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**Country Study for Development Assistance
to the Republic of Kenya**

“Basic Strategy for Development Assistance”

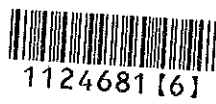
June 1992



**Country Study Group
for Development Assistance to the Republic of Kenya
Organized by the Japan International Cooperation Agency**

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Preface

Since its independence in 1963, Kenya has maintained a free economic system and achieved a relatively steady economic development among Sub-Saharan countries. However, the Kenyan economy has an instability due to its heavy dependence on the export of certain primary commodities such as coffee and tea which are subject to the international market trends, food production vulnerable to weather condition, and the earnings on invisibles mainly from tourism. Moreover, it still faces various problems such as fiscal and international balance of payment deficits as well as foreign debt.

In the social aspects, the Government of Kenya provides relatively well-developed services in health care and education, in comparison with neighboring countries. However, it is highly possible that Kenya's annual 4% or so population growth rate, one of the highest in the world, will cause various problems such as increased poverty and environmental degradation, due to its underdeveloped industrial foundation and limited arable land, and become an impediment to the economic and social development. Furthermore, politically, the country is experiencing a period of dramatic change, such as the decision to introduce a multi-party system as a result of popular demands for democratization, supported by domestic as well as international public opinion in recent years.

Japan has been providing Kenya with various forms of assistance for the country's broad range of economic and social needs. Japan has been one of the major donors for Kenya, from 1986 to 1989 in particular, Japan was Kenya's largest bilateral donor. It is clear that despite its economic and social difficulties, Kenya is one of the countries which has the highest potential for development in the Sub-Sahara. Taking this into account, as well as its spillover effects to the neighboring countries, it is considered desirable to actively provide assistance to Kenya continuously for its self-sustaining development in the future.

This study group was set up in November 1991 under the consignment from the President of the Japan International Cooperation Agency, with the aim to make Japan's assistance to Kenya more effective and pertinent. It held a total of six study meetings, including a public discussion, and conducted the field survey which included interviews with Kenyan Government officials in order to examine the country's present economic and social conditions, as well as discussing the appropriate strategy of Japan's development assistance to Kenya. This has culminated in the publication of this report and it is sincerely hoped that the report will contribute to the implementation of more effective development assistance to Kenya in the future and the promotion of a friendly relationship between the two countries.

The report investigated a desirable strategy of Japan's assistance to Kenya and its basic directions, and the recommendations of the report include those which should be considered from a long-term viewpoint, or which will take some time to be realized. Therefore, it is desirable that actual programs be implemented on a continuous and long-term basis, with more detailed investigations carried out if necessary.

This report could only be made complete through the tireless efforts of all those involved throughout the whole process of research, investigation, discussion and preparation. Apart from the teamwork spirit shown by all study group members, along with their considerable knowledge and experience with Kenya, I would like to mention, with my special thanks, the participation in this project of the staff of related departments of the Ministry of Foreign Affairs as well as the powerful support and assistance provided by a task force consisting of JICA staff and development specialists.

June 1992

Ichiro Inukai,
Chairman
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Assistance to the Republic of Kenya

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Abbreviations

ASAL:	Arid and Semi-arid Lands
BHN:	Basic Human Needs
DAC:	Development Assistance Committee
GDP:	Gross Domestic Product
GNP:	Gross National Product
IMF:	International Monetary Fund
JICA:	Japan International Cooperation Agency
LLDC:	Least among Less Developed Countries
NGO:	Non Governmental Organization
NIES:	Newly Industrializing Economies
ODA:	Official Development Assistance
OECD:	Overseas Economic Cooperation Fund
OOF:	Other Official Flows
PHC:	Primary Health Care

1. The International Climate surrounding Kenya

1-1 Trends in the International Climate

Since 1989, many dramatic events have taken place in the international scene. This is symbolized by a storm of democratization and economic reorganization in favor of a market economy, which originated in Eastern Europe and subsequently caused the German reunification and collapse of the Soviet Union. Although this has put an end to the traditional antagonism between the United States and Soviet Union as two ideological poles, such problems as regional and racial confrontations are surfacing, as epitomized by the outbreak of the Gulf War, thus drastically altering the paradigm of international politics in the wake of the demise of the 'Cold War Structure'.

While the rapid progress in the move towards a market economy sweeping through the former Soviet Union and Eastern European countries appears to have heralded the arrival of the era of a global-scale market economy, the Uruguay Round of GATT negotiations aimed at maintaining the free trade system with a market economy as its basis has reached a stalemate. This shows that despite the rising tide towards a market economy, the formulation of rules for a free international trade system is not necessarily an easy task, thus giving the international economy a complex outlook.

Against this background, the economies of developing countries proceeded throughout the 1980's to show marked diversities from region to region and from country to country. Of them, the NIES and ASEAN countries, which are attracting particular attention as the driving force of the world economy in recent years, are continuing their high economic growth, based on a healthy domestic demand and an expansion in foreign direct investment and international trade. In particular, regional economic zones aimed at strengthening economic activities by forming a region-based economic zone among neighboring countries and subregions, e.g. the South China Economic Zone, look set to create a new dynamism in economic development. In contrast to these fast growing countries and regions, Sub-Saharan African

countries, as well as South Asian countries such as Bangladesh, continued to suffer from problems associated with their economic management, such as an accumulating foreign debt, and famines and poverty caused by droughts and natural disasters throughout the 80's. Despite their healthy economic activities, some Latin American countries are, in their turn, also experiencing trouble with their economic management, due to such problems as hyperinflation arising from accumulating foreign debt. Thus, economic performance of developing countries shows great regional diversity, as well as wide country-to-country variation within the same region, depending on differences in approach towards the development issues.

Amid these trends, the economic situation of African countries, except for the few oil producing countries such as Nigeria and Gabon, has further deteriorated especially those in the Sub-Sahara, which have experienced its critical state during the Oil Crises of the 1970's, and revealed their fragile economic structures susceptible to external impact. One of the characteristics of the African economy is an extremely high dependence on foreign trade, with its exports specializing in a narrow range of primary commodities. However, since 1973, demand for these products has declined sharply due to recession in the developed countries. As a result international commodity prices have plummeted, making it extremely difficult for these countries to earn foreign exchange. On the one hand, the Oil Crises resulted in a sharp increase in the production costs of primary products, particularly an escalating transportation cost was a severe blow to African countries whose areas of production are far away from ports. On the other hand, those few oil producing countries such as Nigeria, which enjoyed an abundant foreign currency inflow during the oil boom, were too hasty about infrastructure development and industrialization. They undertook excessive public investment, raising large sums of funding from the international money market. As a result, their foreign currency reserves disappeared and their foreign debt rapidly increased once oil prices became depressed. In addition, Africa was struck by severe droughts from 1973 to 1974, and from 1983 to 1985. Consequently, combined with a number of man-made factors in a complex manner, the continent has experienced widespread famine, throwing the Sub-Saharan African countries into an unprecedented degree of hardship.

As discussed above, the international climate is about to reach a dramatic turning point in the wake of the demise of the East-West Cold War Structure, while South-South disparities are widening. However, in 1990s, under the current on-going restructuring process of the world economies, economic circumstances surrounding developing countries may not be optimistic due to uncertainties in the future climate of the economies in developed countries and a concern for a worldwide rise in interest rates as a result of increased demand for funds due to new factors such as assistance to the former Soviet Union and Eastern Europe.

1-2 The Economic Conditions of Africa, particularly East Africa

The economic situation of Sub-Saharan African countries continues to be grim from the 1980's due mainly to an accumulating foreign debt, natural disasters such as droughts, a sluggish export, and the deteriorating terms of trade. For some countries this has been aggravated by large numbers of refugees emerged from civil wars and famines. It is expected that many of these African countries will continue to be faced with extremely harsh internal and external economic conditions in the 1990's.

The growth rate of the gross domestic product for the entire African region stood at only 1.1% in 1990 due to such factors as a rise in oil prices as a result of the Gulf War and adverse weather conditions for agricultural production. This is a significant decline from the 1989 average growth rate of 3.0%⁽¹⁾. Since the accumulated foreign debt which totaled more than \$140 billion at the end of 1989 for all of Africa, put a great burden on the economy of each African country, the structural adjustment for a short-term stabilization of the economy and long-term economic self-support is becoming increasingly important. The structural adjustment program led by the IMF and World Bank is said to have achieved some positive results. However, some report indicated that while there are countries where macroeconomic adjustments have led to a recovery in agricultural production, the consequent austerity policies have strained the lives of the masses and widened the income gap between the rich and poor⁽²⁾.

Amid this economic crisis, a move towards democratization, centering

around a shift to a multi-party system, has been taking place in Africa since 1989, triggered by the democratization movement in Eastern Europe. However, in some countries with authoritarian regimes, whether civilian or military, there is a countermovement against democratization, preventing the democratization movement from achieving desirable results. Furthermore, there are quite a few countries where lack of production capacity increase, necessary for long-term economic self-support, are becoming more and more conspicuous amid this prolonged political confusion.

The economic growth rate for entire East Africa for 1990 was extremely low, with some countries close to zero growth rate. Only, three countries - Kenya, Madagascar and Uganda - have achieved a relatively healthy growth since the mid 1980's. Particularly, Uganda has recorded an annual average of 6 - 7% of GDP growth rate, supported by marked improvements in agricultural and manufacturing production which were achieved through a vigorous economic reform undertaken since 1987. In clear contrast to these countries, Sudan, Ethiopia and Somalia have suffered a significant economic decline as a result of internal conflicts and domestic unrest. It has been reported that Sudan had a negative growth in 1990, while Ethiopia's production fell by 2.5%⁽³⁾. Gaps in economic development are widening in East Africa, and the region's overall economic situation has been deteriorated.

1-3 Trends in Development Assistance

The combined GDP of developing countries grew by only 2.3% in 1990 (2.9% for 1989), the worst record since 1982 when the world was at the bottom of a recession. Only East Asia's GDP increased at a rate exceeding the previous year's, while all other developing regions suffered a downturn, thus further widening regional disparities⁽⁴⁾.

The flow of funds involved in development assistance to developing countries - in terms of the net amount of transfer of funds, including ODA, OOF and private flow (PF) - exhibits the following trend: after recording a positive \$45.7 billion in 1981, it started falling, with figures for 1984 and 1988 a negative \$900 million and 16.8 billion respectively. This trend

continued until 1989 when the brakes were finally applied to the trend, and in 1990, the figure is estimated to have reverted to a positive one⁽⁵⁾. However, apart from the developed countries' 'aid fatigue', economic assistance to the former Soviet Union, the Eastern European countries, Indochina and Mongolia has emerged as an urgent task. This has added a new factor to an expanding trend of worldwide demand for funds. Under these circumstances, it is necessary to carefully monitor the trend that the development assistance to developing countries will move in the future.

When considering development assistance, the currently dominant trends are assistance to developing countries in their effort for democratization and the move toward a market economy, along with the structural adjustment program being implemented under the support of the IMF and World Bank.

The reason why international financial institutions such as the World Bank have made the structural adjustment program the major pillar of development assistance lies in the following understanding. Since the balance of payment crisis that many developing countries were faced with after the Second Oil Crisis is not attributed to a liquidity problem but a solvency problem, it is necessary to adopt a mid-term approach on supply side measures rather than the conventional short-term macroeconomic approach based on aggregate demand control.

Rationale behind such a way of thinking is the neo-classical argument that government-led economic development which many developing countries adopted in the 1970's brought about inefficient economic management as well as large fiscal and balance of payment deficits due to distortion of the market. Based on this understanding, the World Bank and IMF consider that it is necessary to first streamline the economy to expand the export of industrial products to tide over an economic crisis, similarly observed in many developing countries. As the policy framework to achieve this objective, an emphasis has been placed on the market mechanism, as well as economic management led by the private sector. By showing policy conditions for loans to the recipient countries with a strong request to be fulfilled, they are trying to proceed with the economic structural adjustment.

Regarding the structural adjustment program, it has been pointed out that certain policy conditions imposed on these countries have caused adverse effect on poor segment of the population. In response to such criticism, the World Bank has made some improvements to the structural adjustment program, including increased consideration given to the social aspect of the structural adjustment, such as the establishment of a social fund for the poor. In addition, the World Bank has introduced a new strategy called "the market friendly approach", as discussed in the 'World Development Report 1991', based on the experience of Korea and Taiwan which have been exhibiting remarkable development in recent years. It has thus been pursuing new approach about government intervention in the market based on the Japanese and recent East Asian experience of economic development, rather than leaving everything to the market mechanism⁽⁶⁾. It is, therefore, necessary to pay close attention to the development of these new attempts.

1-4 Trends in Japan's Assistance

In 1990, Japan's ODA amounted to ¥1.3353 trillion (\$9.922 billion), achieving an 8.2% increase over the previous year's ¥1.2368 trillion (\$8.965 billion) on a Yen basis, although this only represented a 3.1% growth on a dollar basis. Japan's ODA is expected to become second among DAC member countries after the United States, and the ratio of ODA to GNP was 0.31%, unchanged from the previous year⁽⁷⁾.

In terms of the regional distribution of Japan's bilateral assistance in 1990, Asia accounted for 60%, becoming the largest recipient of Japanese aid as in 1989. Of other regions, the Middle East's share dramatically increased from 5.4% in 1989 to 10.2%, due mainly to Japan's assistance to the key frontline countries at the Gulf Crisis. On the contrary, the African share declined from 1989's 15.3% to 11.4%, resulted from the reduction of loan type assistance due to the deterioration of the accumulated debt problem, despite the increasing trend in recent years⁽⁸⁾.

In June 1991 Development Assistance Committee (DAC) of OECD conducted a review on Japan's aid activities. According to the review, it was recognized that Japan was the largest ODA donor to LLDCs in

1989, and made a further progress in improving an untied ratio of ODA. However, at the same time, Japan was strongly recommended to improve its grant share of total ODA, currently at the lowest level among DAC member countries, as well as to increase a number of aid personnel. As epitomized by the dramatic progress in democratization of Eastern Europe and the East-West detente since the latter half of 1989, as discussed in 1-1, the world situation is reaching a historic turning point. As a result, such changes in the global situation have come to exert a great influence on assistance to developing countries. One is the growing attention to a degree of military expenditure against the relaxation of international tension, and the other is the move towards supporting the developing countries' efforts in democratization and introduction of a market economy.

Based on this situation, in April 1991, the Japanese Government announced that Japan would pay full attention in the implementation of its ODA to the following points:

- (1) trend in military expenditure by the recipient countries;
- (2) trend in the development, production, etc., of mass destruction weapons;
- (3) trend in the export and import of weapons;
- (4) efforts for promoting democratization and introduction of a market-oriented economy and situation on securing basic human rights and freedoms;

and make its decision on aid, taking into account comprehensively such factors as bilateral relationship with the recipient countries and international situation including the security environment.

In addition, since the latter half of the 1980's, so-called global issues such as the environment, poverty, Women in Development (WID) and population have emerged as a focus of attention in formulating aid policies. Having become one of the world's major aid donors, Japan is now required to tackle these issues to make its assistance more effective as well as to play a central role in development assistance by enhancing consultation and cooperation with international organizations and other aid organi-

zations in developed countries and by strengthening its policy dialogues with recipient countries.

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- (8) ditto.
- (9) ditto.

2. The Circumstances surrounding Kenya and Development Issues

2-1 The Move towards Democratization (The Shift to a Multi-party System)

As if inspired by the democratization movement in Eastern Europe and the Soviet Union since 1989, a movement in pursuit of the democratization of politics and the introduction of a multi-party system has begun to surface in Kenya. The movement lines up such figures as former cabinet ministers and lawyers, and a first clash between groups of people demanding a multi-party system and police occurred in some regions in July 1990. In the face of this pro-democracy movement, President Daniel arap Moi first tried to divert people's interest by embarking on a review of Kenya's unpopular election system, while constantly appealing for people's support of a single-party system as the best political system for the country.

Rather than waning, however, the movement demanding a multi-party system further increased its intensity. Behind this development may have been growing criticisms of the Moi Regime, both within and from outside the country, due to its worsening authoritarian nature and a spread of corruption within the Government, under the regime's prolonged rule. Against this background, a meeting of the Consultative Group for Kenya was held in Paris in November 1991. It could not have come at a worse time for the Moi Government, because of the following incidents which put the Kenyan Government into an extremely difficult position. There was mounting criticism from major donor countries such as the United States to the forceful dissolution of a Forum for the Restoration of Democracy (FORD) meeting held just before the meeting, and the arrest and detention of those involved in the event. Press reports on a corruption case implicating the previous Energy Minister was a focus of the attention for international public opinion. Furthermore, little progress was made in the reform of the public sector, including public corporations and enterprises, which had been strongly demanded by major donor countries and international financial institutions such as the World Bank. At the meeting, donor countries,

including Japan, made strong requests to Kenya regarding improvements in the human rights situation, the promotion of democratization, the eradication of corruption, the reform of the public sector, and so on. Under such difficult circumstances, the Kenyan delegation finally announced that they are not opposed to a multi-party system and they will move in that direction in due course.

In the aftermath of this development, President Moi announced the introduction of a multi-party system in December 1991 at the special congress of the Kenya African National Union (KANU), then the sole political party in Kenya, and subsequently a Constitutional amendment introducing a multi-party system took effect, putting an end to the KANU's one party rule that had lasted for 22 years.

Following this breakthrough towards a multi-party system, new political parties such as the FORD and the Democratic Party (DP) formed by Mr. Mwgi Kibaki, a former Minister of Health were formally registered, and the total number of political parties rose to about 15 by January this year. Some people also broke away from the KANU, including incumbent cabinet ministers and national legislators, and they are engaging vigorous political activities for the coming general elections expected to be held by March next year.

However, the future outlook of the move towards a multi-party system is quite unclear and fluid in terms of its effects on the political situation and complicated tribal issue, and, above all, the implication on the stabilization of the economy, which is the most urgent task. It is, therefore, necessary to monitor future development of Kenya's political situation closely and to support its progress toward desirable direction.

2-2 The Rapid Increase in Population

Kenya's population increased rapidly after WWII. It grew from 5.4 million in 1948 to 10.9 million in 1969, almost a two-fold increase, and it doubled again to 23.3 million from 1969 to 1989. According to the World Bank, the average annual growth rate of the population is forecasted to

stay as high as 3.4%* between 1989 and 2000⁽¹⁾.

Table 2-1 Demographic trends (1948 - 1989)

	1948	1962	1969	1979	1989* ¹
Population (million)	5.4	8.6	10.9	16.1	23.3
Growth rate (%)	2.5	3.0	3.3	3.8	3.6
Total fertility rate* ²	6.7	6.8	7.6	7.9	6.7
Crude birth rate (‰)	50	50	50	52	46
Crude mortality rate (‰)	25	20	17	14	10
Infant mortality rate (‰)	184	126	119	104	68
Life expectancy at birth (years)	35	44	49	54	59

*¹: A World Bank estimate for 1989 only

*²: The average birth rate per female

Source: Republic of Kenya, 'National Development Plan for the Period of 1989 to 1993'.
(population census)

There is a basic relationship between economic growth and population increase, which can be described as per capita GNP growth rate = GNP growth rate - population growth rate'. Therefore, unless economic growth rate is maintained at least above the population growth rate, per capita income will not grow.

Apart from this, the population pressure will cause the following problems:

- (1) Increase in the poor segment of population: Considering the present uneven income distribution: a significant portion of the population will inevitably slip down into further poverty.

*: According to the UN "World Population Prospects 1990", it is forecasted that the population will increase by 3.74% during 1990 - 1995 and by 3.81 % over 1995 - 2000.

- (2) Deterioration in the provision of BHN: Since the government expenditure would not be able to catch up with the increase in the demand for social services, it brings about qualitative and quantitative deterioration in education, medical and social welfare services.
- (3) Restraint on productive investments. Because of the difficulty in increasing fiscal expenditure on infrastructural development and investment in the direct production sector, economic growth would be hindered.
- (4) Food problems: Per capita food production and supply would decline. As the rate of food production increase is already stagnated, food supply will become increasingly difficult, unless a dramatic progress is made in food production technology. As a result children's malnutrition problem will worsen.
- (5) The employment issue: Over the five year period between 1988 and 1993, the labor force will increase by two million⁽²⁾ and will further grow rapidly later on. For those newly entering the labor force, employment opportunities will not increase fast enough, aggravating the unemployment problem.
- (6) Environmental destruction: Increases in firewood and charcoal consumption and the overuse of land through farming and grazing will cause the degradation of soil and destruction of forest resources.
- (7) A decline in economic growth: The interaction of the above factors in (1) to (6) will pull down the economic growth.

The Kenyan Government is well aware of the problems associated with population increase, and recognizes the control of the population growth rate as an unavoidable task if it is to bring sustainable growth to the Kenyan economy. On the other hand, the idea, 'the more children the better', is still dominant in Kenya, especially in rural areas, wherein children are regarded as insurance for old age or as an important source of labor. As a matter of fact, the decision on the size of an individual family is an individual's or married couple's right, and therefore it is not

desirable to resort to a forceful population control policy. Rather, population control measures centering around family planning require a steady, long-term approach in order to build an environment where each individual can make their own choice by removing obstacles of access to information on contraception and its measures, at the same time emphasizing their role as a means of realizing a better family life.

2-3 The Deterioration of Fiscal and International Balance of Payment Conditions

At the moment Kenya is suffering from both fiscal and balance of payments deficits, the so-called twin deficits, which are making its economic management extremely difficult. In view of attaining long-term, steady economic development in Kenya, it is necessary to stabilize, its economy first, and to this end, how to solve the twin deficit problem has been an extremely important task.

As can be seen from Table 2-2, which shows the trends in the Kenyan Government's fiscal balance of payments, the size of fiscal deficit in terms of ratios to GDP is quite high. Table 2-3 shows the Central Government's fiscal expenditures in terms of ratios to GDP as averages over the periods between 1975 and 1985, and 1985 and 1990. According to this table, although the ratio of current expenditure to GDP declined slightly due to a large drop in goods purchases, wages and salaries for public servants dramatically increased, while interest payments for domestic and foreign loans to make up for the fiscal deficit also rose. It is believed that these factors interacted to cause the large fiscal deficit.

The coffee boom in 1977, during which coffee prices temporarily skyrocketed as a result of frost damage in Brazil and which increased the Government's foreign currency revenue, is believed to have had a significant impact on the fiscal deficit to be a chronic problem. Without considering this phenomenon as a one-off bonanza, the Kenyan Government engaged in rather ambitious and aggressive financial management, including an expansion in employment in the Government sector as well as in public corporations and enterprises. Therefore, it is not an over-

statement to say that the major problems which would put a great burden on the budget in later years and create the fiscal deficit originate in that period.

In the 1980's, the domestic gross product fell sharply and Government revenue decreased, due to such factors as a slump in the industrial sector, while current expenditures such as wages and salaries increased with the bloating public sector. In addition, more than 200 public corporations and enterprises were inefficiently managed and some of the projects implemented under public investment programs were rather problematic in terms of investment efficiency. Consequently, together with accelerating inflation, the Kenyan fiscal balance of payments have been pushed into a critical state.

In regard to international balance of payment, the current balance deficit is rapidly increasing, as shown in Figure 2-4. Kenya's trade structure mostly depends on earnings from invisibles such as tourism and primary commodities such as coffee and tea, and has a rather vulnerable structure susceptible to extraneous conditions. Circumstances surrounding Kenya's international balance of payment have become especially harsh in view of stagnant coffee prices, a fall in tourism as a result of the Gulf War and deterioration in public peace and order, increased imports in consumer goods following the liberalization of import implemented as a part of the structural adjustment program.

Table 2-2 Trends in the Kenyan Government's Fiscal Balance of Payments (Central Government Operations in Percent of GDP)

	1983	1984	1985	1986	1987	1988	1989
1. Expenditure and revenue							
Expenditure	28.0	27.0	29.7	29.7	30.5	29.4	29.7
Revenue (including grants)	24.5	23.2	23.7	23.6	23.8	25.2	25.6
2. Financing of fiscal deficit	-3.5	-3.9	-5.1	-5.4	-5.4	-4.2	-4.5
Domestic finance	2.1	3.7	3.9	6.3	6.3	3.1	2.0
Foreign finance	1.4	0.2	1.2	-0.9	-0.9	1.1	2.5

Source: SIDA, 'Kenya: Macroeconomic Studies', February 1989

Table 2-3 Trends in the Central Government's Fiscal Balance of Payments (in percent of GDP)

	Average for the period between fiscal 1975 and 1980	Average for the period between fiscal 1985 and 1990
I. Current Expenditures	24.8	24.5
1. Goods and services	16.3	15.5
(1) Wages and salaries	6.8	9.8
(2) Other	9.5	5.7
2. Interest	2.0	4.8
(1) Domestic	0.7	3.5
(2) Overseas	1.3	1.8
II. Capital expenditure and net lending	9.8	6.2
III. (I + II)	34.7	29.8
IV. Revenue	26.9	22.9
1. Grants	0.8	1.9
V. Fiscal deficit		
1. Including grants	-7.0	-5.0
2. Excluding grants	-7.8	-6.9

Source: IMF, 'Kenya - Recent Economic Development', July 1991

Table 2-4 Kenya's International Accounts (unit: K£ million)

	1985	1986	1987	1988	1989 (provisional)
Current Balance	-79.4	-31.1	-406.6	-403.0	-604.2
Trade balance	-270.7	-	-587.4	-696.4	-1,067.0
Invisible trade balance	33.9	230.7	-69.0	-92.9	-135.2
Tourism balance	192.0	-67.0	272.1	328.9	404.5
Balance of transfer account	157.4 -4.6	228.3 38.4	249.9 307.2	386.3 326.1	598.0 681.4
Balance of Capital Account	3.8	102.2	37.0	-17.3	70.8
Private sector, long-term	-20.3	25.2	162.3	256.4	389.6
Government sector, long-term	37.6	3.8	46.3	47.6	54.2
Short-term	-10.2	16.9	-4.9	9.2	3.3
Errors and Omissions	-94.2	1.9	-104.4	-67.7	80.5
Total Balance		73.0			

Note: The balance of transfer account and the government sector long-term account include grant aid and credit assistance, respectively.

Source: IMF, 'Kenya - Recent Economic Development', July 1991

2-4 The Depressed Industrial Sector and Stagnant Agricultural Production

(1) A slump in the industrial (manufacturing) sector

Since its independence, Kenya has strongly promoted industrial development in an effort to free itself from a colonial economy and has become the most advanced country in terms of industrialization in the East African Region, with the industrial sector acting as the driving force behind its economic development.

The major reasons for the relatively smooth progress of Kenyan industrialization seem to be the following: the agricultural sector has been exhibiting healthy development; the Africanization policy has been implemented moderately and realistically; in the industrial sector, in particular, foreigners were not expelled and were allowed to undertake economic

activities relatively freely; and foreign investment promotion measures have actively been implemented since the early days.

Table 2-5 shows the industrial sector's share of GDP after independence. Although the industrial sector exhibited a large growth for a while after independence, it has since levelled off and the progress of the country's industrialization is not necessarily satisfactory in terms of its ratio to GDP.

Tables 2-6 and 2-7 indicate growth rate of the industrial sector and value added distribution among industrial sub-sectors. From these tables it can be seen that the growth rate of the industrial sector shows a declining trend in the 1980's. The Kenyan industrial sector still has largely depended on the production of low value added products such as foodstuffs and textiles, and its production level of high value added products such as machinery and transportation equipment is relatively low.

Table 2-5 Trends in the Industrial Sector's Contribution to GDP (%)

	1960	1965	1976	1977	1978	1979	1980	1981
Share of industrial output	18	18	23	20	19	21	21	20
	1982	1983	1984	1985	1986	1987	1988	1989
Share of industrial output	22	20	21	20	20	19	20	20

Source: World Bank, 'World Development Report', 1978 -1991

Table 2-6 The Industrial Sector Growth Rate (Average annual growth rate in %)

	1960-1970	1970-1980	1980-1989
Growth rate of industrial sector	7.5	11.4	4.8

Source: World Bank, 'World Development Report', 1978 - 1991

**Table 2-7 The Value Added Distribution of Manufacturing Industries
(in %, current price)**

	Food, beverage and tobacco	Textiles and clothing	Machinery and transport equipment	Chemicals	Others
1970	39	10	11	10	29
1983	37	12	15	8	29
1988	40	10	12	9	29

Source: World Bank, 'World Development Report', 1978 - 1991

Like many other developing countries, industrialization in Kenya has been promoted under a so-called import substitute industrialization policy with the protection of domestic industries as its main pillar, through high tariffs, non-tariff barriers and import restrictions. Although the progress of industrialization in Kenya has been relatively smooth compared to other African countries, there still remain a number of major problems for its industrialization: For example, there are disadvantageous demand conditions, including difficulties in utilizing economies of scale due to the small size of the domestic market and low purchasing power of the rural sector; insufficient infrastructure, such as power supply, roads and telecommunications, as well as the lack of African entrepreneurs; major shortcomings of the supply side, including excessive dependence on imported goods, resulting in a large drop in operation due to the lack of raw materials and other inputs once foreign exchange shortages arise; and the absence of the long-term vision of the industrial structure.

The Kenyan industrialization strategy has been put into practice through the strengthening of its import licensing system based on the introduction of import quotas and implementation of a tight foreign exchange control policy. This has resulted in further reinforcement of government protection for the production of consumer and intermediate goods in Kenya compared to that of raw materials and capital goods, and it is reported that effective protection ratios ranging from 167% to 1,020% at the individual company level in 1976⁽³⁾. Such a domestic industry protection policy made

the industrial sector, the manufacturing sub-sector especially, further inward-looking and the import share of manufactured goods fell from 36% to 19% over the period between 1980 and 1985. According to a World Bank report on the growth of the manufacturing industries from 1976 to 1983, the import substitution policy accounts for approximately 65% of the growth recorded by industries producing textiles, clothing, chemical products and transportation equipment⁽⁴⁾.

The import substitute industrialization policy and restrictions on imports through a quota system as well as the collapse of the East African Community have killed off incentives to promote export industries and have directed the entire industrial sector centering around manufacturing industries to the more profitable domestic market, putting a considerable anti-export drive to the industrial sector. Table 2-8 shows indices representing the intensity of the anti-export drive during the 1980's, estimated by the World Bank. From this table, it can be seen that between 1980 and 1988, it was more profitable to produce goods worth one US dollar for the domestic market than to produce the same for export by up to 13 % on a Kenyan Shilling basis, which evidenced how strong Kenya's domestic industry protection was.

However, by the mid 1980's, import substitution in the protected industries seems to have hit the roof. According to a 1983 World Bank survey, import ratios fell below 10% for 13 industries, including leather products and textiles⁽⁵⁾, and the import substitute industrialization policy started to show signs of coming to an impasse, with import substitution mostly completed in major industries.

Table 2-8 Indices of Anti-export Bias (% on a Kenyan Shilling basis)

	1980	1985	1986	1988	1989
Index	1.13	1.10	1.09	1.13	1.10

Source: World Bank, 'Kenya Stabilization and Adjustment: Toward Accelerated Growth', 1990

The implementation of an import substitution policy based on excessive protection of the domestic industry without a long-term vision for industrial development brought about an excessive distortion in resource allocation and inefficiency in the production system, while at the same time making industrial production further inward-looking. For example, the foreign currency cost of small car production in Kenya for the import of capital and raw materials far exceeds that of final product import, while an enormous amount of resources were allocated to the production of electric and transportation equipment, which could be efficient in terms of import substitution but questionable in terms of international competitiveness and investment efficiency. In addition, import restrictions on cheap and high quality goods such as textile and metal products decreased the domestic producers' incentive for quality improvement and management effort, thereby adversely affecting the improvement of the overall production system.

Moreover, the market distortion due to price control, introduced as part of the import substitution policy, and deterioration in the efficiency of public enterprises which was established mainly for the Kenyanization purpose, one of the Kenyan economy's major goals since independence, gradually came to the surface. In sharp contrast with the protection of public enterprises, there has been little progress to promote as well as to foster African entrepreneurs. It has been judged that the combination of these factors has led to the stagnation of the industrial sector.

There are about 200 public enterprises, which are run under direct or indirect Government control. According to a 1982 Government report, in terms of efficiency, it only exhibits an average of a 0.2% earning rate.

This illustrates that the improvement of management in public enterprises is the urgent issue⁽⁶⁾.

Although investment in the industrial sector was vigorously carried out for a short period during the coffee boom in the latter half of the 1970's, it has since turned into a declining trend due to excess production capacity, resulting from the saturation of import substitution and a lack of incentive for fresh investment, partly because of the stringent domestic industry protection policy. Sluggish direct investment from overseas due

to the fluid domestic situation, highlighted by an aborted coup d'etat in 1982 and the democratization movement in recent years, as well as high tax rates imposed on corporate profits are also major factors in the stagnation of the industrial sector as a whole.

In many developing countries with fragile industrial foundations like Kenya, it could be recognized the importance of the import substitute industrialization policy based on tight domestic industry protection in order to foster and strengthen infant industries. However, such a policy was implemented rapidly and forcefully in the absence of a long term vision and planning for a desirable industrial structure, at the same time neglecting to foster Kenyan entrepreneurs. This is believed to have been the crucial problem with Kenya's industrial sector in its early days which is responsible for the current slump.

(2) Stagnant agricultural production

In Kenya, approximately 70% of the labor force belong to the agricultural sector, with more than 85% of the population living in rural areas, and agricultural production accounts for approximately 30% of the gross domestic product as well as 60% of the total export value⁽⁷⁾. Thus, Kenya has an economic structure where the growth of the agricultural sector determines the overall growth of the national economy, as well as the welfare of the overwhelming majority of the population. Therefore, a steady growth of the agricultural sector has been crucial not only to stabilize the short-term macroeconomic problems but also to provide a basis for mid to long-term sustainable economic growth.

Although Kenyan agriculture has experienced relatively healthy growth among Sub-Saharan countries, its growth rate has slowed down since the latter half of the 1970's. According to the World Bank statistics, an average annual GDP growth rate of the agricultural sector was 5.0% during the 1965 - 1980 and 3.2% during the 1980 - 1989. In comparison, the average annual population growth rates for the same periods were 3.6% and 3.9% respectively, which was the highest level in the world⁽⁸⁾. Although the food production index showed an annual average increase of 4.8% over

the period from 1981 to 1988, its per capita increase stagnated at only 0.6%⁽⁹⁾. Moreover, the production of staple crop such as maize has also stagnated on a per capita basis, and wheat production cannot meet the domestic demand, so that it has to rely on imports.

The slowdown of the Kenyan agricultural sector is largely attributable to a sluggish growth in the use of agricultural inputs such as fertilizer and pesticide, an inefficient marketing system, and a lack of farmers' incentive for production due to low producer prices, in addition to external conditions such as weather. Kenya's fertile land (high and medium potential areas) accounts for only 17.5% of the territory, and the productivity of large-scale plantations built on such land is stagnant, although they are responsible for approximately 50% of cash crop sales⁽¹⁰⁾. The small farmers who produce approximately 75% of all agricultural products are being subjected to the fragmentation of land due to population growth, and their productivity has not improved due to insufficient use of agricultural inputs such as fertilizer. Since there is very limited room left on arable land for the expansion of cultivated area, it is necessary to promote further improvement in agricultural productivity through wider use of high-yield varieties and fertilizer, appropriate farming techniques, and the introduction of price incentives, in order to expand food production in response to further increase in food demand associated with the continued high population growth.

In many areas in Kenya, small farmers still depend on rain fed agriculture which has resulted in large fluctuations in yield due to weather conditions. It has been estimated that Kenya has potential to irrigate some 470,000 ha of land. However, as of 1991 only 11.5% of its potential was utilized⁽¹¹⁾. The Kenyan agricultural sector has not developed its water resource potential efficiently. Therefore, there still remains enough room for expansion of irrigated land. It is necessary to utilize the water resources properly through irrigation and stabilize the yield with a steady supply of water.

The aim of the development of ASAL *(Arid and Semi-arid Land) is to exploit their production potential, thereby expanding food production and supply. For the development of ASAL with a poor production basis,

it is important to improve their production basis through such measures as soil conservation, water retention and afforestation. In the future, an expansion of agricultural production and the promotion of animal husbandry in this area could induce the migration of farmers from arable land, thereby easing the land fragmentation in the high and medium potential areas due to population pressure.

For that purpose, it is necessary to promote research and extension of agricultural technologies suitable for ASAL areas. However, despite some success, such as the introduction of high yield varieties of maize, research and extension activities in agriculture in Kenya are not necessarily sufficient. For example, there is still some room for improvement in matching research topics with the problems that small farmers are facing, and strengthening the mechanism for the dissemination of research results.

In the marketing of agricultural products, it is important to develop a road network to connect production areas with consumption centers, not only for the transportation of agricultural products but also as a means of transfer of labor, agricultural inputs, industrial products and other services. However, since little progress has been made in the maintenance of existing roads as well as in the construction of new roads, the condition of the most of farm roads other than main routes could be deteriorated. Moreover, there are lack of processing and storage facilities for agricultural products. In addition to the infrastructure, it has been pointed out that the insufficient management of public enterprises responsible for marketing is so inefficient that it requires a drastic reform of the marketing system.

*: ASAL: Arid and semi-arid land areas. They account for about 80% of Kenya's entire territory and support more than 25% of the population as well as more than half the total livestock. (Source: the 6th Development Plan)

Table 2-9 Trend of Maize Production

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Area under cultivation (000' ha)	1200.0	1130.0	1240.0	1200.0	1100.0	1200.0
Yield (000' mt)	2070.0	1440.0	1440.0	2700.0	2250.0	2700.0
Productivity (mt/ha)	1.7	1.3	1.3	2.3	2.0	2.3
Per capita yield (kg)	108.3	72.5	72.5	126.0	101.2	117.0

Source: World Bank, 'Kenya Stabilization and Adjustment: Toward Accelerated Growth', 1990

2-5 The Poverty Problem and Imbalance between Urban and Rural Areas

Absolute poverty in Kenya represents itself as the issue of the rural poor. Many of the poor are small farmers, nomads, and landless farm laborers.

Of the rural poor, the poverty of small farmers who account for 70% of Kenya's population has become a serious problem. Farming brings only a small income to these small farmers due to small plots of land, shortages of agricultural inputs and inadequate farming techniques, and as a result they are forced to rely on non-farm income to a significant degree. However, due to a limited number of non-farm employment opportunities, and their low education and skill levels, they are in a vicious cycle in which the low level of non-farm income is not even enough to support their livelihood, so that they can not divert it to the improvement of agricultural production. Also employment opportunities are concentrated in areas where cash crops are produced or an agro-industry exists. Consequently, the availability of seasonal employment opportunities are limited to only such areas. The labor migration to these areas as well as urban areas from poorer rural areas has caused a new problem of increased number of impoverished small-scale farm households headed by women in rural areas, since many of these migrating workers are usually men. Although nomads have shown a trend of switching to settled agriculture as a result of the settlement

policy introduced in recent years, most of them still continue to live their traditional way of life, following their old customs and natural environment over generations.

As in the neighboring countries, concentration of population in cities has become a major problem. The city population is growing at an annual average rate of about 8%, which is more than double the national figure⁽¹²⁾, and this has created a segment of the urban poor consisting of jobless people, since the increase in employment opportunities cannot catch up with such a rapid population inflow. Population concentration in cities can generally be explained in terms of the rural push factor and the urban pull factor. In the case of Kenya, although there is the rural push factor in terms of land shortages, the urban pull factor is a more dominant factor due to the income disparity and the difference in employment opportunities between cities and rural areas. Another major factor is considered to be the spread of education to rural areas. It has been pointed out that rural communities cannot provide educated young people with suitable jobs, and the content of education itself attaches importance to urban value systems, reinforcing young people's city-orientation. Migration of workers from rural villages to cities does not necessarily have a negative impact on the modernization of the economy since it converts agricultural labor to industrial labor. However, population inflow into the large cities in the African region such as Kenya is a so-called urbanization without industry, which makes the urban unemployment, underemployment and poverty problems even more serious with the expanding urban informal sector.

The present situation of the urban poor has become a major problem not only because of low income and lack of nutrition but also because of poor environmental conditions due to a lack of essential social services. At least more than 30% of the urban poor are said to live in slums and most of them do not have access to basic social services. It has been reported that in urban slums, there are frequent occurrences of infectious diseases and respiratory diseases, and due to the harsh living condition, the infant mortality rate is even higher than in rural areas⁽¹³⁾.

2-6 The Emergence of Environmental Problems

The most serious environmental problem in Kenya is environmental destruction including destruction of forests. This is mainly caused by the conversion of forests into farm land due to the increased population pressure on land and food shortage, both resulting from rapid population increase, the migration to the marginal land, in particular improper farming in ASAL, and the use of woodfuel for household. Kenyan forests are not only the source of timber supply but also play a multiple role in providing wildlife habitation, as well as conserving water and soil and preventing floods. However, the social pressure on forests has been growing every year in such forms as the conversion of forests into farmland and illegal encroachment on forests for firewood and timbers. It has been reported that wood fuel accounts for more than 70% of fuels used in Kenya and caters for more than 95% of energy needs in rural areas⁽¹⁴⁾. As a consequence, securing firewood and charcoal sources or alternative energy sources will become major tasks in the future along with the introduction of energy saving equipment (Table 2-10). It has also been pointed out that due to the high population pressure on the limited land, part of the population which could not be absorbed in the arable land is flowing into ASAL areas, and it has been causing a further deterioration in their already fragile production bases and the destruction of its ecosystem.

Table 2-10 National Woodfuel Demand/supply Balance (million tons)

	1980	1985	1990	1995	2000
Demand	18.7	24.5	30.3	38.6	47.1
Supply (Total)	18.7	19.1	20.5	26.6	16.5
From yield	13.1	12.6	10.7	7.8	5.2
From stock	5.6	6.5	9.8	18.8	11.3
Supply shortfall	0.0	5.4	9.8	12.0	30.6
Standing stock	1,004.0	974.0	932.0	864.0	800.0
Rate of decline (%)	0.67	0.9	1.5	15.0	...

Source: Republic of Kenya, 'Kenya Development Plan 1989-1993'.

On the other hand, the conservation of wildlife in Kenya has a long history and the country's awareness in this field is high, partly because the tourism industry is the largest source of foreign exchange earning in Kenya. In the history of wildlife conservation, Kenya introduced a total ban on the hunting of wildlife in 1977 and sale of its products in 1978, and limited the use of wildlife only for tourism. However, due primarily to poaching, the number of rhinoceroses was reduced from 2000 in 1973 to a mere 350 in 1987, while elephant population was also declined from 130,000 to 20,000⁽¹⁵⁾. In 1989, by the Washington Treaty, the ivory trade was banned and poaching in Kenya has declined due to the ban of ivory trade and the strengthening of the Government's counter-poaching measures. On the other hand, there are lack of funds and human resources for the conservation of wildlife which have become major problems together with the reduction of wildlife habitats.

In addition, it has been reported that a number of environmental problems have occurred in some areas of the country caused by the recent industrial development. According to the National development plan, it has indicated a number of problems such as water pollution due to wastewater from various factories, exhaust gases from motor vehicles, and air pollution caused by SO₂ from Mombasa Oil Refinery. As discussed in 2-5, the deterioration of the urban environment has also been pointed out due to lack of public services such as urban transportation, water supply and sewage, which have resulted from the cities' inability to expand their services in keeping up with the rapid population inflow from rural areas. In view of Kenya's progress in industrialization, population growth and the development of ASAL, it is certain that the pressure on Kenya's environment will further increase in the future. However development of human resources and institutions in this field is still insufficient and the basic legislation for environment and environmental quality standards have not been established yet.

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3. The Framework for Japan's Assistance

3-1 Viewpoints on Democratization

One of the factors behind Kenyan President Moi's decision to introduce a multi-party system was the recent domestic situation crying for democracy. As was discussed in the preceding chapter, the demands throughout society for a series of democratization measures with the introduction of a multi-party system as its centerpiece, could no longer be ignored by the Government. Another factor was the strong international pressure for democratization made at a meeting of the Consultative Group for Kenya held at the end of last year.

At present, scores of newly-formed political parties are engaged in vigorous campaigns for the general election and the country is doubtlessly heading in the direction of its first step towards democratization, although there is some confusion in the process.

Behind the background of the recent focus on issues of political systems such as moves towards democratization in developing countries, including Kenya, there were the rapid disintegration of political structures in the former Soviet Union and Eastern Europe and the greater recognition by the World Bank, and DAC countries that good governance and economic development are inseparable.

Governance here means, according to Pierre Landell-Mill's definition, 'the use of political authority and exercise of control over a society and the management of its resources for social and economic development', and the concept of 'governance' is defined to include government, the state mechanism, decision-making processes, policy formulation, policy implementation capacity, information flows, effectiveness of leadership, and the nature of the relationship between rulers and the ruled, as its major components⁽¹⁾. 'Good governance' as derived from the above concept of 'governance' refers to guiding the nation and people to be able to achieve of desirable objectives for the nation such as 'development'. For its attainment, freedom of expression, the guarantee of administrative transparency and accountability, and popular participation in decision-making are regarded as basic conditions and may

also be regarded as key ingredients in the process of democracy.

On the other hand, it has been recognized that the concepts of the guarantee of basic human rights and the achievement of social justice were not sufficiently considered in the concept of 'development'. It has been rediscovered that the significance of basic human rights, the effective exercise of civil rights and the guarantee of freedom are important elements of 'development' in leading the social pluralism of developing countries toward the political pluralism. In this connection, the importance of 'good governance' in developing countries has been highlighted in the development circle.

In regard to the relationship between the implementation of official development assistance and the issue of democratization in developing countries, which is also discussed in detail in 1-3, Japan announced publicly in April 1991 four guidelines for the implementation of ODA in which it revealed its intention to give due consideration to the efforts for promoting democratization and introduction of market-oriented economy and situation on securing of basic human rights and freedom by the recipient countries.

Behind the consideration given to the recipient country's various conditions, there is a rationale that the situation on securing basic human rights and the corruption and bribery problem such as the arbitrary use of political authority in the recipient country should never be ignored because the source of Japan's ODA is tax payers' money, and it is the Government's responsibility to the people to efficiently implement its ODA to support the recipient country's self-help efforts towards development.

In terms of the relationship between good governance and economic development, the lack of administrative transparency and accountability can bring about the inefficient and unproductive use of precious resources, and the lack of popular participation in decision-making processes can reduce the people's incentive for development, preventing them from using their creativity, and thus putting constraints on economic development. If the rules governing the relationship between the rulers and the ruled are decided and altered arbitrarily, it may, for example, ruin the trust of private enterprises in the Government and reduce their vitality. It is also important to support the move towards the deregulation and the reform

of public enterprises being carried out under the structural adjustment program, because it could rationalize and decentralize the Government authority on various regulations which could become a breeding ground of corruption and bribery.

However, in considering the desirable political system in developing countries, especially democracy, it must be careful to judge democracy through the uniform views and standards without considering differences in the social and cultural background, and it should be acknowledged that the realization of democracy would take a long time. Given the fact that it took several centuries to democratize the developed countries in the West and it also took a long time for Japan to achieve democracy, extra care must be taken when applying hasty and uniform standards such as the introduction of a multi-party system in judging the democratization process of non-Western societies.

At present, Kenya is in the midst of transforming a 'multi-tribal' society with scores of languages and customs into 'a nation state', and it would be unrealistic to expect that the realization of a multi-party system alone will simply bring democracy in Kenya. Accordingly, Japan should maintain its stance to provide cooperation for strengthening the social condition to establish 'Good Governance', which is certainly accountable to the people. In order to realize it, it is essential to encourage the people's awareness, while placing basic human rights and the guarantee of freedom at its foundation, by promoting education at the grass-roots level, in which 'There shall, in the future, be no community with an illiterate family, nor a family with an illiterate person', to enable them to break off their 'bad old habits', the prevention of bribery and corruption and the improvement of living standards of the people to win trust from within and outside the country.

3-2 Viewpoints on Japan's Assistance to Kenya

(1) As a country in Sub-Saharan Africa

Assistance to Kenya is significant in that Kenya is in the Sub-Sahara, one of the poorest regions in the world. As discussed in Chapter 1, many

countries in the region are suffering from a crisis level economic slump and the majority of the people in these countries live under absolute poverty conditions. Although many countries gained independence in the early 1960's, none has yet achieved a self-sustaining economy, and the gaps between them and other countries in the South such as South-East Asian nations are widening.

From the humanitarian viewpoint, and the global issue of world peace and the environment as well, such a situation should not be left alone. However, after the demise of the East-West Cold War and the collapse of the communist regimes in the Soviet Union and Eastern Europe, the interest of Western countries, the major aid donors, is inevitably shifting away from the African countries as former colonies to the former Eastern Block countries. A lot of attention which had been once given to Africa due to droughts and the refugee problem is gradually fading.

Against this background, Japan is now required to present concrete examples on how to contribute to the development of Sub-Saharan countries, still struggling without a breakthrough in sight. These examples must be based on its fundamental approach to the aid to African countries, which is to support democratization processes and structural adjustment efforts, while attaching importance to the humanitarian aid such as BHN.

As has been pointed out by the Regional Study Group for Development Assistance to Sub-Sahara Africa organized by JICA, the economic development in Sub Saharan Africa is attributed, to a considerable degree, to the fact that the present world free economic system has worked more advantageously for the countries in 'the North'. It is the international obligation for Japan, as one of the countries of 'the North' that benefit from the advantages of the present system, to assist the countries of 'the South', who cannot benefit fully from the system. Although Japan's relationship with the Sub-Saharan countries involves less direct interest compared to the Western European countries, actively providing assistance for this region where the world's poorest countries concentrate is the one of many important international roles Japan can play as a peace-loving country⁽²⁾.

(2) In search for a development model for Africa

Among the Sub-Saharan countries, it is meaningful to provide active assistance to Kenya for the following reasons.

First of all, compared to other Sub-Saharan countries, Kenya is one of those with the highest development potential, judging from stability as a state, geographic location, population size, the degree of educational enrollment, the degree of industrialization, progress in infrastructural development, administrative management ability, a modern land ownership system, and formation of middle class, as well as its past history of development. Accordingly, amid the continued search for an effective approach for aid to Sub-Saharan countries, it will be meaningful to create a successful example, to which Kenya stands the closest.

Secondly, if Kenya would succeed in economic development, it could be helpful for other African countries as a development model in Africa, and could be expected to contribute to the development of these countries. Since Kenya has a number of characteristics common in African countries, such as vast arid land, few natural resources, a high population growth rate, multi-tribalism, and the presence of few Westerners in the administration, it could be an example of successful development for other African nations.

Furthermore, economic development in Kenya itself is expected to lift the level of economy of neighboring countries.

With relatively close relationship as well as the accumulated experiences in economic cooperation, Kenya, among African countries which generally have weak ties with Japan, could be considered a suitable country for Japan to provide active assistance.

(3) As a regional center in East Africa

In many areas, Kenya plays an important role as a regional center for neighboring countries. It is, therefore, desirable to strengthen such areas functioning as regional center, in terms of efficiency in aid, as its benefit would spillover to neighboring countries.

For instance, transportation and communications networks were established centered around Kenya during the colonial era as well as the East African Community era, and they still support the economic and social activities of countries in the region. Those examples are the Mombasa Port and its road and railroad networks starting from the port to inland countries, and aviation and communications networks centered around Nairobi. Kenya also plays an important role in the medical and educational sectors in the region.

In order to reduce dependence on 'the North' and strengthen development through South-South cooperation, the significance of 'a regional center' will further increase in the future.

3-3 The Basic Direction of Japan's Assistance

For Kenya to achieve self-sustaining economic development, it must identify various development issues and solve them. As discussed in detail in the previous chapter, these development tasks can be summarized in the following four points: (i) stabilization of the fiscal and international balance of payments (ii) establishment of foundations for self-sustaining economic development (iii) human resources development (iv) countermeasures to population growth, poverty and environmental destruction.

In order to tackle these issues, it is necessary to formulate a development scenario for each issue and investigate various policy combinations. Based on the five year and 15 year plans drawn up by the Kenyan Government, and the structural adjustment program supported by the World Bank and IMF, the following scenarios could be considered.

(1) Stabilization of the fiscal and international balance of payments

For the short-term stabilization of the economy in the fiscal and international balance of payments, it is necessary to apply aggregate demand control using fiscal and monetary policies, and foreign exchange control. And for that purpose it is crucial to implement consistent macroeconomic

policies. This is especially necessary for Kenya where after it had experienced confusion emerged from the implementation of theoretically inconsistent economic policies, such as crowding-out, the situation turned out that the squeezing out of investment from the private sector due to high interest rates caused by the simultaneous implementation of a tight monetary policy by the Central Bank, aimed at inflation control and a positive fiscal policy by the fiscal authorities. Regarding the fiscal deficit reduction which is the key to short-term stabilization, the Kenyan Government is planned to reduce the deficit to 2.5% of GDP by year 2000. It is a very important goal and requires a detailed review on fiscal expenditures, including examination of the efficiency of public investment programs and public enterprises, as well as the role of the public sector particularly the optimum number of public servants. On the revenue side, it is necessary to increase Government revenue through tax reform.

For stabilization of the economy focusing on the fiscal and international balance of payments, the IMF's stabilization program and the World Bank's structural adjustment program are currently implemented. In this connection, for the time being it is necessary to monitor those development and provide assistance for their efforts if necessary.

(2) The Establishment of foundations for self-sustaining economic development

In order to achieve medium to long-term self-sustaining economy in Kenya, it is crucial to improve production capacity in the industrial and agricultural sectors. It is, therefore, important to formulate industrial policies which pursue the long-term desirable industrial structure and measures to promote industries, as well as to develop economic infrastructure and human resources.

For the development of economic infrastructure in Kenya, it should be considered to promote economic benefit to East Africa as a whole, taking advantage of Kenya's geographical location. For example, expansion of port facilities in Mombasa, with its fine harbor as the center of distribution over a wider area including the neighboring landlocked countries, and the

development of related infrastructure such as highways would benefit the region as a whole.

For long-term development of the industrial sector, the following points are important: relaxation of price control to increase producers' incentive for production; policy measures such as the liberalization of import of production inputs; the organizational reform of public enterprises aimed mainly at the improvement of their productivity; strengthening of the private sector; the improvement of the production system as a whole through the promotion of small and medium-scale industries which are expected to play a major role in creating employment opportunities; and improvements in export competitiveness in order to earn foreign exchange.

In the agricultural sector which embraces about 70% of the working population and accounts for approximately 30% of GDP, it is essential to improve production capacity as it holds the key to the development of the whole economy, as well as the securing of the food supply and alleviation of the poverty problem under a high population growth rate. To improve production capacity, it is important to give farmers production incentives by abolishing price control over agricultural products and improving the supply system for agricultural inputs and agricultural finance, while developing irrigation facilities and infrastructure such as road networks necessary for the improvement of the marketing and processing of agricultural products. It is also important to strengthen research and technological development in this sector as well as to promote the dissemination of suitable farming techniques. These policy measures would also contribute to improve the export competitiveness of horticultural products.

Since the success of such improvements in long-term production capacity would greatly depend on the human resources, it is necessary to expand and improve basic education, as well as to strengthen its system, in order to train prospective work force. Although Kenya's basic education is better than other African countries, it will be necessary in the future to undertake further improvements and expansions in both quality and quantity. In order to realize these development scenarios, it is necessary to improve the Government's capacity to draw up and implement development programs, and to secure human resources which would serve as core of the actual

implementation of these programs. To that end, the improvement and expansion of secondary and higher education as well as vocational training are also an urgent task, in addition to that of the aforementioned basic education. According to the World Bank report, there is a large shortfall of intermediate staff, particularly in Government organizations in Kenya, while overstaff at the junior level has been observed, and it has been a major cause of the fiscal deficit. It is therefore necessary to review comprehensively the training programs and incentive system for public servants.

(3) Realization of a balanced economic development

To achieve a balanced development in Kenya, it is necessary to take active measures for population, poverty and environmental problems.

In regard to the population problem, considering the high possibility that Kenya's current population growth rate which is close to 4% would wipe out the fruits of future development efforts, it is urgently needed to take some kinds of measures against it. However, since the population problem is often strongly influenced by social and cultural factors such as the customs and value systems of a given society, steady and continuous assistance should be provided, with due attention paid to these aspects. On the other hand, there is a concern that such a high population growth rate will strain the food supply-demand situation by reducing per capita food production and supply, causing serious food shortages in Kenya. Therefore, as discussed above, it is also necessary to secure a stable food supply mainly by improving the production of the agricultural sector.

With respect to the poverty problem, the Kenyan Government has announced to give priority to the poverty alleviation along with economic development in its development efforts, and has placed particular emphasis on the importance of the development projects that directly benefit the poor such as small farmers and nomads. The poverty alleviation has been a major development issue in Kenya, and it requires development approach focussed on small farmers and other affected segments of the population, and the promotion of labor-intensive industries. Such a form of development

is also considered to directly contribute to the improvement of production capacity in the long run.

A marked feature of some of Kenya's environmental problems is that they have arisen from population pressure and environmental deterioration in ASAL is especially severe. The Kenyan Government has recognized the importance of environmental issues and has given priority to the conservation of forests, protection of wild life and environmental conservation of ASAL areas. In the longer term, however, it will be necessary to establish a more comprehensive monitoring system for environmental problem, as well as to formulate concrete action programs leading towards their solution.

Japan's development assistance to Kenya in relation to the above development issues should be viewed in perspective of providing support for Kenya's own efforts to solve these problems and to realize the sound development of its economy and society. Therefore, Japan should assist Kenya in stabilizing its economy and carrying out the reform of its economic structure as short to mid-term economic policy goals, and provide cooperation for the establishment of foundations for long-term self-sustainable economy while paying due attention to such issues as population, poverty, environment, and women in development, so that such development would be sustainable.

[References]

- (1) Landell-Mills, Pierre and Ismail Serageldin, 'Governance and the External Factor,' World Bank Annual Conference on Development Economics 1991, April 25 and 26, 1991, Washington D.C.
- (2) Japan International Cooperation Agency, 'Regional Study for Development Assistance to Sub-Saharan Africa', February 1991.

4. Priority Areas for Japan's Assistance

As discussed in the previous chapter, in order for Kenya to achieve self-sustaining economic development in the future, it is important to reconstruct its economy in the short to mid-term. In the long-term, on the otherhand, it is required to establish foundations for economic development aimed at improvement of production capacity, with the development of economic infrastructure and the human resource development as its major components, while tackling the population, BHN and environmental problems which are closely linked to economic development. Based on this viewpoint, in this chapter, areas where Japan's active assistance is required are investigated from these three directions: (1) economic reconstruction, (2) the establishment of foundations for self-sustaining economic development, and (3) the realization of balanced development.

- (1) Economic reconstruction
 - Industrial policies
 - Export promotion
- (2) The Establishment of foundations for self-sustaining economic development
 - Economic infrastructural development
 - Human resources development
- (3) The Realization of balanced development
 - Population control measures
 - The securing of a stable food supply
 - The improvement of health care and medical services
 - Environmental conservation

These are all important areas and it may not be appropriate to discuss their order of priority. On the other hand, when considering actual development assistance in concrete terms, it is necessary to be aware of the limitations of Kenya and Japan in terms of their financial capacity as well as human resources. Therefore, from the above areas, this study group has identified those which should preferentially be given assistance, based on such factors as consistency with the development programs of the Kenyan Government, Japan's capacity for assistance, and the efficiency

of the assistance programs. The following are such priority areas:

1. The formulation of industrial policies (industrial policies)
 - Cooperation in the formulation of a comprehensive set of industrial policies and the improvement of implementation capability.
2. The development of transportation networks (economic infrastructural development)
 - Cooperation in the expansion and improvement of transportation networks not only to invigorate domestic economy in Kenya, but also benefit neighboring landlocked countries.
3. The improvement and expansion of basic education (human resource development)
 - Cooperation in terms of teaching materials and facilities in primary education.
 - Cooperation to strengthen mathematics and science education in secondary education.
4. The expansion of food production (securing of stable food supply)
 - Assistance in the expansion of food production through the utilization of agricultural inputs, the expansion of irrigated land area, the improvement and expansion of research and development.

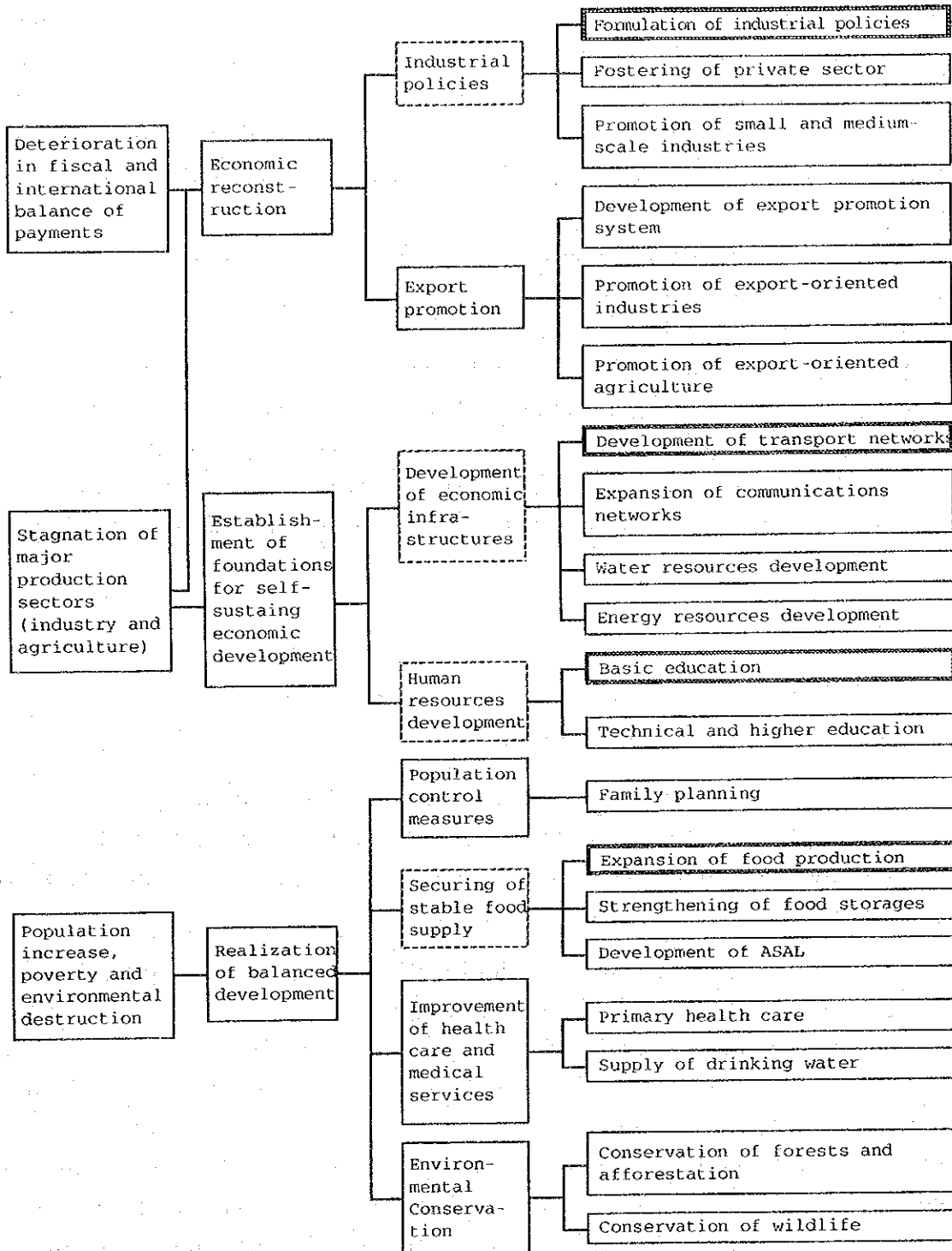
The fact that these areas are named does not mean that a decision has been made to provide assistance in them nor does it deny the importance of providing assistance in other areas. In any case, it is necessary to continue to attach importance to cooperation in the improvement and expansion of BHN services.

An outline of the priority areas which have been investigated by the study group is shown below.

Development issues and priority areas for assistance

Development issues

Priority areas for assistance



: Areas regarded particularly important by the study group

4-1 Economic Reconstruction

At present, Kenya is under the structural adjustment program in order to reduce the fiscal and balance of payment deficits as well as to stabilize the economy. The Kenyan Government, acknowledging the importance of the role of markets, is making efforts to stimulate economic development through the utilization of the private sector, the introduction of incentives to promote investment and export, the rationalization of Government expenditures, and the reform and privatization of public enterprises, as well as the relaxation of various regulations regarding economic activities. Since the latter half of the 1980's, the structural adjustment program for the agricultural as well as industrial sectors has been implemented and reforms aimed at improving the efficiency of the economy and strengthening export competitiveness are being undertaken. With respect to the implementation of the structural adjustment of the economy of Kenya, it is necessary to provide assistance in order to revitalize the economy through the formulation of industrial policies and export promotion to strengthen the capacity to earn foreign exchange.

4-1-1 Industrial policies

(1) Formulation of industrial policies

For Kenya to achieve a steady long-term self-sustaining economy, it is very important to tide over the present economic crisis and improve and expand the production base to realize a better production capacity in the long run.

For that purpose, it is considered urgent and important to draw up a long-term prospect for desirable industrial structure and the measures for fostering industries, and to formulate a comprehensive set of industrial policies which include the selection of target industries which can become export industries in future, as well as export strategies. Japan, Korea and Taiwan have used these industrial policies as the key to their economic development and experiences of these countries will prove valuable for Kenya in its effort to formulate such policies. Furthermore, for the for-

mulation as well as implementation of industrial policies, it is essential to have administrative ability to implement fiscal and monetary policy measures, while correctly grasping the state of each industry and winning trust from the industrial sector. It will not therefore be an overstatement to say that the presence of adequate administrative abilities for policy formulation and implementation holds the key to the successful implementation of industrial policies.

In order to improve the capability of administrative organizations in Kenya to formulate industrial policies and improve their implementation capabilities, the following forms of cooperation based on Japan's experience in achieving a unique form of development after World War II using industrial and monetary policies as its major tools will be quite effective: the dispatch of senior policy advisers; the dispatch of study missions in various fields to investigate the state of technological development and organizational practices in major industries as well as plant maintenance and business management practices in individual business enterprises; and the invitation of senior Kenyan Government officials in charge of policy formulation to Japan.

(2) The fostering of the private sector and the promotion of small and medium-scale industries

In the process of Kenya's economic development, the fostering and strengthening of the private sector are the most important tasks. However, conditions for fostering the country's private sector have not been sufficient because of the lack of industrial policies which give a guideline for the desirable industrial structure in Kenya in the long run, the poor communication between the industrial sector and the Government sector, and the restrictive attitudes toward the private sector based on laws and regulations favoring public enterprises by the Government. Therefore, with the objective of fostering and strengthening its private sector, it is important that Japan assist in formulating long-term industrial policies as the central measure, while providing cooperation in creating a suitable environment for fostering private sector such as the formulation and improvement of laws and regulations

related to the fostering of the industry, and the development and expansion of a monetary system and capital market.

At present, the Kenyan Government is promoting foreign direct investments in an effort to develop the private sector, but there are little prospects for foreign capital to flow in because of the absence of a favorable environment for foreign capital due to the bribery and corruption among politicians and high-ranking officials; Government intervention, concern for prolonged political instability associated with 'democratization', in addition to the insufficient industry laws and regulations. Under these circumstances, the promotion of the private sector depends on the fostering of Kenyan entrepreneurs. However, since entrepreneurs are in short supply at present in Kenya and they are concentrated in small and medium-scale industries, it is urgent to foster these entrepreneurs as the driving force of self-help industrial development to promote small and medium-scale industries.

It is considered that the promotion of small and medium-scale industries will broaden Kenya's industrial base, increase industrial linkages, respond flexibly to changing market needs and partake in the resolution of the employment problem. This is one of the areas where Japan can make a significant contribution by using its postwar experience. Through, for example, the dispatch of experts, it can effectively provide comprehensive, concrete and systematic advice and guidance on financing of small and medium-scale industries necessary to foster them, on planning for specific technical training, and on organizational reform to improve business management and product quality.

4-1-2 Export promotion

(1) The development of an export promotion system

In order to foster export industries, it is necessary to develop a system for export promotion which includes the encouragement of exports and investments. The provision of various services to promote export will play an important role in supporting exporting efforts by the private sector.

At present, various trade promotion organizations primarily the Kenya External Trade Authority (KETA) are engaged in export promotion activities, but the results are not necessarily satisfactory. It is therefore important to improve the abilities of organizations which provide export promotion services such as market information, design, packaging, quality control, production technology, and training. In the long run, it is also necessary to promote foreign direct investment by developing a suitable investment environment. At present, the Foreign Investment Protection Act (FIPA) has been established, with the Investment Promotion Centre (IPC) receiving investment offers, but the investment environment is not attractive enough and its procedure is inefficient. In the long run, it is therefore necessary to assist further in the improvement of the investment environment and the strengthening of investment promotion activities.

(2) The promotion of export-oriented industries

In Kenya's existing export industries, textile and clothing, agricultural processing, leather, and metal processing industries are playing important roles. For the promotion of export industries, it is necessary to improve the quality and design of existing export items through the introduction of new technology, and to diversify export items through the development of new products. Taking into account of the potential for future development, it would be necessary to foster the agricultural processing, textile and clothing, and metal processing industries as priority industries.

To promote and foster such export industries, it is important to expand and improve the existing system of tax exemption measures for exports and the export compensation scheme, promote Manufacturing-under-Bond (MUB)* and Export Processing Zones (EPZ)** and establish other related systems such as investment promotion, including foreign direct investment. In addition, development of infrastructure such as port, roads and power is also important to support business activities.

(3) The expansion and improvement of export-oriented agriculture

Coffee and tea, which are traditional export crops in Kenya, have been playing an important role in earning foreign exchange. However, international prices for primary commodities have been depressed in recent years, and thus the diversification of export crops and increases in value addition have been required. The promotion of non-traditional export crops such as vegetables, fruits, and horticulture such as cut flowers, nuts (macadamia and cashew nuts), is especially important. Furthermore, it is also desirable to increase the degree of processing such as canned food and juice and to promote the export of high value added products. To help promote the export of agricultural products, it is important to provide cooperation not only in improvements on the production side but also in the development of a marketing system incorporating road networks and storage facilities within production areas, cold storages, highways and port facilities. It is also important to provide cooperation in terms of grasping consumer needs, maintenance of product quality and improvement of cargo collection and shipment systems.

* MUB: A system introduced in 1988. The scheme allows imported inputs free of duty and local purchases free of sales taxes provided the eligible production facility is licenced entirely for export production. It simplifies export procedures by stationing customs examiners inside such facilities on a full-time basis.

** EPZ: This is to be established in an earmarked area near an airport or a seaport, provided with various physical, communications and service facilities and customs offices. The entire production from the zone remains strictly for export markets.

4-2 The Establishment of Foundations for Self-sustaining Economic Development

In order for Kenya to achieve self-sustaining economic development, it is necessary to improve production capacity in major sectors on a long-term basis, as well as take economic reconstruction measures as discussed in 4-1. To that end, it is necessary to establish foundations that support wide-ranging economic activities, including economic infrastructure and human resources development.

4-2-1 The Development of Economic Infrastructure

(1) The development of transportation networks

The transportation sector such as roads, railway, ports, and airports, forms an important infrastructure that supports Kenya's socio-economic activities. Of them, ports and roads in particular are the foundation of Kenya's domestic distribution, and their improvement and expansion are also considered to be of great benefit to landlocked countries without a port. It is therefore desired that Japan extended active assistance in this area in the future.

(i) Port development

Mombasa Port is the largest port in Eastern Africa. It functions as the trade port for not only Kenya but also its neighboring countries, such as Burundi, Rwanda, Uganda and Zaire (eastern part), Sudan (southern part), and Tanzania (northern part), and plays an important role as the regional center of distribution. In keeping with increases in the volume of cargo handling (600,000 - 70,000 tons in the 1930's, approximately 3 million tons in the 1960's, and 7.5 million tons in 1990⁽¹⁾), the port facilities have gradually been improved, and also in the future a comprehensive expansion and reinforcement in port functions, including the deployment of container depots in inland areas, must be continued on a long-term basis, in addition to the upgrading of port facilities.

Furthermore, it is important to develop the port not only as the center of distribution but also as a site of production activities, taking advantage of its location as a port. The outskirts of Mombasa Port has a high development potential, with a plan for the construction of an EPZ (Export Processing Zone) currently underway, and could develop as a major base for industrial development in Kenya in the future in conjunction with the further development of Mombasa Port.

For these reasons, it will be quite significant if Japan can assist in the development of Mombasa Port and its surrounding area in the future although Japan has so far had no assistance record in respect of this port.

(ii) Road development

Road networks are an important infrastructure, which satisfy most of the transportation needs. In terms of assistance needs, the maintenance of trunk roads, the improvement and expansion of rural road networks and the alleviation of traffic jams in major cities are important tasks for the time being.

Trunk roads support Kenya's social and economic activities and a part of them plays an important role as the international route. The highway running from east to west which originates in Mombasa is an important route as part of the international transportation route, running across Africa. The construction of trunk roads started in early days and it has already been said that it has shifted from the era of construction to the era of maintenance. However, the deterioration of roads is rapid due to increased traffic and overloading so that road maintenance cannot keep up with it at present. Although various measures have been taken to strengthen the road maintenance mechanism (such as the introduction of a toll road system and the establishment of road maintenance department), it is necessary to provide assistance in reinforcing the related equipments and machineries, as well as in technical aspects.

Since importance has been linked to trunk roads throughout history in Kenya and foreign assistance has also been concentrated on them, there are long delays in development of rural roads. In order to promote rural industries and achieve a balanced economic development for the country as a whole, it is necessary to expedite the development of rural roads as part of an integrated transportation network connecting with trunk roads.

In major cities, traffic congestion is becoming serious, and especially for Nairobi, Mombasa and Kisumu, it has been pointed out that appropriate measures are in urgent need. While a comprehensive set of measures is required which includes those on the 'software' aspect, such as traffic control and flexible working hours, it is especially needed on the 'hardware' aspect of assistance in improvement of road structure as well as the construction of bypass roads.

Development measures in the field of transportation have been undertaken with assistance provided by many donors, and in implementing these measures, the report on the 'National Transport Plan' prepared by JICA in 1984 has proven to be useful, with high appreciation received from Kenya. Since eight years have passed after the survey, however, it is desirable to consider its review in order to reflect on the changes that have taken place during this period, as well as to rebuild the prospects for the future.

(2) The expansion and improvement of telecommunications networks

Telephone networks are important infrastructure which support economic activities. Despite the fact that the Kenya Posts and Telecommunications Corporation (KPTC) has implemented three successive development plans, the telephone penetration level is still 1.3 units per a population of 100, due partly to rapid population growth ⁽²⁾. In this field, it is desirable that Japan monitor trends with the assistance of other donor countries, and consider cooperation in telephone network expansion programs if necessary.

Since 1980, the KPTC's Central Training School has been implementing the third country training programs for neighboring countries. With the involvement of Japanese instructors, it is desirable that these programs continue in the future.

(3) Water resources development

At present, Kenya plans to implement various development projects in order to achieve sustainable development. However, in order for this to succeed, water resource development must be carried out without delay to meet a large demand for water, arising from the implementation of these programs.

The areas where water resource development is required on a larger-scale in the future are drinking water supply, irrigation, industrial water supply and hydropower generation. In respect of drinking water supply

(Refer to 4-3-3 (2)), the percentage of people who have access to safe water is still low (31% of the population⁽³⁾), and in order to raise its availability, various water supply projects are being undertaken from a BHN point of view. In some large cities, on the other hand, chronic water shortages have already affected the economy such as a decrease in the number of tourists, and large-scale water resource development is required to deal with the population increase in the future, while working to raise the availability.

Regarding irrigation (Refer to 4-3-2 (1)), it is required to develop water resources to increase the irrigated land area in order to achieve self-sufficiency in food supply through increase in food production, corresponding to the population growth.

Although the present share of industrial water demand is not large, the high growth of demand in the future is inevitable with the expected development of the industrial sector.

As for the development of hydropower generation (Refer to 4-2-1 (4)), which has progressed rapidly (the growth rate of electricity supply by hydropower was 9.1% during the 1980 - 1990 period⁽⁴⁾), part of the electricity supply still depends on import. Therefore it is necessary to continue active development of hydropower as the main source of supply.

In order to secure a growth greater than the population increase in these sectors' activities, an enormous amount of water resource development will be necessary. Although it depends on its size, water resource development in general requires a large investment and long time. It is therefore necessary to tackle this issue urgently from a long-term viewpoint and in a planned manner.

Many donor countries, including Japan, have so far provided assistance in water resource development. It is necessary for Japan to continue with its cooperation on a priority basis, considering the massive needs expected to arise in the future.

(4) Energy resources development

Electric power development is the most important in the energy resources development. Although development has so far been actively undertaken in hydro and geothermal power generation (The average annual growth of electricity supply during 1980 - 1990 period was 7.4% excluding import from Uganda), the domestic sources alone have not been able to meet the demand, and it requires import of around 5% of the total power supply from Uganda⁽⁵⁾. In the future, it will be necessary to continue satisfying the rapid growth of demand in and around the urban areas and to extend the power supply to rural areas in order to support rural development.

The main pillars of electric power development are hydro and geothermal power generation and both are estimated to have a significant amount of potential for development left untapped. However, since the development of these power sources requires large funds and long periods of time, it must be undertaken on a long-term basis and in a planned manner, taking into consideration future supply-demand trends, economic efficiency and environmental conservation.

Apart from the development of power sources, to meet the growing electricity demand, the strengthening of power supply capacity and reliability through the expansion of power transmission line networks should also be undertaken.

Saving of woodfuel, which accounts for more than 70% of energy used in Kenya, is an area where assistance should be actively provided as it will improve the supply-demand balance for timber resources, contribute to forest conservation, and lead to the reduction of the workload for women. It is also necessary to provide steady cooperation in the development and dissemination of energy saving stoves.

4-2-2 Human resources development

(1) The improvement of basic education (primary and secondary education)

For Kenya's future self-sustaining economic and social development, it is indispensable to develop human resources to support it. Basic education has a particularly important role in training the youth who will shoulder Kenya's future national development. Although quantitative expansion, such as increase in the school enrollment ratio in primary and secondary education, have steadily progressed since independence, it still has high ratios of dropouts and repeaters. The education in Kenya is also confronted with various qualitative problems, and in particular basic education in less developed regions is still far behind.

Japan has been providing assistance in science and mathematics education in the secondary education, mainly through the dispatch of volunteer teachers for these subjects from the Japan Overseas Cooperation Volunteers (JOCV), since it is one of the priority areas of Kenya's basic education and is also the area where Japan has an advantage. In addition to the dispatch of JOCV members, assistance in science and mathematics education as a whole may be considered through the improvement and expansion of the supply system for laboratory equipments, and the training and retraining of teachers.

Taking into account of the importance of primary education, in which Japan has yet to be involved, it is desirable to assist this area to improve its quality and contribute to the dissemination of education through reducing the parents' burden. For example, it can be considered to provide assistance in the improvement and expansion of the supply system for educational materials such as text books, as well as the development of school infrastructure. It is important to cooperate with other donors such as Nordic countries and international organizations, which have abundant experiences in this field.

(2) Technical education and higher education

In order to achieve future economic growth in Kenya, it is indispensable to increase production capacity in each sector. One of the essential factors would be the training of middle level engineers who work on the forefront of production sites, as well as business managers.

In this field, Japan has been providing project-type technical cooperation for the Jomo Kenyatta University College of Agriculture and Technology (1980 -) and NYS Engineering Institute (1988 -), aimed at training an excellent advanced and middle level engineers.

Taking into consideration Kenya's aid absorbing capacity, it will be appropriate to provide assistance concentrating on these two projects for the time being. The nature of this type of project requires continuous assistance, and therefore the duration of assistance should be considered flexibly.

4-3 The Realization of Balanced Development

Development does not only mean short-term economic development. The important element of economic development is to be long-term and sustainable and to extend its benefits equally to each member of a country to improve individual living standards.

In order to achieve it, various measures for economic development, as discussed hereinbefore, should be actively implemented, while due consideration is given to such areas as the population issue, the satisfaction of BHN (such as food, health care and medical services), and environmental conservation. Although these areas may not necessarily contribute to economic development in the short term, they have close correlations with economic development in the long-term range and are therefore very important areas in order to realize a more broad-based and sustainable economic development.

4-3-1 Population Control Measures

The population issue is closely related to employment, environment, food supply, and the poverty problem and the way to deal with this issue holds the key to Kenya's future economic development. It will be necessary that Japan attach even more importance to this issue than before, based on the understanding that such a rapid population growth is a fundamental impediment to Kenya's economic development, as well as in consideration of the present situation where savings created by economic development are being consumed by such a rapid population growth, with investment squeezed out as a result.

Since 1988, Japan has been providing cooperation under the 'Population Education Promotion Project' (PEPP). This project aims mainly at the strengthening of promotion activities through the production and dissemination of audio-visual materials, and the use of mass media, but since it will take a long time until its effect emerges, a long-term and continuous approach will be necessary. In the future, it will be desirable to broaden the target area and improve the contents through the cooperation with the Japan Overseas Cooperation Volunteers and NGOs.

In 1991, JICA carried out a study for development assistance entitled 'Population and Development' and announced its recommendations on Japan's population assistance. It is recommended that in providing population assistance, importance be attached to such areas as the strengthening of maternal and child health care and family planning activities, the enhancement of population statistics and survey data collection and analyses, promoting the spread of education, and taking national and regional features and development stage into account in regional economic development⁽⁶⁾.

Along the lines with the above recommendations, in future population assistance to Kenya, while improving and expanding the support for the REPP, it is necessary to take an approach that takes into account the relevance of the population issue in various fields from a long-term perspective. For example, it is expected that the strengthening of maternal and child health care and the improvement of access to family planning services through the improvement and expansion of primary health care (PHC) will make birth control possible, contribute to the improved health

of mothers and children and reduce infant mortality rate, as well as expedite a demographic transition in Kenya.

Furthermore, it is considered that the spread of education among women will not only raise their awareness towards family planning but also promote an improvement in women's social status, resulting in a great contribution to the extension of family planning.

4-3-2 The Securing of a Stable Food Supply

Food is one of the basic human needs. Food shortages could bring about political instability and endanger the foundations of economic development, with food importation putting adverse pressure on the foreign exchange situation. Therefore a stable food supply must be pursued on a top priority basis.

For a stable food supply, various measures covering both 'hardware' and 'software' aspects must be implemented comprehensively. However, as far as Japan's assistance is concerned, the expansion of food production, the storage development, and the development of ASAL (arid and semi-arid land) are important areas.

(1) The expansion of food production

Under the current food supply-demand situation in Kenya, the production of maize as a staple food has been roughly meeting the demand, thereby preventing a serious overall food shortage, although they are short of flour and rice in general. However, it will not be easy to produce sufficient food to meet the future population growth and to maintain a proper balance of supply and demand. Therefore, necessary measures to expand food production must be taken in order to prevent Kenya from becoming dependent on large-scale food imports and foreign aid.

To increase food production, it is desirable that Japan provide co-operation in the areas of agricultural inputs and irrigation, as well as research and development.

(i) Agricultural inputs

In order to increase food production, it is necessary to increase the yield per hectare through the use of agricultural inputs, such as fertilizers and agricultural chemicals. With the Government's promotion to use agricultural inputs, their use is expected to increase.

Japan has been providing agricultural inputs under the 'grant aid for increased food production (KR2)' scheme and it is necessary that Japan continue with the same type of support in the future, while giving due consideration to the results of research and development activities.

(ii) Irrigation

Compared to the total area of irrigable land, the irrigated area is still small and, therefore, there is high potential for irrigation development. (As of 1991, the actually irrigated land area was 54,000 hectares, accounting for only 11.5% of the total irrigable land of some 470,000 hectares⁽⁷⁾.) In order to secure a long-term stable food supply in keeping with the population growth, an expansion of irrigated area is indispensable. It is, therefore, necessary to implement existing small-scale irrigation programs, irrigation programs for the area with high population density, and large-scale irrigation programs with a high cost-benefit ratio, taking into account of their economic efficiencies. The enhancement of implementation structures for these programs as well as human resources development are also important tasks.

As for Japan's policy for the time being, it is desirable to consider gradual and long-term assistance in which the existing irrigation facilities will first be rehabilitated and then the development of new irrigation facilities embarked upon, while pursuing the establishment of irrigation agriculture techniques and its promotion through the implementation of a model project.

(iii) Research and development

The research and development activities make large contributions

to agricultural production. In Kenya, research and development activities have been steadily producing positive results and it is necessary to continue strengthening these activities as well as the disseminating their results. Possible research topics include breeding (high yield and drought resistant varieties), farm management techniques, and early warning systems.

With their results applied to other Sub-Saharan countries, the research and development activities in Kenya are expected to contribute to increased food production in those countries.

(2) The strengthening of food storages

For a stable food supply, it is necessary to strengthen storage facilities and the food reserve system, in addition to production increase. Through the strategic deployment of storage facilities, taking into account food surplus and shortage regions as well as the storage of imported food, it is possible to make distribution smooth, prevent losses in the distribution process, and alleviate the effect of fluctuations over the years in production.

Although some storage facilities have already been built through assistance from donor countries, including Japan, it is necessary to continue enhancing the storage facilities in order to keep pace with increased food production in the future.

(3) The development of ASAL

To secure a stable food supply for the whole country, it is necessary to improve the food production capacity of ASAL areas which take up a significant portion of the territory, and for that purpose dry land farming (drought-resistant crops, oil seed crops and small-scale irrigation) and animal husbandry must be promoted.

Because of numerous constraints in ASAL such as depopulation, regular occurrences of droughts, a natural environment vulnerable against development, and the underdevelopment of infrastructure, assistance projects by many donor countries could not always achieve satisfactory results.

However, since the stabilization of ASAL areas has an impact on the urban problems (by preventing population outflow to cities), it is necessary that Japan support an integrated development of ASAL based on agriculture, in cooperation with other donor countries which have a lot of experience in dry land farming techniques.

4-3-3 Improvements in Health Care and Medical Services

(1) The promotion of primary health care (PHC)

Quantitatively, Kenya's health care and medical service have already accumulated a fair amount of facilities, human resources and technology through great efforts made since independence. However, in Kenya, a large population living in the rural areas are still unable to receive adequate medical services, like many other developing countries.

PHC is the most important field in the 'health care and medical services' from the BHN perspective. With regional medical facilities as the center of its activities, PHC has already been undertaken with the cooperation of various aid organizations. It is desirable that Japan also provide active cooperation for these rural PHC activities in both human resources and materials, with consideration given to the links between the improvement and expansion of PHC, maternal and child health care, as well as family planning.

At present, Japan is providing project-type technical cooperation for the Kenya Medical Research Institute (KEMRI). In the future, while continuing with this project, it will also be required to expand its medical cooperation on a broader, grass-root level, utilizing the results of the project.

(2) The supply of drinking water

Along with food, drinking water is also one of the basic human needs. However, in Kenya, people who have access to safe drinking water is 31% at the national level and 21% in the rural areas at present⁽⁸⁾. On the other hand, the supply of safe drinking water is the basis of health and

hygiene and is especially effective in preventing infectious diseases. It is also greatly beneficial for women and children, partly for contributing towards reducing their labor needed for drawing water.

Against this background, various water supply projects are being implemented under the slogan 'Provision of piped portable water to all Kenyans by Year 2000', through a joint effort of the Kenyan Government, Japan, other bilateral aid agencies, international organizations, NGOs and local communities. In view of the importance of supplying drinking water, Japan's continued effort to provide priority assistance in this field is desirable in the future.

4-3-4 Environmental Conservation

Kenya is faced with various environmental issues such as the deterioration of city hygiene and water pollution but the most important and urgent issues among them are considered to be forest conservation, afforestation and wildlife conservation.

(1) Forest conservation and afforestation

In Kenya, widespread deforestation is under way, due to the conversion of forests into farm land and grazing land, the felling of trees for fuel wood. As a result, important functions of forests such as the prevention of soil erosion, water conservation and the provision of wildlife habitats are being lost. It could be considered to provide cooperation for the following two areas in order to tackle these problems:

Firstly, cooperation in the conservation of forests and afforestation as a resource, and the efficient utilization of forests may be carried out. Japan has been implementing 'the Social Forestry Training Project' for seven years. It is aimed at promoting awareness of the importance of forests among the local population as its major beneficiaries, as well as promoting voluntary tree planting activities. Since the dissemination of this form of forestry is expected to play an important role in the development of

Kenya's semi-arid land, this project should be undertaken on a long-term basis.

Secondly, apart from the utilization of forests as a resource, assistance in environmental conservation or the reforestation designed for forest rehabilitation may also be considered. This aims to benefit the local population through the afforestation designed for environmental conservation - for example, the development of forests for water conservation and forests (protective forests) for soil erosion and landslide prevention - which will also be relevant to global environmental conservation through the expansion of the green area. It is especially recommended that 'afforestation for environmental conservation' on semi-arid land in Kenya be undertaken as a model case for the Sub-Sahara. Kenya is considered to be suitable for implementing such a model project because of numerous projects undertaken by international organizations and various donor countries, its accumulated knowledge on semi-arid land, and its relatively favorable administrative and social conditions.

(2) Wildlife conservation

Amidst growing concern over the rapid decrease of the wildlife population, its conservation has become an important task in Kenya in relation to the preservation of biological diversity and the conservation of ecology, as well as the securing of tourism resources.

The Kenya Wildlife Services (KWS) formulated 'A Policy Framework and Development Program 1991-1996' in 1990 to actively promote tourism and wildlife conservation policies. This program aims to promote the development of infrastructure as well as the improvement of the management of national parks and reserves, coexistence with surrounding communities and importance attached to the benefit of local residents. The World Bank and other donors support this program and are starting to provide assistance.

Japan has only a relatively limited record of cooperation in this field but it is one where Japan should be more active to demonstrate its own

stance in relation to the environment, in respect to a growing worldwide interest in the environment with keen attention focused on wildlife conservation. It is desirable to provide assistance from a long-term viewpoint, combining financial and technical cooperation in collaboration with other donors which have abundant experience in this field.

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5. Recommendations for Japan's Assistance

The previous chapter discussed priority areas for Japan's assistance. In order to make Japan's assistance more pertinent, efficient and effective, however, it is necessary not only to implement the above-mentioned priority projects but also, at the same time, to improve the implementation system of Japan's assistance, to solve some of the problems associated with project implementation and to strengthen the implementation structure.

5-1 Improvements in Implementation Methods of Development Assistance

(1) Cooperation with other donor countries and international organizations

Many developed countries including Japan and international organizations are implementing assistance programs in Kenya, and Japan's share of bilateral assistance for 1989, despite being the top donor, was 24%⁽¹⁾. It is therefore important to continue cooperating with other donor agencies under a common objective in assisting Kenya's economic development, and it is desirable not only to avoid competition and duplication of projects but also to work towards establishing a cooperative relationship taking advantage of each country's know-how and the salient features of respective schemes.

For example, Japan does not necessarily have ample information and experience with countries of this region including Kenya. Therefore, in Japan's effort to apply its experience with other regions to Kenya more effectively, it will be important to cooperate with other donors, such as the United Kingdom's Overseas Development Administration (ODA) and the World Bank with their wealth of knowledge and information concerning this region. Furthermore, in dealing with such difficult tasks as environment and population, or for such areas as primary education in which Japan has limited experience, cooperation with other donor agencies will be particularly necessary.

Possible means of achieving this include, for example, active par-

ticipation in donor meetings held at the local level. In Kenya various donor countries have frequent meetings, which Japanese aid staff have been actively taking part despite the shortages of staff, using them as a place for information exchange on the trends of aid for each donor. It is of course important to continue participation in donor meetings, but it is also true that Japan has not necessarily capitalized on their function fully, due partly to differences in the system of implementation methods in assistance. It will be necessary to establish a basis which will make the local level cooperation more effective through the strengthened collaboration with other donor agencies at the headquarter level, such as in program coordination. Furthermore, although such meetings often include only donor countries, Japan should consider promoting Kenya's participation in these meetings, since the cooperation of the recipient country is indispensable for the successful implementation of assistance programs and projects.

Kenya has been implementing a structural adjustment program since 1980 with the support of the World Bank and IMF. So far the progress of the program may not be regarded as satisfactory, but the necessity of structural adjustment itself is agreed upon. Therefore, even if it could take some time to achieve the objective of the program, the decision to implement it is to remain unchanged. In view of the importance of the adjustment program, it seems necessary that Japan actively provide cooperation for formulation, implementation and monitoring of the program, as well as the improvement by giving due consideration to those who may suffer from the socially negative effect of the program.

(2) Effective combinations of various schemes of assistance

Kenya is one of the few countries at present in Sub-Sahara which Japan can provide loans and this makes various combinations of loan assistance, grant aid, and technical cooperation as possible schemes of assistance. Efforts will be especially necessary in further promoting the linkage of a development survey and the subsequent financial cooperation, as it will not only lead to the effective use of an assistance fund but also to promote effective use of various resources. In the development of economic

infrastructure, as a priority area for assistance mentioned in the previous chapter, it is important to provide support through grant aid and technical cooperation, such as the dispatch of experts for maintenance, operation and management, as well as the follow-up aspect in addition to the loan assistance for the construction of infrastructure. A combination of the two-step loan from OECF and technical cooperation from JICA should also be considered.

In Kenya, policy support under non-project-type assistance is considered to be increasingly necessary in the course of implementing the structural adjustment program. Accordingly, Japan may possibly be approached for policy-oriented grant aid and/or loan assistance, which is not related to any particular project such as the balance of payments support. Japan should respond carefully to such requests, with consideration given to the shouldering of local costs, and importance attached to effective combinations of project and non-project-type assistance.

(3) Consideration to the environment and WID

Today, it has become a global issue to solve environmental problems such as environmental pollution and deterioration of natural resources, and in Kenya importance is given to areas such as destruction of forests, the degradation of soil, desertification and wildlife conservation. Among developing countries, Kenya pays particularly higher attention towards environmental conservation, and active provision of assistance to Kenya in this area will not only contribute to its environmental conservation but could also serve as model for similar assistance to other countries.

In order to assess possible environmental problems accompanying development projects and to pay adequate concern towards the environment, JICA has already set out to draw up guidelines for screening and scoping processes at the preliminary survey stage (e.g. those for dam construction completed in 1989). OECF is also working towards the implementation of projects that gives consideration to the environment through the formulation of environmental guidelines for 16 sectors including roads and railroads in 1989.

For the assistance towards Kenya, it appears necessary to make efforts to formulate and implement each individual project, with consideration given to the environment using those guidelines, as well as to provide assistance that directly contributes to environmental conservation.

The basic concepts of WID(Women in Development) are not only to consider women as beneficiaries of development but also to recognize them as active agents for development. In Kenya, women have a vital role to play in economy, education, health and other fields. It is therefore indispensable for women to be included in all areas of development, not only as beneficiaries but also as active agents⁽²⁾.

In Kenya, there are a number of issues which especially require consideration from a WID viewpoint, such as an increased number of farm households headed by women due to men's migration to cities for work, as well as an adverse impact on infant industries due to the liberalization of imports. Although the situation of women is said to have been improving in recent years, it is necessary to make efforts for further improvement, in order for women to be active agents for development. It is required to improve women's educational opportunities, to provide easy access to training, information and means of production which help them become self-supporting economically, and to encourage the participation of women in various decision-making processes. In this field, a number of women's groups are engaged in various activities in Kenya, and cooperation and collaboration with these groups will make it possible to provide assistance at the local women's perspective.

(4) Development and dissemination of appropriate technology and the promotion of South-South cooperation

Although Kenya's standard of administrative and technological capabilities is relatively high among Sub-Saharan countries, Japan's technological level and its environment may not necessarily be suitable for the kind of technology needed in Kenya. In order for Japan's assistance to be appropriate at the local level, and to avoid ending up merely forcing its technology on Kenya, it is necessary to cooperate in investigation, research and the

dissemination of indigenous technologies as well as sufficiently grasp and evaluate the local human and physical resources, social situation and locally specific problems. Especially for assistance which needs to reflect local needs, such as poverty alleviation projects, it is necessary to grasp local needs as much as possible and to promote their participation in the project. It is also necessary to have flexibility in order to respond quickly to the problems arising from the project and to reflect them for its improvement. Through utilizing the knowledge, information and experience of the Japan Overseas Cooperation Volunteer members who have been dispatched to Kenya in a large number, and through collaborating and exchanging information with a number of NGOs operating in Kenya, it will be possible to carry out cooperation that is all the more appropriate for local level needs. In any case, in order to take this kind of approach, the implementation structure for assistance programs should be strengthened, and it may also require the accumulation of information and experience through trial and error to some extent.

Provision of equipments and materials at an advanced technological level may be accompanied by various shortcomings, such as the difficulty in maintenance and unavailability of spare parts in recipient countries which would require imports using precious foreign exchange, apart from its complexity in operation. Upon providing equipments to Kenya, priority should be given as much as possible to those which are suitable for Kenya's technological level, and the availability of their spare parts in the country. For the provision of equipments at a more advanced technological level than a certain level, it will be important to provide the technical training for their maintenance and management as part of the assistance package. The most crucial point is how well Kenya can handle its maintenance and management after the cooperation period.

In the case of recipient countries like Africa where the technological gap between them and the advanced industrial countries is large, it often proves more effective to transfer technology and experience proven useful in other developing countries, than to directly introduce technologies of advanced industrial countries. Such a form of cooperation (South-South cooperation) is especially effective when the technology required has already

been extinct in the donor country and engineers who can transfer it do not exist. This method has a secondary effect of bringing benefits to the third country which provides the technology through the assistance from Japan. For Kenya, technologies at a more appropriate level may be found among South Asian and/or Southeast Asian countries, and it may be considered to strengthen the third country training, cooperation and support arrangements between universities and research institutions of developing countries and working jointly with assistance-providing organizations newly established in Southeast Asian countries.

Similarly, it may also be considered technical cooperation based in Kenya for other African countries. Since Kenya's potential for technological development in agriculture and industry is higher than in the other neighboring countries, it is effective to strengthen the existing research and development organizations in Kenya to disseminate their research results to other countries. For example, in relation to the development of ASAL, the development and extension of dry land farming techniques and drought-resistant varieties would be an important field in the future.

5-2 Issues on Implementation of Development Assistance

(1) Shortages of local costs⁽³⁾

The degree of self-help efforts by recipient countries in relation to technical cooperation and grant aid projects can be measured by how they share their contribution in bearing the local costs and assigning local staff as counterparts. Regrettably, however, Kenya's self-help efforts in this sense have not necessarily been satisfactory for most projects. There have been a number of cases where the obligation to bear local costs was defaulted after the projects were commenced, resulting in delayed implementation. In relation to this problem of lack of local costs, the following three cases may be considered in terms of the cause of the problem and possible countermeasures:

The first case is that Kenya made a request for assistance without prospects of securing a source of funds for its share of the local costs.

It is therefore necessary for Japan to give more careful attention to the ability to bear the local costs in the course of the meeting between the Kenyan Government and the preliminary study team. While strongly requesting Kenya to fulfill its obligation to bear local costs as promised, it may need to consider shouldering part of the local costs, thereby keeping Kenya's contribution for self-help effort within an attainable level. Another possible measure is to set a preparatory period before commencing the project implementation, and to start providing assistance when Kenya has secured a source of funds.

The second case is that Kenya cannot bear local costs as planned as a result of certain changes unforeseen at the time of negotiations for assistance, such as the change of international economy. With this problem, Japan should support Kenya in meeting its obligation for local costs as necessary in accordance with Kenya's financial capability, as well as the urgency and importance of the project. To this end, it is necessary to set standards for local cost support, not only for Kenya but also as a rule in implementing ODA projects based on, for example, GNP per capita or the state of fiscal balance of payments.

The third case concerns a fall in the priority of an assistance project. Japan has already made clear its willingness to cooperate with the World Bank and IMF with respect to the structural adjustment program for Kenya and has provided financial assistance in support of structural adjustment. For request of new projects, it is necessary to consider consultation and cooperation not only with Kenya but also with the World Bank, IMF and other donor countries with regard to the implementation of the national development plan of Kenya as well as the structural adjustment program. It is unlikely that the priorities of individual projects will change in the short term. In view of its position as the major donor country for Kenya, Japan is now required to be prepared to take a leadership role in aid coordination, while keeping in mind its own initiative in providing aid to Kenya.

In financial cooperation through loans, appropriate portions of local costs have been borne as necessary through the introduction of a 'Pro-rated Local Cost Financing Criteria' in 1989.

(2) Shortages of counterparts⁽⁴⁾

Technical cooperation in Kenya has almost always encountered problems regarding the quality and quantity of local counterparts. Since the objective of technical cooperation is to teach and transfer knowledge, technology and skills useful for development from person to person and from hand to hand, it can be said that the success of technical cooperation depends on whether or not qualified counterparts are available. However, in many of the past projects, the availability of counterparts was not sufficient and this became the largest obstacle against smooth implementation of those projects. It has been pointed out that it is not necessarily only a problem with numerical shortfalls but also that with the counterparts' willingness to learn, as highlighted by instances of their shift to other companies or government agencies after a short period of working on the project. Although there was no detailed agreement on counterparts for past projects, agreement should be made from now on concerning such matters as the following: counterparts should be full-time staff with no other concurrent duties given; there should not be any reassignments to other positions whatsoever during the cooperation period; and people who have been trained in Japan should, on his/her return, be obliged to serve in his/her departments for a certain period. At the same time, Japan should, in cooperation with Kenya, work towards giving strong incentives to the counterparts through an enhancement of counterpart training programs (including opportunities to obtain a degree in Japan, Kenya or a third country). Another possible measure is to precede a new project with the training of counterparts first and to commence the project only when there are enough counterparts available with adequate training.

(3) The issue of the sustainability of projects

At present, seven project-type technical cooperation projects are under way in Kenya, and most of them need an extension of the cooperation period until they produce practical results. Such technical cooperation projects incur fiscal expenditures such as local costs. Taking this aspect into account, it is desirable to pursue qualitative improvements rather