	6.3	17.5	33.2
1965	16.3	22.5	6.2	29.8	48.1	25.0	6.1	17.3	31.6
1966	16.3	21.0	4.7	30.4	49.9	26.2	6.2	19.0	32.4
1967	17.9	22.0	4.1	31.3	45.6	25.7	5.7	19.6	34.6
1968	18.0	22.3	4.3	30.4	46.1	23.2	5.7	21.7	36.1
1969	19.4	24.1	4.7	33.1	44.4	22.7	5.4	26.0	33.9
1970	22.6	28.6	6.0	33.3	41.2	19.4	4.8	28.2	35.5
1971	23.5	30.0	6.5	33.9	41.8	22.1	4.8	31.1	34.5
1972	21.6	29.3	7.7	36.8	41.8	21.2	5.3	31.2	35.7
1973	23.9	29.0	5.1	30.8	53.6	21.0	5.2	31.0	35.8
1974	24.0	32.0	8.0	34.0	52.9	21.3	4.8	32.1	34.7
1975	25.5	35.3	9.8	33.5	51.4	25.1	5.2	29.6	33.3
1976	25.1	32.1	7.0	33.7	49.2	25.8	5.8	30.4	31.6
1977	28.9	36.1	7.2	30.3	54.4	29.1	5.4	25.8	32.4
1978	28.7	39.2	10.5	29.7	52.5	29.4	6.1	25.0	33.5
1979	30.9	39.6	8.7	28.4	55.9	30.6	6.1	28.1	27.9
1980	31.4	43.5	12.1	28.3	58.5	26.1	7.0	28.6	30.4
1981	29.6	43.5	13.9	26.4	62.2	26.8	10.6	27.5	27.6
1982	28.4	40.9	12.5	28.1	57.1	23.3	12.3	26.8	22.9
1983	27.4	37.5	10.1	27.6	59.9	24.3	14.0	26.8	24.8
1984	27.9	42.2	14.3	26.2	59.9	21.5	13.2	26.4	29.1
1985	-	-	-	27.9	56.4	21.6	14.9	29.8	24.8

Source. As table 2.

tended to increase, as is shown in table 6. Before 1973 it averaged 5.0 per cent of GDP (at market prices), went up to 7.5 per cent in 1974-79 and increased further to 10.5 per cent between 1980 and 1985. The tax revenue increased from 15 per cent of GDP in 1965 to about 35 per cent in the early 1980s. In general, tax revenue was not very elastic and increases in the tax ratio stemmed essentially from discretionary tax changes. The major tax change occurred in 1973 with the introduction of the Sales Tax, so that total indirect taxes increased in importance from 45.6 per cent of total revenue before 1973 to 52.8 per cent and 58.4 per cent in 1974-79 and 1980-85 respectively. On the other hand, non-sales tax ratio of GDP remained surprisingly constant at the level of approximately 20 per cent. The increased reliance on indirect taxes suggests that the secondary distribution of income is worsening over time as indirect taxes in Kenya are less progressive than direct taxes.

While government revenue increased annually by 16 per cent between 1964 and 1985, total expenditure increased by 17 per cent and its structure underwent significant changes, as is shown in table 6. In the first decade, expenditure on basic needs services (i.e. education, health, housing and social welfare) increased by 22 per cent annually while general services (including administration and defence) interest payments and economic services grew by 10 per cent, 11 per cent and 15 per cent respectively. However, expenditure priorities completely reversed during the second decade when general services and interest payments out-performed all other types of expenditure with an annual growth rate of 15 per cent and 27 per cent respectively. Basic needs and economic services increased by 14 per cent and 12 per cent respectively. As the inflation rate averaged 13 per cent per year between 1974 and 1984 and the population grew at 4 per cent, real basic needs services per capita in 1985 were more than one-quarter below their 1974 level. Thus, living standards of the poor are likely to have suffered more

compared to those of middle and higher income groups since the poor tend to benefit relatively more from basic needs services (though not from all public services). This confirms a general rule that governments do not trim their expenditure in a proportional way. Also quality in social services suffers more since reductions in non-wage components is larger then for wage components which hampers effective provision of services (clinics without medicine, schools without books, etc.).

Monetary policies

The expansion rate of domestic credits was high in the first half of the 1970s, in 1978 and in 1981-82 (see table 7). Moreover, government borrowing, mainly for the purpose of deficit financing, steadily increased from

Table 7. Growth and composition of domestic credit, 1968-84 (per cent)

Year	Annual growth	Composition		
		Government	Other public	Private sector
1968	4.0	2.5	4.6	92.9
1969	6.7	4.3	3.1	92.6
1970	30.7	1.7	5.8	92.5
1971	35.1	5.3	7.1	87.6
1972	19.5	11.5	6.3	82.2
1973	27.9	12.4	6.1	81.5
1974	28.7	18.7	4.5	76.8
1975	29.1	27.5	4.7	67.8
1976	16.5	25.4	2.9	71.7
1977	23.8	19.4	2.8	77.8
1978	35.8	25.6	1.7	72.7
1979	14.2	25.4	1.7	72.9
1980	13.1	24.4	2.2	73.4
1981	26.9	34.5	1.7	63.8
1982	29.7	42.5	2.1	55.4
1983	0.0	33.6	4.5	61.9
1984	10.8	34.1	5.7	60.2
1985	12.9	30.4	69.5	

Source. As table 2.

negligible in 1970 to one third in 1984 while the credit share going to the private sector continuously declined. However, it should be noticed that since 1982, the credit squeeze has been effective, in particular for government credits.

2.3 Development of wages over time

Formal wage employment represents about 15 per cent of the total labour force in Kenya, which is high for African standards. Wage employment has risen annually at a respectable rate of 3.7 per cent since independence and could consequently improve the share of wage employment in total employment. The increase was, however, small since the growth of the labourforce in Kenya continues to be high, with an annual growth rate of about 3.5 per cent. However, the pattern of wage employment, based on first-stage import substitution and on government sponsored employment, provides little scope for future expansion. Indeed, guaranteed employment by the government for post primary school leavers is inevitably bound to reach budgetary ceilings, produces over-staffing, affects efficiency and morale and ultimately yields negative marginal labour productivities. The trend in the past by which the government increased the share of public wage employment from 30 per cent in 1964 to about 50 per cent in the early 1980s will not continue.

The cost of labour has been severely restrained due to the policy of wage control introduced in 1973, relaxed in 1976 and strictly enforced since 1982 when the average wage rate dropped by 15 per cent and further declined by approximately 4 per cent per annum in 1983 and 1985. The government encountered little or no resistance in cutting real wages since 1982 because of excess supply of labour, especially of educated labour. Furthermore, trade unions are government controlled and collective actions of civil servants are prohibited. It should be added that public employment in an African country has also a communal dimension, whereby maintaining the welfare of the (ethnic)

group (in the form of less unemployment) is considered at least as important as the welfare of the individual (in the form of a higher wage level)[1]. Because of all these factors, the income competition in an African economy is much weaker than, for instance, in a Latin American country.

The informal sector shows a remarkable dynamism and a considerable capacity to absorb and even to train large numbers of young urban dwellers. Employment in this sector increased by approximately 10 per cent per annum over the last decade. The importance of the informal sector as a generator of income earning opportunities was first reported in Ghana (Hart, 1973) and strongly emphasised by the ILO Employment Mission to Kenya (ILO, 1972). A simplified and erroneous interpretation of the latter report gave sometimes rise to "informal sectorism" which uncritically considers the promotion of informal activites as a strategy for development and employment creation, without considering the nature of employment generated in the informal sector.

The average size of an urban informal establishment in Kenya equals 2.1 persons and the dominance of one-person enterprises is a regular feature observed in African countries. Income levels of informal sector workers compares relatively well with formal sector wage levels. An informal sector survey in Nairobi showed that about 45 per cent of the workers earned less than the prevailing minimum wage (House, 1978), compared to workers in private wage employment. Expansion usually takes place through an increase in the number of establishments rather than through an increase in the size of the existing establishments. Consequently, the expansion in numbers employed in the sector does not always mean that the sector is dynamic, but merely indicates its role as residual recipient of labour. Expansion of the informal

---

[1] For a clear typology of economic decision making in an African context see R. Sandbrook (1986).

sector could in some cases just reflect a transformation of open unemployment to under-employment through "worksharing". Activity and employment levels of the informal sector depend heavily upon the purchasing power of the urban population, which is currently dwindling. Hence, saturation might be reached and the prevalence of underemployment in the urban informal sector might increase.

Regarding the rural areas, it should be noted that although the rural-urban migration rate is high and accelerating over time, the degree of

Table 8. Wage rate and wage employment by sector, 1964-84

Year	Real wage (K.sh/month) in 1976 prices			Wage employment ('000s)			Gini ratio
	Total	Private	Public	Total	Private	Public	
1964	710.4	593.8	960.4	575.4	393.4	182.0	0.60
1965	755.1	613.2	1 049.4	582.1	393.9	188.2	0.60
1966	811.5	670.6	1 081.3	585.4	385.0	200.4	0.60
1967	834.0	698.8	1 081.1	597.4	385.3	212.1	0.60
1968	871.6	743.3	1 093.9	606.4	384.5	221.9	0.61
1969	857.7	734.3	1 058.8	672.2	390.1	237.1	0.61
1970	868.3	745.8	1 063.1	644.5	397.0	247.5	0.60
1971	857.1	724.7	1 078.4	691.2	423.6	276.6	0.58
1972	827.9	704.9	1 009.8	719.8	432.8	287.0	0.56
1973	828.7	683.6	1 043.2	761.7	462.5	299.2	0.58
1974	782.0	669.7	937.9	826.3	496.2	330.1	0.55
1975	754.6	652.6	888.2	819.1	476.7	342.4	0.53
1976	842.0	729.0	975.0	857.5	501.0	356.5	0.50
1977	838.5	739.6	954.6	902.9	526.4	376.5	0.50
1978	823.6	726.0	936.8	911.6	521.6	390.0	0.49
1979	822.9	740.1	916.4	972.3	547.4	424.9	0.46
1980	845.6	817.4	874.6	1 005.7	534.0	471.7	0.49
1981	874.7	802.9	946.5	1 024.3	540.0	484.3	0.49
1982	728.0	684.3	769.2	1 046.0	540.4	505.6	0.50
1983	700.5	651.0	747.6	1,093.3	565.5	527.8	0.50
1984	660.3	620.9	696.7	1 119.7	578.2	541.5	0.51
1985	644.5	611.5	673.4	1 174.4	599.8	574.6	n.a.

Source. As table 2.

urbanisation is still relatively low. The rural economy has been able to absorb the majority of the additional labour supply. This absorption of labour has been described as the rural sponge-effect (Livingstone, 1981). The sponge-effect operates through a progressive subdivision of the family holding. In the absence of economies of scale in agriculture, the degree of divisibility is so high that the subdivision of the holding greatly intensifies small scale agriculture and enhances its absorpative capacity. The medium size of the family holding decreased from about 2 to less than 1.5 hectares between 1975 and 1982. In addition, the role of livestock in the intensification of small scale agriculture is important and more than one-third of total household income consists in off-farm income. Furthermore, one-tenth of household income stems from urban-rural remittances. In short, rural incomes and employment levels increased substantially because of an intensification of agriculture, a diversification of gainful off-farm activites and strong ties between urban and rural families. The question arises, however, whether the rural sponge is near saturation. Kenya is already very densely populated with respect to the supporting capacities of lands, but agricultural dualism constitutes an important safety valve. It already appears that some large farms are informally being subdivided.

3. An overview of stabilisation and adjustment programmes in Kenya[1]

There was no dearth of policy response in Kenya in relation to the external shocks. Kenya in effect was one of the first countries to benefit from the IMF extended Fund facility in 1975, for which approval was readily

---

[1] This overview is based upon Killick (1984), Nelson (1984), Godfrey (1986) and IMF Surveys.

given on the basis of performance targets in the revision of the 1974-78 plan indicated in Sessional Paper No. 4 of 1975 on "Economic prospect and policies", coupled with an additional devaluation of the shilling by 12 per cent. A small drawing was made but the coffee boom in 1977 did not necessitate any further drawing on IMF facilities and in 1978 a small IMF stand-by credit of credit of SDR 17.25 was drawn, while in 1979 an agreement enabling larger drawing in the upper credit tranche of SDR 122.5 million was signed. This agreement included ceilings on the net domestic assets of the Central Bank and to net government borrowing from the banking system with implicit understanding on good management of exchange rate policies and the elimination of the import deposit scheme introduced in late 1978. Restraining national bank assets and elimination of the import deposit scheme was quickly realised but the restriction on bank lending to the government was difficult to apply, but Kenya managed to do so by mid-1980, when Kenya found to its great surprise that it was not allowed to draw upon the agreement.
In the meantime, Kenya was also one of the first countries to become eligible for a structural adjustment loan of the World Bank, for which the policies were put forward in Sessional Paper No. 4 of 1980, a revision of the 1979-83 development plan, and including, besides a reduction in the government deficit and a change in the way of deficit financing, trade liberalisation measures, an export promotion scheme, and a reform of interest rate policies.

In negotiations with the IMF, the 1979 programme was replaced by a new and bigger stand-by arrangement to the amount of SDR 241.5 million for which the Sessional Paper No. 4 of 1980 also formed a basis and which had again performance criteria on ceilings of Central Bank net domestic assets and lending to the central government but also on the implementation of trade liberalisation, a condition of the structural adjustment programme of the World Bank, indicating the close relation between the two programmes.

Again, however, it proved difficult to adhere to the ceilings of the 1980 agreement, especially with respect to bank borrowing by the government. Although in 1981 some drawings were made, in 1982 no more drawings were allowed because of massive government bank borrowing in order to finance salary increases, increases in defence spending and increases in food imports. A new programme was negotiated and concluded in 1982 for a total amount of SDR 151.5 million. In this programme conditionality was much more strict, again including ceilings on bank borrowing by the government and a reduction of the government budget deficit from 10.6 per cent to 7.5 per cent of GDP and commitments for progressive import liberalisation in the medium term. A pre-condition was a devaluation of the shilling in two tranches of 14 per cent in September 1982 and a further devaluation of 15 per cent in September 1982.

Spring 1982 also saw a new Sessional Paper No. 4 on development prospects and policies revising the optimistic targets of the 1979-83 development plan, which prepared the way for a second World Bank structural adjustment loan with a long list of conditions on, amongst others, reducing import restrictions and streamlining tariffs, on parastatal finance and management and on many agricultural policies such as maintaining high producer prices, freer marketing of maize, land policy issues and interest rate policies.

Because of the 1982 coup attempt and ensuing political difficulties it was difficult to fully draw from the earlier concluded IMF programme and in March 1983 a new stand-by arrangement was reached to the amount of SDR 179.5 million calling for a realignment of the exchange rate, increased agricultural prices, reduction of bank lending by the government and reforms in credit policy. This was the first programme for many years which was actually well implemented, partly due, however, to increasing export prices. In some cases the performance was better than the targets (government budget deficit, for example).

In February 1985 a new stand-by arrangement to the amount of SDR 85.2 million was concluded to offset consequences of the 1984 drought, in its preamble praising Kenya for the good performance on the previous stand-by arrangement. The programme includes restraining expenditure to generate savings for emergency relief, stronger marketing and price initiatives, a reorientation of the Kenyan economy towards export markets, import liberalisation and the maintenance of Kenya's external competitive position.

In December 1985, Kenya was allowed to draw SDR 37.9 million under the compensatory financing facility in respect of an excess in cereal import costs.

In order to review the 1984-88 Development Plan and to provide a basis for increased donor support, Kenya has recently issued Sessional Paper No. 1 of 1986 on economic management for renewed growth, to which we will come back in sections 5 and 6 of this paper.

With regard to actual performance over the period under consideration we note that in the latter years Kenya has been better able to comply with Fund conditionality than it had earlier. Godfrey (1986) describes this as being not only the consequence of external events but also of adherence to monetarist policies of the senior management in the Treasury, Development Planning and the Central Bank, and recalls that Killick (1983) had indicated that contacts with the World Bank were more cordial than with the Fund's, but indicates now that the roles have changed. The present leadership views traditional Fund conditionality on performance criteria in the financial sphere to be more acceptable than the large number of conditions of World Bank loans, which interfere much more directly in fundamental issues of design of growth policies and of which consequences are often less clear. As for the example illustrated by Mosley (1986) who comments upon the relation between Kenya, the World Bank and USAID, and demonstrates that in the World Bank's second Structural Adjustment Loan the conditions on the privatization of mais

marketing, posed in order to raise agricultural growth, were of less relevance in Kenya that in other African countries since the controlled price in Kenya has been mostly at the level that could have been expected to be a free market equilibrium price. Futhermore, the delay in delivery of certain types of fertilizers in 1983 as a consequence of a conflict between USAID and the Kenyan Government on its selling price has hurt more the small-scale farmers who had been crowded out of the market by thge large scale farers.

4. Causes of balance of payments deficits

In this section we will look more closely at some of the causes of balance of payments deficits. We have analysed the different effects of external shocks, increased debt burden, export penetration and domestic stabilisation policies on changes in the balance of payments deficit over the period 1979-80 to 1983-84 (see table 9).[1]

The balance of payments deteriorated considerably in 1980 over 1979, improved in the three following years but deteriorated again in 1984 over 1983 and in 1985 over 1984. The deterioration in 1980 was mainly due to external effects, especially by decreases in the terms of trade and shrinking of world trade, amounting to a negative equal to 6.4 per cent of GDP. Increased debt payments and a shrinking of Kenya's share of exports in total world trade added another 1.4 per cent of GDP to the deficit. These shocks were hardly counterbalanced by any domestic policies.

However, in the next three years successful and sizeable efforts were made to reduce the balance of payments deficit. The reducing effect in 1981 amounted to 10 per cent of GDP. In 1981 major emphasis was on import restriction mostly affecting imports of intermediate products but also other

---

1 A full description of the methodology and of some of the restricting assumptions is given in Appendix II.

Table 9. Balance of payments deficit, external shocks and domestic policy actions (1979-1985)

(All variables represent one year changes as per cent of national income)

	79-80	80-81	81-82	82-83	83-84	84-85
Change in BoP deficit as % of GDP	+5.0	-2.4	-3.4	-4.8	+1.3	+0.7
-Total external effects of which:	+5.4	+5.2	+3.7	-3.0	-3.0	+7.4
Terms of trade effect	+4.2	+4.8	+1.6	-1.5	-0.8	+5.7
Interest rate	-1.0	-0.6	+0.9	-2.0	+0.4	+1.2
World trade	+2.2	+1.0	+1.2	+0.5	-2.6	+0.5
-Increased debt burden	+0.6	+0.9	+1.4	+0.8	+0.9	+0.1
-Export penetration	+0.8	+3.8	-0.6	+1.2	+3.9	-1.7
-Total domestic policies of which:	-0.8	-11.9	-7.4	-4.1	+0.2	-5.0
Domestic consumption	-0.6	-0.4	+0.1	-0.0	+0.2	+0.2
Domestic investment	+1.8	-0.5	-2.2	-0.6	+1.4	-1.2
Domestic intermediate products	+0.5	+0.5	+0.7	-0.6	+1.3	+1.5
Import ratio consumption	+1.1	-1.0	-2.9	-0.6	-0.1	-1.4
Import ratio investment	-4.5	-0.4	+0.7	-0.4	-1.5	-0.1
Import ratio intermediate products	+0.9	-10.1	-3.8	-1.9	-1.1	-4.0
-Residual (and second order terms)	-1.0	-0.4	-0.5	+0.3	-0.7	-0.1

Note. For all variables a positive sign indicates a contribution to an increase in the balance of payments deficit and a negative sign a contribution to a decrease of the balance of payments deficit.

See Appendix II for a full description of the methodology of the data sources and of the definitions used. The latter may differ slightly from definitions applied in other tables in this paper.

Source. Based upon national accounts, economic survey and balance of payments statistics.

import categories, levels of domestic consumption and investment were, however, also reduced. External shocks were of the same size as in the previous year. In 1982 there was still a deterioration of the terms of trade, lower, however, than in previous years, with increased negative effects of increases in interest rates, of shrinking in world trade and of increased debt burden. Export penetration improved somewhat, but again, domestic effects were extremely important and amounted to 7.4 per cent of GDP. Contraction in final demand fell mostly on investment while import restrictions resulted in reducing the import ratios of consumption and of intermediate products to a total effect equal to 6.7 per cent of GDP.

The balance of payments also improved in 1983 due to a favourable terms of trade and interest rate effect and through domestic measures of which the size was, however, much smaller. Decrease of world trade, increased debt burden and smaller export penetration had negative effects on the balance of payments but the overall effect was still a sizeable reduction in the balance of payments deficit.

Improved terms of trade and an improvement in world trade were both positive factors in 1984, while the effect of domestic policies on balance was neutral, a reduction of import ratios on all three import categories amounting to 2.7 per cent of GDP was "compensated" by a volume increase equal to 2.9 per cent of GDP of final demand and intermediate consumption. However, the balance of payments deficit increased on balance because of a substantial drop in the export penetration rate and to a lesser extent, of an increased debt burden, which meant that Kenya's exports were decreasing even in the light of increased volume in world trade. In 1985 Kenya suffered from a large deterioration in the external terms of trade compounded by other external effects, leading to a negative external shock of over 7 per cent of GDP. However domestic policies, mainly in the form of reducing the share of

intermediate imports and reducing investments, as well as an improvement in export penetration, could limit the deterioration in the balance of payments to only 0.7 per cent of GDP.

Broad conclusions which can be drawn from this table are that despite some quite large external shocks Kenya managed, by domestic policy measures, to compensate rather well for external shocks. But - and here lies the danger - all of these policies were directed at domestic contraction or at domestic import restriction. Kenya did not manage to increase steadily its export penetration rate. In effect, except for a increase in two years the export penetration went down sizeably over the period considered. Losing export markets resulted over the period considered in an annual loss equal to 1.25 per cent of GDP, which is 40 per cent of the average growth rate of the period under consideration.

What the above analysis makes clear is that Kenya managed to stabilise its economy by contraction and especially by import reduction. Kenya's system of import control has been quite effective in reducing the import share through an allocation mechanism in which imports are subdivided into four different import categories, the composition of which depends on local availability of the imported good and the demand of the various industries. Through a stricter application of the rules the system of import controls appears to have worked in Kenya better than in many other African countries, although the continued existence of effective protectionism of the local industrial sector has made many analysts critical of the system of import controls, a point which we will discuss in section 6. One notices also a tendency to lift control on certain items as soon as the foreign exchange situation improves, only to be reintroduced when the foreign exchange situation deterioriates.

Kenya, however, did not manage to improve export performance over the period considered which pattern confirms observations made by Rwegasira (1983)

who analysed adjustment policies in Kenya and Tanzania over the period 1974-1978, and noted that during that period "Kenya was therefore still performing poorly with respect to export volume growth mainly as a result of the decline in manufactured exports". Part of the decline was the consequence of incidental factors such as the breaking up of the East African Community, but Rwegasira argues that a large part was also due to domestic policies and to difficulties Kenyan exporters found in entering into new markets.

In conclusion we can say that the period 1979-85 is characterised as "stabilisation without proper adjustment", since a reduced import level, without structural changes is, at least in the short and medium term, reducing propsects for economic growth.

5. Stabilisation policies and economic development

Stabilisation policies implied changes of exchange and interest rates. Although Kenya has always publicly voiced that changes in the exchange rate have been minimal, in effect, as table 10 shows, the shilling has been devaluing from 1980 to 1984 by 47 per cent in terms of dollars per shilling and by 34 per cent in terms of SDR per shilling, with major devaluations taking place in 1981, 1982 and 1983. However, as Kenya's inflation rate has increased more than that of industrialised countries, the value of the real effective exchange rate dropped, from 1980 to 1983 by 21 per cent in SDR terms and by 37 per cent in dollar terms and remained stable in 1984 and dropped again in 1985.

An increase in inflation can be attributed to changes in cost structure due to changes in price for capital, labour and imported consumer and intermediate goods as well as to changes in the money supply.

Regarding changes in costs for capital, interest rates, government policy switched from low to higher interest rates which, with a levelling off of inflation, resulted in positive real interest rates as from 1983 (see table 10).

Table 10. Exchange and interest rates, nominal and real, 1979-85

	1979	1980	1981	1982	1983	1984	1985
Exchange rate							
Shillings per SDR	9.66	9.66	10.62	12.05	14.22	14.70	16.46
Shilling per US$	7.47	7.42	9.05	10.9	13.3	14.4	16.43
Real effective exchange rate							
SDR per shilling	100	101	94	84	76	79	71
US$ per shilling	100	102	84	72	63	63	54
Discount rate for Treasury bills	7.00	8.00	11.25	13.75	15.00	12.50	14.14
Real rate	-0.79	-5.70	-0.55	-6.55	+3.50	+2.40	+1.5

Note. Exchange rate: period average.
Real Effective exchange rate: calculated by adjusting the SDR value and the US$ value per shilling to GDP deflator of industrial countries and the Kenya GDP deflator.
Real interest rate: discount rate for Treasury bills deflated with average consumer price index.

Source. IMF: International Financial Statistics Yearbook, 1986.
Government of Kenya: Economic Survey, various issues.

Labour costs decreased in many cases as we will discuss in section 5.5, while prices for imported consumer goods and intermediate goods indeed increased at levels equal to or higher than the CPI as we will show in section 5.7.

The behaviour of money supply is discussed in the next section.

5.1 Monetary policies

To discuss some changes in the monetary sphere we follow the framework which is usually set up by the IMF for programming performance, but which can,

as Taylor (1985) indicated, also be a useful ex post accounting framework, providing some information on the working of the economy.

We first regard changes in international reserves which are caused by the surplus on the current account (deficits presented as negative surpluses) and by net capital inflows. Since Kenya has considerable foreign obligations we have singled out net investment income from abroad from the current account surplus.

Table 11. Factors contributing to changes in international reserves, 1979-85 (K£ million, current prices)

Year	Monetary movement of BoP (increase in international reserves)	Current account deficit			Capital flows
			(of which net investment income abroad	(%)	
1979	+70.6	-178.30	-49.20	27.5	250.91
1980	-72.2	-328.70	-75.50	22.9	252.80
1981	-99.1	-326.20	-88.70	27.2	225.00
1982	-104.82	-260.50	-129.25	49.6	152.96
1983	+68.20	-88.89	-120.00	134.9	158.08
1984	+39.04	-128.26	-143.71	112.0	167.93
1985	-86.25	-169.31	-168.82	99.7	85.94

Source. Calculated from Government of Kenya: Economic Survey, various issues.

Three important things should be noted from table 11 which gives the movement of these variables over the period 1979-84. First, that capital flows in nominal terms have been decreasing almost continuously but with a huge drop from 1981 to 1982, when the international financial community became aware of the debt crisis (and more pronouncedly as a percentage of the national product since the figures are in current prices).

Second, the current account deficit has been dropping continuously (as we noted already in an earlier section) with some increase, however, in 1984 and 1985. Third, since 1983 the negative item net investment income from abroad has become larger than the current account deficit, meaning that Kenya in 1983 and 1984 had in effect a surplus on the balance of goods and services, making its situation comparable to that of many Latin American countries.

As was shown in section 4, the drop in the current account deficit was, except for 1979-80, the consequence of domestic policy measures helped in the last two years by an improvement in the terms of trade, but always pushed up by falling export shares.

Domestic credit and changes in international reserves determine the money supply (table 12).

Table 12. Factors contributing to changes in money supply, 1979-85
(K£ million, current prices)

Year	Changes in money supply	Increase in international reserves[1]	Change in credit	of which to:		
				Private sector	Government	Public enterprise
1979	151.12	+72.96	+78.16	+43.68	+10.67	+23.81
1980	21.99	-66.17	+88.16	+99.22	+9.84	-20.90
1981	90.72	-98.21	+191.96	+66.33	+127.94	-2.31
1982	167.50	-115.97	+283.48	+66.57	190.21	+26.70
1983	90.61	+89.62	+0.99	+50.15	-92.65	+42.50
1984	167.00	+31.51	+135.49	+78.20	+44.52	+12.77
1985	91.75	-88.40	+180.15	+123.48	+42.48	+14.19

1 because of "errors and ommissions" this column differs slightly from column 1 in table 11.

Source. As table 11.

Variations in the change of money supply are, however, due not so much to changes in credit to the private sector but rather to changes in the

international reserve position and to changes in credit to the government (table 12). Changes in credit to the government was rather low in 1979 and 1980 but then shot up in 1981 and 1982 after which it became negative in 1983 and increased (but more limited and mainly due to the drought situation) in 1984 and remained stable in 1985. Favourable capital inflows and a lower balance of payments deficit resulted in increases in international reserves in 1983 and 1984, which decreased, however, again in 1985.

5.2 Budgetary policies

Limited access for government borrowing from 1983 onwards resulted in a reduction in spending of most programmes and often to a halt in spending on anything but civil servants' salaries. As a consequence, outlays on salaries as a share of ministries' recurrent expenditure has grown steadily since 1979-80 when salaries equalled 47 per cent of ministries' recurrent outlays to 1984-85 when the share reached 60 per cent, with critical levels in, for example, research in agriculture 60-80 per cent, and rural extension services 90 per cent (Republic of Kenya, 1986). The share of basic needs expenditure dropped from 28.1 to 26.4 per cent from 1979 to 1984, but given the increasingly higher salary component, the quality and quantity of basic needs services has declined more than the drop in relative share indicates.

In Sessional Paper No. 1 of 1986, the government shows full awareness of this problem, but argues that "with population growing at 3.7 per cent, even maintaining per capital levels of outlays for basic needs will be difficult without endangering growth", and argues for increased contributions by families, though realising that "cost for primary and secondary education are for most families major and for many prohibitive, and competing with more productive outlays as investment in family farms and small businesses", so

that in the family also important decisions must be made between expenditure on long-term basic needs and on more immediately productive activities (Republic of Kenya, 1986, pp. 12, 13).

5.3 Effects on saving and investment

The current account deficit and following contractionary policies have affected domestic savings and in particular private savings, to a considerable degree, with subsequent consequences for capital formation.[1]

Table 13. Savings and investment balance, 1979-85
(K£ million at current prices)

Year	Private sector savings (a)	Private sector GCF (b)	Public sector GCF (c)	Public savings (d)	Public deficit (e)	Net borrowing from abroad (f)	Grants (g)
1979	108.29	267.51	248.74	214.26	34.48	178.30	15.40
1980	197.78	507.64	281.56	240.82	40.74	328.70	21.90
1981	314.38	536.35	322.46	196.83	125.63	326.90	20.70
1982	394.51	463.68	300.85	83.94	216.91	260.50	25.50
1983	337.50	536.19	274.16	324.31	-50.15	88.89	59.80
1984	416.10	565.60	363.34	306.05	57.29	128.26	78.53
1985	320.04	527.74	354.83	298.16	56.67	179.79	84.58

Private sector savings: a = b + e - f - g.
Public deficit: e = d - c.

Source. As table 11.

[1] In the usual publications giving details on savings and investments, domestic savings and gross fixed capital formation are not split into private and public. For this analysis we thought this to be necessary and made the following adjustment. From other sources figures on public gross capital formation is available and we have deducted this from total gross fixed capital formation in order to arrive at private gross fixed capital formation. We have consequently defined public savings as revenue minus the current expenditure, in contradiction to various publications where public savings or dissavings are defined as the cash deficit reflecting current revenue minus current expenditure and public investment combined.

From 1979 to 1980, gross capital formation (GCF) reached record levels because of increased foreign savings and increased domestic savings as a consequence of increased private savings.[1] High gross capital formation continued in 1981 where lower public and foreign savings were compensated by higher public savings. In 1982 foreign savings and public saving continued to drop indicating the continuation of the contraction of the economy causing a fall in the rate of capital formation which returned to its normal (but still high) level of around 25 per cent. The years 1983 and 1984 saw a further contraction of foreign savings balanced again by an increase in domestic saving with private savings increasing again somewhat and public savings decreasing. Foreign savings increased but private savings dropped in 1985 resulting in lower nominal gross capital formation than in 1984.

Table 14. Some important ratios

	1979	1980	1981	1982	1983	1984	1985
CCF/GDP	26.1	35.3	33.1	26.3	24.4	25.1	19.2
Domestic savings rate	16.2	19.6	21.8	16.4	19.8	19.5	13.4
Private	5.4	8.8	12.2	13.5	10.1	11.2	6.9
Public	10.8	10.7	7.6	2.8	9.7	8.3	6.5
Foreign savings rate	9.0	14.7	12.6	8.9	2.6	3.5	3.9
ICOR one year lagged	...	7.9	6.4	18.3	7.5	27.1	4.6
Per cent imports in:							
Consumer goods	6.3	7.4	6.5	4.1	3.6	3.5	2.6
Investment goods	35.6	22.5	21.4	23.6	22.1	17.9	17.5
Intermediate goods	22.5	23.3	15.7	13.1	11.8	11.1	9.1

Source. Tables 13 and 16, and Appendix II.

[1] Because of the excess of savings changes in stocks were considerable but gross capital formation still increased with more than 17 per cent.

Changes in the composition of savings and in the rate of capital formation have important effects on the distribution of assets and on the growth capacity of the economy.

The substantial increase in private savings means increased accumulation of assets by those who save. Detailed information on the composition of those who saved over the last years is lacking but as we will show in the next section, real wages have decreased considerably for all groups of workers. Since most workes, especially in the low-income classes, save little or nothing especially in view of decreased real incomes, the increased private savings must have come mainly from entrepreneurs and self-employed, both in uran and rural areas, where in the latter as we will show further, especially during the last two years exporters have benefited from higher producer prices. The precise distribution of increased assets between urban and rural savers is as yet difficult to perceive.

Increased savings have been channelled directly or indirectly through the banking system, into increased capital formation.

The ratio of gross capital formation to GDP has been at a high level in Kenya[1], and over the period 1979-84 stood at a level of 25 per cent with a notable exception for 1980 and 1981 when it was for reasons explained above, at an historically high level of 35.3 per cent and 33.1 per cent of GDP. Even allowing for above average ICORs such rates should have led to a spurt in growth in the following years, but they did not. This is explained by the

---

[1] According to IBRD (1986) Gross Domestic Product in Kenya was 22 per cent of GDP compared to an average of 13 per cent for all SubSaharan African Countries.

decline in capacity utilisation as we can infer from the 50 per cent reduction in the import ratio of intermediate products, and similar reductions in the ratio of consumer goods and of capital goods.

The high level of gross capital formation might have caused an inefficient investment pattern through the sudden availability of funds, as well as through the conditions attached to funds provided by foreign savings, partly explaining the high ICOR during the stabilisation phase. This is looked into in the next section where we discuss some effects on the real side of the economy.

5.4 Effects on the real side of the economy

Investment patterns were influenced by the stabilisation period. We note (in Appendix table A.4) a drop in manufacturing, with the exception of 1983, in transport and communications (up to 1984) as well as in ownership of dwellings. Investment in construction increased as well as in the traditional economy (which consists mainly of traditional dwellings), finance and other services. The investment share of agriculture remained more or less stable but dropped in 1984. During the years of high investment ratios (1980 and 1981) the share of government investment increased as did electricity and water with a lag of one year.

A broad conclusion which can be drawn is that investment did not turn massively to sectors which provided most of Kenya's exports (agriculture and manufacturing) but to non-tradeable sectors, which confirms our earlier observations of stabilisation without proper adjustment.

How did the stabilisation policies affect the various socio-economic groups in society? First we look at the development of various factor incomes (table 15). A first thing to note is that stabilisation policies apparantly did not change factor shares to a large extent (tables 15 and A.2). Remuneration of employees in non-agriculture increased somewhat faster than the operating surplus while in agriculture it increased somewhat slower than operating surplus.

Relatively stable factor shares, however, still may hide quite some variation in income distribution. An obvious reason is that the number of people depending on the different factors might have changed. This, however, is not so likely for the short period we are considering.[1] Furthermore, changes might have taken place between sectors of the economy, which went in different directions and therefore kept total factor distribution relatively stable. A third reason is that different factors may face different prices

Table 15. Index of factor remuneration, 1979-85 (1979 = 100)

	1979	1980	1981	1982	1983	1984	1985
Traditional economy	100	111	127	138	165	191	215
Operating surplus	100	110	125	143	166	178	202
Agricultural	100	105	122	142	163	171	191
Non-agricultural	100	118	130	146	171	189	220
Rental surplus	100	119	148	161	177	193	207
Remuneration of employees of which:	100	117	137	152	171	191	216
Agriculture	100	116	131	130	143	154	159
Non-agriculture	100	117	138	154	178	210	229
Private households	100	130	132	151	164	207	243
Government	100	115	136	154	168	187	211
GDP	100	133	131	147	168	187	209

Source. Table A.1.

[1] Although this is true of the macro-economic level, changes in some subsectors might be important, such as shifting from formal to informal wage employment in urban areas.

and, although in current prices the picture might look unchanged, it may change when deflating actual incomes with price deflator. Since stabilisation policies affect price levels and as price regimes are not equal for all sectors in the economy we expect this factor also to play an important role.

For the present purpose of this paper, we distinguish between five sectors of the economy: agriculture, manufacturing, construction, trade and tourism, and government services. These sectors comprise 73 per cent of total GDP and contribute to 80 per cent of all employment in the modern sector.

We first look at how these sectors have developed over time in terms of GDP (table 16). Overall GDP growth was weak and only in 1980-81 positive in terms of per capita growth.

Agriculture being the major export sector, showed the largest variation partly due to weather conditions. The period 1981-82 especially showed a weak performance in manufacturing and negative growth in construction and trade, showing the recessionary effects of the contraction in imports and the decrease in capital inflows. The recessionary climate is also expressed by the continuous steep decrease in real GDP of construction following the drop in the rate of gross fixed capital formation from 33.1 per cent to 25.3 per cent from 1981 to 1982. However, the fact that the real GDP growth rate of construction remains negative so long must perhaps also point to other factors which has to deal with the various price regimes.

Construction and trade, which can both be regarded as flex price sectors, have much larger GDP deflators (table A.3) than the fix price sectors, agriculture, manufacturing and government services. When we look at growth rates in current shillings it appears that construction does not perform worse than other sectors. We could conjecture that continuous high investment ratios can move up if prices rather fast and allowing entrepreneurs in the construction sector to rapidly increase their assets. This conjecture might

Table 16. Real annual growth of GDP in selected sectors of the economy, 1979-80 to 1984-85

Sector	% GDP 1984	Real GDP growth rates					
		1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985
Traditional economy	(6.2)	3.6	3.5	3.3	3.6	3.3	4.0
Agriculture	(29.7)	-1.3	6.2	4.6	4.2	-3.7	3.5
Manufacturing	(12.6)	5.7	5.0	2.3	4.5	4.3	4.5
Construction	(4.1)	6.4	8.2	-11.8	-8.8	-6.8	1.1
Trade, hotels and restaurants	(11.5)	3.5	0.7	-7.2	2.8	4.0	8.1
Government services	(14.5)	5.6	5.3	3.8	4.2	2.9	4.5
Total economy		3.3	5.5	1.8	3.5	0.9	4.1
GDP per capita		-0.4	+1.7	-2.1	-0.7	-3.1	0.2

Source. As table 11.

be confirmed by noting that the investment/GDP ratio in construction is high and is after some decrease in 1981 and 1982 rapidly increasing in 1983 and 1984. For the fix price sectors the investment ratio is decreasing (agriculture, manufacturing and government) (table A.5).

5.5 Real wages, real wage costs and employment

The difference in development patterns of the various sectors also caused different patterns in employment and wages in the various sectors. Table 17 gives wage employment for the various sectors as well as average gross earnings per employee deflated by the sectoral GDP deflator (and thus indicating the cost aspect for the employer of employment) and by the consumer price index (and thus indicating the real income for the worker). Regarding the employment situation we note the decline in agricultural employment over the period caused by large drops in 1980 and 1982. The drop in 1982 is a

Table 17. Employment and real wages in selected sectors, 1979-85

(Employment in 000s, earnings in K£ per annum)

	1979	1980	1981	1982	1983	1984	1985
Agriculture							
Employment	254.6	231.4	235.5	223.8	231.1	235.7	240.9
(% increase)		-10.1	1.8	-5.0	+3.3	+2.0	+2.2
Average wagebill deflated by sectoral GDP deflator	201	197	202	192	189	188	191
Average wagebill deflated by CPI	172	163	156	140	135	132	127
Manufacturing							
Employment	138.4	141.3	146.3	146.8	148.8	153.1	158.8
(% increase)		+2.1	+3.5	0.3	1.4	2.9	+3.7
Average wagebill deflated by sectoral GDP deflator	529	542	539	544	561	580	569
Average wagebill deflated by CPI	452	470	450	430	418	414	394
Construction							
Employment	61.30	53.2	61.3	60.4	60.2	49.2	49.9
(% increase)		3.1	-3.0	-1.5	-0.3	-18.3	+1.4
Average wagebill deflated by sectoral GDP deflator	423	356	409	327	283	278	323
Average wagebill deflated by CPI	408	371	391	336	328	332	313
Trade and tourism							
Employment	68.70	70.50	72.6	74.9	80.3	84.8	89.7
(% increase)		+2.6	13.0	+3.2	+7.2	+5.6	+5.7
Average wagebill deflated by sectoral GDP deflator	580	706	702	651	567	510	550
Average wagebill deflated by CPI	580	635	605	540	520	516	487
Government services							
Employment	255.1	296.2	303.4	327.5	345.8	356.5	386.7
(% increase)		16.1	+2.4	+7.9	+5.6	+3.1	+6.9
Average wagebill deflated by sectoral GDP deflator	411	363	400	366	362	319	333
Average wagebill deflated by CPI	374	324	343	295	274	243	232

Source. As table 11.

consequence of the contraction of the economy which took place affecting also employment in manufacturing (hardly any increase) and confirming the declining trend of employment in the construction sector. The government was, however, able to absorb the negative developments in other sectors, causing positive employment growth for the economy as a whole.

Average earnings per worker deflated by the consumer price index decreased in all sectors although mostly in government services and in the construction industries. The picture changes somewhat when we look at average earnings deflated by the sectoral GDP deflator (which can be interpreted as cost for the employer and which we call average real wage costs).

In the fix price sectors (agriculture, manufacturing and government services) average real wage costs are above average real earnings. For manufacturing this even means that average real wage costs have increased. Comparing increases in average wage costs and increases in value added for each sector can tell us whether workers were able to maintain their share in value added and whether lower wage costs resulted in higher employment.

We therefore look at how real wage costs, employment, the real wage bill and GDP have developed from 1979-84 (see table 18).

Table 18. Real average wages, real average wage costs, real wage bill and real GDP in 1984 as a fraction of value in 1979

Sector	Average real wage costs	Employment	Real wage bill	Real GDP
Agriculture	0.93	0.92	0.86	1.09
Manufacturing	1.10	1.11	1.21	1.21
Construction	0.65	0.80	0.52	0.87
Trade and hotels	0.79	1.23	0.97	1.09
Government	0.77	1.39	1.08	1.18

In all sectors, with the exception of manufacturing the real wage bill lagged behind real GDP growth, decreasing workers' share in value added. This was most pronounced in agriculture and construction, where employment fell despite lower average wage costs, implying that in these sectors capital owners have increased their relative position more than in other sectors. The real wage bill also lagged behind in trade and in government services, but less than in construction and agriculture. Employment was positive in these sectors (and growing faster on average over the last five years than the labour force). In manufacturing the real wage bill kept pace with real GDP, which is the highest of all sectors. Although real average wage costs increased the increased real wage bill could still provide room for increased employment, although at a much slower level than in trade and in government services.

5.6 Consequences for farmers

As indicated in section 2 of this paper, although agriculture still provides about 20-25 per cent of total wage employment, its role as provider of income to the majority of the Kenyan population is more predominant. We therefore look in this section how policies have affected income positions and growth perspectives of the agricultural sector. The agricultural sector plays an important role in stabilisation and adjustment policies to the effect that it provides between 40 and 65 per cent of total export earnings and various items of stabilisation packages are justified on the grounds that it will have a positive impact on the agricultural sector (increase in producer prices, devaluation, liberalised trade, etc.).

Prices in the agricultural sector are set for industrial crops, and food crops by various boards, while prices for export crops follow price development on the world markets. Prices for export crops which in 1979 were almost equal to prices of domestic crops in 1976 values, lagged behind domestic crops in 1980 and 1981 but picked up rather fast thereafter. Thus,

in 1984 prices for export crops were 65 per cent higher than in 1981 and prices for domestic crops were 51 per cent higher than in 1981. For export crops this matched reasonably the increase of the index of rural consumer goods which increased by 62 per cent from 1981 to 1984. However, in 1985, partly as a consequence of the 1984 drought, prices for domestic crops shot up.

Since, until 1984, only export crop prices kept up with the index of consumer goods, the rural-urban terms of trade deteriorated, as table 19 shows, but because of 1985 agricultural price increases, especially of domestic crops, the rural-urban terms of trade did not deteriorate in 1985.

However, the concept and calculation of urban-rural terms of trade is subject to a large debate (Sharpley, 1986; Jabara, 1985). The "official" terms of trade index is calculated by dividing the agricultural output price

Table 19. Agricultural price indices (1976 = 100)

	1979	1980	1981	1982	1983	1984	1985
Total crops	116.4	122.3	129.7	138.0	161.5	193.3	235.7
Domestic	115.9	130.7	141.3	147.8	204.2	213.4	267.8
Exports	116.8	117.4	112.3	134.6	145.2	186.0	198.3
Livestock	135.6	140.6	151.3	166.7	163.0	191.9	182.5
Average of crops and livestock	120.0	126.2	134.4	145.0	168.1	196.8	217.8
Output price index	123.1	133.1	145.8	159.5	172.2	189.2	207.4
Purchased inputs	124.5	139.9	153.3	182.1	188.5	193.0	208.7
Index of consumer goods	130.1	146.1	169.9	205.5	233.9	258.6	285.0
Average of inputs and consumer goods	128.7	144.1	165.8	199.7	221.0	238.8	261.2
Agricultural terms of trade	95.6	92.4	87.9	80.0	78.0	80.0	80.0

Source. As table 11.

index (which appears to be of the same magnitude as the agricultural GDP deflator) by a weighted index of purchased inputs and rural consumer goods price indices (table 19). Prices of agricultural inputs, however, have increased less than prices of outputs since 1981 and Jabara (1985) therefore argues that the pessimism expressed by ever-decreasing rural-urban terms of trade is not justified, since, when considering cost factors only, Kenyan farmers appear to have received adequate remuneration. We could argue, however, that although this observation is correct, the relative income position is the one that matters when considering consequences of policies, and will also influence behaviour of farmers.

How did farmers respond to the switch in price regime? Table 20 gives the sales to marketing boards of cereals (domestic), temporary industrial crops (partly domestic, partly exported) and permanent crops (exported).[1] We see in 1983 and 1984 considerable increase in sales to marketing boards of permanent crops while temporary industrial crops still have difficulty catching up their 1981 level. Cereal production in 1984 was low mainly because of drought. However, an increase in sales of permanent crops can be difficult to ascribe to price changes, since it takes several years from planting new seedlings to harvesting. What most likely happened was an intensification of treatment at the cost of other agricultural activities,[2] resulting in increases in export crops levelling out slower increases in done singularly worse than food and beverage exports, despite faster export unit price increases than for the food and beverages sectors.

---

[1] Since the definitions are not equal to that of table 19 we have included again here the various price indices to allow for comparison.

[2] Some "increases" in output might also be the consequence of increased smuggling from Uganda and Tanzania as relative prices changed in the region.

Table 20. Indices of columes and prices of sales to marketing boards and of prices for major groups of crops (1976 = 100)

	1979	1980	1981	1982	1983	1984	1985
Sales							
Cereals	68.9	68.7	92.2	106.4	112.5	88.7	98.8
Temporary industrial crop	153.3	192.2	194.8	176.4	168.6	184.9	178.2
Permanent crop	108.8	121.1	121.2	121.5	141.4	152.9	153.3
All	104.1	115.3	121.9	123.2	137.2	142.0	145.2
Prices							
Cereals	112.6	130.5	134.4	143.2	185.9	207.1	266.4
Temporary industrial crops	141.8	147.4	166.1	186.2	187.5	189.6	204.2
Permanent crops	118.7	119.4	110.6	125.5	148.1	239.1	198.3
All	120.5	124.5	120.0	134.4	175.5	266.7	231.0

Source. As table 11.

domestic crops, still making food self-sufficiency a precarious affair in Kenya (an issue to which we will come back in the next section).

5.7 Effects on export performance

In analysing the causes of the balance of payments deficit we noted already the negative influence of Kenya's falling export share on the balance of payments gap. We therefore end the overview of the consequences of the stabilisation policies by looking at the development of major export categories (see table 21). Volume of overall exports were in 1984 90 per cent and in 1985 93 per cent of that in 1979, but when excluding exports of oil products (Kenya has refining capacity for other African countries) the picture is slightly rosier. Exports in 1984 were 4 per cent and in 1985 14 per cent higher in volume terms than in 1979. However, the entire increase is the due to increased exports of food and beverages. Non-agricultural exports have

Table 21. Quantum and price indices of exports (1976 = 100)

	1979	1980	1981	1982	1983	1984	1985
Quantum index							
Food and livestock	115	105	117	131	138	134	150
Beverages and tobacco	129	319	192	236	366	148	326
Crude materials	93	90	89	77	78	85	90
Mineral fuels	80	102	77	55	47	46	38
Animal and vegetable oils	18	16	19	9	14	41	18
Chemicals	75	66	65	52	48	49	55
Manufactured goods	66	82	66	74	61	58	57
Machinery and transport	41	68	45	44	24	17	20
All exports	94	97	92	89	85	85	88
All non-oil exports	97	95	97	103	103	101	111
Price index							
Food and livestock	117	124	123	130	206	217	201
Beverages and tobacco	108	107	117	119	129	157	174
Crude materials	127	177	192	201	215	215	235
Mineral fuels	145	223	307	381	408	427	435
Animal and vegetable oils	135	149	176	221	254	281	314
Chemicals	134	139	147	193	232	241	258
Manufactured goods	149	147	166	183	225	234	281
Machinery and transport	144	144	157	181	324	404	377
All exports	128	154	170	186	223	277	273
All non-oil exports	124	135	138	149	185	229	225
Memorandum item							
Quantum index imports:							
All	116	133	104	88	69	80	74
Non-oil	118	136	104	89	64	81	72
Price index imports:							
All	132	173	220	254	356	363	430
Non-oil	132	157	186	210	294	300	363
Terms of trade:							
All	97	89	77	73	68	80	67
Non-oil	94	86	74	71	62	77	62

Source. As table 11.

The decrease of these export categories is partly explained by the economic and political difficulties which surrounding trading partners went through, but also partly by the high import content of intermediate products in these sectors (which went down from 38 per cent in 1979 to 30 per cent in 1984) showing the consequences of the import strangulation Kenya went through in this period. This does not auger well for future prospects as we will see in the next section.

5.8 Causes and consequences of inflation

Increased import prices as a consequence of increased international prices and devaluation certainly had consequences on inflation in Kenya. One usual problem with inflation is the chocie of a proper indicator for inflation. In the rest of this paragraph we consider two measures: the low-income Consumer Price Index and the GDP deflator. As table 22 shows, changes in the GDP deflator are always lower than the Consumer Price Index, although the two move always in the right direction with the exception of 1984-85. As the next column shows, lower money supply appeared to influence the inflation rate (GDP deflator) but only when the influences of increased in import prices on the GDP deflator is also less. This is illustrative for the political process in Kenya in which the government finds it difficult to resist claims based upon cost pricing for higher prices when import prices go up. And this has led often to over-shooting of price increases. Although this is difficult to document we have tried to get an impression of this phenomenon by looking at how the various price components of gross output have reacted. We have the following relation:

Gross output = imported intermediate goods + domestic intermediate goods + wages + operating surplus.

We know the prices of gross output and of domestic intermediate goods (GDP deflator), of imported intermediate goods (import price) and of wages (or rather earnings per employee). We do not know the price of the operating surplus but this can then be calculated as a residual according to the following equation, in which symbols correspond to the relation described above.

$$O * po = I * pi + D * po + W * pb + S * ps$$

after rearranging we get:

$$po = [\ I/(O-D)\ ] * pi + [\ W/(O-D)\ ] * pw + [\ S/(O-D)\ ] * ps$$

in which (O-D) stands for gross output minus domestic intermediate goods which equals value added plus intermediate goods.

Although the weights in the price equation are not equal for each year, as the share of intemediate imports decreases, they are for the mid-period 18 per cent for the weight of imported intermediate imports, 33 per cent for the weight of wages and 49 per cent for the weight of the operating suplus.

Table 22. Increases in various prices and money supply

Year	Increase in CPI	Increase GDP deflator	Increase in supply of money and quasi-money	Import prices * share of of import in GDP	Increase in wages (pw)	Increase in in import prices (pi)	Increase in price of operating surplus (ps)
79-80	11.1	9.5	1.2	5.2	14.7	31.0	1.4
80-81	16.3	10.3	13.3	12.4	16.6	27.2	12.0
81-82	15.8	9.2	16.1	9.2	6.8	15.4	22.2
83-84	10.6	12.7	12.9	10.7	9.5	2.1	14.4
84-85	13.0	5.7	6.6	0.6	8.2	18.4	14.3

Knowing po, pi and pw, we are then able to calculate ps the implicit price of the operating surplus for each year (see table 22). What we notice is that after 1981 the increase in ps has been much more substantial than the increase in wage earnings except for 1983 when both were small. This means that the relative position of the non-wage earners has increased relatively to that of the wage earners and that non-wage earners (entrepreneurs and farmers) have been able to protect themselves better than wage earners against external influences on prices.

6. Conclusions and future prospects

The general picture that emerges from the period 1979-85 is that Kenya managed to stabilise its economy and has brought down its current account deficit considerably, but that it did not manage to restructure its economy in order to face changed external conditions and to increase non-agricultural exports. During the stabilisation process growth suffered and employment creation slowed during the last years.

Stabilisation measures included the restriction of imports, a fall in real minimum wages, increase in real interest rates, control of government expenditure and exchange rate adjustment. The latter had as a main consequence a shift in income distribution between producers of tradeables (agricultural exporters) and non-tradeables, with limited supply response. Likewise, increases in the real rate of interest in 1983 and 1984 came after rather than before the large increases in savings which took place in 1981 and 1982. The increase in real savings benefited those who had been able to accumulate assets over the past period. Since in all sectors real wage costs increased less than sectoral GDP and employment usually also lagged behind, income distribution has changed in favour of non-wage earners.

Through the fall in urban real wages, rural-urban differences decreased, but it is difficult to judge from this whether overall income inequality has decreased. A preliminary assessment would lead to the opposite conclusion. First, in urban areas the position of wage-earners deteriorated in relation to that of non-wage earners. Second, in the agricultural sector exporters of tradeables profited from price increases in 1983 and 1984 and from devaluation. Part of their gain was lost because terms of trade of the agricultural sector did not improve, while it is difficult to trace whether increased rural savings could find more favourable income-earning assets than urban savings. Third, export crops are grown by a minority of prosperous small farmers (less than 20 per cent) who have large plots of land and by large farms. Increased attention to export crops would increase the inequality within the rural areas. Godfrey (1986), for example, reports that plantations, which often had difficulties in hiring labour in 1980 and therefore recruited foreign labour, appear to have had no difficulty in hiring labour since 1984. Also the lower real urban wages, as shown in section 5, may push in the direction of a lower supply price of rural labour.

During the 1979-84 period funds available for investment have shot up firstly because of increased foreign savings in order to finance the balance of payments gap, and thereafter because import restrictions caused limited supply of domestic output and of final consumer goods. In 1983 and 1984 investment rates again returned to "normal" Kenyan values of around 25 per cent. It remains a moot point why the Kenyan economy is unable to grow faster and unable to create more employment with such a high investment rate. Lower growth means efficiency losses caused by low capacity utilisation in the case of tradeables and non-tradeables and of low external prices in the case of exportables.

Especially in 1984 and 1986, prices for exportables behaved well. The increase in coffee prices in the beginning of 1986 which after a drop in spring and early summer appeared to continue for 1986. Because of the increase in coffee prices the International Coffeee Organisation has lifted quotas and Kenya has been able, on top of normal exports, to sell off coffeee stock from 1985, which will result in a doubling of proceeds from coffee exports in 1986 as compared to 1985. However, unlike during the coffee boom of 1976-77 and the tea boom in 1984, the Government does not intend to pass on in 1986 all price increases to coffee exporters and intends to use part of the increased revenue to pay off external public debts. However, since exporters form an important political group it is premature to assess how much of the windfall gain will in fact be used to reduce external public debt.

The more important point, however, is whether the increase in coffee prices will be permanently. Future price projectsions, however, are not bright. IBRD (1986[b]) estimates are, for coffee, 291 cents in 1990 and 312 cents in 1995 compared to 298 cents in 1984, and for tea, 231 cents in 1990 and 141 cents in 1995 compared to 294 cents in 1984 (all in terms of constant dollars). For both products Kenya is under normal circumstances restricted in quota markets with substantially lower prices for above-quota sales. Because of the 1986 coffee boom, the government is more optimistic about increased marketing possibilities above quota obligations than the World Bank (Government of Kenya, 1986; IBRD, 1986[b]). Kenyan authorities have started to make the case for increased quotas arguing that when present trends in production continue Kenya will be able at the end of the decade to sell only fifty per cent of its production through its quota on the world market.

A serious problem is that over the period 1979-85 considered in this paper, the volume of Kenya's exports of agricultural products kept up better than the volume of non-agricultural exports, which had better price prospects.

Although lower real wages could be a comparative advantage for Kenya, this has not happened as yet, mainly because of strong restrictions in surrounding markets and because of difficulties in Kenyan products competing in industrial country markets. New regional marketing arrangements could give a spurt to Kenyan exports, but the depressed economic situation of many of Kenya's neighbouring countries do not allow for much optimism on this side.

Thus, at least for the immediate future, Kenya has to rely on agricultural exports as the major source of foreign exchange, implying that, besides from some positive shocks such as bad harvests in other parts of the world, the long-term effects of trade prospects are not favourable. Another serious problem is that of food self-sufficiency. Although food self-sufficiency is, in principle, not an absolute prerequisite (since food can be imported and paid for with proceeds from exports), it has become accepted, for African countries at least, that food self-sufficiency is a legitimate objective. The rapid population growth in Kenya (about 4 per cent per annum) indicates the importance of the drive for food self-sufficiency. As we showed earlier, at the beginning of the period 1979-81, food prices were increased in order to boost food production, and to catch up with agricultural export prices which increased in 1976-77, while after 1981 export crop prices were increased in order to stimulate production of export crops. The drought in 1984 pushed food prices up again. The important policy question is whether stimulus of export crops can be achieved without detriment to food production. Evidence on this is mixed (IBRD, 1986[b]). Rwegasira (1983) in his comparative study on adjustment experiences in Kenya and Tanzania during 1974-78 also underlines the importance of fixing appropriate relative prices for food and non-food crops in order to avoid a deterioration in food production.

This dilemma is compounded by the fact that Kenya is quickly reaching its limit of arable land and increased production has to come from intensification

which means inputs and improved technologies, but which in the medium term could also be arrived at by land redistribution since small farmers have higher yields than large-scale farmers. IBRD (1986[b]) estimates that a 10 per cent reduction in the holding size raises output per hectare by 7 per cent and employment by over 8 per cent. The recent sessional paper on Economic Management for Renewed Growth is, however, much less outspoken and puts emphasis on intensification (Republic of Kenya, 1986).

What are viable scenarios for future development? All scenarios should take into account the characteristics of the economy which we indicated earlier, namely a large and dynamic small-scale agricultural sector, high savings rates, high population growth and a quickly reaching land frontier.

This would imply firstly, increased attention to production of small-scale agriculture. This has to go beyond present emphasis on domestic and foreign pricing policies, and has to include a much larger transfer of national savings to agriculture and to the agricultural sector as a whole. This has to be accompanied by starting policies for land redistribution in order to increase output and to provide income opportunities to the fast-growing population.

Both policies could be carried out more easily with increased inflow of foreign aid and capital but initiatives on both policies are not blocked by lack of funds. Increased investment in agriculture can be stimulated by offering special benefits for investment in agriculture or be financed from increased taxes on non-wage income, which has increased in several urban sectors as we indicated earlier. This would mean a lowering of the investment rate in urban areas, which would not necessarily decrease growth as ICORs have been rather high and could be lowered through better capacity utilisation and improved efficiency.

Land redistribution may run up to financial bottlenecks. Hunt (1984) reckons the cost of distribution 2.2 million hectares of land in 1979 at K 139 million, about 7.5 per cent of GDP. If funds to compensate for land redistribution were to be borrowed externally this would, given Kenya's high debt/GDP ratio of 57.5 per cent would bring the rate up to 65 per cent in one year thereby exacerbating the problem of debt repayment. However, if the programme were to form part of a foreign aid donor programme stretched out over several years, a programme of land reform would be economically feasible.

In the modern sector lack of investible capital is less relevant than lack of foreign exchange, resulting in low capacity utilisation ratios. A second reason for low capacity utilisation is the stand-still in real consumer demand by workers who have seen their incomes reduced from 1979 to 1984 by values up to 20 per cent. Increasing private consumer demand should not necessarily be stimulated by wage regulation but rather come from changes in the fiscal regime, where wage tax on lower income groups would be reduced and that on higher income groups and on accumulated wealth and assets increased. Another, not necessarily opposed, variant would be to stimulate public consumption rather than private consumption (non-inflationary financed by fiscal reforms) in order to keep provision of basic services, such as education and health at present levels or to increase these slightly. Although direct productivity effects of the provision of such services are difficult to measure, indirect effects in the form of increased social mobility have been noted by several authors.

A final point is whether the policies discussed above would be feasible under various external scenarios. Expansion of final demand in order to reduce excess capacity, may indeed cause import demand to increase above sustainable levels when access to foreign exchange remains constrained. However, in such cases import restrictions or prohibitive tariff structures

would be perfectly sensible policies coupled with policies to expand supply to satisfy ummet import demand by allowing a greater role of the informal sector which has already shown signs of increased dynamism during the years of stabilisation policies as we indicated earlier and already meeting demand from many low-income consumers.

The question of increased pressure on imports would be less when public consumption (non-inflationary financed) is increasing rather than consumption of low-income workers in order to provide sufficient levels of basic needs satisfaction but in order to be socially acceptable a combination of both seems most acceptable.[1]

---

[1] Preliminary results of a model simulation exercise, evaluating effects of changes in domestic policies towards small-scale agriculture and in provision of basic services and the effects of consequences of increased foreign exchange inflows show that domestic policies can have as powerful effects as changes in the external scenario (Appendix I). Furthermore, changes in domestic policies and external changes both resulted in increased growth and in reducing poverty, although the effect of the domestic policy is much more powerful. An experiment of combining domestic policy changes of the type described above and a scenario of increasing foreign exchange showed that policy changes and external scenarios reinforced each other.

Appendix I

A comparison of effects of changes in domestic policies and of external conditions on growth and poverty by means of a long-term simulation model

A long-term simulation model, (van der Hoeven, forthcoming) showed the following results on GDP and on poverty by applying a scenario of domestic basic needs policies and an increased external resources scenario:[1]

Basic needs scenario:

- increase in taxation of corporate tax by 25 per cent
- increase in taxes for richest rural group (about 1 per cent of the population having 25 per cent of income) by 12.5 per cent and of richest urban group (2.5 per cent of population with 20 per cent of total urban income) by 20 per cent
- shift in government expenditure towards basic needs augmenting it by 10 per cent
- decrease in urban-rural terms of trade by 10 per cent
- land redistribution of 7 per cent of land of large-scale farmers.

External scenario:

- increase in non-agricultural export growth by 33 per cent
- increased capital inflows of 25 per cent of GDP
- increased foreign aid of 1.25 per cent of GDP.

Combining the scenarios gives the following results for a five-year simulation (1985-1990), where figures indicate percentage deviation from the current policies and existing external conditions:

---

1 The time frame of the model is twenty-five years running from 1976 to 2000.

	Existing external conditions		External scenario	
Current policies	-		Change in GDP	+4.1%
	-		% of total population moving out of poverty	+0.2%
Basic needs scenario	Change in GDP	+0.7%	Change in GDP	+6.0%
	% of total population moving out of poverty	+5.7%	% of total population moving out of poverty	+6.1%

We notice that easing the foreign exchange constraint combined with increased export demand and stepping up public consumption combined with improved agricultural performance have different effects over a cumulated period of five years. Domestic policies would seem to have more impact on poverty alleviation than relying only on lifting the foreign exchange constraint, while the later improves GDP performance but hardly decreases poverty. A combination of changes in policies and external scenarios would reinforce both positive aspects.

Appendix II

Decomposition of changes in current account deficits in Kenya

In order to measure the exogenous shocks and the domestic policy reactions to the current account deficit a decomposition analysis has been applied which followed in broad lines the methodology developed by Bacha in the annex to Balance of payments experience and growth prospects of developing countries - Methodological note (UNDP/UNCTAD, 14 May 1985; INT 84/021).

In order to have the most recent estimates and to allow for a greater decomposition on the import side all data unlike similar studies have been collected from national sources and not from the IMF's International financial statistics or the World Bank's World tables.

Because of this we could only consider the effect of imports of goods and services, exports of goods and services and factor payments on the balance of payments. The omission of workers' remittances and transfer payments did not affect the results to a large extent, especially since we are dealing with changes in BoP deficits.

We have the following relations.

[1] $D(t) = M(t) + V(t) - E(t)$

[2] $M(t) = M_1(t) + M_2(t) + M_3(t)$

[3] $M_i(t) = Pm(t)\ MR_i(t)$

[4] $MR_1(t) = m_1(t)\ CR(t)$

[5] $MR_2(t) = m_2(t)\ INVR(t)$

[6] $MR_3(t) = m_3(t)\ INTPRD(t)$

[7] $E(t) = Px(t)\ ER(t)$

[8] $ER(t) = x(t)\ W(t)$

[9] $V(t) = r(t)\ F(t-1)$

Equation [1] describes the balance of payments deficit (D) as the difference between imports (M) and net factor payments abroad (V) and exports (E).

Equation [2] splits imports (M) into imports of consumer goods (M_1), imports of capital goods (M_2) and imports of intermediate products (M_3).

Equation [3] describes the value of imports of each category as the product of prices (Pm) and of volume (MR_i). Ideally different prices for the three import categories should be distinguished but information for this was difficult to come by and would make the decomposition unnecessarily cumbersome.

Equations [4], [5] and [6] explain real imports of consumer goods (MR_1) as a fraction of real private and public consumption (CR), real imports of investment goods (MR_2) as a fraction of real gross investment (INVR) and real import of intermediate products (MR_3) as a fraction of real intermediate products (INTPRD).

Equation [7] describes exports (E) split by price (Px) and volume effects (ER), while equation [8] explains real exports as a fraction of the volume of world trade.

Equation [9] describes net factor payments abroad as a simple fraction of the total foreign debt of the previous period. It was not possible to decompose this further, and we have implicitly assumed that changes in the ratio (r) are the consequence of the change in the interest rate (and thus implicitly assuming that other conditions of loans remained the same and that a constant ratio exists between remitted profits and the foreign debt). This should be kept in mind when interpreting the figures.

Substitution of [2] to [9] into [1] and dividing through GNP in current prices gives the following results.

$$[10] \quad D(t)/Y(t) = m_1(t)\ pm(t)\ (CR(t)/Z(t)) + m_2(t)\ pm(t)\ (INVR(t)/Z(t)) + m_3(t)\ pm(t)\ (INTPRO(t)/Z(t)) + r(t)\ (F(t-1)/Y(t-1)) - x(t)\ px(t)\ (W(t)/Z(t))$$

with $Y(t) = py(t)\ Z(t)$

and $pm(t) = Pm(t)/py(t)$

$px(t) = Px(t)/py(t)$

where py(t) is the GNP deflator and pm(t) and px(t) represent import and export prices expressed as multiples of domestic prices.

By taking first differences of equation [10] we arrive at the final formula expressing the various elements of the decomposition.

$$[11] \quad d(D(t)/Y(t)) = \left.\begin{array}{l} m_1(s)\ (CR(s)/Z(s))\ d\ pm(t) \\ + m_2(s)\ (INVR(s)/Z(s))\ d\ pm(t) \\ + m_3(s)\ (INTPRO(s)/Z(s))\ d\ pm(t) \end{array}\right) \\ - (ER(s)/Z(s))\ d\ px(t) \\ - x(s)\ px(s)\ d\ (W(t)/Z(t)) \\ + (F(s-1)/Y(s-1))\ dr(t) \\ + r(s)\ d\ (F(t-1)/Y(t-1)) \\ - px(s)\ (W(s)/Z(s))\ dx(t) \\ \left.\begin{array}{l} + m_1(s)\ pm(s)\ d(CR(t)/Z(t)) \\ + m_2(s)\ pm(s)\ d(INCR(t)/Z(t)) \\ + m_3(s)\ pm(s)\ d(INTPRD(t)/Z(t)) \end{array}\right)$$

$$+ pm(s)\ (CR(s)/Z(s))\ d\ m_1(t)$$
$$+ pm(s)\ (INVR(s)/Z(s))\ d\ m_2(t)$$
$$+ pm(s)\ (INTPR(s)/Z(s))\ d\ m_3(t)$$
$$+ \text{second and higher order terms.}$$

The symbol d before a variable indicates the yearly change from 1979 to 1985 in the particular variable while the symbol s between the brackets indicates the year for the weights of the decomposition term. Changes have been calculated both for s being the past year (t-1) as well as for s being the current year (t). For all years the latter weighting system resulted in lower residual terms and has thus been applied throughout.

The interpretation of the decomposition is as follows.

Change in the current account deficit ratio to GNP
= terms of trade deterioration (first four terms)
+ retardation in world trade growth
+ interest rate changes on debt
+ effects of increased debt burden
+ increase in world trade share
+ changes in consumption coefficient
+ changes in investment coefficient
+ changes in intermediate product coefficient
+ changes in import coefficient consumer goods
+ changes in import coefficient investment goods
+ changes in import coefficient intermediate products

Source of data

All data have been taken from various issues of the Economic Survey and the Statistical Abstracts both published annually. In case of conflicting values most recent values have been chosen (unless representing clear misprints).

M_1 = import of consumer goods in current prices
M_2 = import of capital goods in current prices
M_3 = import of intermediate goods in current prices

M = total imports (in cases when the above three import categories did not sum up to total imports in the national accounts, the categories have been adjusted)
E = exports of goods and services at current prices
V = net factor payments abroad in current prices
D = balance of payments deficit calculated according to equation [1]
Pm = index of import prices (1976 = 100)
Px = index of export prices (1976 = 100)
MR_i = real imports calculated according to [3]
INVR = gross investment expressed in 1976 prices
INTPRD = intermediate deliveries in current prices deflated with 1976 GNP deflator
$m_i(t)$ = various import coefficients calculated according to [4], [5] and [6]
ER(t) = real exports in 1976 value calculated according to [7]
W(t) = index of volume of world trade from GATT Annual Report
x(t) = market share in exports in 1976 values calculated according to [8]
F(t) = foreign debt in current prices
r(t) = coefficient of factor payments calculated according to [9]
Y(t) = GNP in current prices
Z(t) = GNP in constant 1976 prices
py(t) = GNP deflator

Table A.1. Factor incomes: Kenya, 1979-85
(K£ million at current prices)

	1979	1980	1981	1982	1983	1984	1985
Factor incomes							
A. Traditional economy	118.96	131.67	150.77	164.58	196.83	227.48	256.20
B. Operating surplus	965.53	1 064.42	1 206.08	1 380.68	1 604.98	1 721.09	1 952.40
of which:							
Agriculture	585.41	616.27	713.52	830.80	955.24	1 000.34	1 115.65
Non-agriculture	380.12	448.15	492.6	549.88	649.74	718.75	836.75
C. Rental surplus	87.20	103.41	127.42	140.69	154.24	168.19	180.82
D. Remuneration of employees	803.20	935.87	1 097.78	1 224.73	1 370.56	1 537.78	1 736.78
of which:							
Agriculture	77.78	90.21	101.76	105.78	111.22	119.80	123.50
Other enterprises	420.61	492.24	581.27	649.01	749.37	884.38	963.42
Private households	21.72	28.15	28.62	32.75	35.71	44.89	52.80
Government sector	283.09	325.17	386.13	437.19	474.26	528.71	597.06
GDP at market prices	1 974.87	2 235.37	2 582.05	2 2910.68	3 326.61	3 694.54	4 126.20

Source. Government of Kenya: Economic Survey, various issues.

Table A.2. Functional distribution of income: Kenya, 1979-85
(per cent)

	1979	1980	1981	1982	1983	1984	1985
Factor incomes							
A. Traditional economy	6.0	5.9	5.8	5.7	5.9	6.1	6.2
B. Operating surplus	48.9	47.6	46.7	47.4	48.3	46.8	47.3
of which:							
Agriculture	29.6	27.5	27.6	28.5	28.7	27.0	27.0
Other	19.3	20.1	19.1	18.9	19.6	19.8	20.3
C. Rental surplus	4.4	4.6	4.9	4.8	4.6	4.5	4.4
D. Remuneration of employees of which:	40.7	41.9	42.5	42.0	41.2	42.5	42.1
Agriculture	3.9	4.0	3.9	3.6	3.3	3.2	3 0
Other enterprises	21.3	22.0	22.6	22.3	22.5	23.9	23.3
Private housholds	1.0	1.3	1.1	1.1	1.2	1.2	1.3
Government services	14.3	14.5	14.9	15.0	14.2	14.2	14.5

Source. Table A.1.

Table A.3. Various GDP deflators and prices indices (1976 = 100)

	1979	1980	1981	1982	1983	1984	1985
GDP deflator	128.3	140.5	155.0	169.2	182.8	206.0	217.8
Traditional economy	152.9	162.3	181.4	191.4	216.7	245.2	267.4
Agriculture	122.6	131.8	142.8	156.7	171.0	186.5	199.2
Manufacturing	124.0	138.5	155.1	170.3	178.6	189.6	208.2
Construction	138.5	166.4	177.0	199.6	278.8	318.3	290.7
Trade and tourism	129.2	143.9	160.1	178.1	220.4	269.2	266.2
Government services	130.8	142.4	159.0	172.9	181.1	202.1	210.2
Consumer price index[1]							
Low income	143.8	159.9	186.0	215.5	240.5	266.2	300.8
Middle income	129.1	143.2	169.5	205.5	233.9	258.6	287.3
High income	131.1	148.3	172.4	203.7	231.1	251.1	271.2
Annual % increase							
Consumer prices index							
Low income		11.1	16.3	15.8	11.6	10.6	13.0
Middle income		10.9	18.3	21.2	13.8	10.3	11.1
High income		13.1	16.2	18.2	13.5	8.8	8.0

[1] The CPI is re-indexed to 1976, while mid-year values have also been calculated (rather than the end of year values usually published) in order to make the CPI more comparable to the various GDP deflators.

Source. Calculated from various issues of Government of Kenya: Statistical Abstract and Economic Survey.

Table A.4. Per cent share of investment in some major sectors of the economy, 1979-84

Sector	1979	1980	1981	1982	1983	1984	1985
Traditional economy	7.3	7.0	7.0	8.1	9.2	9.3	10.1
Agriculture	7.8	7.5	7.5	7.7	7.7	6.8	7.9
Forestry	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Mining	0.7	0.8	0.7	0.6	0.7	0.9	0.5
Manufacturing	16.4	12.4	12.2	9.9	15.5	11.9	11.8
Construction	4.8	5.4	4.5	4.3	8.3	7.9	3.8
Trade and tourism	3.2	4.5	3.0	3.6	4.1	3.7	4.7
Transport	18.8	16.5	15.7	15.2	15.4	15.7	13.8
Ownership of dwelling	10.2	10.1	9.7	10.9	6.7	6.2	7.1
Electricity	5.9	6.6	9.0	11.3	7.9	5.5	5.9
Finance	1.5	1.6	3.3	1.4	2.3	2.2	2.0
Other services	5.9	6.6	6.8	7.9	8.1	7.0	10.0
Government	17.3	20.7	20.5	18.9	17.6	22.6	22.2

Table A.5. Investment/GDP ratios in current and constant (1976) prices, 1979-84

Sector	1979	1980	1981	1982	1983	1984	1985
Current prices							
Agriculture	6.5	6.8	6.9	5.6	5.3	5.3	5.6
Manufacturing	35.4	26.0	26.9	17.7	27.3	21.5	19.3
Construction	31.2	31.7	27.1	23.9	38.6	40.2	21.3
Trade and tourism	8.0	11.5	7.8	8.0	7.7	6.3	7.6
Government	32.4	38.6	37.9	28.7	21.4	35.7	31.3
Total	27.4	27.8	37.9	28.7	21.4	35.7	20.6
Constant prices							
Agriculture	5.9	6.0	6.5	5.6	4.6	4.6	4.9
Manufacturing	31.0	23.1	29.5	17.7	20.7	16.9	15.1
Construction	30.3	33.7	29.4	23.9	38.0	43.9	19.9
Trade and tourism	7.8	10.5	7.9	8.0	7.7	7.1	7.9
Government	30.9	35.7	39.8	28.7	19.1	29.8	26.3
Total	24.9	24.8	29.5	22.9	19.2	20.3	18.2

References

Balassa, B. 1981. The newly industrialising countries in the world economy, Pergamon Press, New York.

Godfrey, M. 1986. "Stabilisation and structural adjustment of the Kenyan economy, 1975-1985: An assessment of performance"; restricted mimeograph.

Hart, K. 1973. "Informal income opportunities and urban employment in Ghana, in Journal of Modern African Studies, Vol. 11, No. 1.

House, W. 1978. "Nairobi's informal sector: a reservoir of dynamic entrepreneurs or a residual pool of surplus labour" in University of Nairobi IDS Working Papers, No. 347, Nairobi.

Hunt, D. 1984. The impending crisis in Kenya: The case for land reform, Aldershot, Gower.

IBRD. 1986. World Development Report.

IBRD. 1986[b]. Kenya agricultural sector report, Jan. (restricted).

ILO. 1972. Employment, incomes and equality: a strategy for increasing productive employment in Kenya, ILO, Geneva.

IMF. IMF Survey, various issues.

---. 1985. International Financial Statistics.

Jabara, C. 1985. "Agricultural pricing policy in Kenya", in World Development, May, Vol. 13, No. 5.

Killick, T. (ed.). 1984. The IMF and stabilisation: Developing country experience, London, Heinemann for ODI.

Livingstone, I. 1986. Rural development, employment and incomes in Kenya, an ILO/JASPA study, Aldershot, Gower.

Mosley, P. 1986. "The politics of Economic Liberalisation: USAID and the World Bank in Kenya, 1980-1984", in African Affairs, Vol. 85, No. 1., Jan. 1986.

Nelson, J. 1984. "The political economy of stabilisation: Commitment capacity and public response", in World Development, Oct., Vol. 12, No. 12.

Republic of Kenya. Economic Survey, various years.

---. Statistical Abstract, various years.

---. 1986. Economic management for renewed growth, Sessional Paper No. 1.

Rwegasira, D. 1983. Adjustment policies in low income African countries: A comparative interpretation of the Kenyan and Tanzanian experience, IMF Departmental Monograph DM/83/80, restricted.

Sandbrook, R. 1986. "The state of Economic Stagnation in Tropical Africa" in World Development, Vol. 14, No. 3.

Sharpley, J. 1986. Economic policies and agricultural performance: The case of Kenya, Paris, OECD.

Taylor, L. 1985. IMF conditionality: Incomplete theory, policy malpractise, mimeographed.

van der Hoeven, R. forthcoming. Planning for basic needs: A soft option or a solid policy - A basic needs simulation model applied to Kenya, Gower, Aldershot.

Vandemoortele, J. 1985. Kenya data compendium, 1962-1982. University of Nairobi, IDS Occasional Paper, No. 44, Nairobi.

INTERNATIONAL EMPLOYMENT POLICIES

Working Papers

WEP Research Working Papers are preliminary documents circulated informally in a limited number of copies solely to stimulate discussion and critical comment. They are restricted and should not be cited without permission. A set of selected WEP Research Working Papers, completed by annual supplements, is available in microfiche form for sale to the public. Orders should be sent to ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. This list includes many, but not all, papers which exist or may be issued in microfiche form.

WEP 2-46/WP.1	Stabilisation, adjustment and poverty: A collection of papers presented at an informal ILO Expert Group Meeting (Geneva, 9-10 January 1986), July 1986.
WEP 2-46/WP.2	Efficiency pre-conditions for successful integration of developing countries into the world economy by U. Hiemenz and R.J. Langhammer, September 1986.
WEP 2-46/WP.3	Interest rates, employment and income distribution: A review of issues by A. Roe, September 1986.
WEP 2-46/WP.4	The impact of liberalisation on growth and equity by T. Addison and L. Demery, October 1986.
WEP 2-46/WP.5	The external account, growth and employment in Egypt and Turkey: Historical review and prospects by R. Erzan, September 1986.
WEP 2-46/WP.6	Impacts of the external sector on employment and equity: The case of Nigeria and Ghana by R.E. Ubogu and H.U. Umo, October 1986.
WEP 2-46/WP.7	The double purchasing power parity problem by Maria Augusztinovics, October 1986.
WEP 2-46/WP.8	Employment, real wages and external constraint: The case of Brazil and Chile by René Cortazar, October 1986.
WEP 2-46/WP.9	Employment policies in the programme of structural adjustment of the Yugoslav economy by O. Kovac and L. Madzar, November 1986.
WEP 2-46/WP.10	Employment and stabilisation in Mexico by L. Mertens, December 1986.
WEP 2-46/WP.11	Kenya: Stabilisation and adjustment experiences (1979-84) and prospects for future development by R. van der Hoeven and J. Vandemoortele, January 1987.

ISBN 92-2-105876-X