Thirty-fifth session
6 June-1 July 1988, Geneva
Item 5 (d) of the provisional agenda

PROGRAMME PLANNING
Country and intercountry programmes and projects

FIFTH COUNTRY PROGRAMME FOR KENYA*

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<th>Programme period</th>
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<td>less IPF resources for 1987</td>
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* Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include: (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; (d) planned activities of operational funds and programmes under the authority of the Administrator; and (e) distribution of new country programmes by sector.
I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

A. Current economic trends

1. The population of Kenya is approximately 22 million. Its annual rate of growth is reported to be one of the highest in the world and is currently estimated at about 4 per cent. The work force was estimated at 7.5 million people in 1984 and is expected to reach the level of 14 million by the year 2000. The accommodation of the future work force without a rise in the rate of unemployment will thus necessitate a doubling of the number of jobs within the next 15 years. This is the magnitude of the employment challenge which Kenya is facing.

2. Kenya is classified among the low income countries. Agriculture and livestock production are the main activities of the country's economy. The sector accounts for approximately 35 per cent of total gross domestic product (GDP), but less than a fifth of the total area of the country is suitable for agricultural activities. Hence, there is high and rapidly increasing pressure from the population on the land. The industrial sector, which accounts for about 20 per cent of GDP, is to a large extent agro-based and is mainly concentrated in import-substituting activities. The sector faces the structural constraints of a basically inward-looking manufacturing subsector and an important but largely inefficient parastatal subsector. The tertiary sector accounts for 45 per cent of GDP and is dominated by government services and activities related to trade and tourism.

3. There is ample evidence of considerable economic and social progress in Kenya over the past few decades. Income per capita increased by one quarter between 1965 and 1980 and the indicators on life expectancy, infant mortality, adult literacy and primary school enrolment show an equally impressive performance. But the country went through a severe economic recession during the first half of the 1980s. Although it weathered the crisis better than most sub-Saharan African countries, the growth of the economy lagged behind the population growth rate in the years 1982 through 1984. It was only recently that the declining trend in per capita income has been reversed, mainly through favourable changes in weather conditions, external terms of trade and domestic policy-making.

4. The recovery, which started in 1985, has been facilitated by the following domestic factors: a well-managed response to the 1984 drought; a strictly enforced wage policy; a realistic exchange rate policy; positive real interest rates; attractive incentives for agricultural producers; and a reduced budget deficit which, as a proportion of GDP, is now lower than in most developing countries. The economy was to a large extent stabilized by a reduction of the budget deficit from 9.5 per cent of GDP in 1981 to only 4.0 per cent in 1986. During the same period, the current account deficit dropped from 11.1 per cent of GDP to 2.7 per cent. Furthermore, agricultural producer prices have risen more rapidly than wages and prices for manufactured goods so that the long-term downward trend in the domestic terms of trade was reversed in 1986.

5. The economy has regained its pre-drought momentum, growing by 4.4 and 5.7 per cent in 1985 and 1986 respectively. The World Bank projects the growth...
rate of Kenya at about 5 per cent per annum during the period 1987-1991. However, the economy should be able to grow faster and create more jobs given that the investment ratio has been relatively high in the past. Constraints to rapid economic growth have originated both from domestic and external sources. First, the productivity of capital has gradually declined over the past decade because the pattern of investment has encouraged large-scale and capital-intensive projects that have often been poorly selected and which took place behind highly protective barriers. In addition, essential as they are, investments have been heavily concentrated on physical infrastructure and human resources development which are not immediately productive because of their long gestation periods. Second, these domestic factors have been exacerbated by a continuous deterioration in the country's external terms of trade. Capital formation had also been hindered by the high level of imports, which have risen in price over the last years.

6. Short- and medium-term prospects for improvements in external terms of trade do not look well. Apart from tourism, the three major foreign exchange earners for Kenya are, in decreasing order of importance, coffee, tea and petroleum products. Together, they accounted for about 70 per cent of commodity export earnings in 1986. It is expected that a buyers' market for those exports will prevail for some time because of excess supply on the international markets and slow economic growth in the industrialized world. Therefore, the long-term decline in the external terms of trade is unlikely to change in the near future, except for eventual short-lived upturns, as was the case in 1984 and 1986, when the prices for tea and coffee, respectively, were unusually high. In addition, the high degree of indebtedness of the country (the debt service ratio more than doubled between 1980 and 1986 and currently exceeds 30 per cent of all export earnings) and the probability that at least one year of bad weather will occur in the foreseeable future argue for caution in assessing future prospects.

7. Nevertheless, after five years of major policy reforms, the prospects for economic recovery and development are moderately encouraging. The international community, too, expresses continued support for the development efforts of Kenya. However, improvements will critically depend on the timely implementation of stated policy reforms, in particular with respect to the management of the public sector, the diversification of exports and a more adequate population policy.

8. In short, prospects for steady improvements in the medium-term look promising, although austerity will remain the watchword in the immediate future. In the longer run, however, Kenya faces a colossal employment challenge. Due to the rapid population growth, the labour force is expected to increase by about 4 per cent per annum from now to the end of the century. In absolute terms, this means that the number of jobs needs to double within the next 15 years. At present, the economy has to create 330,000 new jobs every year if the employment situation is to be stabilized. The magnitude of this challenge is enormous, given that the formal sector creates only 40,000 new jobs per year. Unquestionably, the agricultural and informal sectors will play a critically important role in absorbing the new labour force recruits in the future.

9. Formal wage employment represents about 15 per cent of the total labour force in Kenya, which is high by regional standards. Wage employment in the country has
increased at the rate of 3.7 per cent per year since independence. However, the pattern of employment, which is based on first-stage import substitution provides little scope for future expansion. Moreover, the government policy of guaranteeing employment for school-leavers of secondary and higher education has led to a generalized overstaffing in the public sector. Public sector employment is growing at an average of 4 per cent a year. As a result, budgetary expenditures on personnel are continuously increasing, absorbing about one half of current and capital budgetary expenditures in 1986, compared to only a quarter in 1980. This has left inadequate resources to cover maintenance and operating costs.

10. The informal sector, comprising small-scale manufacturing, marketing, repairs and other service activities, promises a remarkable dynamism and a considerable capacity to absorb and train large numbers of urban dwellers. It is currently estimated that some 10 per cent of the total labour force is engaged in this sector, whose importance is expected to increase since the majority of future non-farm employment opportunities will be here.

11. However, as the mainstay of the country's economy remains agriculture and livestock, the alleviation of the employment problem will depend primarily on successful rural development. At present, agricultural and livestock activities employ about 60 per cent of the total labour force, generate the bulk of commodity exports and provide raw materials for the country's largely agro-based industry. The sector is thus vital in providing food, income and employment for the rapidly growing population.

12. An estimated 15 per cent of the labour force is unemployed. Young people in particular appear to be bearing the brunt of the problem. According to the 1986 Urban Labour Force Survey, the youth unemployment rate is approximately four times as high as the adult unemployment rate, which means that some two thirds of the total number of unemployed persons are between 15-25 years old. It is well established that massive youth unemployment and inadequate socialization leads to the disquieting phenomena of excessive urbanization and related social problems.

13. If Kenya is to improve the overall employment situation in the future, three major conditions must be fulfilled. First, the economy will have to achieve the target growth rate set by Sessional Paper 1 of 1986, essentially through a more efficient utilization of available resources. Second, domestic production must become more labour intensive, mainly through an equitable pattern of economic growth so that the effective participation of all socio-economic groups is ensured. Third, the country will require access to buoyant export markets and capital flows from abroad on a sustained and concessional basis.

B. National development strategies

14. There has clearly been an underlying continuity in the country's development strategy since independence. Its basic thrust consists of the two-pronged objective of growth and equity. Although there are always trade-offs between those objectives, an equitable distribution of income is considered to be a necessary condition for sustainable economic growth. The Government has repeatedly shown its
ability to respond quickly and consistently to major changes in the economic environment. The continuity of policy adjustments is well reflected in the series of development plans and Sessional Papers which the Government has adopted at regular intervals.

15. The first Sessional Paper was tabled in the wake of the first oil-shock. It addressed the imported inflation rate, the balance-of-payments deficits and the sluggish economic growth, which were pressing problems at the time. It was followed by the 1979-1983 Development Plan, which took poverty alleviation and basic needs satisfaction as its central theme. The economic emphasis, however, was on stabilization and structural adjustment. It was recognized that the import substitution could not provide an economic panacea and that the future would hold far more difficult economic choices. The implementation of the Plan was interrupted by the second oil-shock. The 1980 Sessional Paper considered the 1980s as a time of perpetual crisis in the world economy. Optimism was tempered; growth expectations were scaled down; fiscal, monetary and tariff reforms were introduced and manufactured exports were promoted. The 1982 Sessional Paper added a realistic exchange rate policy to the economic stabilization package and the management of the parastatal sector was critically reviewed. Finally, the theme of the 1984-1988 Development Plan was to mobilize domestic resources for equitable development. Essentially, the plan sought to continue the implementation of the programme of economic austerity and stabilization. But since the launching of this plan it has become obvious that the austerity programme is not fostering economic growth to appropriate levels.

16. The Government's employment policy was stated in the 1985 Sessional Paper 2 on Unemployment. In essence, the policy paper recognized that the only way to accommodate the rapidly growing labour force consists in long-term rapid economic growth which allows for rising labour productivity and income levels. It is in this context that the Sessional Paper No. 1 of 1986 entitled "Economic Management for Renewed Growth" was issued. This policy paper stresses the urgent need for renewed economic growth before the pressure of population growth becomes overwhelming. It looks towards the year 2000 and lays out the strategy for future development. Detailed measures or specific programmes, including one on population policy, are expected to be formulated by the relevant line ministries within the overall guidelines contained in the Sessional Paper. It is within the same framework and set of priorities that the fourth country programme of the United Nations Development Programme (UNDP) has been articulated.

17. An economic growth rate of 6 per cent per annum is targeted from 1988 onwards. This high rate will be achieved, according to the Sessional Paper, through increases in agricultural productivity, supportive measures in favour of the informal sector, both rural and urban, and a more open and competitive industrial sector. The strategy relies heavily on an export-led growth path, with exports projected to grow by 5.1 per cent per annum. The major departures from the previous development strategy are the shift away from a heavy dependence on import substitution and the institution of a policy of decentralization, known as the district focus for rural development. The development strategy focuses on the potentials of the private sector, in particular on small farmers, pastoralists and small-scale entrepreneurs.
18. The Sessional Paper addresses the major policy issues that pertain to the attainment of the seven interrelated objectives of renewed economic growth; increased productivity; employment creation; basic needs satisfaction; food security; improved rural-urban balance; and a gradual structural change from an agrarian society into an urban-based industrial economy. The thrust of the new approach consists in the promotion of a mixed economy, whereby private enterprises will be encouraged to play an important role in the process of economic development. Government activities will be focused on an improved enabling environment for the private sector while direct interventions and controls will be de-emphasized.

19. Investment efforts have been very considerable but a large proportion (about 10 to 15 per cent) has been financed by capital inflows from abroad. Therefore, the country is striving to increase domestic savings. The Government in particular will bear a major responsibility to increase savings by reducing expenditure and diversifying the revenue base. According to the Budget Rationalization Programme, which was introduced in 1986, current expenditure is expected to grow by less than 2 per cent a year net of inflation. The target for current revenue has been set at 24 per cent of GDP, a target which was reached in the fiscal year 1986-1987. In the future, a lesser tax burden will be placed on production and savings, and consumer subsidies will be reduced.

20. The revenue base will be expanded through the introduction of a system of cost-sharing of public services. The introduction of a programme of cost recovery will be necessary if the effective provision of basic services is to be maintained without jeopardizing sound fiscal and monetary policy-making. A system of cost-sharing between the taxpayer and the beneficiary of the service is compatible with social and economic efficiency, allows the delivery system to expand, and improves the resource allocation in the economy. Consumers are willing to pay for essential goods and services, provided they obtain them. Thus, diversification of the revenue base will relate to this willingness to pay. At the same time, the targeting of public expenditure will be improved and a safety net will be established to protect the living standards of the poor so that those least able to pay still have access to public services.

21. The Government is also striving to improve the allocation of available resources in the economy, and most of the domestic causes of the rising incremental capital-output ratio have been removed. Nevertheless, the achievement of a 6 per cent annual growth rate over the period 1988-1991 will require, in addition to improvements in domestic savings and efficient resource allocations, continued high levels of external financing. The financing of the current account deficit, debt servicing and the maintenance of adequate foreign exchange reserves was estimated by the 1986 Consultative Group Meeting at approximately $800 million a year. These financial needs will require a judicious combination of grants, soft loans from bilateral and multilateral sources and private capital inflows, either in the form of direct investments or commercial borrowing.
C. Technical co-operation priorities

22. The priorities of technical co-operation were established in Sessional Paper 1 of 1986. From the outset, the Government has considered the fifth country programme as a frame of reference for the operationalization of these priorities. In order to achieve a measurable impact in the medium-term, a thematic approach to the country programme has been adopted. Hence, the central theme of employment was identified to capture the socio-economic challenge of rapid population growth and inadequate economic growth.

23. The allocation of external resources for technical co-operation is considered as part and parcel of the Budget Rationalization Programme. The prime objective of this programme is to increase the efficiency of resource mobilization and expenditure. Projects of technical co-operation are now included in the three-year forward rolling budget. Hence, access is required to an active pipeline of high quality from which projects can be selected and appraised during the annual budget and programme reviews.

24. Resources required for the project portfolio of the fifth country programme as a frame of reference considerably exceed the indicative planning figure (IPF) of $34 million, amounting to about $250 million. This programme presents a comprehensive package of activities tailored to the requirements of technical co-operation and is aimed at alleviating the pressing employment problem. Therefore, the role of UNDP in the areas of project preparation and appraisal, resource mobilization, project supervision and evaluation will be highly critical in channelling funds for technical co-operation towards key employment issues. The United Nations, multilateral and several bilateral agencies have entered into or have indicated their wish to enter into operational co-operation with UNDP in co-financing a number of projects.

25. During the preparation of the new country programme, extensive use has been made of the preparatory assistance mechanism and the Project Development Facility (PDF) to identify, with the full participation of the line ministries, the specific needs for technical co-operation and financial assistance in the formulation and implementation of concrete policy measures, programmes and projects that are oriented towards employment creation.

D. Aid co-ordination arrangements

26. External flows to Kenya are very substantial and represent nearly two thirds of the Government's annual investment programme. The task of co-ordination is thus particularly challenging to the Government as well as to the international community; both the absorptive capacity and the effective use of external resources must be increased.

27. The co-ordination of technical co-operation in Kenya is carried out in four different ways: (a) by the Government, as part of its regular budgetary exercise and financial management; (b) through specially arranged bilateral review meetings between the Government and its partners in development; (c) through periodic
Consultative Group meetings of the World Bank; and (d) through selected co-ordinating groups at the sectoral level between the Government and funding agencies.

28. The primary task of co-ordination within the Government rests with the External Resources Department of the Ministry of Finance. This department has desk officers to deal with each of the main external agencies and has recently been strengthened. A computerized data base on external resources has been compiled. High priority is accorded to the further strengthening of the capacity of the department.

29. The first Consultative Group meeting took place in 1970 and has been held since then about every other year. Recently, briefings on the macro-economic situation and on external requirements have been held at closer intervals and an interim Consultative Group was held in Nairobi in 1987. Since 1984, the Government has established a series of sectoral co-ordination groups that have dealt with issues such as a national agricultural research programme, a fertilizer supply and delivery system, population and health, and the minor access roads programme.

30. During the preparation of the fifth country programme the Resident Representative, in consultation with the Government, has established an extensive network of consultations. First, an inter-agency advisory group was set up in which each United Nations agency presented its ongoing and planned activities which were discussed in the light of the theme of employment. The monthly meetings of the Advisory Group were also attended by selected bilateral donors that had a potential interest in the cost-sharing of pipeline projects. Second, close working relations were maintained among the staff members of UNDP, the United Nations Population Fund (UNFPA) and the World Food Programme (WFP) which led to an integrated programme of resources. Third, continued consultation took place with the organizations of the United Nations system in the formulation of projects and on the conceptual underpinnings of the programme. Fourth, several agencies fielded sectoral programming missions in the areas of employment creation, agriculture, livestock, fisheries, industry, etc. Those missions adopted the thematic approach of the country programme and identified new projects to put the employment theme into operation.

31. The effectiveness of the country programme will depend on the development of practical mechanisms for co-ordinating the overall direction as well as the key components of the programme, especially at the operational level. Therefore, measures will be built into the programme that will bring together all the relevant partners to guide and monitor programme activities. A central Steering Committee, chaired by the Ministry of Finance with members from the Ministry of Planning and National Development and other line ministries, will meet on a regular basis to review programme-wide as well as project-specific progress. This committee will issue guidelines to all partners and will ensure that the major thrust of the programme on employment is maintained.

32. At the sectoral level, working parties will review the various issues that are related to the programme's central theme of employment. Working parties of this kind will be organized on subjects such as the design of micro credit and character
loan schemes for small farmers and entrepreneurs. Another working party will focus on business counselling and on the identification of potential entrepreneurs and motivated entrepreneurial groups such as women's groups. Other areas for which working parties will be established include formal and non-formal acquisition systems of employable skills and the improvement of farming systems through technological transfers to small farmers. Finally, a working party will focus on policy issues at the macro-level and on relevant data and research.

II. THE COUNTRY PROGRAMME

A. Assessment of current country programme

33. During the third programming cycle, UNDP made available to Kenya the amount of $28.6 million. Of this, $6.3 million remained uncommitted and has been carried over to extend the fourth country programme till June 1988. The areas of concentration coincide with the major objectives which were set by the fourth and fifth development plans in the areas of policy and strategy formulation; manpower planning and training; increased productivity and acreage of agricultural land; the development of a domestic energy supply; the satisfaction of basic needs; and the provision of adequate employment opportunities.

34. In accordance with the development objectives, special emphasis has been placed on agriculture, which was the most important sector in the fourth country programme, receiving 35 per cent of the total IPF. The second largest area of concentration of the programme was the industrial sector, with an allocation of 28 per cent of the total IPF. The third major component consisted of policy-making and planning, receiving 12 per cent of the total IPF. The fourth area of concentration was on energy, mainly in the form of a feasibility study of the commercial development of indigenous geothermal power sources, with an allocation of about 10 per cent of the total IPF. The remaining 15 per cent of the resources of the fourth country programme was allocated mainly to training activities, in the fields of technical skills, vocational rehabilitation and civil aviation.

35. Notwithstanding the substantial achievements of the projects of the fourth country programme, the overall assessment has revealed some recurring features which can be summarized as follows:

(a) Requests for extension of existing projects have been frequent, indicating that such projects have been either inappropriately designed and/or inadequately supported by counterpart resources. The Government and UNDP have acted jointly to rectify this trend through major reviews and revisions of project documents. Extensions of ongoing projects into the fourth cycle have been examined in the light of the theme of employment. Furthermore, the new country programme takes a longer-term perspective by allowing for a more realistic time-frame within which the objectives are to be achieved.

(b) The Government will increase its participation and involvement at the different stages of the project cycle through the use of the preparatory assistance facility aimed at enhancing consultations with the relevant ministerial departments from the initial stages of the projects onwards.
(c) The management of external resources has recently been streamlined through the introduction of the Budget Rationalization Programme, whose effects will be significant in the longer term. Thus, budgetary austerity is expected to continue in the foreseeable future. Past delays in the approval of projects and disbursement of counterpart contributions will be shortened by appropriate budgeting of the external resources and by keeping a certain degree of flexibility with respect to counterpart contributions.

(d) A stronger framework for technical co-operation will improve the quality and impact of projects, by focusing on a few, but important, issues. The disparate list of objectives of the previous programme illustrates this point. Therefore, the new country programme has a central framework: employment.

36. The lessons learned from the previous country programme indicate that technical co-operation has to be programmed on a longer-term basis; that consultations are to start from the earliest stage of the project cycle; that flexibility remains necessary with respect to government contributions; and that the impact of technical co-operation is likely to benefit by focusing on a specific theme.

B. New programme proposal

37. The distinctive feature of the fifth country programme is its central theme. This theme has been formulated by the Government and reflects one of the most pressing challenges to socio-economic development, namely employment. It was already felt in the early 1970s that the level of labour absorption in the economy was inadequate despite the high rates of economic growth that were achieved in the 1960s. It was in this context that the Government requested UNDP to fund the 1972 Comprehensive Employment Mission of the International Labour Organisation (ILO). Since then, concern about the employment situation in the country has continuously increased. The recent Sessional Papers on unemployment and on economic management for renewed growth reflect this growing concern. The latter provides a blueprint for future development plans and its opening statement presents the following picture of the development challenge:

"At the end of this century, Kenya will have a population of about 35 million people. That population will include a work force of 14 million people, 6.5 million more than in 1984. To accommodate that work force without a rise in the rate of unemployment, it will be necessary in the next 15 years almost to double the number of jobs in Kenya."

38. The Government is determined to tackle the problem and considers that the fifth country programme will play a catalytic role in the ongoing policy dialogue, including all major donors. It will raise awareness, both domestically and internationally, about the urgency of the matter and the need to fully incorporate employment considerations into overall policy-making and project identification.

39. The employment focus of development is appropriate because it allows the important issues of growth and equity simultaneously to be addressed. It also
provides a useful framework for the design and selection of specific developmental programmes and projects. An essential point, however, is that there are several causes of the unemployment problem. Most of them result from social and economic imbalances, including that between the growth of the labour force and the economic growth, the rural-urban imbalance, and the imbalance between people's aspirations and the work opportunities available. Hence, a programme focused on job creation necessarily needs to encompass projects that relate in varying degrees to the employment theme. The majority of the total programme resources is allocated to activities that are directly related to employment creation. Other indirectly related activities in the fields of information systems, human resources development, research and extension capabilities are considered as vital components of an employment-oriented strategy. Therefore, their inclusion in the country programme is justified, particularly because the quality of relevant public services is crucial for the creation of productive employment in the private sector.

40. The scope of the country programme has been expanded by the inclusion of further resources. A number of United Nations organizations (the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), UNFPA and WFP) have committed a combined amount of $32.2 million to be included in the programme. This, along with the IPF of $34 million, $1.6 million in third party cost-sharing, $0.5 million Government cost-sharing and $0.3 million non-IPF funds administered by UNDP, brings the total resources available for the country programme to $68.5 million. While the scope of the country programme is presently limited to this $68.5 million clearly available for programming, a substantial amount of bilateral funds in the form of parallel financing will be mobilized and programmed in the future. An amount of $182 million is expected to be raised in this form, which will increase the size of the country programme eventually to $251 million.

41. The conceptual framework for the fifth country programme is based on Sessional Paper 1 of 1986. The projects are clustered around four main objectives, which are described in detail below.

**Improved enabling environment**

42. This objective aims at improving the enabling environment for renewed economic growth and employment creation. The concept of an enabling environment refers to the prevailing conditions in which economic and social development is taking place. They include macro-economic policy formulation, investment design and information systems. This objective will ensure that the overall environment for development is conducive to economic growth, equity and employment. It is divided into the following components.

43. **Improved policy formulation.** Opportunities for non-farm employment will arise mainly in the informal sector. Hence, the establishment of an informal sector development programme is of major importance, both in urban and rural areas. Institutional, financial and operational aspects of an employment-oriented strategy will be articulated. Further activities planned relate to improved policy formulation in the fields of macro-economic management, export diversification,
rationalization of public enterprises, and transfer of technology to small-scale farmers and small-entrepreneurs.

44. Improved investment design. This component has been identified primarily to improve the efficiency and labour-intensity of investment projects. It is formulated to contribute to economic growth through appropriate investment patterns that use labour intensive technologies and domestic resources. Investment studies will design the appropriate guidelines for sound project selection and resource mobilization in the areas of agro-industries, micro-irrigation, water development, forestry farming and the development of building materials.

45. Improved information systems. The projects here are designed to enhance the quality of the statistical apparatus and improve their relevance for policy-making at the macro- as well as at the sectoral and district levels. Those activities relate, of course, indirectly to the employment theme but constitute an important element for improved employment and development planning. In particular, assistance will be provided to the 1989 population census, employment and labour market information systems, environmental situation assessments, monitoring and evaluation of agricultural developments and the implementation of the statistical information processing plan of the Central Bureau of Statistics.

Linkages

46. The major concern for incorporating this objective in the country programme is to ensure that development policies and projects are adequately integrated with one another. This objective attempts to make the macro-economic environment conducive to full utilization of the existing human and physical resources. As such, it will enable the institutional framework to respond to the needs of projects in the fields of employment and management of public services which are categorized below under the introduction of sustainable employment programmes and increased efficiency and productivity in selected public services. Pre-investment studies, for instance, on multi-purpose land-use planning, micro-irrigation schemes, small-holder financing and informal entrepreneurial development are directly geared to enhancing the relevance and quality of specific projects in those fields of action.

47. Activities planned under this objective are closely linked to the major development goals of Sessional Paper 1 of 1986 and the forthcoming Sixth development plan, 1989-1993, which will have as its central theme participation for progress, thus reflecting the critical role the private sector has to play in achieving renewed economic growth and employment creation. The activities are also in line with the areas of concentration of the UNDP regional programme and the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UNPAAERD), in particular to improve the management of the public sector and to ensure the effective utilization of human and natural resources.

Strengthened national programmes for self-employment

48. The aim of this objective is to strengthen the development of employable skills through formal and non-formal training programmes and to provide incentives for graduates to settle into self-employment in the agricultural and informal...
sectors as farmers or craftsmen. Projects under this objective have been clustered around three major themes.

49. Strengthened training institutions. Kenya has a well-developed technical training system and the recent restructuring of the educational system has involved a major reorientation towards vocational training. The projects in this area are designed to reinforce training programmes offered by Youth Polytechnics, the Kenya Industrial Training Institute and Harambee (self-help) Institutes for Technology. These institutions will be assisted to refocus their training programmes towards productive self-employment. The goal is to ensure that training programmes are relevant to the skills required in the labour markets and are conducive to the creation of adequate numbers of job opportunities in self-employment.

50. Strengthened non-formal human resources development scheme. This targets selected groups such as disabled persons, women's groups in arid and semi-arid lands, and traditional artisans. The projects will offer opportunities for productive self-employment through training in management, enhanced access to marketing outlets, in particular the low-cost housing market, and greater facility in obtaining micro credits. There will also be established innovative schemes for self-employment both individually and group-based, that are economically viable and replicable in other areas.

51. Strengthened technical and infrastructural support. Projects in this field are identified to consolidate past investments in appropriate farming systems, fish farming and farm tool development. Production in new areas such as oil crops and rainfed sericulture will also be intensified. These activities will help diversify agricultural exports and create income-earning opportunities for small farmers through improved access to appropriate technologies, breeds and marketing outlets and vertical integration.

52. Linkages with the UNDP regional programme relate primarily to the areas of concentration of human resources and the productivity and management for production of goods and services.

Introduction of sustainable employment programmes

53. This objective will enable the introduction of new packages of supportive measures for employment creation at the district and community level through the provision of new forms of credit, appropriate tools, management skills and business counselling. Various types of cost-effective and replicable programmes, once they are proven successful in certain districts or communities, will be applied in other locations with reformulation as needed. The projects are grouped under the following themes.

54. Introduction of small-business financing schemes. This aims at improving the banking system in the areas of small-scale credits (e.g. character loans), loan formulation, financing and post-loan counselling, together with other incentives for business creation. It has been observed that access to modest credit lines is an indispensable component of effective assistance to small business development. In addition, the aim is to select and identify motivated individual entrepreneurs or groups who need loans to establish or improve their micro-businesses.
55. **Introduction of small entrepreneurship development programmes.** Projects clustered under this area aim at creating new micro-businesses through management training, financing and counselling for both potential or existing small-scale entrepreneurs. Close co-operation will be established between the entrepreneurs concerned and a number of institutions which are already involved in these activities, such as the Federation of Kenya Employers, Kenya Association of Manufacturers, Directorate of Industrial Training, Youth Polytechnics, Kenya Industrial Estates and the Kenya Industrial Training Institute, to ensure access to the services supplied by these institutions. Entrepreneurs will be selected and taken through all stages of business creation and business improvement.

56. **Rationalization of district/community-based entrepreneurial capacities.** The aim here is to strengthen group-based entrepreneurial capacities at the district level. Target groups include existing organizations such as co-operatives and women's groups. The projects are designed to provide credit facilities, management training, production and marketing facilities to enable the groups to operate in a viable and profitable manner.

57. **Introduction of innovative labour-intensive schemes.** These schemes will establish and/or strengthen infrastructural work programmes at the district level, in line with the District Development Fund. They will be set up to supplement public investment programmes such as road construction, irrigation, soil conservation, afforestation and water supply. Local skills and materials in the rural areas will be used to fullest extent possible.

**Linkages**

58. The objective is linked to the first objective as the promotion of small-scale entrepreneurship and labour intensive schemes are made possible by the relevant policy, institutional and investment environment. The projects to establish or reinforce small-scale entrepreneurship will be derived from the formulation of a comprehensive informal sector policy and a labour-intensive investment portfolio. This objective also has dynamic linkages with the second and fourth objectives, which deal with demonstration schemes for the development of employable skills and the management of public services. The linkages with the UNDP regional programme are in the areas of human resources utilization and infrastructural development. Special attention will also be paid to the co-ordination with NGOs that are successfully established in providing small-scale loans, business counselling, and management training.

**Increased efficiency and productivity in selected public services**

59. The successful implementation of policies geared towards increased production and employment in the private sector is dependent on the adequate provision of public services such as research, training and extension. Furthermore, the national institutional capacity must be strengthened to cater for the increasing demand for such public services. Increased efficiency and productivity of public services and investment is essential to sustain an employment-oriented policy focused on the agricultural and informal sectors. Although the activities under this objective relate only indirectly to the employment theme, they do create the
important precondition for employment creation in the private sector. More specifically, the following four components have been identified.

60. Applied research for development. This aims at the increased practical application of research results in agriculture, science and technology. Research activities focus on three major areas:

(a) Agricultural research to increase productivity, improve food security and farmer incomes. More research efforts will be devoted to problems of smallholdings, including issues of labour productivity and farming risks;

(b) Research which will lead to increased export earnings or foreign exchange savings such as horticultural production and geothermal exploration;

(c) Product development and diversification to increase employment in non-farming activities in rural areas.

61. Upgraded extension services. Improved extension services constitute an important element for the intensification of food and export crops production. Better agricultural extension services will contribute to higher yields and incomes and more employment opportunities by creating purchasing power. Thus, there will be a higher demand for agricultural inputs and other manufactured products. The key to successful extension services rests with the capacity to station well-trained officers in the field and provide them with adequate means to carry out their tasks, such as appropriate equipment and transport facilities, and to maximize the frequency and quality of consultations with farmers.

62. Expansion of job-related training. The projects here seek to establish a diversified training programme for the civil service in a wide range of areas such as diplomatic and economic negotiations, civil aviation, and programmes for selected public services staff.

63. Direct institutional support. The projects in this field are designed on the basis of institutional assessments to provide technical and financial support towards managerial restructuring or rehabilitation of productive services and staff training. Therefore, the institutional capacity to provide essential services will increase the efficiency of private enterprises that benefit from them.

Linkages

64. This objective is strongly linked with the first objective since a well functioning extension service, the availability of critical skills, the quality of research and the institutional capabilities together constitute the means with which employment-oriented policies can be carried out. National programmes for self-employment that constitute the second objective can be strengthened and implemented only with a well trained and motivated civil service. Furthermore, this objective is linked to the third objective through its focus on training to improve the delivery of existing public services and develop new skills that will boost employment and production at the district and community levels, including the creation and improvement of small enterprises. This objective is directly linked
to the area of concentration of the UNDP regional programme of Management and Public Administration for Increased Production of Goods and Services.

Resource allocation

65. The formulation of the four objectives seeks to maximize the potential impact of the country programme and resources have been allocated in order to ensure that a critical minimum mass will be reached in each of the fields identified. The first objective, that of assuring an improved enabling environment is budgeted to receive 17.7 per cent of the total programme resources and 21.7 per cent of the IPF. The second objective, to strengthen programmes for self-employment is expected to absorb 14.4 per cent of the total budget and 19.5 per cent of the IPF. The third objective, the introduction of sustainable employment programmes, will receive an allocation of 31.5 per cent of the budget and 27.4 per cent of the IPF. Finally, the last objective, increased efficiency and productivity in selected public services is budgeted at 35.8 per cent of the total resources and 27 per cent of the IPF. About 46 per cent of total IPF resources have been allocated to activities directly related to employment whereas about 50 per cent is allocated to indirectly related activities and the remaining 4 per cent of the IPF represents the unprogrammed reserve.

Linkages

66. Potential linkages, both internal and external, have been given particular attention. The external linkages relate to Africa's Priority Programme for Economic Recovery 1986-1990 adopted by the Assembly of Heads of State and Government of the Organization of African Unity (OAU) as well as to UNPAAERD. The programme will also be complementary to the existing programmes of the Economic Commission for Africa (ECA); the regional, interregional and global programmes of UNDP and the specialized agencies of the United Nations system; and selected multilateral and bilateral programmes as well as those of non-governmental organizations (NGOs). Furthermore, the programme is designed in a way which derives maximum benefit from the internal linkages among the various objectives. The Government and UNDP have jointly formulated the different programmes and projects to ensure that not only do they reinforce one another but that they also complement the inputs from sources other than UNDP. The internal linkages will be put into operation through the practical co-ordinating mechanisms described in paragraphs 31 and 32.

Target groups

67. The five major target groups of this employment-oriented country programme comprise: informal sector entrepreneurs; small farmers; youth; women; and local communities. The alleviation of the grave employment problem, in particular in the urban areas, will critically depend on the successful promotion of private and small-scale enterprises. Small businesses are very labour intensive and thus constitute a labour absorption of great potential.

68. The agricultural sector also represents a major labour absorptive capacity in the economy and the improvement in the productivity of small farmers constitutes a
priority area. The emphasis is on the role of financial intermediaries and small entrepreneurs in facilitating access to credit and accelerating the transfer of technology. In addition, improved land-use planning and management is considered as a key to sustainable and rising productivity.

69. The third major target group is the youth of the country, one third of the labour force. Although young people hold in their hands the future of the nation, they constitute an extremely vulnerable group and are the first to suffer from increasing unemployment. Currently, their rate of unemployment is about four times that for adults.

70. Women constitute the fourth target and represent the majority of the rural work force. Women often face social, cultural and legal barriers which keep them from fully participating in the labour force and receiving equal treatment on the labour markets.

71. In line with the government policy of improved urban-rural balance and the district focus for rural development, local communities make up the fifth target group. The new country programme will assist local communities through the promotion of co-operatives and small-scale economic activities, both on and off the farm.

Impact

72. The quantification of the impact of technical co-operation projects is subject to a high degree of uncertainty, but the setting of targets in relation to the scale of impact is important. The omission of target-setting increases the chances that too little will be attempted and even less will be achieved.

73. Relevant areas for measuring the impact include growth, equity and employment. Since the basic strategy of the programme focuses on small businesses and small-holdings, its impact on growth and equity is likely to be significant. The direct impact on economic growth is expected to be high because the programme avoids large-scale investment projects which tend to have high incremental capital-output ratios. Whilst the Ministry of Planning and National Development uses a ratio of 4 for the entire economy, the ratio of the country programme investment portfolio is estimated at about 2. This means that the efficiency of the investment programme will be high. With respect to equity, the implementation of the programme will improve the overall income distribution because the most vulnerable groups in the country, in particular the subsistence farmers, informal sector workers, youth and women constitute the prime target groups of the new country programme.

74. The assessment of the impact of the programme on employment ought to distinguish between direct and induced effects. Activities under the first and fourth objectives are essentially of an indirect nature and are aimed at improving the social and economic environment in which the private sector is expected to create a sufficient number of new employment opportunities in the next few years. The quantitative projections concerning the induced employment effects would be a difficult exercise. Nevertheless, a substantial impact of the programme can be safely assumed as:
(a) The multiplier effect of the creation of each entrepreneurial unit would work itself through higher demand for intermediary goods and services and through the expansion of employment opportunities for informal sector workers;

(b) The new packages of supportive measures would allow a steadily increasing level of access by small farmers to credit, training and extension services which would augment the purchasing power of the domestic markets;

(c) The demonstration effect of the introduction of several business creation and improvement schemes would certainly lead to replication to the extent such schemes prove to be viable and profitable.

75. The most relevant area for measuring the direct impact of the programme is employment. The Government uses the indicative figure of $3,000 as the investment required to create one new work place in the informal and agricultural sectors. It would be a highly tentative attempt to forecast the direct investment components of the programme, such as the lines of credit, plants and machinery, prior to the formulation of all projects included in the pipeline. It is assumed that about $75 million to $90 million will be allocated to direct investment activities categorized under the second and third objectives, which would potentially lead to the creation of 25,000 to 30,000 new opportunities in self-employment. This would represent a major initial contribution to the goal of creating 333,000 additional employment opportunities every year. These projections should be treated with caution until an *ex post facto* evaluation is carried out in early 1991.

C. Unprogrammed reserve

76. There is an unprogrammed reserve of $1,500,000.
Annex

FINANCIAL SUMMARY

I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

A. UNDP-administered sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (in $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourth cycle IPF</td>
<td>34 585 000</td>
</tr>
<tr>
<td>Less IPF resources for 1987</td>
<td>(585 000)</td>
</tr>
<tr>
<td>Subtotal IPF</td>
<td>34 000 000</td>
</tr>
<tr>
<td>Special Measures Fund for the Least Developed Countries</td>
<td></td>
</tr>
<tr>
<td>Special programme resources</td>
<td></td>
</tr>
<tr>
<td>Government cost-sharing</td>
<td>489 000</td>
</tr>
<tr>
<td>Third-party cost-sharing</td>
<td>1 539 000</td>
</tr>
<tr>
<td>Operational funds under the authority of the Administrator:</td>
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<tr>
<td>UNIFEM</td>
<td>240 000</td>
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<tr>
<td>UNSO</td>
<td>57 000</td>
</tr>
<tr>
<td>UNDP special trust funds</td>
<td></td>
</tr>
<tr>
<td>Subtotal, UNDP non-IPF funds</td>
<td>2 325 000</td>
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</table>

B. Other sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (in $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds from other United Nations agencies or organizations</td>
<td></td>
</tr>
<tr>
<td>organizations firmly committed as a result of the country</td>
<td></td>
</tr>
<tr>
<td>programme exercise: IFAD</td>
<td>250 000</td>
</tr>
<tr>
<td>WFP</td>
<td>32 000 000</td>
</tr>
<tr>
<td>UNFPA</td>
<td>8 700 000</td>
</tr>
<tr>
<td>FAO/TCP</td>
<td>1 262 000</td>
</tr>
<tr>
<td>Parallel financing from non-United Nations sources</td>
<td>a/</td>
</tr>
<tr>
<td>Subtotal, other sources</td>
<td>32 212 000</td>
</tr>
</tbody>
</table>

TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

<table>
<thead>
<tr>
<th>Amount (in $)</th>
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<tbody>
<tr>
<td>68 537 000</td>
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</tbody>
</table>

II. USE OF RESOURCES

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (in $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ongoing projects</td>
<td>30 944 000</td>
</tr>
<tr>
<td>New project proposals</td>
<td>36 093 000</td>
</tr>
<tr>
<td>Programmed reserve</td>
<td></td>
</tr>
<tr>
<td>Subtotal, programmed resources</td>
<td>67 037 000</td>
</tr>
<tr>
<td>Unprogrammed reserve</td>
<td>1 500 000</td>
</tr>
</tbody>
</table>

TOTAL USE OF RESOURCES

<table>
<thead>
<tr>
<th>Amount (in $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>68 537 000</td>
</tr>
</tbody>
</table>

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a/ An amount of $182,000 is expected to be raised as third-party cost-sharing and bilateral parallel financing, which will be included in the country programme when available.