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An Appraisal of Some of the Developmental Impacts of the Kenya National Trading Corporation

A thesis submitted to the Graduate School of the University of Wisconsin in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

by

Jeffery James Bucknall

Degree to be awarded

January 19—

June 1972

August 19—

To Professors: Marvin Miracle
Hugh Cook
Ann Seidman

This thesis having been approved in respect to form and mechanical execution is referred to you for judgment upon its substantial merit.

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Approved as satisfying in substance the doctoral thesis requirement of the University of Wisconsin.

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Date of Examination, 6/3/71 19

AN APPRAISAL OF SOME OF THE DEVELOPMENTAL IMPACTS OF THE KENYA NATIONAL TRADING CORPORATION

BY

JEFFERY JAMES BUCKNALL

A thesis submitted in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

(Agricultural Economics)

at the

UNIVERSITY OF WISCONSIN

1972

PREFACE

I would like to take this opportunity to express my gratitude to all those individuals and institutions that were involved in the preparation of this dissertation.

Primary data was collected over a fourteen month period in East Africa. During the first ten months (July 1969 to May 1970) I was a Visiting Research Associate at the Institute for Development Studies, University College, Nairobi. This association greatly facilitated my research and I would like to express my thanks to the Institute for the numerous support services they provided. In addition I would like to express my thanks to the many individuals of the Institute both for their professional advise and their personal friendship. The final four months (June 1970 to September 1970) were spent as a consultant to the East African Development Bank in Kampala, Uganda.

The drafting of the dissertation was done after my return to Madison, Wisconsin. This tiresome task was made easier and more enjoyable by constant encouragement and advise from Marvin Miracle. In addition to expressing my gratitude for his advise on this dissertation I would also like to thank him for his counsel during my stay in Wisconsin. Many thanks are also due to Ann Seidman and Hugh Cook for their constructive criticism of my work.

The usual caveats about any opinions expressed being mine and not necessarily those of any of the above institutions or individuals apply.

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CHAPTER I

INTRODUCTION

I. BACKGROUND TO THE PROBLEM

The Kenyan Government has committed itself to several general economic objectives of which the major ones are universal freedom from want, disease and exploitation; equal opportunities for advancement; and high and growing per capita incomes equitably distributed among the population.[1] The purpose of this thesis is to ascertain the actual and potential role of the Kenya National Trading Corporation (KNTC) in meeting these economic objectives.

The economic objectives of the Kenyan Government outlined above are attainable only with increased specialisation and exchange. That is to say, increased specialisation and exchange is the basis for increasing productivity and raising the levels of living of the population. In a simple economy, such as a more or less self contained village economy, exchange may be a simple process of face to face bartering between two individuals with surplus goods. However, in a more advanced economy

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[1] Republic of Kenya, African Socialism and its Application to Planning, Sessional Paper No. 10 (Nairobi: Government Printer, 1965), pp. 1-2.

exchange will be highly complex system involving a flow of goods, money, and information between groups of producers and consumers who may be separated from each other both spatially and temporally. Exchange or marketing is thus an integral part of economic development.

Administrations in Kenya, both before and after Independence, have involved themselves in both the domestic and international marketing system in attempts to rectify perceived shortcomings. Marketing boards, co-operatives, import quotas and tariffs are examples of this involvement. Since Independence the Kenyan Government has increased its participation in trade with the formation of the KNTC. The first part of this thesis looks at the nature of the inherited economy in an attempt to determine the types of problems that existed which might have been solved by a state trading corporation. The second part of this thesis attempts to determine how successful the KNTC has been in meeting its own limited objectives.

A United Nations publication lists 12 possible aims of state trading.[2]

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2 United Nations, "State Trading in the ECAFE Region," E/CN.11/665, pp. 1-2.

I to ensure adequate and regular supplies at reasonable and stable prices of essential commodities to meet local demand;

II to secure better prices for export and import products through increased bargaining power;

III to encourage production of essential agricultural and industrial commodities by means of price and other incentives;

IV to stabilise the domestic prices of specified products by controlling their production and marketing;

V to explore export markets for products and to dispose of exportable surpluses of commodities;

VI to secure the advantages of bulk transactions;

VII to facilitate trade with centrally planned economies;

VIII to facilitate the import of goods financed under foreign aid programmes;

IX to facilitate the implementation of trade agreements and barter deals;

X to transfer trade from the control of non- nationals;

XI to raise revenues for the treasury;

XII to facilitate sanitary and public health controls.

The U.N. list is not exhaustive; other possible objectives might include:

XIII to redistribute real income by manipulating the price system;

XIV to protect domestic industries;

XV to conduct economic warfare.

The KNTC might have been used to accomplish many of the fifteen objectives outlined above. However, in practice its main objective in Kenya to date has been the transfer of trade, both importing and domestic wholesaling, out of the hands of non-Africans. This was perceived as an important goal because virtually all importing into Kenya at the time of Independence was through European and Asian firms and because almost all domestic wholesaling was by Asians and to a lesser extent Europeans.

In order to reach the overall goals of universal freedom from want, disease and exploitation; equal opportunities for advancement; and high and growing per capita incomes equitably distributed among the population a number of sub-objectives have been agreed upon; one of which is the need to Africanise.[3]

---

[3] Republic of Kenya, African Socialism and Its Application to planning, Sessional Paper No. 10, (Nairobi: Government Printer, 1965,) p.25.

As Sessional Paper 10 of 1965 on African Socialism puts it:

> Africanization is an urgent problem but in any reasonable perspective is likely to be of short-term duration. That it will be achieved in the not too distant future is unquestionable. The problem is rather to reconcile the urgency of the matter with citizenship guarantees and the desire for rapid economic growth.[4]

This citizenship guarantee is that, under the Bill of Rights, citizens regardless of ethnic, racial or geographic origin will have the right to follow the profession and trade of their choosing and to own property.[5] However, the authors of Sessional Paper 10 of 1965 appear to have been unable to reconcile the rights of non-African citizens to be treated as equals and the desire for Africanization for they go on to say, "Nevertheless, (racial) imbalances have been inherited from the past and these imbalances must be corrected.[6] To partially overcome this problem of racial imbalance in marketing, the Government passed the Trade Licensing Act, which gave a legal basis for confining goods to citizen traders, and create the KNTC which was expected to give assistance to African traders who were trading in goods confined to citizens by granting credit and channeling goods through African traders.

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4 *Ibid.*, p.27.

5 *Ibid.*, p.28.

6 *Ibid.*, p.27.

The basic hypothesis of this dissertation is that this role chosen by the Government for the KNTC is too narrow and that by concentrating its efforts on Africanisation the KNTC is foregoing performing many other useful functions in the Kenyan economy. It is further hypothesised that although the KNTC may have had a measure of success in its Africanisation objective, largely because it has performed useful marketing functions such as ordering, bulk breaking, warehousing, and transporting, its usefulness in meeting even this limited objective will be curtailed if it ceases to perform these marketing functions.

II. ORGANISATION OF REMAINDER OF THE THESIS

While attempting to test the general hypothesis that the objectives of the KNTC are too narrowly defined for the corporation to measure up to its potential and that recent KNTC policy changes detract from its effectiveness in meeting its own limited objective of Africanisation a number of sub-hypotheses are tested using several different data sources and methodologies. Methodology, data sources, and problems of data collection will be discussed as they relate to specific sub-hypotheses and problems addressed in each chapter.

The aim of chapter II is to describe those features of the inherited Kenyan economy which are relevant to the analysis of the role of the KNTC.

This includes the importance of international trade to the Kenyan economy; the dominance of foreign owned manufacturing, banking and trading institutions in the Kenyan economy; and the complexities of the domestic marketing system.

A consequence of this pattern of resource ownership and allocation was that the immigrant European and Asian groups had per capita incomes substantially in excess of the per capita incomes of the indigenous African population. Since Independence much of the Kenyan Government's development efforts have been designed to make the foreign owned companies more responsive to the needs of Kenya and to obtaining greater African participation in all sectors of the Kenyan economy. Some of these Government policies and programmes are summarised in the first half of chapter III.

As noted earlier, non-Africans dominated international trade and domestic wholesaling at Independence. The second half of chapter III attempts to determine the reasons for this lack of African participation especially at the wholesaler level. Some of the reasons discussed include lack of capital, lack of skills and experience, and business organisational problems.

Government programmes for improving the marketing system have concentrated on increasing the responsiveness of the marketing boards and marketing cooperatives to the needs of African farmers and to increasing the number of

African traders at the importing, wholesaling and retailing levels. It was to meet this latter objective that the Trade Licensing Act was enacted and the KNTC was set up. The stated objectives for improving trade of both the government and the KNTC are much broader than Africanisation. Chapter IV is devoted to an analysis of the potential role of the KNTC given the nature of the inherited economy.

Chapter V is the first of three chapters that analyses aspects of the current role of the KNTC. The first part of Chapter V describes the organisation and growth of the KNTC since its inception in 1965. This section also includes a description of the three basic methods of KNTC involvement in the marketing process of goods that are confined to the KNTC, i.e. trading on the KNTC account, acting as an indent agent, and acting as a licensing agent. The marketing services provided by the KNTC differ for each of these three methods, e.g. when trading on its own account the KNTC provided credit, storage, transportation and purchasing services but when it licences the only service provided is channelling the commodity through African wholesalers. The more services provided by the KNTC the more working capital that it requires. Recent KNTC policy changes have resulted in fewer goods being traded on the KNTC account. It is hypothesised that a contributing factor to this policy change is that the KNTC has become short of working capital due to defaults

on its credit programme. Data which supports hypothsis is presented in the second part of chapter V.

It is hypothesised in chapter VI that the KNTC has had a measure of success in its Africanisation objective but has been hampered partly by shortcomings of supporting measures such as the Trade Licensing Act and partly because of the lack of resources under the control of African traders. It is also hypothesised that the drift of KNTC policy from trading on its own account to permitting its appointed sub-distributors to purchase directly from overseas suppliers and domestic producers will result in the KNTC being a less effective Africanisation agent and that in some commodities the change of policy may result in a partial de-Africanisation of the importing or wholesaling of that commodity.

Data sources which tend to support these hypotheses include data extracted from the KNTC files, interviews with officials of the KNTC, interviews with manufacturers, articles appearing in the East African Standard, the Daily Nation and the Sunday Nation, studies made by two members of the staff of the Institute for Development Studies and finally information collected in a small survey of Nairobi based KNTC appointed sub-distributors conducted by this researcher.

In chapter IV it is noted that the Government has a powerful tool for redressing real income imbalances between the richer and poorer people in Kenya and between urban

and rural areas in the form of the KNTC'S pricing policies. The aim of the first part of chapter VII is to analyse the pricing policies actually pursued by the KNTC to determine to what extent they conform to overall government goals. The final section of chapter VII is a critique of the distributorship policy of the KNTC.

CHAPTER II

THE NATURE OF THE INHERITED KENYAN ECONOMY

1. INTRODUCTION

The aim of this chapter is to describe the main features of the Kenyan economy at Independence so that subsequent chapters on the objectives and operations of the Kenya National Trading Corporation may be seen in perspective. Factors considered important are the role of international trade; the ownership of both domestic and international trading institutions; and ownership of manufacturing and financial institutions.

Section II indicates the importance of international trade to Kenya and includes data on Kenya's balance of trade; the major imports and exports; and the geographic origin and destination of these imports and exports. The dominance of foreign owned and controlled institutions in industries such as manufacturing, banking, and trading is highlighted in section III. The final section outlines the major features of domestic trade in Kenya at Independence and includes a brief discussion on the history of internal trade, the functions and services provided by a marketing system, the channels of distribution of selected commodities and the dominance of non-Africans in the domestic distribution system.

II. INTERNATIONAL TRADE

International trade plays an important role in the Kenyan economy. The value of goods crossing Kenyan borders was put at K Ł 167.3[1] millions in 1964 (Table II.1). Imports were K Ł 87.9 millions (Table II.1) in 1964 which was 25 percent of total Gross Domestic Product of that year.[2] Imports increased to K Ł 127.1 million in 1968 (Table II.1) which was 27 percent of the 1968 total Gross Domestic Product.[3]

Kenya had a negative visible trade balance with the rest of the world of K Ł 29.7 millions in 1964 which had increased to K Ł57.0 millions in 1968 (Table II.1). This negative balance was partially offset by positive visible trade balances with Uganda and Tanzania. Invisibles, such as receipts from tourism and large capital inflows from private, government and multilateral sources, made up the balance. This reliance on capital inflows, to the extent that they have to be repaid in the future, may result in a foreign exchange

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[1] The Kenyan pound (K Ł) is equivalent to 2.8 United States dollars (US $). There are twenty shillings in one pound.

[2] Total Gross Domestic Product was estimated to be K Ł 355.6 millions in 1964. Republic of Kenya, Kenya Statistical Digest - Quarterly Economic Report, September 1970, Table 2, p.10

[3] Ibid., p. 10

problem in coming years, especially if the flow of imported goods is not curbed.

TABLE II. 1

KENYA BALANCE OF TRADE 1964 and 1968

K £ millions

	1964	1968
Imports		
From outside of East Africa[a]	76.5	114.8
From Uganda and Tanzania	11.5	12.3
Total	87.9	127.1
Exports		
To markets outside of East Africa[b]	46.8	57.8
To Uganda and Tanzania	26.4	26.3
Re-exports[c]	6.2	5.2
Total	79.4	89.3
Balance of Trade		
With markets outside of East Africa	-29.7	-57.0
With Uganda and Tanzania	+14.9	+14.0
Total[d]	-8.5	-37.8

Source: Republic of Kenya, Economic Survey 1969, Table 3.1

[a]Described in the Annual Trade Report as "Net Imports".
[b]Described in the Annual Trade Report as "Domestic Exports".
[c]Defined in the Annual Trade Report as imported goods subsequently re-exported without change of form to places outside of East Africa.
[d]Difference between total imports and total exports.

The colonial economic development of Kenya was based on Kenya's ability to produce and export primary products such

as coffee, tea and sisal to Europe. The foreign exchange earned from these exports was then used to import industrial products from Europe. This basic pattern of trade continued after Independence. In 1969, 81 percent of all imports originated from outside of East Africa and 84 percent of all exports were for destinations outside of East Africa (Table II.2). Manufactured goods[4] comprised 74 percent of all imports of which 64 percent originated from outside of East Africa. Primary products comprised 80 percent of all exports of which 74 percent were for destinations outside of East Africa. By far the largest single category in exports was SITC 0, food and live animals.

In 1964, coffee, tea and sisal together summed to over 50 percent of Kenya's exports to areas outside of East Africa. Other important commodities were pyrethrum, meat and meat products, hides and skins, soda ash, wattle extract, petroleum products and cement (Appendix A). The major imports in 1964 were crude petroleum, motor vehicles and chassis, agricultural machinery and tractors, industrial machinery, iron and steel, fabrics, paper and paper products, pharmaceutical products and fertilizers (Appendix A).

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4 The conventional definition of manufactured goods when using trade statistics is SITC 5-8. Primary products are defined as SITC 0-4. The same classification is used here though much of SITC 2 might preferably be included as manufactured products.

Much of the imports into Kenya are luxuries. For example, in 1969 passenger motor cars valued at K Ł 4,914 thousands were imported into Kenya; during the same year buses, barriers, trucks, vans and road tractors valued at K Ł 4,979 thousands were imported.[5]

In 1964, 46 percent of all imports originated from sterling area countries. The percentage dropped to 40 percent in 1968. However, the percentage originating from the United Kingdom remained the same in both years at 31 percent. This drop in the propprtion orginating from other sterling areas was largely due to a shift in imports from countries classified under the rest of the world category (Table III.3).

III. THE INSTITUTIONAL FRAMEWORK

KENYAN DOMESTIC INDUSTRIAL PRODUCTION

The presence of a large number of relatively high income Europeans and Asians plus the fact that East Africa had a common external trade tariff, resulted in a market that was large enough to support a number of local manufacturing concerns. Four of the nine largest manufacturing industries (when size is measured in terms of the value of gross production) were processors of locally produced primary products.

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[5] East African Customs and Excise, Annual Trade Report of Tanzania, Uganda, and Kenya 1969 (Mombasa: East African Customs and Excise Department, 1970), Table 1.

TABLE II .2

IMPORTS AND EXPORTS OF KENYA BY MAJOR SITC CLASSIFICATION

1969

SITC CLASSIFICATION	IMPORTS Outside of East Africa	East Africa	EXPORTS Outside of East Africa	East Africa
	Percentages of Total Imports and Exports			
0 Food and live animals	2	5	52	4
1 Beverages & tobacco	1	-	a	-
2 Crude materials, inedibles except fuels	2	-	12	1
3 Mineral fuels, lubricant & related materials	9	4	10	1
4 Animal & vegetable oils & fats	1	-	-	1
5 Chemical	8	3	4	1
6 Manufactured goods classified by material	22	4	5	6
7 Machinery & Transport equipment	28	1	-	1
8 Miscellaneous manufactured articles	6	2	1	1
9 Unclassified commodities & transactions	2	0	-	0
Total Percentage	81	19	84	16

Source: East African Customs and Excise, <u>Annual Trade Report</u>, 1969, Tables I, II, and V.

[a] Signifies positive flows but of less than 1 percent.

TABLE II.3

ORIGIN AND DESTINATION OF IMPORTS AND EXPORTS

1964 AND 1968

REGION/COUNTRY	IMPORTS		EXPORTS	
	1964	1968	1964	1968
	Percentages			
Sterling Area				
United Kingdom	31	31	21	25
Other Sterling	15	9	16	14
North America	7	8	13	9
European Economic Community	19	21	23	19
European Free Trade Area (excluding U.K.)	4	3	4	3
USSR and Eastern Europe	2	2	3	2
Rest of world	17	22	16	20
Unallocated parcel post and special transactions	5	4	4	8
Total	100	100	100	100

Source: Republic of Kenya, Economic Survey 1969, Tables 3.9 and 3.13

These industries were grain mill products, meat products, dairy products, and brewing and distilling products. The remaining industries, i.e., miscellaneous chemicals, printing and publishing, soap, metal products and tobacco were last-stage processors of imported intermediate goods (Table II.4). With the exception of tobacco and meat products all the industries contained more than 15 firms (Table II.4). However, in most of these industries a few firms dominated production.[6] As will be shown in the following paragraphs most of these industries were financed by local European settlers' savings or were subsidiaries of overseas manufacturing concerns.

The two largest milling companies in Kenya are Unga Ltd. and Maida Ltd.. Ownership of these milling companies is complex due to the extensive use of holding companies (Fig.1).

---

6 Republic of Kenya, Kenya Census of Industrial Production, 1963 (Nairobi: Government Printer, 1965), P. 102

7 All of the following information on the nine largest industries, except where otherwise cited, was obtained from National Christian Council of Kenya, who controls Industry in Kenya, (Nairobi: East African Publishing House, 1968).

TABLE .II.4

KENYA'S NINE LARGEST INDUSTRIAL PRODUCTION GROUPINGS 1963

	Establishments	Persons engaged	Gross production	Import content as a percentage of total value of production
	Number	Number	K £ 000	
Grain Mill products	39	1,973	9,114	5
Meat products	8	2,068	6,296	0
Metal products	48	2,870	5,276	90
Dairy products	16	881	4,872	5
Miscellaneous chemicals	20	864	4,191	30
Printing & Publishing	73	2,977	4,102	95
Spirits, beer & malt	17	2,058	4,063	25
Soap	17	788	3,275	67
Tobacco	1	702	2,685	90

Source: Republic of Kenya, Kenya Census of Industrial Production 1963, p. 102. A more complete census of industrial production is presented in Appendix Table A.3

Both Maida Ltd. and Unga Ltd. were controlled by a single holding company, Kenya National Mills which was believed to control over half of the maize milling capacity and about 90 percent of the grain milling capacity in Kenya[8]. Kenya National Mills Ltd. was controlled by Unga Millers Ltd. which was controlled by Holdings Ltd. which was

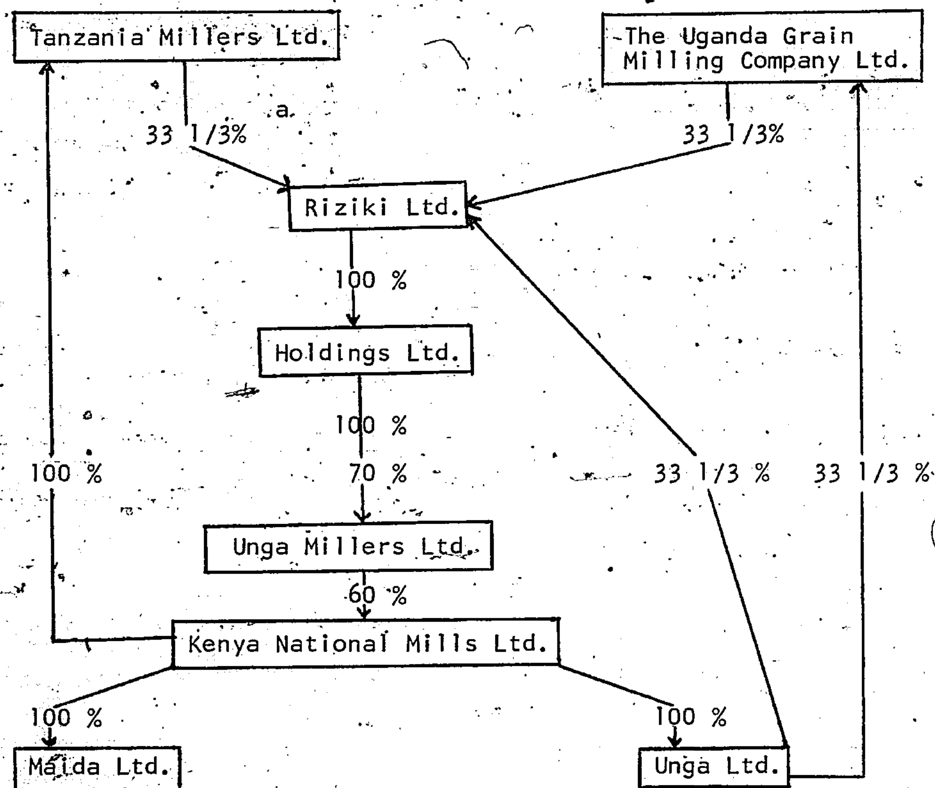
---

[8] Republic of Kenya, Report of the Maize Commission of Inquiry, (Nairobi: Government Printer June 1966) pp. 107-8

FIGURE 1

CONTROL OF KENYA'S MILLING INDUSTRY

March 1967



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[a] Percentages denote percentages of voting ordinary shares

Source: National Christian Council of Kenya, _Who controls Industry in Kenya_, (Nairobi: East African Publishing House, 1968).

controlled by Riziki Ltd. Riziki Ltd. was owned in equal part by Tanzania Millers Ltd., the Uganda Grain Milling Co. Ltd. and Kenya National Mills Ltd.. Kenya National Mills Ltd. controlled Tanzania Millers Ltd. and had a 33 1/3 % interest in the Uganda Grain Milling Co. Ltd..[9] Capt. D.A. Vaughn-Philpott, a Kenyan citizen as of 1968, was chairman of Riziki Ltd., Holdings Ltd., Unga Millers Ltd., Kenya National Mills Ltd. and Unga Ltd.

The Kenya Meat Commission (KMC) processes nearly all Kenya's marketed beef.[10] The KMC, a Statutory Board appointed by the Minister of Agriculture, has a special arrangement with Leibig's extract of Meat Co. Ltd., and Oxo (East Africa) Ltd. Leibig's supervises the production and canning of the Fray Bentos brand of corned beef and Oxo is the local distributor for KMC and other canned goods.

Metal products industry is a rubric under which many different industries fall each producing quite distinct products. Many of the firms were controlled by or were subsidiaries of British and other European firms.

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9 This was before the extensive nationalisation programmes carried out by Tanzania and Uganda in recent years.

10 National Christian Council of Kenya, _and controls Industry in Kenya_, (Nairobi: East African Publishing House, 1963) pp.31-33

The remainder were locally owned, predominantly by By Asians.[11]

The Dairy Products Industry is dominated by the Kenya Co-operative Creameries Ltd., a co-operative society owned by the producer; in 1969 it had 1,509 supplying members, of which about 600 were individual African farmers and 198 African co-operatives.[12]

Insecticides and other chemicals are imported or processed by a small number of firms with international connections. The four largest in Kenya are the Shell Chemical Co. of Eastern Africa Ltd., Fisons (E.A.) Ltd., Murphy Chemicals (E.A.) Ltd. and Twigs Chemical Industries Ltd.[13]

Almost sixty overseas publishers are represented, mostly British, including Thomas Nelson, Heinemann Educational Books, Oxford University Press and Longmans of Kenya Ltd.. Several indigenous companies have been formed since Independence including East African Publishing House and Equatorial Publishers.[14]

Apart from the extensive brewing of indigenous beer, Kenya's supply comes from four breweries, owned by two companies.

11 *Ibid.*, pp. 110-113.

12 *Ibid.*, pp. 31- 33.

13 *Ibid.*, pp. 117-118.

14 *Ibid.*, pp. 106-107

The East African Breweries Ltd., East Africa's largest locally owned company, own three breweries. The fourth is owned by City Brewery Ltd.[15]

East African Industries Ltd., a Unilever associated company in which the Industrial and Commercial Corporation has a substantial holding, produced over 50 percent of the soaps and detergents produced in Kenya. Other large producers of soaps and detergents include Colgate-Palmolive (E.A.) Ltd., Elephant Soap Factory Ltd. and Baby Soap Factory Ltd.[16]

The British American Tobacco Company (Kenya) Ltd., a wholly owned subsidiary of the British American Tobacco Company Ltd. is the sole producer of cigarettes in Kenya.[17]

FINANCIAL INSTITUTIONS[18]

Ten commercial banks conducted business in Kenya in 1968. Three, namely, Berklays Bank D.C.O. Ltd.; National and Grindlays Bank Ltd., and the Standard Bank Ltd. dominated banking in Kenya with a sum of 174 branches. The remaining 7 banks operated a total of 11 branches between them. The three large banks are closely linked with British banks.

15 Ibid., pp. 102-104.
16 Ibid., pp. 121-122.
17 Ibid., pp. 106.
18 All information used in this section was obtained from National Christian Council of Kenya, who controls Industry in Kenya, (Nairobi: East African Publishing House, 1968) pp. 161-203.

The commercial banks make short term loans and are thus involved in financing commerce (Table II.5). Each of the three biggest commercial banks in Kenya has established development corporations in order to undertake longer-term investments than the banks normally accept. Other sources of funds classified under private financial institutions include building societies which lend money for the purchase of erection of houses and insurance companies.

TABLE II.5

LOANS AND ADVANCES OF COMMERCIAL BANKS, DECEMBER 1967

INDUSTRY	K £ '000
Wholesale and retail trade	25,728
Agricultural enterprises	9,325
Manufacturing enterprises	10,944
Government sector	1,300
Private households	2,944
Oil companies	2,782
Other businesses	11,090
Total loans and advances	68,002

Source: Republic of Kenya, Economic Survey 1968, p.27.

TRADING INSTITUTIONS

Some 200 firms were involved in importing and exporting. Most of these were owned by non-Africans.[19]

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19 National Christian Council of Kenya, who controls Industry in Kenya, (Nairobi: East African Publishing House, 1968), p.52

Their interests and operations vary greatly, some being specialists, others covering a wide range of activities. These may include the financing, buying and brokering of exported crops; arranging transport, warehousing, insuring and shipping. Importing includes goods needed both for producers and consumers, and may involve any or all the stages of supply-acting as manufacturers' agents, wholesalers, stockists, distributors and retailers.[20] A few of the larger ones are discussed below.

(a) Mackenzie Dalgety Ltd. - (the Inchcape Group)[21]

In 1965, Smith Mackenzie and Co. Ltd. amalgamated with Dalgety (EA) Ltd. and formed Mackenzie Dalgety Ltd., a group that together had assets of over K £ 7 million in East Africa. Interests include hides and skins, insurance, livestock and estates, merchandise, pharmaceuticals, agricultural supplies, agricultural engineering, building, auctioneering, tyres, wines and spirits, shipping, warehousing, travel agencies, tea machinery and brokerage, coffee machinery, dairy machinery, financing, and secretarial and professional services. Through the 35 directorships of Lord Inchcape, the company is linked with, for example,

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20 Ibid., pp. 53-54.

21 Ibid., pp. 54-55.

British Petroleum Co. Ltd., P & O Steam Navigation Co. Ltd., and the National Provincial Bank Ltd.

(b) The Mitchell Cotts Group (The Drayton Group).[22]

The Mitchell Cotts Group's activities centre in South Africa where the Group has 21 subsidiaries. In Kenya, Mitchell Cotts have 11 subsidiaries with activities ranging from making fruit squashes, producing beef, distributing fertilisers and other large shipping, produce and commercial interests. The Mitchell Cotts Group was controlled, until his death, by one of the biggest tycoons in Britain, Harley Drayton, who, as chairman of 23 companies, had substantial interests in Britain including British Electric Traction, railways, newspapers, investment trusts and television.

(c) Baumann's [23]

Among the largest merchants in Kenya is A. Baumann and Co. Ltd., a public company whose shares are quoted on the Nairobi Stock Exchange. A. Baumann and Co. Ltd., has wide interests in the building, refrigeration, electrical trades, milling, exporting of primary produce, supermarket retailing in Nairobi, warehousing and distribution

22 _Ibid._, pp. 55-56
23 _Ibid._, pp. 59-60

of the products of local and overseas industries.

Other trading organisations with similar wide reaching operations in Kenya and the rest of the world include: Lonrho; Unilever; Tancot; the Twentsche Overseas Trading Company (EA) Ltd.; R.O. Hamilton Group; Phillips, Harrisons and Crosfielf Ltd., Wigglesworth and Co. (Africa) Ltd.; Jos Hansen and Soehne (EA) Ltd.; and the Old East African Trading Co. Ltd.

A brief description of the marketing of coffee, sisal, tea and pyrethrum, the four principal exports from Kenya in 1964, indicates the importance of these foreign owned trading firms in the export process.[24] Processing and marketing of coffee are in the hands of producers co-operatives, the largest of which is the Kenya Planters' Co-operative Union. The final exporting is controlled by largely provate foreign enterprises. Some 55 companies are involved as exporters of coffee, buying weekly at auction in Nairobi. The largest exporter is Tchibo Trading Co. Ltd. Other important exporters include A. Baumann Ltd., Ralli Brothers Ltd., and Kenna Coffee Ltd. [25]

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24 The information on the marketing of these four products was obtained from National Christian Council of Kenya, <u>Who Controls Industry in Kenya</u> (Nairobi: East African Publishing House, 1968).

25 <u>Ibid.</u>, pp. 18-19.

The marketing of tea is not focused on Nairobi as coffee is, but is in London. Four tea brokers and 52 firms are involved in tea exporting from Kenya, of which the largest broker is Africa Tea Brokers Ltd.. Over 80 percent of the crop is exported, mainly by arrangement between a few of the larger producers and either overseas buyers or their own overseas distributing channels. The remaining 20 percent of the crop is sold locally in East Africa through the Associated Tea Growers of East Africa, acting on behalf of the producers.[26]

The marketing of sisal has always been centred in London, fibre being purchased in Kenya through agents licenced by the Kenya Sisal Board. There are eight exporting companies. The largest are Relli Brothers (Kenya) Ltd., (20-30 percent), wigglesworth and Co. (Africa) Ltd., (20 percent), L.T.C. Kenya Ltd., (20 percent) and East African Acceptances Ltd., (most of the remainder).[27]

Kenya is the world's largest producer of pyrethrum.[28] The Pyrethrum Board controls production and the Pyrethrum Marketing Board (PMB) controls marketing. The PMB owned 58 percent of the shares in the Pyrethrum Processing Co.

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26 *Ibid.*, pp.24-25.
27 *Ibid.*, pp. 27
28 *Ibid.*, pp. 35-36.

of Kenya Ltd., which owns the only operative factory in Kenya; processing the whole of Kenya's crop as a contractor of the Marketing Board. Mitchell Cotts (Pyrethrum) Ltd. (who once operated a second factory in Nairobi) held a 30 percent interest and the Commonwealth Development Corporation (CDC) held the remaining 12 percent. These proportions were subject to re-arrangement in 1967 when the CDC sold its shares at market prices to the Kenya Government.

Industrial machinery, agricultural machinery and implements, pharmaceutical products and chemical were imported by the European trading firms. Building materials, hardware and consumer durables were imported by both European and Asian firms, while clothing, groceries and provisions were mainly handled by Asian firms.[29]

In 1967, the texile import trade was handled almost exclusively by Asian firms, the bigger companies carrying stocks and the smaller firms orders with overseas manufacturers against an order from a retailer; a system known as indenting. Among the firms with the biggest turnover in this group were: Hemraj Bharmal Ltd. whose chairman and director was also chairman of United Textile Industries (Kenya) Ltd., Kenya Cork, and Agricultural Industries Ltd., Tanyanyika Ltd. of Dar es Salaam.

29 Republic of Kenya, Report Survey of Distribution 1960 (Nairobi: Government Printer, 1963).

Bhagwanji and Co. Ltd. was also a big textile importer which had moved into manufacturing through substantial investment in Nath Brothers Ltd. Devraj Hirji and Co. Ltd. and Shah Nemchand Fulchand Ltd. were also large textile importers.[30]

IV. DOMESTIC TRADE

HISTORY OF TRADE

Trade amongst the Africans existed in Kenya long before the coming of Europeans. However, it does not appear as if it was as extensive in East Africa as it was in certain countries of West Africa.[31] Trade spread following the advent of colonial rule as settlers, plantations, and new cities required workers, who represented an important market and as the marketing of various cash crops by African growers increased in volume. The purchase of produce was almost entirely in the hands of Asians, and the normal pattern of trade was for a small Asian owned shop to be established to sell imported goods and to buy local produce from the growers.[32]

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30 National Christian Council of Kenya, Who Controls Industry in Kenya (Nairobi: East African Publishing House, 1968), p.61.

31 M. Katzin, "The Role of the Small Entrepreneur", in Herskovits and Harwitz (EDS), Economic Transition in Africa (Evanston, Illinois: Northwestern University Press, 1961), pp. 179-198

32 H.C.G. Hawkins, Wholesale and Retail Trade in Tanganyika, a Study of Distribution in East Africa (New York: Fredrick A. Praeger, 1965), P.20

Many Asians came to build the railway and remained after its completion, others came as clerks for the newly emergent colonial administration, while others came specifically as traders.[33] The latter group moved up from the coast along the Ugandan railroad and branched deeply into the countryside, establishing a distributive network that stretched from overseas via Mombasa to the remotest country store. With them they brought the necessary skills, knowledge, contacts and capital to thrive in the commercial sector. This, together with the fact that they were denied the right to buy land in areas assigned to Europeans or in the areas reserved for Africans,[34] and the fact that they faced little competition from Africans or Europeans, quickly resulted in their complete domination of the entire domestic distributive network.

Between World War I and World War II Africans had begun to set up trading and other service enterprises around the rural markets.[35] However, they had to buy their supplies from Asians, often at retail prices and were therefore unable to compete except in isolated regions and in local commodities where turnover and profits were low and therefore of little interest to the local Asians.

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33 Peter Marris, Entrepreneurship and Development- A Study of African Businesses in Kenya (An unpublished manuscript).

34 Ibid.

35 Ibid.

The services provided by these Africans were minimal and one of the main reasons they were able to survive at all was because Asians were confined by colonial policy to certain designated trading centres.[36]

Some indication of the extent to which non-Africans controlled wholesale distribution in Kenya is presented in Table II.6. Caution must be used in interpreting these data. First, the government had been carrying out a programme of Kenyanisation for more than two years. Secondly, and far more important, the figures are classified in terms of Kenyans and non-Kenyans and thus include a large number of Kenyan Asians and, to a lesser extent, Kenyan Europeans.

Both these factors result in the recorded figures for sales by non-Kenyan citizens of 71 percent being lower than the equivalent figures for non-Africans.

MARKETING FUNCTIONS

The foundation of economic development is increased internal specialisation and exchange. The marketing system is the mechanism which allows exchange of ownership to take place and is thus central to the development process.

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36 Ibid.

TABLE II.6

DISTRIBUTION OF WHOLESALE SALES BY KENYA CITIZENS, RESIDENTS, AND NON-RESIDENTS, 1966

Category	Number of firms	Percent of firms	Sales K£ m	Percent of Sales
Wholly owned by Kenyan citizens	355	22	49	19
Mainly owned by Kenyan citizens	143	9	25	10
Mainly owned by Kenya residents	1,001	62	96	38
Mainly owned by non-residents	106	7	862	33
Total	1,605	100	252	100

Source: Republic of Kenya, Development Plan 1970-1974 (Nairobi: Government Printer, 1970). p. 414.

Therefore, the persistent idea, commonly encountered in Kenya as elsewhere, that distribution systems are parasitic is a myth. True, they may not be all they could be as far as efficiency is concerned, but that is true of many, if not most, primary and secondary manufacturing concerns and other service industries. Definite marketing functions must be performed and those performing these functions must be compensated.

Several authors have listed what they have felt to be the more important functions and services provided by a distribution system.[37]

A comprehensive summary of their lists would include:

Functions: creation of form, time, place, and possession utility.

Services: transporting, storing and warehousing, grading and standardisation, processing, packaging, creation and breaking of bulk, bringing buyers and sellers together, financing and risk bearing.

The purpose of a distribution system is to supply the consumer with what he wants in the right form, at the right time and the right place. In order to create these utilities the marketing system must provide a number of services.

The essence of marketing is the transfer of ownership of goods. To do this, middlemen must provide marketing services such as transportion, stockholding, forward purchasing, financing purchases and sales, levelling of price variations and bulk-breaking.

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37. M.C. Taylor, Outlines of Agricultural Economics (New York: The Macmillan Company, 1931), Ch. 27. Clark and Weld, Marketing Agricultural Products in the United States (New York: The Macmillan Company, 1933), p.23 F.L. Thomsen, Agricultural Marketing (McGraw, 1951), pp.74-77. J.C. Abbott, Marketing Problems and Improvement Programs (U.N.F.A.O. 1958), pp. 10-21.

With some goods the intermediaries may have to supply servicing and repair facilities.

Futhermore the middleman may be taking a variety of risks which will be greater or smaller according to the type of goods he is dealing in and the circumstances in which he is trading. He may run the risk of variations in price, of changes in consumer tastes and fashions, of losses during storage, particularly of perishable goods, and of losses and breakages during transport. The middleman must be compensated for providing all these services.

Wholesalers and retailers provide the link between the producer and the consumer. When the producer and consumer are not very far apart, the distribution system may be comparatively simple, a direct exchange between producers and consumers in a local market. When producers, through specialisation and the growth of manufacturing industries, grow futher apart from consumers, both in time and space, then a more elaborate distribution network becomes necessary.

CHANNELS OF DISTRIBUTION

As will be demonstrated in later chapters, the Kenya National Trading Corporation has attempted to not only increase African participation in distribution but in so doing has also attempted to alter the channels of distribution

and marketing structures. The following sections are an attempt to describe the channels of distribution of broad commodity groupings and selected items. This analysis is severely handicapped by lack of adequate data and must be viewed only as an indication of the distribution system prior to the Kenya National Trading Corporation.

Channels of distribution for different types of goods can take many forms; this is true for the marketing system in Kenya as for anywhere else. Goods can be distributed by the manufacturer himself or by his representatives through systems of exclusives agencies of authorised dealers; they can be distributed through wholesalers or direct to retailers, or by any combination of the above. Most of the services discussed earlier in this chapter have to be performed at some stage of the distribution process, when and how being a function of the commodity and channel. All these factors and many others combine to make the distribution network an extremely complex subject for analysis.

The problem of the analysis of channels of distribution in Kenya is further complicated because there is no clear-cut distinction between importers, wholesalers, sub-wholesalers and retailers. Many importers are also wholesalers and very often retailers as well. Only a few of the largest wholesalers do not also sell retail, and almost all sub-wholesalers sell goods in retail quantities. Instead of

having a simple channel of distribution where wholesalers purchase all their products from importers and sell all their products to retailers one might have a channel of distribution which includes importers, wholesalers, sub-wholesalers and retailers in which some of the good is imported by wholesalers and some retailed by wholesalers and sub-wholesalers as well as by retailers.

Produce and Provisions

Much of the demand for provisions is located in the towns since this is where the large majority of wage earners are found, who buy most of their food requirements for cash rather than grow them themselves. In these areas where the turnover is considerable, the provisions whole-salers normally sell direct to retailers.[38]

In the rural areas many of the retailers buy their supplies of provisions direct from the wholesalers in the towns or large trading centres.[39] However, many retailers are either too far from the towns, or their turnover is too small. These retailers buy in the local trading centre from the sub-wholesalers, who almost invariably are also selling retail.

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38 H.C.G. Hawkins, Wholesale and Retail Trade in Tanganiyika, A Study of Distribution in East Africa (New York: Frederick A. Praeger, 1965), p.117.

39 Ibid., p. 121.

The sub-wholesaler, outside the very largest towns, is normally a general store selling all types of goods to the small shops in the surrounding rural area.[40]

To give concrete examples of the variety of channels of distribution, three produce/provisions distribution channels will be described, namely sugar, maize, and potatoes.

(1) Sugar Distribution, 1963[41]

In Kenya, the entire distribution of sugar was handled by the Ministry of Commerce and Industry. Every month the ministry sent out directives to the sugar mills telling them how much to ship to each station on the rail line. The ministry paid each factory for the sugar and for the transport charges. The government then sold the sugar at each rail station to a government appointed sub-agent. The price was the same to each sub-agent at each point along the rail line. The sub-agent would then sell to wholsalers or to government appointed local sub-agents. There were four government appointed main agents who acted as bookkeepers and collection agents from the sub-agents for the government. Wholesale and retail prices were fixed by the government but as no elaborate inspection system existed there was no guarantee that legal pricing was followed.

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40 Ibid., p. 123.

41 C.R. Frank Jr., "The Production and Distribution of Sugar in East Africa, "East African Economic Review, December 1963, Vol. 10, no. 2, pp. 96-110.

(2) Maize Distribution, 1966-1967[42]

Maize marketing in Kenya was divided between the government's Maize and Produce Board and the private traders in the markets. With some exceptions, all sales of maize had to be made to the Maize and Produce Board. However, it has been estimated that in 1966-67 some 40 percent went to the Maize and Produce Board with the remaining 60 percent being sold to private traders.[43] The marketing board purchased maize directly from the large producers and indirectly through sub-agents from smaller producers. The price paid to small growers was lower than the price paid to large growers.

The typical marketing sequence for private sales of maize was simple and direct. Growers carried shelled grain to a local outdoor market and sold directly to a consumer or to a retail trader for resale to consumers in the same or a nearby market. That the large volume of private trade in maize was predominantly local was in part a result of the legal restrictions on its transportation and sale.

42 Vance Q. Alvis, "The Marketing of Staple Foodstuffs in Kenya," African Urban Notes (East Lansing, Michigan: African Studies Centre, Michigan State University, 1970), Vol. V, No.3, pp. 9-11

43 Vance Q. Alvis and Peter E. Temu, Marketing of Selected Staple Foodstuffs, (Morgantown: West Virginia University, 1968), p. 312.

(3) Potato Marketing[44]

The marketing of potatoes is of interest because of the wide variety of channels of distribution employed. Production is primarily on small farms and co-operative schemes at altitudes of between 5,000 and 9,500 feet. Outside the immediate vicinity of the growing areas potatoes are consumed only by city dwellers.

Two marketing networks are distinguishable, one for rural retail markets in potato-growing areas and the other for consumers in Nairobi and Mombasa. Potato marketing in rural markets is essentially the same as maize marketing in the same markets.

The marketing of potatoes for urban consumers is more complex. Some or all of the following agents are involved in potato distribution: farmers, co-operatives, assembler/transporters, trader/transporters, wholesalers, retailers and consumers. All channels of distribution start with farmers and end with consumers. However, there is a wide range in the number and types of middlemen that may be involved. Alvis lists the following seven channels as being the most common:

Farmer --- wholesaler --- retailer --- consumer

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44 Vance Q. Alvis, "The Marketing of Staple Foodstuffs in Kenya," African Urban Notes (East Lansing, Michigan: African Studies Centre, Michigan State University, 1970), Vol. V, No. 3 pp. 13-14.

---assembler/transporter --- wholesaler --- retailer

---assembler/transporter --- retailer

---co-operative --- wholesaler --- retailer

---co-operative --- retailer

---wholesaler --- trader/transporter --- wholesaler
--- retailer

---wholesaler ---trader/transporter --- retailer

Hawkins[45] reported that in Tanzania in the early sixties the breweries had a fairly extensive network of their own depots, from which they supplied appointed distributors in the various districts who had to provide certain services such as transportation.[46] Tobacco and cigarette[47] distribution was also highly organized. The country was divided into sales districts with a company representative in charge of each district. Within each district a hierarchy of distributors and dealers had been established, all with carefully defined areas. Rigid conditions and terms were laid down.

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45 H.C.G. Hawkins, Wholesale and Retail Trade in Tanganyika, A Study of Distribution in East Africa (New York: Frederick A. Praeger, 1965), p.91.

46 The companies that produced and controlled beer and cigarette production in Tanzania were the same companies that controlled production and distribution of beer and cigarettes in Kenya. It is therefore probably safe to assume that the same system of distribution existed in Kenya.

47 Ibid., p. 91

Textile and Clothing Distribution

In 1963, most of Kenya's domestic requirements of textile and clothing were imported into Kenya, although some were manufactured in Kenya, primarily Nairobi (Table II.7).

TABLE II.7

SOURCES OF SUPPLIES OF TEXTILES AND CLOTHING IN KENYA 1963

K £'000

	Kenya Sales	Export	Import
Textiles	1,370	365	7,180
Clothing	965	1,429	1,630
Total	2,335	1,794	8,810

Source: Republic of Kenya, Census of Industrial Production, 1963, (Nairobi: Government Printer, 1965), pp.46-51.

This researcher was unable to find any research on channels of distribution of textiles in Kenya for the early sixties. However, the channels of distribution in Kenya were probably very close to those in Tanganyika, especially as Kenya was the source of much of Tanganyika's imports. Hawkins[48] discusses channels of distribution for textiles

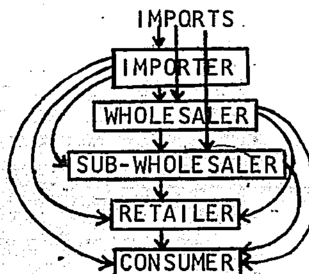
48 H.C.G. Hawkins, Wholesale and Retail Trade in Tanganyika; A Study of Distribution in East Africa (New York: Frederick A. Praeger, 1965) p. 77.

in Tanganyika and the following is based directly upon his work.

Importing of textiles and clothing was based in Nairobi and Mombasa. Importing was mostly open, i.e. only a few specialised lines remained as agency lines with the general importing houses. There were comparatively few large importers, but there were literally hundreds who imported in small quantities, many of them only occasionally. Imports from Japan were normally made through indentors, while those from India were more often direct.

The large importers sold partly to other wholesalers in Nairobi and Mombasa and partly to wholesalers and sub-wholesalers outside these two centres. Often many links in the distribution chain were omitted, e.g., importers and wholesalers sometimes sold to consumers and wholesalers sometimes did their own importing. The diagram below shows the various possible routes in a simplified form.

FIGURE 2
SCHEMATIC CHANNELS OF DISTRIBUTION OF IMPORTED TEXTILES IN TO KENYA IN EARLY SIXTIES

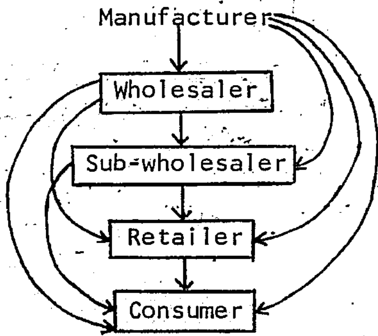


Source: H.C.G. Hawkins, Wholesale and Retail Trade in Tanganyika, A Study of Distribution in East Africa, (New York: Frederick A. Praeger, 1965) p.75.

The distribution of domestically manufactured textiles and clothes was also complex. Manufacturers distributed their products through wholesalers, sub-wholesalers and retailers. Again, not all these levels were used by a manufacturer to sell all of his product. The following fiqure shows the possible routes.

FIGURE .3

SCHEMATIC CHANNELS OF DISTRIBUTION OF DOMESTICALLY PRODUCED TEXTILES



Hardware

Channels of distribution differed as between bulk fast turnover items such as cement and corrugated iron sheets on the one hand and slow moving lines such as builders and decorators supplies on the other.[49]

49 H.C.G. Hawkins, Wholesale and Retail Trade in Tanganyika, A Study of Distribution in East Africa (New York: Frederick A. Praeger, 1965), p.79

Two cement plants existed in Kenya in the early sixties. Cement was distributed by three expatriate trading institutions, Dalgety (EA) Ltd., Smith Mackenzie, and Baumann (Kenya) Ltd. and the Kenya Farmers Association.[50] Hardware, ironmongery and household items were imported by either agents, building and hardware merchants or general sundries importers. Outside of Nairobi and Mombasa there were scarcely any firms that specialised entirely in wholesaling or retailing these lines. They were normally handled as sundries by traders who dealt in them along with their lines of either piecegoods or provisions.[51]

Consumers durables, such as bicycles, radios and electrical goods, were almost all imported by agents, often the large importing houses. The importing houses distributed these goods through their branches and appointed distributors. The distributors sold both retail and on a sub-wholesaling basis to other retailers.[52]

In 1960 most wholesalers were based in the 10 major cities of Kenya (89 percent) especially Nairobi (45 percent) (Table II.8). Not only did wholesalers base themselves in the larger towns but the firms operating out of the major cities tended to be larger than those not operating from the major cities.

50 Interviews with KNTC personnel.
51 H.C.G. Hawkins, op cit p.80
52 P.80

This resulted in 94 percent of all wholesaling being done by firms based in the major cities and over half of this wholesaling was through Nairobi wholesalers (Table II.9).

Although most wholesalers operated from one of the 10 major cities the degree to which this area concentration took place differed between the various types of commodity wholesaler. For example, over one quarter (26 percent) of all produce and provisions wholesalers were based in areas other than the main cities (Table II.8). However, these wholesalers tended to be smaller than average produce and provisions wholesalers selling only 7 percent of all wholesaled produce and provisions (Table II.9). It is possible that much of the business of these smaller wholesalers was retail even though these firms were classified as wholesalers for the purposes of the survey. It is interesting to note that Nairobi did not dominate wholesaling of produce and provisions to anything like the degree that it did for textiles and hardware wholesaling (Tables II.8 and II.9).

In 1960, 57 percent of all Kenyan textile wholesaling and 68 percent of all Kenyan hardware wholesaling was done by firms based in Nairobi (Table II.9). Almost all the remaining wholesaling of these two commodity groupings was done by firms in the other major cities.

TABLE II.8

PERCENTAGES OF WHOLESALE ESTABLISHMENTS ANALYSED BY KIND OF BUSINESS AND (A) LOCATION AND (B) AMOUNT OF ANNUAL TURNOVER

Kind of business / Analysis by	Groceries Provisions & Produce	Textile & Soft Furnishing	Building & Domestic Hardware	Other	Total
	PERCENTAGES				
LOCATION BY AREA					
Nairobi	27	54	70	33	45
Nine main towns (Except Nairobi)	47	41	29	52	44
Rest of Kenya	26	5	1	15	11
	100	100	100	100	100
Actual Number of Firms	264	343	249	398	1254
AMOUNT OF TURNOVER					
1,000 - 24,999	12	29	23	26	23
25,000 -49,999	19	24	19	28	23
50,000 -99,999	33	21	22	26	25
100,000 - 499,999	26	27	35	16	25
500,000	10	0	1	4	4
Total	100	100	100	100	100
Actual Number of Firms	204	343	249	398	1254

Source: Republic of Kenya, Survey of Distribution, 1960 (Nairobi: Government Printer, 1963), Appendix Table 6, p. 57.

TABLE II.9

PERCENTAGE OF WHOLESALE ESTABISHMENTS ANALYSED BY KIND OF BUSINESS AND (A) LOCATION AND (B) AMOUNT OF ANNUAL TURNOVER

Analysis by / Kind of business	Groceries Provisions & Produce	Textiles & Soft Furnishing	Building & Domestic Hardware	Other	Total
	PERCENTAGES				
LOCATION BY AREA					
Nairobi	37	57	68	53	49
Nine main towns (except Nairobi)	56	42	31	37	45
Rest of Kenya	7	1	1	10	6
Total	100	100	100	100	100
Actual turnover (K£'000)	64,890	22,639	22,606	42,652	152,787
AMOUNT OF TURNOVER K£					
1,000 - 24,999	1	5	4	3	3
25,000 - 49,999	3	12	8	10	7
50,000 - 99,999	9	20	16	17	14
100,000 -499,999	24	63	62	37	39
500,000	63	0	10	33	37
Total	100	100	100	100	100
Actual turnover K£ '000	64,890	22,639	22,606	42,652	152,787

Source: Republic of Kenya, Survey of Distribution, 1960, Nairobi: Government Printer, 1963), Appendix Table 7, p.59.

There were 1,254 wholesalers doing business in Kenya in 1960, 264 were produce and provision wholesalers, 343 were textile wholesalers and 249 were wholesalers of hardware. However, in other commodity groupings far fewer wholesalers existed, e.g., agricultural supplies (9) and engineering supplies (18). The three largest of these 27 firms sold over half of the products of these categories.[53] However, in the absence of more disaggregated data indicating the number of firms selling each separate commodity in each geographic market, it is impossible to analyse further market structures in Kenya during the early 1960's.

IV. SUMMARY

At Independence the Kenya government inherited an economy that was dependent on international trade. Major exports were primary products such as coffee, tea and sisal. Major imports were secondary products such as investment goods, semi-processed manufactured goods and consumer items. Europe, especially the U.K., was Kenya's main trading partner. This pattern of trade with the U.K. and Europe continued after Independence partly due to the dominance of the largely British owned and controlled trading institutions which conduct much of Kenya's international trade.

53 Republic of Kenya, Survey of Distribution, 1960 (Nairobi: Government Printer, 1963). p.72

Kenya also inherited a manufacturing sector that was large relative to manufacturing sectors of Tanzania and Uganda. Manufacturers were primarily processors of agricultural products for both the domestic market and the international market or were final stage processors of imported intermediate goods for the East African market. Most of these manufacturing firms were owned by non-Africans and in many cases were subsidiaries of Europeans firms. The three major banks which helped finance international and domestic trade, as well as local manufacturing and agriculture, were also subsidiaries of British banks.

Both the functions of the domestic marketing system and the channels of distribution are complex. The marketing function is the creation of form, time, place and possession utility. In order to create these utilities, the marketing system must provide some if not all of the following services; transporting, storaging and warehousing, grading and standardisation, processing, packaging, creation and breaking of bulk, bringing buyers and sellers together, financing, and risk bearing. In order for these services to be performed the intermediaries performing them must be compensated. If an intermediary is not performing a valid function he will be by-passed.

Channels of distribution in Kenya are extremely varied. Not only do different commodities have different channels

with different numbers and types of intermediaries but the same commodity may be distributed through a variety of channels; one channel may require no intermediaries whereas others may require several so that commodities change hands several times between producer and consumer. In a simple system in which the producer sells to the consumer in the local market for cash the only marketing services provided are transportation and bringing buyers and sellers together. When producers and consumers are separated both temporally and spatially several levels of intermediary may be involved each performing one or more of the several marketing services.

The problems and consequences of this pattern of resource ownership and allocation discussed in the first part of this chapter and some of the government development programmes designed to alleviate these problems are the subject matter of chapter III.

CHAPTER III

GOVERNMENT PROGRAMMES AND AFRICAN TRADER PROBLEMS

I. INTRODUCTION

A consequence of this pattern of resource allocation and ownership was that the immigrant European and Asian groups received substantially greater per capita incomes than did the indigenous Africans. Since Independence the Kenyan government has expended much effort into creating new institutions, introducing Africans into pre-existing institutions, and transferring ownership of resources. However, government efforts to increase African participation, especially in the areas of domestic trade have been constrained by a number of factors such as lack of capital, skills and experience on the part of the individual African.

II. CONSEQUENCES OF DEVELOPMENT PROCESS

One of the consequences of this development process has been a pattern of resource allocation and ownership that has not been in the best interests of the broad mass of Kenyan citizens. The rewards of growth, at the time of Independence, largely accrued to the immigrant Asian and European group with little accruing to the indigenous population.

For instance, in 1956 African per capita income was put at K £ 9.9 per annum; Asian per capita income was put at K £ 170.0 per annum; and European per capita was put at K £ 656.0 per annum.[54,55] The result of this skewed income distribution is reflected in the nature of domestic production and the types of products that were being imported.

As pointed out earlier, at the time of Independence the institutions involved in trade, manufacturing and financing were almost completely owned by non-Kenyans; often controlled from outside of Kenya. With the coming of political Independence was there anything inherent in the nature of these institutions that was likely to make them more responsive to the needs of the board mass of Kenyans? The answer to this question was probably no.

Given a completely free hand, the most probable path of growth would have been that the foreign trading firms and the foreign manufacturing firms would have continued to invest in those businesses they knew best and for which current markets existed. This would have resulted in

54 M.W. Forrester, Kenya Today, Social Prerequisites for Economic Development, (Gravenhage: Mouton and Co., 1962), p.45

55 Estimates of this nature are difficult to make. However, even if the estimate of African per capita income was off by a factor of 3 or 4 data would still indicate racial income imbalances.

increased investment in the production and initial processing of primary products for export and the likely increased investment in local production; largely luxury consumer items.

It has been argued[56] that the unbridled expansion of the export enclave, given the likelihood of further declines in the terms of trade, would have resulted in more and more land having to be used for the growing of export crops. This, together with the growing population, would possibly have resulted in the necessity to import food stuffs.

It has further been argued[57] that private investment in manufacturing would have been largely directed to producing luxury goods such as cigarettes, beverages and radios; would have been dependent on imported parts and materials; and would have tended to be capital intensive.

Another consequence of this development process was the conspicious dominance of Asians in domestic distribution. African consumers and traders feared they were being exploited by the Asian traders. Part of this fear may have stemmed from an inadequate understanding of the role of middlemen and the services provided by them.

However, to some extent this fear of exploitation may

56 Ann W. Seidman, Comparative Development Strategies in East Africa, (Nairobi : East African Publishing House, 1971) Ch.I.

57 Ibid.

have been justified because of the close connection between produce trading and distributive trading. This connection between produce trading and distributive trading enabled traders to sell goods on credit to growers against delivery of crops. In itself this produce may not have been undesirable but it was certainly one that was open to abuse. For instance, if the trader was both buying and also retailing manufactured goods it gave him more room to manoevre and to indulge in sharp practices. He could give the appearance of making a generous offer on one half of the deal, while making a very large profit out of the other half.[58] This problem of monopoly/monopsony in rural areas has been encountered in other parts of the world.[59]

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58 H. C.G. Hawkins, Wholesale and Retail Trade in Tanganyika, Study of Distribution in East Africa, (New York: Frederick A. Praeger, 1965) pp. 99-103.

59 C.R. Wharton, Jr., " Marketing, Merchandising, and Moneylending: A note on Middlemen Monopsony in Malaya," The Malayan Economic Review, Vo. VII, No. 2, Oct. 1962, pp. 24-44 and David W. Ames, "The Rural Wolof of the Gambia," Markets in Africa, P. 52; Vernon R. Dorjahn, "African Traders in Central Sierra Leone" in Bohannan and Dalton (EDS) Markets in Africa, (Evanston Illinois: Northwestern University Press 1965) pp. 75-79

III. GOVERNMENT PROGRAMMES

The Kenyan Government has intiated many schemes since Independence designed to introduce a greater number of Africans into existing institutions; to give Africans greater ownership of existing resources; and to make the foreign owned institutions more responsive to Kenya's development needs. A number of these schemes, both trade and non-trade, are summarised in the following paragraphs in order to outline the major thrust of Government's post Independence development efforts.

NON TRADE PROGRAMMES

The Kenyan Government has rejected Nationalisation as a means of controlling productive resources. In fact, it goes further and asserts its beliefs that ownership is not necessary for control.

> Under African Socialism the power to control resource use resides with the State. To imagine, however, that the use of resources can only be controlled through their ownership or that the appropriate ownership will guarantee the proper use of productive assets are errors of great magnitude. Ownership can be abused whether private or public and ways must be found to control resource use in either case. African Socialism must rely on planning to determine the appropriate uses of productive resources on a range of controls to ensure that plans are carried out.[60]

A goal of most post Indenpendence programmes, trade and non trade alike, has been to increase African participation

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60 Republic of Kenya, Ministry for Economic Planning and Development, <u>African Socialism and its Application to Planning in Kenya</u> (Nairobi: Government Printer, 1965), P.11

and entrepreneurship without attempting major changes to the fundamental inherited structure. In addition the Kenyan government has attempted to make the foreign owned firms more responsive to Kenya's needs by obtaining a say in the running of these businesses by buying some of the stock and/or having Africans appointed on to the board of directors.

To this end, the Kenya Govenment has set up a number of institutions to provide finance for development projects in various fields. The plan is that these bodies will lend money and accept risks where the private capitalist is not prepared to put his money as the level of profit is too low. Perhaps of greatest interest is the Industrial and Commercial Development Corporation (ICDC).

The ICDC, under the Ministry of Commerce and Industry, has undertaken a wide range of operations, with particular emphasis on the financing of viable African run enterprises.

The ICDC has equity in many predominantly foreign owned firms thus obtaining a direct say in the operation of these companies. However, most of its money has been invested in Government schemes such as the Development Finance Company of Kenya Ltd., the Kenya National Trading Corporation, the Kenya National Properties Ltd., the Kenya Industrial Estates Ltd., and advances to the Small Industries Revolving Loans Fund (Table III. -1).

TABLE III. I

ICDC INVESTMENTS FOR THE YEAR ENDING 30TH JUNE 1967

INDUSTRY	K £
East Africa Industries Ltd.	74,310
Block Hotels Ltd.	90,625
Development Finance Company of Kenya Ltd.	500,000
Kenya National Trading Corporation	10,000
Kenya Canner Ltd.	36,000
E.A. Packaging Industries Ltd.	35,000
Pulp and Paper Company of E.A. Ltd.	20,480
African Diatomite Industries Ltd.	41,873
Lake Baringo Fisheries	12,000
Union Carbide Kenya Ltd.	52,500
KDC Investment Co Ltd.	27,265
Kenya National Properties Ltd.	83,260
Kenya Industrial Estates Ltd.	7,115
Advances to Small Industries Revolving Loan Funds	156,147
Other investments[a]	25,313
Total	1,171,888

Source: ICDC Report and Accounts for the year 1966/67
[a] Industrial investments each of which were less than K £ 10,000

The Development Finance Company was established to provide bigger loans to private companies than envisioned for the ICDC. At the end of 1967, the DFC, with the aid of loans from Commonwealth, West German and Dutch development sources, had made loans in excess of K £ 1.8 million to private industry in Kenya.[61]

The Kenya National Properties Ltd. was established in 1967 to acquire and develop vacant plots in main

61 Industrial and Commercial Development Corporation, Annual Report and Accounts 1968/69, p. 11.

business areas, to develop new shopping centres in the main trading areas and to purchase existing buildings and leases suitable for redevelopment. The acquisition, construction and development of existing premises and new shopping centres is undertaken with a view to leasing them out to African businessmen.[62]

During the 1970/74 development plan period the Kenya National Properties Ltd. is scheduled to obtain from the Kenyan Government a planned K£ 1.5 millions.[63]

The Kenya Industrial Estates Ltd., a wholly-owned subsidiary of the ICDC, was incorporated during 1967/8. This Company is to carry out a programme, aimed at the establishment of Industrial Estates in Nairobi, Nakuru, Eldoret, Kisumu and Mombasa. The principal objective of this programme is to provide well planned factory premises at resonable rents to African entrepreneurs interested in setting up small and medium-scale industries. This project, like many others, aims at diffusion of economic prosperity, promotion of entrepreneurial ability and provision of investment opportunities to Africans with limited capital.[64]

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62 Ibid., p.9

63 Republic of Kenya, Development Plan 1970-1974, (Nairobi: Government Printer, 1969), p. 426.

64 Industrial and Commercial Development Corporation, Annual Report and Accounts, 1968/9 pp. 7-8.

In the first few years after Independence the Government concentrated its agricultural development efforts on land resettlement schemes.[65] Towards the end of the 1960's more effort was placed on agricultural marketing including increased emphasis on agricultural marketing co-operatives and a re-evaluation of the role of the many produce marketing boards.

TRADE PROGRAMMES

(a) Agricultural Marketing Co-operatives[66]

> Perhaps the most significant efforts made by all three East African Governments to alter the inherited pattern of trading institutions were those designed to accelerate the participation by African peasants in marketing co-operatives.[67]

Marketing co-operatives were not new to Kenya at the time of Independence. Prior to World War II, European settlers had organised into co-operatives to advance their own interests, e.g., the Kenya Co-operatives Creameries. In the post war period, after the Labour Party came into office, the British Colonial Administration began to actively

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65 Republic of Kenya, Development Plan 1970-1974 (Nairobi: Government Printer, 1970), pp. 191-283.

66 Except where otherwise cited this section is based on information contained in Ann W. Seidman, Comparative Development Strategies in East Africa, (Nairobi: East African Publishing House, 1971), Other significant changes include expanded marketing board activities and the creation of state trading corporations.

67 Ibid., Ch. VIII.

foster the organisation of African cash crop farms into co-operatives societies. By 1962 there were 640 co-operatives societies, of which 600 were African. However, in 1960, of a total turnover of K £ 18 millions, less K £ 4 millions, a little over 20 percent, came from African producers.

By 1968 there were about 900 registered and active co-operative societies. The majority, over 700, were agricutural societies.[68] Most of these agricultural societies were involved primarily in marketing and processing their member's produce, especially coffee, pyrethrum and dairy produce. Some of the societies also performed other services for their members, including the supply of farm requisites, such as fertilisers and sprays and the provision of short term credit.[69]

A number of problems have emerged with the co-operative movement in Kenya. Too often the co-operatives have been poorly managed with numerous cases of fraud and dishonesty or favouritism to committee members being reported. Due to poor management many of the marketing societies have been paying members too low a proportion of the proceeds realised from products sold. Just as important, inefficient

68 Republic of Kenya, Development Plan 1970-1974 (Nairobi: Government Printer, 1969), p.276.

69 For further reading on the structure of marketing co-operatives and their problems see Ann W. Seidman, Comparative Development Strategies in East Africa, CH. VIII.

societies have not been able to perform certain valuable functions, such as the supply of credit, for their members.[70]

Probably the most important factors contributing to the inefficient management of societies have been the lack of understanding of business principles on the part of co-operative committee members and staff and the inability or unwillingness of societies to hire experienced staff at competitive salaries. These problems are not unique to Kenyan co-operatives.[71] In Tanzania,[72] typical farmer complaints about marketing co-operatives included; low prices paid to farmers; corrupt running of co-operatives; and mismanagement of operating functions such as weighing and grading.

70. Republic of Kenya, Development Plan 1970-1974 (Nairobi: Government Printer, 1969), pp. 276-277.

71 M.P. Miracle and Ann Seidman, "Agricultural Cooperatives and Quasi-Cooperatives in Ghana, 1951-1965, "Land Tenure Centre Paper No. 47, University of Wisconsin (1968). M.P. Miracle, "An Evaluation of Attempts to Introduce Co-operatives and Quasi-Cooperatives in Tropical Africa as Reflected Mainly in the Experience of the Ivory Coast, Ghana, and Zambia, "in Kurt Anchel, et al (EDS), Adapting Cooperatives and Quasi-Cooperatives to the Market Structures and Conditions of Underdeveloped Areas (New York, 1969).

72 United Republic of Tanzania, Report of the Presidential Special Committee of Enquiry into Co-operative Movements and Marketing Boards, (Dar es Salaam: Government Printer, 1966), pp. 3-4 as cited in Ann W. Seidman, Comparative Development Strategies for East Africa, (Nairobi: East African Publishing House, 1971).

In Uganda, the problems encountered by co-operatives in the mid-sixties included:[73] lack of skilled management and conflicts between managers and committee members; concern of members with political matters instead of economic issues; mismanagement of funds; loss of members' loyalty as a result of inadequacy of financial benefits and services; and the lack of member education as to the value of the co-operative societies.

(b) Marketing Boards[74]

Since Independence, Kenya has initiated or continued to support a number of statuary marketing boards to handle agricultural products both for export and domestic consumption. They have been established to provide government supported channels for marketing agricultural products and providing stable producer prices. Among the first boards established in Kenya were those set up by Kenya coffee and pyrethrum producers during the Great Depression prior to World War II. However, most of the marketing boards for handling export crops were established by the British during or after World War II.

73 O. Okereke, The Strength and Weaknesses of Co-operatives Movement in Uganda, cited by Ann W. Seidman, op. cit.

74 Except where otherwise cited this section is based on information presented in Ann W. Seidman, Comparative Development Strategies in East Africa, (Nairobi: East African Publishing House, 1971). Ch. VIII.

The marketing boards handling Kenya export crops in the immediate post-Independence period era represented a variety of interests and functioned in different ways. The Tea Board of Kenya does not market tea at all. Rather, it informs tea growers of government policy, exercises control over the planting of tea, and manufacturing factories, has power to regulate methods, and is concerned with research.[75]

Prior to 1967, two boards operated in the coffee industry. The Coffee Board of Kenya, with a majority of producer-elected representatives, was responsible for policy in the production side of the industry. It licenced all coffee planters, financed the Coffee Research services and carried out other functions. The Kenya Coffee Marketing Board had a monopoly empowering it to purchase the entire Kenya coffee crop. The two boards were amalgamated in 1967 to form the Kenya Coffee and Marketing Board. The crop is brought to the market through various agents of whom the largest is the Kenya Planters' Co-operative Union, a producers co-operative which owns the mills in Nairobi through which the majority of the crop is graded and processed.[76]

The Pyrethrum Board controls production of pyrethrum, and the Pyrethrum Marketing Board controls its marketing.

75 National Christian Council of Kenya, Who Controls Industry in Kenya (Nairobi: East African Publishing House, 1968) pp. 23-24.

76 Ibid., pp. 18-19

The Pyrethrum Marketing Board owned 58 percent of the shares in the Pyrethrum Processing Company of Kenya Ltd., which owns the only operative factory in Kenya, processing the whole of Kenya's crop as a contractor of the marketing board.[77]

At least 19 other marketing boards existed in 1960 handling such diverse commodities as wheat, maize, cotton lint and seed. sisal, animal and dairy products, canning crops, and horticultural crops.[78] Many of these boards were concerned with the marketing of domestically consumed products. The role usually envisaged for these boards was to ensure a steady supply of foodstuffs to growing urban areas at reasonable prices and to ensure adequate prices to farmers to provide incentives for expanded food production for the market. Many of these boards were dominated by farmer and /or processing interests and it has only been since Independence that Government has been represented on many of them.

(c) Trade Licensing Act

The major piece of legislation enacted to assist Africanisation of distributive trading is the Trade Licensing Act (1967).[79] The Act has provided for the specification of

77 *Ibid.*, p. 35

78 Kenya Colony and Protectorate, *Committee on the Organization of Agriculture, Report* (Nairobi: Government Printer, 1960).

79 Republic of Kenya, "The Trade Licensing Act 1967, "*Kenya Gazette* (Nairobi: Government Printer, 1967), Cap. 33

areas of cities, municipalities and townships as general trading areas where both citizen and non-citizen businessmen can be licenced to operate: only citizens are authorized to own businesses in areas outside the general trading areas. It would appear, on the basis of conversations with licensing officers, that when licensing businesses in general trading areas an effort is made to introduce African businessmen in these areas which have, in the past, been almost exclusively non-African.

The Act further empowers the Government to declare specific items as goods which can be marketed only by Kenyan citizens. As of January 1, 1970 the following goods were included in this schedule: maize and maize meal, sugar, charcoal, rice, fresh vegetables, biscuits, ghee and ghee products, cotton drill and twill, second hand clothes, soap, matches, sweets, salt, khangas (printed cotton squares worn by women, normally bought in pairs, one to be wrapped around the body, the other over the head), grey cloth, cement, beans and peas, potatoes, corrugated iron sheets, barbed wire, nails, cigarettes, kerosene, onions, millets, edible oils, meat, soft drinks, detergents, dry cell batteries, charcoal irons, cooking pans, second-hand gunny bags, blankets, building lime, galvanized plain fencing wire, bicycles and bicycle spare parts, hinges, screws, metal beds, shovels, hoes and forks, axes and pangas

(a type of hand axe), padlocks, lanterns, torches (flash-lights), shoes and sandals, metal doors and windows, sand-paper and emery paper, milk, groundnuts (peanuts), tea leaves and coffee.

Flexibility is built into the system by granting extensive discretionary power to the officers responsible for granting licences.[80]

> 7(1) A person may make an application for a licence in the prescribed manner, and the licensing officer may -
>
> a) grant a licence accordingly, either without conditions or subject to such conditions as he may think fit, or refuse to grant a licence;
>
> b) where he decides to grant a licence and the applicant is not a citizen of Kenya, grant authority in the licence for the purposes of section 5 (2) of the Act, or refuse to grant such authority.
>
> and
>
> 5(2) After the appointed day, no person who is not a citizen of Kenya shall conduct a business-
>
> a) in any place which is not a general business area,
>
> b) in any specified goods, unless his licence specifically authorises him to do so.

It would appear that the underlining philosophy of most government programmes designed to increase African entrepreneurship and participation in manufacturing and commerce is that lack of resources, both human and financial,

80 Republic of Kenya, "The Trade Licensing Act 1967, "Kenya Gazette (Nairobi: Government Printer, 1967), Cap. 33, pp. 326-327.

are the major constraints to increased African involvement. This would explain the use of development funds to provide physical and financial capital through such schemes as the Kenya Industrial Estates Ltd., the Kenya National Properties Ltd., and the many loan and credit schemes.[81]

It would also explain the many business management schemes and training courses that have been initiated since Independence. Among the more important training programmes are those operated by the Management Training and Advisory Centre, the Management Division of the ICDC, courses offered by the Extra-Mural Department of University College and the many agricultural extension schemes.

IV. PROBLEMS OF AFRICAN TRADERS

> Those familiar with both East and West Africa have often commented on how few Africans in the East engage successfully in commerce. In West Africa nearly everyone engages in trade, be they full-time traders, farmers, clerks or laborers. By contrast, East Africa seems largely devoid of what Adam Smith described as "man's natural propensity to truck, barter traffic and exchange." Much of the Commerce is left to Indians.[82]

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81 Some of the more important schemes include the ICDC loans to businesses with monthly turnovers in excess of K £ 500; the District Trade Development Joint Loan Boards loans to businesses with monthly turnovers of less than K £ 500; the Agricultural Finance Corporation; the Agricultural Development Corporation and the Cereals and Sugar Finance Corporation.

82 A.B. Mukwaya, "The Marketing of Staple Foods in Kampala, Uganda," in Bohannon and Dalton (EDS) Markets in Africa (Evanston, Illinois: Northwestern University Press, 1965), P. 643.

The aim of the final section of this chapter is to discuss some of the factors that may have prevented Africans from playing a more dominant role in trade, especially wholesaling and importing. Trade took place in Eastern Africa long before the arrival of Europeans. In Northern Tanzania this trade was mostly in agricultural goods but there was some trade in manufactured goods such as cloth, ironware, utensils and tools. This trade was conducted largely with the surrounding Masai pastoralists.[83] In the copperbelt, in addition to trade in slaves and ivory, there was trade in salt, iron and iron goods, goats and goat skins, honey and beeswax. Traders came not only from the surrounding African kingdoms, but from both the East and West African coasts and from some 800 miles to the north and possibly as far south.[84]

After the introduction of colonial rule, Africans were unable to withstand the competition of Asians and Europeans. As the volume of trade grew, the numbers of non-Africans were augmented, and those who had come earlier and had accumulated capital expanded the range of their activities so as to secure and maintain a virtual monopoly in foreign trade.

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83 P.M. Gulliver, "The Evolution of Arusha Trade," in Bohannon and Dalton (EDS) Markets in Africa (Evanston, Illinois: Northwestern University Press, 1962), PP.431-456.

84 M.P. Miracle, "African Markets and Trade in the Copperbelt," in Bohannon and Dalton (EDS) Markets in Africa, (Evanston, Illinois: Northwestern University Press, 1962), pp. 698-738.

Possible African competition was reduced by the use of the licensing power of government to grant licences to only a comparatively few Africans and to set fees above the ability of most Africans to pay.[85]

It is probably that Asians have been able to maintain their dominant position for several reasons. Miracle, in discussing the role of Syrians and Lebanese in the trade of the Ivory Coast, wrote:

> The Syrians and Lebanese have gained and held their dominant position by (1) knowing African tastes better than their European competitors - they mix more with Africans and learn their languages; (2) extending credit to Africans as European firms usually do not; (3) working longer hours; (4) operating in isolated communities lacking amenities Europeans consider essential; and (5) reportedly by their skill negotiation, sometimes supported by collusion. The Syrians and Lebanese compete successfully with Africans mainly because of greater experience in book-keeping and store management and greater access to capital.
>
> In any community the large proportion of stores owned by Syrians and Lebanese usually practice tacit if not overt collusion because of their economic and social solidarity hence obligopolistic behaviour arises with a larger number of sellers than would be expected otherwise.[86]

The same argument would apply equally well to the Asians in East Africa. Other writers have also commented on the difficulties of Africans to commence in retail trade in the

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85 M. Katzin, "The Role of the Small Entrepreneur" in Herskovits and Harwitz (EDS) <u>Economic Transition in Africa</u>, Evanston, Illinois: Northwestern University, 1961 pp. 181-182

86 M.P. Miracle, "The Economy of the Ivory Coast," in P. Robson and D. Lury (EDS) <u>The Economics of Africa</u>, (Northwestern University Press. 1969) p. 230

face of strong prejudice on the part of Asians against supplying African retailers.[87]

CAPITAL

It is often voiced, both in the public sector and the private sector of Kenya, that lack of capital is a major problem to the aspiring African trader. Two potential sources of capital exist, non-institutional sources and institutional sources. Non-institutional sources of capital include private savings, moneylenders and trade credit and institutional sources include the commercial banks and government backed credit and loan schemes.

It might be assumed that because most Africans have small incomes, personal savings will not be a substantial source of capital to run a business. However, a number of writers have shown that in West Africa especially in Ghana and Nigeria as a general rule, most traders with substantial assets had started with relatively small amounts of savings and had gradually built up their position by re-investment of earnings.[88]

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87 W.T. Newlyn and D.C. Rowan, Money and Banking in British Colonial Africa, (Oxford:University Press, 1954) p. 17.

88 P.T.Bauer, West African Trade (London, 1954) pp. 30-31 and P.C. Garlick, African Traders in Kumasi, (Accra: African Business Series No. 1, 1959), pp. 29-30.

Individual savings may be small but combined with other peoples savings may be substantial enough for many trading ventures. One such technique of pooling resources is the rotating credit association such as the esusu of the Yoruba or the meeting of the ibo. The basic principle upon which the rotating credit association is founded is everywhere the same: a lump sum fund composed of fixed contributions from each member of the association is distributed, at fixed intervals and as a whole to each member of the association in turn.[89] A variant of this basic theme is that individuals in turn have the right to borrow a part of this fund at low interest rates for periods up to three months.[90] Leaky found the same principle followed among the Kikuyu of Kenya. The main use of the funds was for education rather than commerce.[91]

Finance from local commercial banks plays a much bigger role proportionately in produce marketing than in distributive trading.

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89 C. Geertz, "The Rotating Credit Association: A 'Middle Rung' in Development", Economic Development and Cultural Change, Vol. 1, No. 3 (1962).

90 Margaret Katzin, "The Role of the Small Entrepreneur," in Herskovitz and Herowitz (EDS), Economic Transition in Africa, (Evanston, Illinois: Northwestern University Press, 1964), pp. 191-192.

91 L.S.B. Leaky, "The Economics of Kikuyu Life", East African Economic Review, Vol. 3, 1956 p. 180 see also S. Ardener, "The Comparative Study of Rotating Credit Associations", Journal of the Royal Anthropological Institute, Vol. 94 (1964) pp. 201-228; D.G. Norvell and J.S. Wehrly, "A Rotating Credit Association in the Dominican Republic," Caribbean Studies Vol. 9 No. 1 April 1969.

Credit from overseas suppliers, from confirming houses and from overseas head offices is the major source of finance to the trade. Much of the finance from abroad, and the successive wholesalers, sub-wholesalers and retailers are heavily dependent on credit from their respective suppliers.[92]

It is frequently said in Kenya that the wholesalers and sub-wholesalers discriminate against African retailers in the matter of giving credit. However, most wholesalers would be reluctant to grant credit to a retailer of whatever race - European, Asian or African if the retailer is not known to him or if the wholesaler considers the retailer not credit worthy. It is reasonable to assume that any retailer who has done business on a cash basis for some time and proved himself reliable is much more likely to obtain credit from his suppliers.

However, the above argument notwithstanding, it is also probably safe to assume that Asian wholesalers are more likely to extend credit to an Asian since the wholesaler is likely to know more about the financial and family background of the Asian retailer, and therefore can more easily judge his credit worthiness. Perhaps more important, if the Asian reatiler defaults, the wholesaler can bring

92 H.C.G. Hawkins, Wholesale and Retail Trade in Tanganyika, A Study of Distribution in East Africa, (New York Frederick A. Praeger, 1965), p.131.

various social pressures to bear on him, short of legal action, which he cannot bring to bear on an african trader.

Potentially an important private institutional source of loans to African traders are the commercial banks. It has been argued that the credit extended to Africans by the banks is far too small both in relation to total bank credit and deposits held by Africans.[93] Banks have been reluctant to make loans to African traders. Partly this stems from the banks preference for large rather than small loans because of the high administrative costs associated with the latter.[94] But primarily the bank wariness in extending credit to Africans arises from previous unfortunate episodes on a scale sufficiently widespread to have the bank's attitude one which generally results in the virtual exclusion of the African as a borrower.[95]

Newlyn and Rowan[96] list some five reasons why Africans have not, in general, satisfied the bank's standards of acceptability for borrowers:

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93 Republic of Kenya, Development Plan 1970-1974, (Nairobi: Government Printer, 1969), p. 561.

94 Ibid., p. 562.

95 E. Marcus and M.R. Marcus, Investment and Development Possibilities in Tropical Africa, (New York: Brookman Associates, 1960) p. 154-5. (N.B. Both Marcus and Newlyn and Rowan were discussing the problem in tropical Africa in general and not Kenya in particular.)

96 W.T. Newlyn and D.C. Rowan, Money and Banking in British Colonial Africa, (Oxford University Press, 1954) pp.81-82., also see E.E. Jucker-Fleetwood, Money and Finance in Africa (Frederick A. Praeger, 1964), p. 131.

(a) the generally poor reputation of Africans for commercials and financial responsibility;
(b) the absence of organised accounts in most African businesses;
(c) the failure of many African businessmen to make full use of their banking accounts and their tendency to be secretive over business matters;
(d) the difficulties experienced by Africans in providing the banks with suitable security;
(e) the lack of close persons relationship between European banking executives and their African customers.

The above statements notwithstanding, Katzin[97] reports that in Nigeria banks will loan to qualified Africans in the form of overdrafts and that traders consider their bank managers valued friends.[98] Marris [99]shows that Kenya when the potential borrower is known by the bank manager, the probability of obtaining financial assistance is greatly increased. However, Marris goes on to say that most African traders do not know their bank managers partly due to discriminatory patterns extending to social life.

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97 Margaret Katzin, "The Role of the Small Entrepreneur" in Herskovits and Herwitz (EDS), Economic Transition in Africa, Evanston, Illinois: Northwestern University Press 1964, p. 191

98 However, the Nigerian and West Africa case may differ from East Africa in that Africans were more sharply restricted in the latter from many forms of commercial activities.

99 P. Marris, Entrepreneurship and Development, A Study of African Businesses in Kenya (unpublished draft of book).

Schatz[100] questions the thesis that capital shortage is a major problem in developing countries. As an alternative hypothesis Schatz argues that capital shortage is an illusion created by a large false demand for capital and that what really exists is not an immediate shortage of capital at all, but a shortage of visable projects, i.e., projects that, all things considered, promise to be sufficiently profitable to support indigenous private investment.

The government had initiated a couple of credit and loan schemes to aid aspiring African traders. Both of these schemes have run into some trouble because of loan defaults.[101] These defaults, plus the defaults experienced in the agricultual credit and loan schemes, connected with resettlement,[102] would tend to support Schatz' thesis.

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100 S.P. Schatz, "The Capital Shortage Illusion: Government Lending in Nigeria" in Whetham and Currie (EDS), The Applied Economics of Africa, (Cambridge: Cambridge University Press, 1967) pp. 93-100.

101 " £ 2,500 for Kitui Traders", East African Standard April 19, 1969.
"Loans for Kisumu and Svarya Traders," Daily Nation, May 22, 1969.
Kenyans Now See Trade in New Light", Daily Nation, February 2, 1969.

102 Republic of Kenya, Development Plan 1970-1974, (Nairobi: Government Printer, 1969) pp. 203 - 204.

SKILLS AND EXPERIENCE

Several authors have shown that lack of entrepreneurial talent among Africans is not a major impediment to private investment in West Africa.[103] Personal observation plus the numerous cases reported in Marris would indicate that the same was true for Kenya.[104]

Marris discusses problems of skills in relation to African entrepreneurship. This evidence shows that successful businessmen are better educated than the population in general and suggests that formal education may provide some basic skills and a degree of confidence necessary for success in commerce. However, Marris' general conclusion is that initiative and intelligence may count for more than formal training in skill formation. It is of interest to note that formal education does not appear necessary for success in trade, e.g., the illiterate "mammy" traders in West Africa.

If neither the lack of formal education nor the lack of formal business training crests insurmountable barriers to aspiring African traders, what does? Marris points to two factors concerning the organisation of African enterprises: family relationships in business, and inability to

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103 Entrepreneurship is used to denote the ability to adopt and adapt other peoples business ideas as well as the ability to innovate.

104 P. Marris, Entrepreneurship and Development, A Study of African Businesses in Kenya, (An unpublished draft of a book).

delegate authority, and to three factors concerning external relationships: restricted knowledge of markets, restricted knowledge of products, and the extent of competition.

Alternatively, Hawkins suggests there are three prime reasons why Africans have not progressed beyond their present stage in the wholesale and retail trade.[105] The first is the general lack of commercial experience and basic knowledge of trading techniques. The second is the absence of a competitive outlook. He argues that the background of most Africans born in rural areas does not include any idea of a competitve business outlook, and that competition is a concept quite foreign to the traditional social system among Africans. The third reason is the absence of a natural ladder of progress for the African trader to climb from his start as a small trader to his establishment as a successful wholesaler. Hawkins' arguments for this is that wholesaling requires more capital than is available to the retailer and that for the first time the African will be direct competition with well established Asians when he attempts to move from retailing to sub-

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105 H.C.G. Hawkins, Wholesale and Retail Trade in Tanganyika, A Study of Distribution in East Africa, (New York: Frederick A. Praeger, 1965), pp. 150 - 152.

wholesaling and wholesaling. Finally, Rutman[106] suggests that lack of African participation in wholesaling is due to lack of commercial experience, lack of capital and lack of a competitive business outlook.

Marris reports[107] that the extended family and the tradition of family obligation is often blamed for frustrating African entrepreneurship. Pressures are put on the entrepreneurs to provide credit or gifts to the family. Likewise, kinsmen demand jobs for which others may be more competent. To succumb to such pressures may result in the bankruptcy of the firm while to resist may result in family sanctions. African may thus be torn between conflicting objectives; efficiency in business and the ideal of family co-operation.

The problem may be manageable for the owner of a proprietorship as he has it in his power to control the quantity of credit and to refuse employment to the incompetent. The problem is greatly compounded in partnerships and internal friction, due to one partner yielding to these pressures, may result in the break-up of the partnership. Another problem arises where the form of business organisation results in shareholders.

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106 G. Rutman, "State Trading in Tanganyika" South Africa Journal of Economics, Vol. XXXIV (June 1966), pp. 148-157.

107 P. Marris, Entrepreneurship and Development, A Study of African Businesses in Kenya (an unpublished manuscript).

Often shareholders held the same attitudes as the relatives of a proprietorship, i.e., they expected better credit arrangements and lower prices than were offered to non-shareholders.[108] Problems that African traders have encountered in employing and doing business with relatives have also been mentioned by Miracle,[109] Dorjahn[110] and others.

African trading firms tend to be small in Kenya. Katzin[111] argues that this is because of lack of administrative ability in conducting a relatively complex organisation and the relative scarcity of reliable and trained subordinates. Marris,[112] in addition, claims that lack of integrity on the part of employees results in close supervision and the reluctance of employees to delegate authority. This inability to delegate authority restricts the growth of organisations.

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108 Ibid., Marris

109 M.P. Miracle, "African Markets and Trade in the Copperbelt", in Bohannon and Dalton (EDS), Markets in Africa, (Evanston, Illinois: Northwestern University Press, 1962) p.732.

110 V. R. Dorjahn, "African Traders in Central Sierra Leone", in Bohannon and Dalton (EDS.) Markets in Africa, (Evanston, Illinois: Northwestern University Press, 1962) pp. 82-83

111 M. Katzin, "The Role of the Small Entrepreneur", in Herskovits and Harwitz (EDS) Economic Transition in Africa, (Evanston, Illinois: Northwestern University Press, 1963), p. 196

112 Marris, Op. Cit.

In most parts of the world successful shopkeepers gained commercial experience by first working for someone else. Very few Africans in Kenya have been able to do this. Most successful African traders in Kenya have built themselves up from petty traders.[113] Systems of apprenticeship for African traders have developed in parts of West Africa[114] but very few Africans in East Africa have been able to obtain this training.

In Kenya, almost all wholesalers and retailers who employ paid staff were Asian or Arab and they tended to employ Africans to do the manual labour and not as clerks or assistants. The one major exception to this was those produce dealers and wholesalers who ran branch shops with an African manager in charge of each branch. These men often gained valuable commercial experience, but they have always been few in number.[115]

Apart from trade in locally produced agricultural commodities, the African trading in a rural market is at the end of the distributive chain which extends through

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113 P. Marris, Entrepreneurship and Development, A Study of African Businesses in Kenya (An unpublished draft of a book).

114 M. Katzin, "The Role of the Small Entrepreneur" in Herskovits and Harwitz (EDS) Economic transition in Africa, (Evanston, Illinois: Northwestern University Press, 1961) p. 180

115 H.C.G. Hawkins, Wholesale and Retail Trade in Tanganyika A Study of Distribution in East Africa, (New York: Frederick A. Praeger, 1965) p. 151

a system of sub-wholesalers back to the major urban centres, or even overseas. The extent of his contact with the market is the African customers to whom he sells and the African or Asian sub-wholesalers from whom he buys. The situation is not much better for the African sub-wholersaler. The functions provided by such entreprises are limited. They buy small lots and sell in even smaller amounts and they carry small quantities of inventory. The rural retail trader knows a little about the sources of supply, storage, transport, ordering of big lots, and buying from overseas. Thus the African lacks the personal contacts, fluency of communication and confidence to make his way easily in the world of commerce that currently dominates him.

Much of the domestic trade in Kenya is controlled by Asians. It has already been shown how the Asians came to be in this dominant position and how problems of capital, skills, and experience faced by Africans have allowed the Asians to maintain this dominant position. In addition, Asians have been active in preventing African entry. Both Miracle [116] and Hawkins[117] mention the

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116 M.P. Miracle, "African Markets and Trade in the Copperbelt", in Bohannon and Dalton (EDS) Markets in Africa, (Evanston, Illinois: Northwestern University Press, 1961) p. 199

117 H.C.G. Hawkins, Wholesale and Retail Trade in Tanganyika, A Study of Distribution in East Africa, (New York: Frederick A. Praeger, 1965) P. 153.

likelihood of established Asian traders attempting to prevent potential African competition. Part of this can be explained by the tendency for established traders anywhere, of whatever race, to try to prevent the establishment of a new directly competitve business, which, if successful, will inevitably reduce their share of the market.

VI. SUMMARY

The pattern of resource allocation and ownership that was described in Chapter II resulted in a racially imbalanced income distribution. Most of the benefits of development accrued to the European settlers and to a lesser extent the Asians. Since Independence much effort has been expended by the Kenyan government in order to get greater African participation in the Kenyan economy, not only to consolidate political independence, but also to raise the per capita incomes of Africans. Three approaches have been used. The first approach has been to replace Europeans and Asians by Africans. In agriculture this was done by buying and resettling some of the land in the former Scheduled Areas. In Commerce and Industry a policy of Africanisation has been pursued at the lower and intermediate levels.

The second approach has been an attempt to make the foreign owned and controlled trading, manufacturing and financial institutions more responsive to Kenya's

development needs. Partially this was by means of Africanisation of lower and middle level of management positions but primarily it was through means of purchasing stock through the ICDC and getting Africans seated on the Board of Directors.

The third approach was to encourage Africans to become entrepreneurs of new businesses and to encourage new overseas investment. Facilities designed to encourage new African entrepreneurs included such new institutions as the Kenya Industrial Estates Ltd., the Kenya National Properties Ltd., and a number of loans, credit and management training programmes.

Since Independence the Government's efforts designed to improve agricultural marketing have concentrated on improving the responsiveness of marketing boards to the needs of the African farmers and in increasing the number of marketing cooperatives. The Trade Licensing Act, by restricting non-Kenyans to trading in a restricted number of commodities and geographic areas, is the principal piece of legislation to assist Africanisation of the distributive trade. It will be shown in subsequent chapters that the Kenya National Trading Corporation complements the Africanisation objectives of the Trade Licensing Act.

Asians came to dominate wholesaling, sub-wholesaling, and to large extent retailing in Kenya for historical reasons.

Africans, without government assistance had been able to wrest some of the retailing from Asians in rural areas but had been unsuccessful in gaining entry in sub-wholesaling and wholesaling, especially in distributive trading. Several reasons have been put forward attempting to explain this lack of African participation. These include lack of capital and lack of formal business training. Although these are impediments to aspiring traders they do not appear insurmountable. Other factors such as family relationships in business, inability to delegate authority, restricted knowledge of markets, marketing and products, and the extent of competition from established traders all would appear to be greater problems.

CHAPTER IV

ACTUAL AND POTENTIAL ROLE OF THE KNTC

I. INTRODUCTION

The Government and the KNTC both have a variety of objectives designed to improve distributive marketing. These include increasing African participation; increasing efficiency; increasing consumer protection and increasing market penetration. The KNTC has in fact concentrated most of its efforts to Africanising imports and distributive wholesaling. It is argued in this chapter that this is a restricted objective for the KNTC and that the KNTC might be, in addition, a suitable institution for partially readdressing some of the income imbalances which exist between the richer and poorer; the rural and urban areas; and between the racial groups.

II. OBJECTIVES OF GOVERNMENT WITH RESPECT TO MARKETING SYSTEM

It was stated in the Kenya Development Plan, 1966-70, that the Government's policy for the commercial sector was guided by the need to:[118]

(1) ensure a rapidly growing African participation in retail and wholesale trade;

(2) ensure that the network of wholesale and retail trade is extended so that people in all areas of the country can buy and sell goods which they need or

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118 Republic of Kenya, Development Plan, 1966-70 (Nairobi: Government Printer, 1965), p. 270

which they produce for the market. . .

(3) improve the efficiency of wholesale and retail trade so that trade margins can be reduced, curtail the number of middlemen between producers and consumers, improve the selection of goods as well as the standard of services to the consumers and ensure the opening of marketing facilities to small farmers, fishermen and craftsmen.

Some four years later the government's stated aims for commerce were essentially the same, briefly summarised they were as follows:

(a) To increase the participation of citizens of Kenya in the distribution sector of the Kenyan economy;
(b) To increase efficiency of the distribution sector of the Kenyan economy;
(c) To increase consumer protection and education;
(d) To increase penetration of the market economy into rural areas.

Kenyanization of Commerce - The further Kenyanization of commerce is an important part of Government policy in this Plan. As noted above, the turnover of non-citizen businesses belonging to citizens. However, Government programmes for Kenyanization have had to contend with three basic problems: the lack of technical know-how, experience and financial resources on the part of Africans.[119]

Efficiency - It is regarded by Government as important that the distribution system both manufacturers and consumers to obtain raw materials and consumption goods easily and at the lowest cost. High distribution margins lead to high costs in producing sectors, such as agriculture and manufacturing, and this in turn raises the prices of the economy's output, making its products less competitive with foreign produced products both in export and internal markets.[120]

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119 Republic of Kenya, <u>Development Plan 1970-1974</u> (Nairobi: Government Printer, 1969), P. 417.

120 <u>Ibid.</u>, p. 416.

Consumer Protection and Education - The protection and education of the consumer is a matter of continuing and long term concern of the Government. In Sessional Paper No. 10 on "African Socialism and its Application to Planning" Government emphasised the importance which it attaches to consumer interests with particular reference to price and quality controls and the availability of necessary supplies.[121]

Expansion of Trade - The inadequacy of distribution in areas outside the main towns was noted in the 1964-70 Development Plan. This situation still prevails in small towns and rural areas, where, frequently, there are too many shops which are under-stocked and deal in the same items: it is characteristic for these businesses to be operated on a part time basis with very small turnovers.[122]

A major theme running through government policy since Independence has been Kenyanisation; Kenyanisation of the Civil Service; Kenyanisation of Agriculture; Kenyanisation of Commerce and Industry; Kenyanisation of Education. Clearly in broad terms, such a policy means Kenya for Kenyans, but equally clearly it leaves unspecified important variables such as the number of Kenyans, the type of Kenyan, ans the timetable.

In industry and banking, Africanisation has come to mean a greater degree of control over policy decisions and an increased employment of Africans in skilled jobs and in management. Africanisation of these companies is not seen as being synonymous as Nationalisation. Rather, having Africans on the board of directors is regarded as

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121 Ibid., p. 416

122 Ibid., p. 416

the most appropriate method of guiding policy and seeing that these firms operate in the best interests of Kenya.

The meaning of Africanisation in trade is less clear. In addition to questions of ownership factors involved in distribution variables such as types of commodity, level in the distribution chain, proportion of commodity to be Africanised and the timetable must also be considered.[123]

It has already been demonstrated that the marketing system performs a useful function by creating certain utilities and by performing a number of services in the creation of these utilities. It has also been shown that wholesaling and to a lesser extent sub-wholesaling requires both capital and experience in trading in general and of given commodities in particular. Finally, it has been shown that most of these resources and skills were possessed by non-African traders.

It logically follows that too rapid exclusion of non-African traders might result in a loss of these resources. It also follows that such an exclusion might result in some of the marketing services not being performed below previous standards resulting in a loss of efficiency at best and total disruption of the marketing system at worst.

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123 See Appendix C for further discussion on the variables involved in Africanisation trade.

To prevent this the government would have to inject its own resources either to perform the marketing functions itself or would have to provide private African traders the resources to do the job.

In an interesting article, Donald Rothchild[124] discusses possible conflicts between two national goals, equity and development. He argues that equity demands are essentially the demands on the part of the African community for full participation in all aspects of life development[125] demands are largely advanced by European and Asian businessmen and professionals.

> Nevertheless, this (latter) point must not be overstressed; many Africans are now assuming positions of importance in the private sector and these men are just as aggressive as their non-African counterparts in pressing developmental priorities. Consequently, the conflict between equity demands and development demands is increasingly a conflict of economic interests; not simply a conflict of racial interests.[126]

This above statement notwithstanding, Rothchild[127] develops the argument that non-Africans, citizens and non-

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124 D. Rothchild, Kenya's Africanisation Program: Priorities of Development and Equity,"prepared for delivery at the Annual Meeting of the American Political Science Association, September, 1969.

125 Rothchild does not define his use of the word development. It would appear that he uses it as a synonym for growth whereas development is usually defined more broadly to include other factors such as more equitable income distribution.

126 D. Rothchild, op. cit., p. 11

127 Ibid., p. 14

citizens alike, will be essential in many industries for the forseeable future and that any premature departure of expatriates would retard development and create additional unemployment.

> Moreover, any future employment policy which might distinguish between citizens on racial grounds would prove expensive in terms of economic growth. Not only do non-Africans long resident in Kenya have a substantial share of existing skills, but present educational trends indicate that their potential role remains large in the highly skilled occupations.[128]

These arguments may apply equally as well to marketing as they do to manufacturing. However, in marketing the conflict may be between the goal of Africanisation and the goal of increasing efficiency. The Government's Africanisation programme attempts to take cognizance of this situation which accounts for the numerous credit and loan schemes, business training courses and the Kenya National Trading Corporation. It is also evident that the Government does not intend to force the pace of Africanisation of trade beyond the point which would result in a severe loss of efficiency. Evidence of this is supplied by the gradualness of the KNTC in taking over new commodities and the emphasis upon gradual phasing out of non-citizen trader under the provisions of the Trade Licensing Act.[129]

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128 Ibid., p. 14.

129 East African Standard, January 12, 1968, p.1. East African Standard, February 24, 1968, p. 5.

As mentioned earlier, the Trade Licensing Act and the Kenya National Trading Corporation play a central role in meeting the Government's objectives for distributive trading. Higiro-Semajege lists the following as being the objectives of the KNTC:

> to promote the participation of African businessmen in the field of commerce by providing wholesale credit facilities;
>
> to participate in export and import trade by channeling imported goods through African traders;
>
> to act as an export agent for certain goods in those cases where state trading countries, with which Kenya has trade agreements, require such an arrangement;
>
> to assist in lowering the living costs of the majority of Kenya people by lowering prices of essential consumer goods;
>
> to establish and maintain an efficient and equitable distribution network for essential foodstuffs and other commodities.[130]

An ICDC publication states that the principal objective of the KNTC is the Africanisation of the distributive traders.[131] This is further supported by the following passage extracted from the introduction of the 1968 annual report of the KNTC.

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130 F. Higiro-Semajege, "The Role of National Trading Corporations in Stimulating East African Entrepreneurship, "Economic Development Research Paper #150, Makerere, Kampala, 1968. Regrettably he does not cite his source.

131 Republic of Kenya, The Industril and Commerical Development Corporation (Nairobi, 1968) p. 8

> Since the attainment of independence, the Kenya government has initiated various important programmes aimed to one objective: the Africanisation of the ownership and management of the economy of Kenya by its citizens.
>
> To achieve this objective, it has been necessary to create new institutions. The Kenya National Trading Corporation is one such institution. Its purpose is twofold. First, to assist the traders, particularly the small traders, to participate more fully in the commercial sector of our economy; and secondly to act as the vehicle for more effective control and regulation of the distributive trade.[132]

Although the Minister states that the KNTC has two purposes to date it has concentrated almost all its efforts on the first of these, i.e. Africanisation.[133] The remainder of this chapter is an analysis of how the KNTC might broaden its objectives so that it might, in the words of the Minister, "act as the vehicle for more effective control and regulation of distributive trade."

III. POTENTIAL ROLE OF KNTC

According to the 1970-74 Development Plan[134] the Government's strategy for redressing the imbalance between urban and rural incomes will be the following:

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132 The Hon. Mwai Kibaki, Minister of Commerce and Industry, "A Message from the Minister of Commerce and Industry," Annual Report of the Kenya National Trade Corporation, 1968.

133 See Appendix H for alternative methods of effecting Africanisation of trade.

134 Republic of Kenya, Development Plan 1970 -74 (Nairobi: Government Printer, 1969), p. 2.

first, by the use of taxation, but also by other Government measures which have the effect of raising public consumption and improving the health, education and other services available to people in the rural areas. Real incomes in the rural areas are also very much affected by the prices paid for the main agricultural crops, which are to some extent within the control of the Government, though ultimately dependent on world market trends; and by the prices paid for various inputs such as seeds, fertilizers and fuel, which the Government also has some freedom to affect.

In addition, a major contribution towards improving the distribution of income between urban and rural areas will come from the operation of an incomes policy which, among other things, regulates the growth of urban wages in a way consistent with the interests of the nation as a whole.[135]

In essence, the Kenyan Government plans to increase real incomes of areas outside the main cities by increasing public consumption and by endeavouring to increase the monetary incomes of people living in the smaller cities and in rural areas. The Government makes no mention of the alternative or complementary method of raising real incomes in the smaller towns or cities by increasing consumer prices in urban areas and using the revenue to lower the prices in the smaller towns. In addition, the Government makes no mention of the possibility of increasing the prices of more luxurious goods and using the extra revenue to lower the prices of necessities. The KNTC would be a most appropriate institution for doing this.

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135 Ibid., p. 3

The KNTC can sell the commodities confined to it at any price it wishes.[136] For example, one method would be to sell at cost-plus, i.e. if the KNTC buys a commodity from Nairobi manufacturers it would charge less in Nairobi than in, say Kitale, because transportation costs would be lower in the former city than the latter. Alternatively, the KNTC could absorb transportation costs by averaging out all transportation charges and charging the same price for commodities regardless of from which warehouse they are bought. This would result in a price higher in Nairobi and lower in Kitale than would have existed under a cost plus system of pricing.

In fact, there are many alternative variations of this basic theme that the KNTC could use. It could keep all commodities separate and absorb transportation costs within commodities. Alternatively, it could increase prices across the board on its luxury items such as wines and spirits and the more expensive textiles and then use the extra money to subsidise necessities such as the less expensive cloths.

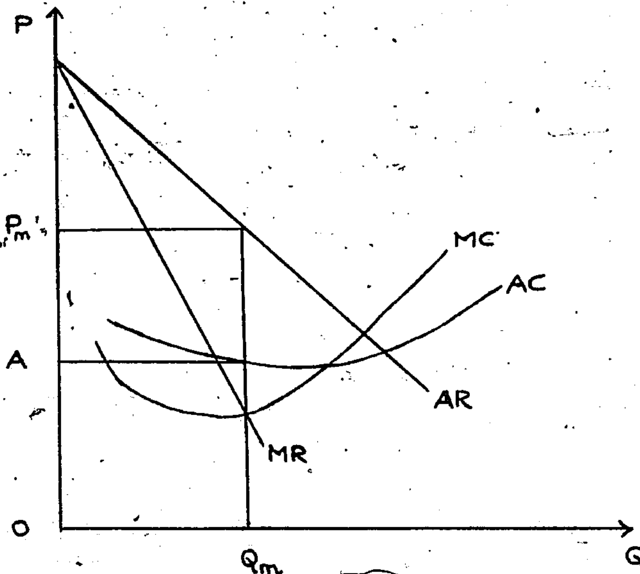
In addition to affecting real incomes through its pricing policies, the KNTC, by being the sole purchaser of a commodity, could be a countervailing power in the monopolistic

136 This is not true for all commodities, for example sugar prices are controlled at all levels of the marketing system under the provisions of the Price Control Ordinance, Cap. 504, 1962

and oligopolistic market structures that Kenya finds itself both in international trade and indomestic manufacturing. A domestic monopolist, if trying to maximize profits, will produce that output where marginal cost is equated to marginal revenue. This would require him to produce OQ_m and sell at price OP_m (Figure 3) if he were selling to competitive middlemen.[137] Given the demand and cost configuration presented in Figure 3 this would result in monopoly profits of $(OP_m - OA) \times OQ_m$.

FIGURE .3

A MONOPOLIST SELLING TO PERFECTLY COMPETITIVE MIDDLEMEN



137 A market structure that would be very closely approximated if the commodity was confined to the KNTC and KNTC did not trade in it but instructed the manufacturer to sell to the many KNTC appointed sub-distributors.

The KNTC, if purchasing from a domestic monopolist with the above cost and demand configuration would have several choices. First, it could continue as before, agreeing to purchase quantity OQ_m at price OP_m (Figure 3). If OQ_m was then sold to African sub-agents, the KNTC would have performed its Africanisation objective but would have forgone possible benefits of reducing prices and/or increasing quantities purchased. A second alternative would be for the KNTC to agree to buy as much as the monopolist is willing to sell at a price something less than OP_m - say, OP_e.[138] The monopolist would retain the same decision rule of equating marginal cost and marginal revenue if its objective function was profit examination. However, as the KNTC would have agreed to purchase all output at a price of OP_e the firms' new average revenue and marginal revenue will be horizontal at a price of OP_e and will be identical to the average revenue and marginal revenue curves under a many buyers regime as depicted in Figure 3 for all prices lower than OP_e (Figure 4). With this alternative the KNTC would purchase quantity OQ_e (a quantity greater than OQ_m) and the monopolist would still make a monopoly profit but of a smaller size than before.

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138 Ideally, OP_e would be the price where MC = AR, i.e. the economically efficient" price. However, as neither the monopolist firm nor the KNTC is likely to know the exact level of OP_e the rule of thumb of setting a price of something less than OP_m would have to be adopted.

FIGURE 4

A MONOPOLIST SELLING TO A MONOPSONISTIC STATE TRADING CORPORATION

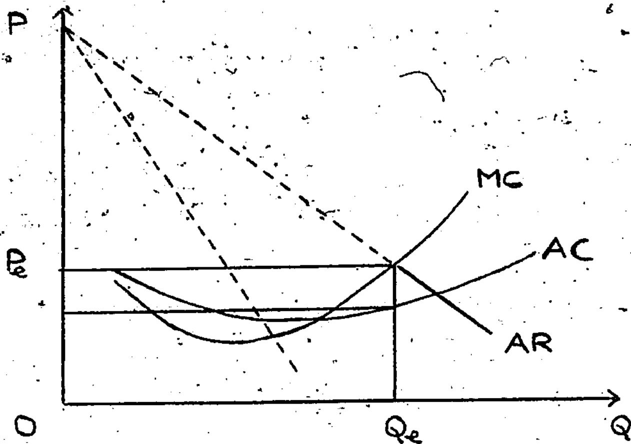
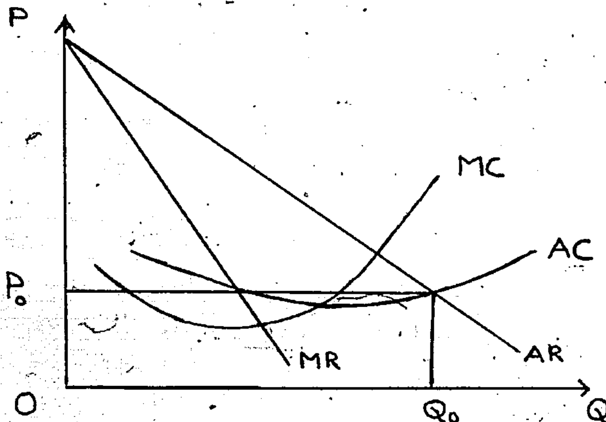


FIGURE 5

A MONOPOLIST SELLING TO A MONOPSONISTIC STATE TRADING CORPORATION



If this commodity was deemed a necessity, the welfare of African consumers would be increased if more of the commodity was produced and sold at a lower price. However, from the African optimum welfare point of view i.e. one that maximises Africans' welfare vis a vis non-Africans welfare the optimum price offered by the KNTC would be OP_o for an agreed quantity OQ_o where $OP_o < OP_e < OP_m$ and $OQ_o > OQ_e > OQ_m$ (Figure 5).[139] This would be the maximum amount that could be produced at the price OP_o without the monopolist incurring losses and without the monopolist making monopoly profits above normal profits.

If on the other hand the commodity was deemed a luxury, a fourth alternative would be for the KNTC to purchase at a price above average cost, say OP_f, but instead of purchasing quantity, Q_f, the amount the manufacturer would wish to sell to maximixe his profits, the KNTC could purchase a quantity less than OQ_f, say OQ_d and sell it at the equilibrium price, OP_d. The profits thus made by the KNTC could be used as undesignated revenue or as a source of development funds (figure 6).[140]

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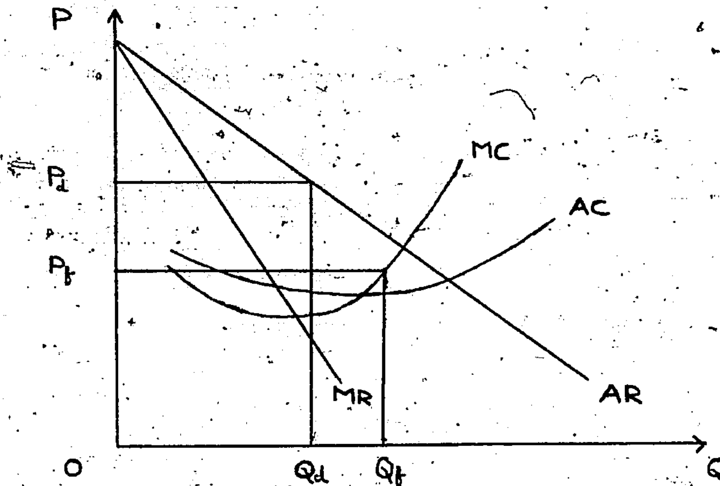
139 These optimum numbers OP_o and OQ_o would be unknown to the KNTC. However, these figures possibly could be approached with time using an iterative process of recontracting.

140 It should be pointed out that an appropiate tax/subsidy policy could have resulted in the same price/quantity relationship that have been discussed in relationship to the KNTC and a domestic monopolist.

FIGURE : 6

A MONOPOLIST SELLING TO A MONOPSONISTIC STATE TRADING CORPORATION



Thus far we have discussed the possible economic role of the KNTC with respect to domestic monopolies in manufacturing. The KNTC could also play a significant economic role in importing.

Currently, the KNTC trades in commodities considered as necessities or at least non-luxuries and the expansion of production and consumption of these is desirable. However, there are other imported commodities that are considered luxuries that are not imported by the KNTC. A reallocation of resources away from importing these commodities to importing necessities or importing capital

goods to make necessities might be considered desirable. The KNTC would be well suited as an organisation to re-allocate scarce foreign away from the importing of luxuries towards importing necessities or capital goods. Because of the relatively small quantities involved, it is probably true that the offer price of any industrial good that Kenya imports is likely to stay the same per unit regardless of how much Kenya buys, i.e. the foreign supply curve is likely to be perfectly elastic over the relevant quantity range (Sf in Figure 7).[141] If there was perfect competition among importers the quantity purchased would be OQ_1 and would be sold at price OP_1 (Figure 7). For some commodities this model may approximate the market structure of imports, i.e. some of the texile products. However, for many of the industrial commodities being imported into Kenya there is likely to be a degree of imperfect competition to the extent that there will be few importers. Under these conditions a quantity something less than OQ_1 will be imported, say OQ_2 and will be sold at price OP_2, with monopoly profits accruing to the current non-African importers (Figure 7).

Let us assume that the importing of commodity A is currently done by non-Africans. Let us further assume

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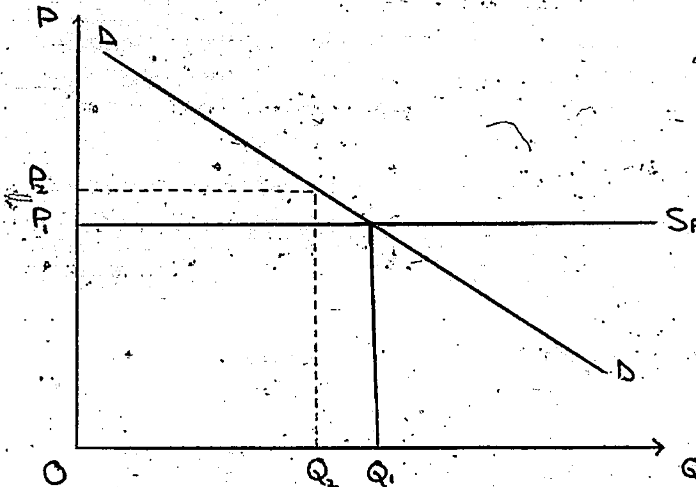
141 This ignores the possibility that if there was one large importer instead of many small importers it is probable that a large importer (i.e. the KNTC) would be able to negotiate price discounts for quantity purchases which could not be negotiated by the smaller importers.

FIGURE .7

PERFECTLY COMPETITIVE IMPORTING AND OLIGOPOLISTIC IMPORTING WITHOUT GOVERNMENT INTERVENTION



that in order to Africanise commodity A the government confines all imports to the KNTC. If it is not the government's intention to reduce imports the KNTC could either purchase quantity OQ_1 and then resell to its appointed sub-agents or else it could approve imports licences up to quantity OQ_1 and allow the appointed sub-agents to do their own importing. With both of these alternatives no monopoly profits are made.

However, if it is the government's intention to decrease the quantity of imports of commodity A as well as Africanising the importation of commodity A, the analysis becomes much more interesting. It has already been shown

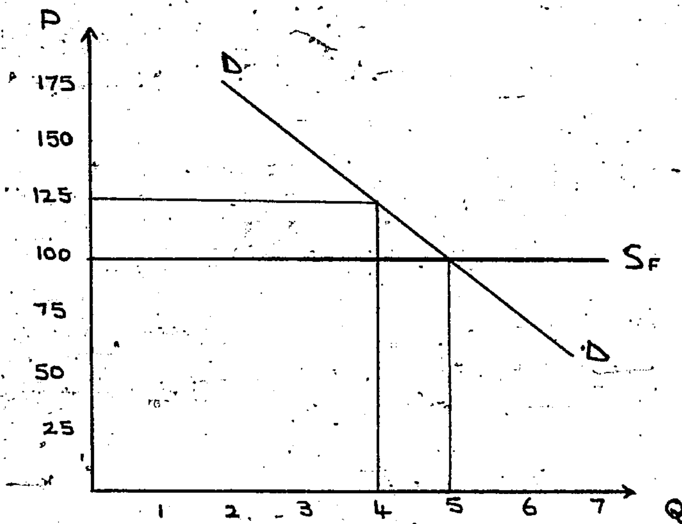
that monopsonistic/monopolistic profits may currently be made in some commodities because of the small number of importers. If there is a further reduction in imports then there is likely to be a further increase in the per unit profit. The important question is who will be the recipient of these monopsonistic/monopolistic profits.

This may best be explained with the use of an hypothetical example. Let us assume that product A can be produced for 100 shillings per unit in the exporting country, say country X, giving a perfectly elastic foreign supply curve (S_f in Figure 8). Let us also assume that the Kenyan domestic demand is represented by curve DD. At a price of 100 shillings per unit Kenyan consumers would purchase 5 units, making a total expenditure of 500 units. Let us further assume that the government decides to reduce the number of unites imported to 4 and instructs the state trading organisation, to whom the commodity has been confined, accordingly. Let us finally assume that consumers in Kenya would now be willing to pay 130 shillings per unit when only 4 are available, making a total expenditure of 520 shillings for the 4 units. But the producers in country X would be prepared to provide the 4 units at 100 shillings per unit, i.e., for a total of 400 shillings. This leaves a gap between the total purchase price and the total selling price of 120 shillings, or 30 shillings per

unit between the price which the consumer in Kenya would be prepared to pay for the 4 units and the price which the foreign supplier in country X would be prepared to accept for them (Figure 8).

FIGURE 8

DEMAND FOR IMPORTS INTO KENYA.



Let us now consider who might receive this margin. When imports are restricted by the fiscal means of a tariff or by the monetary means of a multiple exchange rate, this problem of the margin between the demand and the supply price does not arise. This is so because this margin automatically accrues to the authorities of the importing country in the form of a revenue from the import duty in the case of the tariff and in the form of a profit on the

dealings on the exchange control authority in the case of a multiple exchange rate.

With an exchange control which merely restricts the amount of money which may be spent on the particular imports or with a quantitative import restriction which limits a particular import, either by means of a quota or by means of state trading, this problem of the margin between demand and supply arises.

If the state trading organisation buys and sells on its own account this surplus may accrue to one or more of five groups: the state trading corporation; the officials within the state trading corporation; the sub-agents purchasing from the state trading corporation; the consumers or the foreign manufacturers.

The state trading corporation could purchase at 100 shillings per unit and could sell at 130 shillings per unit and the margin would accrue to the state trading corporation. This money could then be used to further the aims of the state trading monopoly or handed over to the treasury.

However, if the state corporation purchased at 100 shillings per unit and resold the commodity to its appointed sub-agents at 100 shillings per unit the surplus would accrue to the lucky sub-agent, if he was to resell it at 130 shillings per unit.

Under these circumstances, being a sub-agent for the sale of commodity A would be a lucrative business. Certain potential traders might be willing to use their political influence or part of this surplus to persuade officials of the state trading corporation that they would be worthy recipients of sub-agencies enabling them to sell commodity A. In this case part of the margin would accrue to officials within the state trading organisation.

Alternatively, the state trading corporation could resell at 100 shillings to sub-agents but place restrictions on the price that the sub-agents could resell. This would result in a situation in which there was excess demand, i.e. if the price was less than 130 shillings per unit than 4 units would be demanded. Therefore, either an official system of rationing would have to be introduced or else there would be shop shortages, queues and under-the-counter sales. Moreover, it would be difficult, if not impossible to prevent satisfied customers at the front of the queue from re-selling to frustrated customers at the rear of the queue.[142]

The final situation is one in which the exporters in country X are able to appropiate to themselves all or some of the margin between the high demand price at which the restricted quantity of imports could be sold in Kenya and the lower price that they would in normal competitive

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142 Prices are, of course, a means of rationing but based on ability to pay rather than some other criterion.

conditions be prepared to supply these exports.

The other alternative would be for the importing of commodity A to be confined to the state trading organisation but instead of trading on its own account it could issue the restricted quantity of licences to appointed African sub-agents. Under this system the surplus could accrue to one or more of the following six groups: the previous non-African importers; the new Africans importers; the officials approving the import licences; the state trading corporation; the consumers; or the manufacturers in the exporting country.

If African traders permitted themselves to become fronts to pre-existing non-Africans importers then the margin would accrue to the non-African importers. Such a result would not accomplish the objective of Africanisation of importing of commodity A, and instead of a flow of purchasing power from non-Africans to Africans there would likely be an increased flow of purchasing power to non-Africans.[143]

If an African trader does not permit himself to become a front for pre-existing importers the margin of 30 shillings will accrue to which ever African importer is fortunate enough to have been granted a licence. Because a licence to import a unit of commodity A is so valuable a

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143 This would depend on the magnitude of increased profits due to restriction and the fee demanded by the African for acting as a front.

part of the 30 shillings may accrue as a bribe to the official who has to decide whether to grant the licence to Mr. A. or to Mr. B. Mr. A. or Mr. B. may be prepared to use some of this difference between the purchase price and the sales price to help the offical to decide to whom he shall hand out the valuable licence.

Alternatively, instead of the margin accruing to pre-existing non-African importers, African importers or government licensing officers the margin could accrue to the state trading organisation. This could be done by the simple expedient of either charging private traders a commission, by selling the licences for a fixed sum or by auctioning the licences to the highest bidders.

In this way a state trading corporation, trading on its own account, by restricting the volume of imports and by themselves absorbing the monopoly profits on such restricted trade, could have substantially the same effects in reducing the volume of trade as could be achieved by a system of import licences sold to private traders.

State trading organisations could also be used for the purpose of expanding import or export trade which would result from the payment of import or export subsidies. A state export organisation could, for example, purchase larger quantities of the home produce for sale abroad than would be exported by private traders. This would result

in a loss and would correspond to an export subsidy which in a regime of private trade would have been necessary to promote this increase in exports.

Similarly, with a state import organisation, it could purchase larger quantities of imports than the ordinary competitive amounts and put these on sale on the home market at a loss. This loss would correspond to the import subsidy which would be necessary to promote this increased quantity under a regime of private trade.

The KNTC could be used as a means of Africanising imports and at the same time perform numerous other international trade objectives. Two approaches exist and have been discussed, i.e. the KNTC can trade on its own account or it can licence African traders to do the importing.

This method of allocating licences to African importers would be difficult to determine. Quotas set on the basis of past import performance are obviously inadequate in meeting Africanisation objectives because almost all importing in the past has been performed by non-Africans. Global quotas which are gradually reallocated to Africans would be a move in the right direction. However, several problems may emerge from such an approach. First, it is likely that the greater proportion of the quota would be allocated to the original African importers rather than to newly appointed Africans. Objections to this stem from the basis of selecting the original African traders and from the

freedom of entry that is implied. This freedom of entry would be necessary to counterbalance the danger of collusion from developing which might result in price increases, monopoly profits and an unjustified flow of resources from consumers to importers.

The granting of import licences to a select group of African importers is less than satisfactory because the KNTC loses control over imports, because of the dangers of monopoly situations, developing and because of the dangers of Africans becoming fronts for non-African traders. It is obvious that any system of Africanising the import trade based upon a system of restricted licensing is bound to fail if it is both possible and advantageous for the primary recipients of the licences to resell the licences or resell the commodity without performing any of the marketing functions. Either one must have a law that makes it illegal to sell to the non-Africans and policed to ensure that it is effective or one must use the price mechanism to ensure that it is financially advantageous for Africans to perform the marketing functions. Unfortunately the latter solution implies price increases which run counter to consumer interests. In addition this would result in a bigger commission being offered to Africans with licences when handing over the commodity to non-Africans.

The advantages of the KNTC doing the importing on its own account, or acting as an indent agent for appointed

sub-agents, are numerous.

(1) Only two levels of the distribution system would have to be policed to ensure non-Africans were not trading instead of three;

(2) Importing and the vagaries of the international product and money market are complex and much further removed from everyday knowledge of the average African trader. Many economics exist if personnel within the KNTC obtained in depth expertise in this field rather than somewhat superficial knowledge being gained by dozens or even hundreds of individual importers whose primary role is that of wholesaler;

(3) The objective of protection would be more easily accomplished with a single state controlled monopsony than with numerous importers;

(4) The KNTC could canvass for cheapest sources of supply and to negotiate quantity discounts.

IV. SUMMARY

KNTC objectives include increasing African participation in distributive trading by providing wholesale credit and by channeling goods through African traders; by acting as an export agent for certain goods sold to socialist bloc countries, and by increasing efficiency and market penetration into rural areas. The KNTC has, in practise concentrated almost all its efforts on increasing African participation in distributive trading. It is argued in this

chapter that this is a restricted objective.

First, the KNTC pricing policies might complement other government efforts to redress real income imbalances by subsidising prices in rural areas and by subsidising commodities more commonly consumed by poorer people. In addition to affecting real incomes through its pricing policies, the KNTC, by being the sole purchaser of a commodity, could be a countervailing power in the monopolistic and oligopolistic market structures that Kenya finds itself both in international trade and domestic manufacturing. Several models are presented which demonstrate how the KNTC might reduce purchase prices and/or increase quantities purchased in both domestic manufacturing and international trade. In addition, the advantages of the KNTC importing and trading on its own account rather than licensing Africans are discussed. The remaining three chapters are an analysis of the actual operation of the KNTC.

CHAPTER V

OPERATIONS AND FINANCIAL ANALYSIS OF KNTC

I. INTRODUCTION

The aim of this chapter is to review the history of the KNTC's operation during its first five years. During the course of this review it will be shown that the KNTC has steadily moved away from a policy of trading on its own account thus supplying marketing services such as providing credit, transportation and storage to a policy of indenting and licensing. It is hypothesised that the accumulation of large amounts of bad debts has left the KNTC short of working capital and that this has resulted in the partial withdrawal of the KNTC from supplying these services. It will be shown in Chapter VI that the withdrawal of these marketing services has resulted in African wholesalers having increased problems in providing the full range of marketing services to their retailers thus making it increasingly difficult for the African wholesalers to compete with non-African wholesalers who are able to provide these services.

II. ORGANISATION GROWTH AND MODUS OPERANDI OF KNTC

The Organisation of the KNTC

The Kenya National Trading Corporation was formed in 1965 with an authorised capital of 10,000 shares of 20 shillings each. All 10,000 shares have been issued and

fully paid and are held by the Industrial and Commercial Development Corporation. As mentioned earlier, the ICDC is a statutory body reporting to the Ministry of Commerce and Industry. Therefore the KNTC, although not a statutory body, is closely controlled by the government. It is from this close relationship with the government that the KNTC obtains much of its power.

The KNTC obtains the legal right to become a monopsonist/ monopolist of certain goods distributed in Kenya through the provisions of the Trade Licensing Act. Once an item comes under the Trade Licensing Act as a specified good, that is, tradeable only by a citizen, the KNTC can take over local distribution pursuant to the Imports, Exports and Essential Supplies Act.[144] The source of the KNTC's powers to control certain imports emerges directly from the provisions of the Import, Export and Essential Supplies Act. Part 2 of the Import, Export and Essential Supplies Act deals with import licensing. There are three schedules of goods requiring licences outlined in the Act. Schedule one is a list of all goods imported from countries other than Uganda or Tanzania which are prohibited without a licence issued in accordance with the Act; schedule two is a list of goods which may not be imported from any country without a

144 Republic of Kenya, "Import, Export and Essential Supplies Act, "Kenya Gazette (Nairobi: Government Printer, 1968), Cap. 502 and Legal Notice 348

licence issued in accordance with the Act; and schedule three is a list of those goods which may not be transferred into Kenya from Uganda and Tanzania except via the Kenya National Trading Corporation.

In addition, goods on schedules one and two may also be confined to the KNTC. These goods are confined to the KNTC not by being put on a special schedule, but by instructions being issued by the Director of Trade and Supplies to the Licensing Officer to the effect that these goods should only be imported via the KNTC. The instructions are issued by the Director in accordance with the powers given to him under the Act to lay down the procedure for licences.[145]

The principal objective pursued by the KNTC is the Africanisation of wholesale distributive trade.[146]

The KNTC Board of Management consists of a chairman and seven other members represnting the government and the trade. The day-to-day affairs are delegated to the General Manager. There are trading divisions in the KNTC, Produce and Provisions, Textiles and, Hardwares. Each is headed by a commercial executive. The commercial executives report to the commercial manager who in turn reports to the general manager. In addition, there are the staff divisions of accounts, finance, and personnel. In May of 1970, the

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145 I am indebted to Charles Lubar, Legal Consultant to the East African Development Bank and Michael Phelps of the Institute for Development Studies for guidance in writing the section on the source of the KNTC rights in the field of distribution.

146 See Chapter IV.

following commodities were handled by the KNTC:

A. Product and Provisions

1. Sugar: local and imported
2. Salt: local and imported
3. Rice: imported
4. Edible oils and vegetable ghee (liquefied butter)
5. Soap: local and imported
6. Shampoos.
7. Local sweets (East Africa)
8. Imported confectionary
9. Matches: local and imported
10. Jaggery (sugar by-product)
11. Battery cells
12. Torches (flashlights)
13. Razor blades
14. Household insecticides: Local and imported
15. Rat traps
16. Brooms and brushes: local and imported
17. Wines and spirits

B. Textiles

1. Nytil Jinja fabrics[147]
2. Mulco textiles[148]
3. Cotton piece goods: local and imported
4. Second hand clothing
5. Shirts: Local and imported
6. Knitwear
7. Blankets: local and imported
8. Socks and stockings
9. Suiting materials
10. Japanese and other Khangas
11. Ready made trousers

C. Hardwares

1. Cement
2. Galvanised corrugated iron sheets
3. Galvanised plain fencing wire
4. Pangas (hand axes)
5. Axes
6. Padlocks
7. Shovels and spades
8. Hose and forks

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147 Textiles manufactured in Uganda.

148 Textiles manufactured in Uganda.

9. Barbed wire
10. Nails
11. Lanterns
12. Cooking pans
13. Charcoal irons
14. Metal beds: local and imported
15. Bicycles, spares, tyres and tubes.

GROWTH OF THE KNTC

In the first two or three years of operations, produce and provisions dominated the KNTC's trading activities (Figure 9). Textile trading became an important activity in 1968 and hardware became important in 1969. The value of goods traded has increased in each of the three categories with time. However, as a proportion of goods traded, produce and provisions have declined with time and both textiles and hardwares have increased. In the second half of 1969 the respective proportions were 46 percent, 31 percent and 22 percent (Tables V.1, V.2 and V.3).[149]

The Kenyan government was responsible for sugar distribution before the formation of the KNTC. Sugar was confined to the KNTC immediately after the corporation was formed and for the first two years sugar sales dominated the KNTC's trading operations i.e. sugar sales comprised 93 percent and 96 percent of the total KNTC sales in 1965/66

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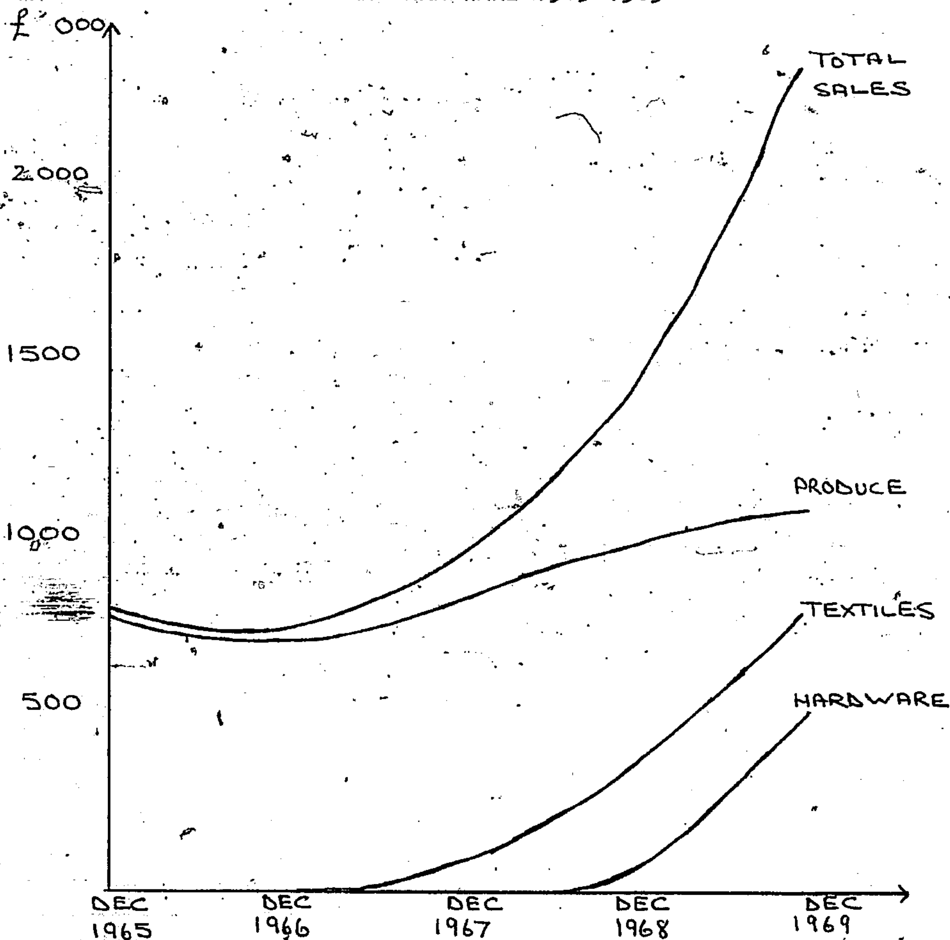
149 Data for the periods 1965/66, 1966/67, and 1967/68 were extracted from the KNTC annual financial statements. Audited statements for 1968/69 were not available. However, the KNTC made available unaudited trading accounts for the two six month periods, July to December 1968 and July to December 1969. Although the KNTC was not organised along the lines of produce and provisions, textiles and hardware at its inception, the analysis was made along those lines.

FIGURE 9

KNTC: AVERAGE MONTHLY SALES OF PRODUCE/PROVISIONS, TEXTILES AND HARDWARE 1965-1969



Source: Developed for audited ~~fi~~nacial statements for the years 1965/66, 1966/67, and 1967/68 and from unaudited monthly trading accounts for 1968 and 1969.

1966/67 respectively. Imported rice was an important KNTC product in two of its first three years (Table V.1). Several other produce and provisions commodities became important in 1968 including local salt, local soap and edible oils and ghees and to a lesser degree imported salt, imported soap, imported confectionary and sweets and imported matches (Table V.1).

Small quantities of textiles and second hand clothing have been imported into Kenya by the KNTC since its formation, however, it was not until 1968 that large quantities of these products began to be imported by the KNTC. Other textile products, such as imported Khangas, imported[150] shirts and imported blankets were also confined to the KNTC in early 1968 and have been imported in increasing amounts since that time (Table V.2).

Locally produced cement has been the dominant commodity within the Hardware division accounting for more than 50 percent of the division's sales in the latter half of 1968 and slightly less than 50 percent in the latter half of 1969 (Table V.3). Other important hardware products handled by the KNTC in 1969 included bicycles and bicycle parts, charcoal irons, iron sheets and nails.

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150 The KNTC uses the word importing very loosely. These imported shirts and blankets include transfers from Uganda and Tanzania as well as imports from outside of East Africa.

TABLE V.1

KNTC PRODUCE/PROVISIONS SALES

1965 - 1969

	Sales (£ '000)					Percent of Total KNTC Sales				
	1965/6	1966/7	1967/8	July-December 1968	July-December 1969	1965/6	1966/7	1967/8	July-December 1968	July-December 1969
local sugar	7579	7653	8467	4766	4826	93	96	75	55	33
Imported sugar	0	0	0	0	55	0	0	0	0	0
local salt	0	0	121	127	213	0	0	1	1	1
Imported salt	0	0	0	16	31	0	0	0	0	0
local soap	0	0	0	553	1009	0	0	0	6	7
Imported soap	0	0	0	19	45	0	0	0	0	0
Edible oil & ghees	0	0	0	79	415	0	0	0	1	3
Transferred sweets	0	0	0	26	55	0	0	0	0	0
Imported confectionary	0	0	0	20	8	0	0	0	0	0
Imported matches	0	0	0	84	18	0	0	0	1	0
Imported rice	483	0	430	0	18	6	0	4	0	0
Drippings	21	6	0	0	0	0	0	0	0	0
House of Manji products	0	0	260	0	0	0	0	2	0	0
Total Produce/Provisions	8082	7662	9327	5694	6693	99	96	83	66	46
Total all KNTC Sales	8134	7959	11296	8590	14,439					

Source: Developed from audited financial statements of the KNTC for the years 1965/66, 1966/67, and 1967/68 and from unaudited monthly trading accounts of the KNTC for the years 1968 and 1969.

TABLE V.2

KNTC TEXTILE SALES

1965 - 1969

	Sales (£ '000)					Percent of Total KNTC sales				
	1965/6	1966/7	1967/8	July-December 1968	July-December 1969	1965/6	1966/7	1967/8	July-December 1968	July-December 1969
Imported Textiles	5	56	1671	1746	2984	0	0	14	21	22
KNTC 2nd Hand Clothing	26	95	112	7	0	0	1	1	0	0
Indented 2nd Hand Clothing	0	0	0	190	521	0	0	0	2	4
Japanese Khangas	0	8	68	36	27	0	0	1	0	0
Non-Japanese Khangas	0	0	0	45	34	0	0	0	1	0
Imported Shirts	0	0	0	59	180	0	0	0	1	1
Imported Blankets	0	0	0	89	184	0	0	0	1	1
Local Blankets	0	3	31	0	378	0	0	0	0	3
Total Textiles	31	163	1853	2172	4608	0	2	16	25	31
Total all KNTC Sales	8134	7959	11296	8590	14439					

Source: Developed from audited financial statements of the KNTC for the years 1965/66, 1966/67, 1967/68 and from unaudited monthly trading accounts of the KNTC for the year 1968 and 1969.

TABLE V.3

KNTC HARDWARE SALES

1965 - 1969

	Sales (£ '000)					Percent of Total KNTC sales				
	1965/66	1966/7	1967/8	July-December 1968	July-December 1969	1965/6	1966/7	1967/8	July-December 1968	July-December 1969
Cement: KNTC Agents	0	0	5	249	384	0	0	0	3	3
Cement: Manufacturers	0	0	0	211	1006	0	0	0	2	7
Bicycles & Spares	0	0	0	249	184	0	0	0	3	1
Batteries	0	0	0	5	62	0	0	0	0	0
Torches	0	0	0	0	26	0	0	0	0	0
Charcoal Irons	0	0	0	0	249	0	0	0	0	2
Razor Blades: Imported	0	0	0	0	63	0	0	0	0	0
Iron Sheets	0	0	0	0	763	0	0	0	0	5
Nails	0	0	0	0	166	0	0	0	0	1
Razor Blades Local	0	0	0	0	12	0	0	0	0	0
Barbed Wire	0	0	0	0	48	0	0	0	0	0
Wines and Spirits	0	0	0	4	398	0	0	0	0	3
Pipes	5	0	0	0	0	0	0	0	0	0
Total Hardware	5	0	5	719	3138	0	0	0	8	22
Total all KNTC Sales	8134	7959	11296	8590	14439					

Source: Developed from audited financial statements of the KNTC for the years 1965/66, 1966/67, 1967/68 and from unaudited monthly trading accounts of the KNTC for the years 1968 and 1969.

The first two and one half years of the KNTC's existence were used to clarify the corporation's objectives and to build up the administrative machinery necessary to run a trading organisation. A number of false starts were made, most probably due to lack of clearly defined terms of reference. Evidence of these early problems is found in the trading accounts of the KNTC for the financial years 1965/66 and 1966/7. A number of oddly assorted commodities were traded in small amounts for short periods. Their inclusion appears to follow no rational, well thought out policy objective and their trading was subsequently abandoned. Examples of commodities initially traded but later abandoned include sisal (£ 16,182),[151] radios (£ 47), pipes (£ 4,786), pencils (£ 336), typewriting oil (£ 38), beef drippings (£ 20,587), sewing machines (£ 169), bolts (£ 31) and canned goods (£ 474).

By the end of its second financial year the KNTC had abandoned this apparently directionless trading programme and had organised itself along the lines of a produce and provision division, a textile division and a hardware division. It also appears to have made the decision to trade in those commodities that represent the African

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151. The values in parentheses are the total value of goods traded before the line was subsequently dropped from the trading list. Most of these commodities were excluded from the abbreviated Tables of sales of the three KNTC divisions (Tables V.1, V.2 and V.3

consumption items that are sold through commercial channels and which are not sold through the marketing boards, marketing cooperatives or directly through manufacturers channels.[152] These goods have been confined to the KNTC irrespective of whether they are imported or produced in Kenya.

In deciding which commodities would be confined to the KNTC for Africanisation, the government and the KNTC also appear to have taken cognizance of the fact that the emerging African traders did not possess all the skills and resources possessed by the well established non-African traders. With a very few exceptions the commodities that have been confined to the KNTC for Africanisation have been low risk, non-perishable, non-technical goods and are not subject to changing tastes. Possible exceptions to this might include battery cells which do have a limited shelf life and possibly some of the textile products which are subject to some style changes.

However, except for these two products, few marketing risks are involved in the trading of the commodities thus far confined to the KNTC. Neither demand nor supply is subject to large unpredictable changes as might be expected with certain agricultural products or with the more fashio-able textile lines. Therefore, the new African traders (or the KNTC for that matter) does not face the problems of

152 See Appendix D for a description of consumption pattern of Africans, Asians and Europeans in East Africa.

fluctuating prices. In addition, none of these products are particularly perishable providing that they are kept dry and away from vermin. This means that the only storage requirements necessary are those sufficient to prevent the commodities from getting wet and to prevent vermin from attacking the produce. No extra capital equipment, such as refrigeration units, are required. This lack of perishability also has the added advantages that if a new trader overstocks a certain line the only cost to him is the opportunity cost of the capital tied up in excess stocks whereas with overstocking in a perishable commodity losses may be the loss of the product itself or at best a large price reduction to clear the excess stocks.

KNTC sales during the July-December 1969 period were K Ł 14,439 thousands. The KNTC imports from outside of Kenya are estimated at K Ł 5,524 thousands[153] and the KNTC sales of local manufacturers are estimated at KŁ 8,915 thousands for the six month period. To obtain an estimate of total KNTC imports and total KNTC sales of domestic manufactured products for 1969, these six month estimates are multiplied by a factor of two giving K Ł 11,048 thousands for KNTC imports and K Ł 17,830 thousands for KNTC sales of domestic manufactured products.

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153 Calcualted from information presented in Tables V. 1-V.3. Sugar valued at K Ł 800 thousands was transferred from Uganda. The value of imports were adjusted accordingly.

Total imports into Kenya in 1969 was K £ 128.2 millions[154] and the gross output of Kenya's manufacturing industries was K £ 137 millions.[155] Therefore, KNTC imports were approximately 9 percent of total imports into Kenya and KNTC sales of local products were 13 percent of total output of local industry. With only 9 percent of total imports and 13 percent of sales of domestic manufactures confined to the KNTC it is clear that the role of the KNTC in Africanising and meeting other government international trade and domestic trade objectives is seriously circumscribed.

KNTC MARKETING OPERATIONS.

Kenya is divided into some 50 districts. African traders of produce and provsions or textiles or hardware are appointed to specific districts by the KNTC. In principle, these sub-distributors are restricted to trading in the one district to which they are appointed.

The KNTC uses three approaches to meet its objective of Africanising the wholesale trade of those commodities that have been confined to it. In all three approaches the KNTC's ability to Africanise stems from its being granted monopsonistic/monopolistic powers over importing and purchasing from domestic manufacturers under the provisions of the Trade Licensing Act and the Imports, Exports and Essential

154 East African Customs and Excise, Annual Trade Report Of Tanzania, Uganda, and Kenya, 1969 (Mombasa: East African Customs and Excise Department, 1970). Tables I & V.

155 Republic of Kenya, Development Plan 1970-1974 (Nairobi: Government Printer, 1969), p. 307.

Supplies Act.

In the first approach the KNTC exercises its legal right to purchase and buys and sells on its own account. Under this system the KNTC imports directly, imports through an intermediary or purchases directly from local manufacturers. The purchased commodity is then stored in the KNTC owned warehouses at Kitale, Eldoret, Thomson's Falls, Nanyuki, Karatina, Kisumu, Maragwa, Kericho, Nakuru, Thika Nairobi, Machakos, Naivasha, and Mombasa.[156] The commodity is then purchased by KNTC appointed African sub-distributors from the KNTC warehouses who in turn sell to retailers, sub-wholesalers or to final consumers.

The services providied by or through the KNTC include credit, storage, transport, securing a source of supply, ordering, bulk breaking, and price setting. Commodities ~~Afri~~canised using this approach include sugar, salt, edible oils and ghees (before policy change), imported matches, razor blades, certain textiles (before policy change) and cement.[157]

The second type of marketing procedure used by the KNTC is purchasing on behalf of appointed sub-distributors. Sub-distributors place their orders with the KNTC which then places it with the manufacturer. The KNTC pays the

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156 The KNTC has two warehouses at Narobi, Karatina and Kisumu and one warehouse at each of the other towns mentioned.

157 A description of the marketing functions performed by the KNTC and its appointed sub-distributors in the marketing of these commodities is presented in Appendix I.

manufacturer who sends the goods to the railway station closest to the sub-distributor. The KNTC sends the release papers to the sub-distributors' bank which will hand over these papers only after the sub-distributor pays the KNTC. The sub-distributor takes the release papers to the railway station and takes possession of the goods. The major services provided by the KNTC are locating sources of supply and guaranteeing payment to the manufacturer who might otherwise be unwilling to sell to unknown African traders. Commissions are paid to the KNTC either by the manufacturer or by the sub-distributor. Examples of commodities traded in this way include domestic salt, certain Ugandan textiles, and Japanese Khangas.

The final approach employed by the KNTC has been to permit some or all of the appointed sub-agents to purchase directly from local manufacturers and to import directly from overseas manufacturers. In the case of Africanising the products of local manufacturers the KNTC instructs the manufacturer that all of his output must be sold to KNTC appointed sub-agents. The problem is slightly more complex in the case of imported goods.

Certain goods require import licences under the provisions of the Import, Export and Essential Supplies Act. A number of goods handled by the KNTC require licences either because they are schedule III items of the Import, Export and Essential Supplies Act or because they are schedule I or II goods of the Import, Export and Essential Supplies Act

which have also been confined to the KNTC by Trade and Supplies.[158] The major reasons for placing goods on one of the three schedules was protection of local industry (Schedule I and II goods) and Africanisation (Schedule III goods) or both protection and Africanisation in the case of goods placed on schedule I and II which have also been confined to the KNTC.

There are three basic types of licences issued for goods confined to the KNTC:

a) Licences may be issued without restriction as to quantity provided that the application has been approved by the KNTC.

b) Licences may be issued without restriction as to quantity provided that the price of the good is above a certain minimum[159] and provided that the application has been approved by the KNTC eg., boiled sweets may be imported provided that they are over 2 shs. per pound, imported shirts above 20 shs. CIF Mombasa and imported blankets above 15 shs. per blanket.

c) The commodity may be under a quota restriction and also confined to the KNTC, e.g., imported material is under quota and is handled by the KNTC. The quota is divided between manufacturers and KNTC sub-agents. Manufacturers quotas were based upon their 1967 usage figures.

It should be emphasised that import licences are not issued by the KNTC but by Trade and Supplies. Indents are sent to the KNTC by the KNTC's appointed sub-distributors.

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158 Department of Trade and Supplies, a division within the Ministry of Commerce and Industry reponsible for issuring import licences.

159 The presumed rationale for this is that it will protect local manufacturers of inexpensive products from cheap imports.

If the KNTC approves the Indent, copies are sent to Trade and Supplies. It is stamping of the indent by Trade and Supplies which transforms the indent into an import licence. The import is returned to the KNTC which will release it to the sub-agent upon receipt of commission.

In all three approaches to Africansation it would appear that the government and the KNTC have taken cognizance of the fact that one of the contributing reasons for the lack of African participation in wholesaling is that sources of supply were controlled by non-Africans. By granting monopsony/monopoly powers to the KNTC the government has effectively placed supplies under the control of Africans. In addition, by ordering commodities, arranging for their transportation, by warehousing them and by selling on credit it would appear that the KNTC has taken cognizance of the fact that many African traders lack capital and experience. These marketing services are only provided by the KNTC when it trades on its own account. They are not provided when the KNTC acts as an indenting agent or as a licensing agent.

It would seem that the KNTC orignally adopted three different approaches as a result of a realisation that different commodities require different channels of distribution. For instance, the KNTC trades on its own account those commodities the demand for which is relatively stable,

e.g. sugar, salt, vegetable oils and ghees and certain textiles. The demand for certain other textiles, such as khangas, is not so easily predicted. Therefore, to prevent the danger of overstocking the KNTC places orders only after receiving firms orders from its appointed sub-agents. However, by not trading on its own account, the KNTC is foregoing one of its greatest potentials, the ability to use its market power to influence both quantities purchased and prices paid. This potential use of market power is important and will become increasingly so if the KNTC takes over a wider range of commodities.

III. FINANCIAL ANALYSIS OF KNTC

The KNTC has been steadily shifting away from trading on its own account to becoming a purchasing agent and approving sub-distributors direct purchases. Evidence of this change in emphasis from trading on the KNTC account to approving imports is presented in Table V.4. As mentioned earlier, goods confined to the KNTC are marketed in three different ways. First, the KNTC may purchase the commodity and then resell it to its sub-distributors; secondly, sub-distributors may order goods from the KNTC which then purchases the good for the sub-distributor; finally the sub-distributors may purchase directly from domestic manufacturers or import directly from the overseas suppliers with the approval of the KNTC. In the trading accounts of the KNTC, the second and third methods of marketing are aggregated under

the rubric of indented orders.

In 1965/66, the first year of its operation, the KNTC obtained 93 percent of its profits from goods traded on its own account and only 7 percent from indented orders and other commissions. Since then the proportion of profits derived from goods traded on the KNTC's own account have steadily declined -- except for 1966/67, a year of major reorganisation. By the latter half of 1969, the last period for which any data were available at the time of writing, only 45 percent of the KNTC's trading profits were derived from goods traded on the KNTC account. Since December 1969, a number of goods including vegetable oil and ghee and some textiles have ceased to be traded on the KNTC account and are now imported directly. For this reason, it is probably reasonable to assume that in 1970 less than fifty percent of the gross trading profit of the KNTC was from goods traded directly on the KNTC account and that over fifty percent of the profit was from commissions on indented orders and imports.

By the end of 1969 the KNTC had accrued K £ 800,000 of bad debts on credit sugar sales. This compares with corrected assets of K £ 922,570 in June 1968 (Table V.6) and is substantially in excess of the gross trading profit of K £ 550,000 [160] made by the KNTC on sugar sales during its

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160 Audited and unaudited trading accounts of the KNTC.

first few years.

TABLE V.4

ORIGIN OF KNTC TRADING PROFITS

1965 - 1969

Period	Profit on Direct Sales Ł '000	Profit on Indented Orders Ł '000	Gross Trading Profit Ł '000	Percentage of Trading Profit from Indented Orders
1965/66	206	16	222	7
1966/67	100	17	117	15
1967/68	296	45	342	13
July to December 1968	128	67	196	34
July to December 1969	149	120	270	45

Source: Audited trading accounts of KNTC for years 1965/66, 1966/67 and 1967/68 and uanaudited trading accounts of individual commodities July-December 1968 and 1969.

An excerpt from the East African Standard summarises the problem:

> The Kenya National Trading Corporation had run into difficulties because traders had failed to pay back loans granted for sugar, the Minister of Commerce and Industry, Mr. Osogo, said in Nairobi yesterday. Some Ł 800,000 was still outstanding... As a result the Treasury had refused to give further advances to traders until the money was repaid. The KNTC for its part had stopped granting loans to traders.[161]

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161 East African Standard, February 10, 1970.

It is not altogether clear how the situation got so far out of hand but a major contributing factor was that the KNTC had set up no system of credit control. Some traders were able to buy sugar on credit for several consecutive weeks or even months without repaying a single shilling. In fact, cases exist of sub-distributors buying a number of consignments of sugar on credit and then ceasing to purchase. Later, when the KNTC was attempting to make collection on these bad debts, it transpired that the traders had long since disappeared and were untraceable.[162]

An analysis of Nairobi credit sales revealed that the 26 Nairobi sugar sub-distributors had credit still outstanding or had had their debts written off.[163] In a number of cases the sums of money involved were substantial. The debts of 10 Nairobi sugar sub-distributors, totalling 1.6 million shillings, had been written off. The largest debt written off was 460 thousand shillings and the smallest was 15 thousand shillings ($M = 161$ thousand shillings, $\sigma = 41$ thousand shillings). In addition to debts written off, sixteen Nairobi sub-distributors still owed money totalling 1.9 million shillings. The largest amount owed by a sub-distributor was 630 thousand shillings, the smallest 3 thousand shillings ($M = 119$ thousand shillings, $\sigma = 64$ thousand shillings). An

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162 Conversations with KNTC officials and data from KNTC files.

163 Data extracted from KNTC credit files.

additional 120 thousand shillings was owned by government institutions (M = 11 thousand shillings, σ = 9 thousand shillings). The sum of Nairobi sub-distributor's debts written off and credit still outstanding was 3.6 million shillings.

A priori there is no reason to believe that defaults, write-offs and debts outstanding should be different in Nairobi than in other districts with the exception that almost all institutional purchasing was done in Nairobi. Subtracting the debt outstanding from institutional sources from total debt outstanding leaves us with total Nairobi debts of 3.5 million shillings. Approximately 20 percent of all Kenya sugar sales are through the Nairobi depot. To obtain a rough estimate of national debts, the Nairobi figure was multipilied by a factor of 5. This gave a total of 18.3 million shillings, of which 8 million shillings would have been debts written off. This estimated figure of K £ 912,750 approximates the figure of K £ 800,000 quoted by the Minister.

During the period that these debts were being accumulated the KNTC sold approximately K £ 38 millions of sugar. Defaults of K £ 800 thousand represents just a little over 2 percent of total sales. However, the gross trading profit on sugar sales was approximately K £ 5550 thousand, i.e., credit losses on sugar sales were much larger than the gross trading profits derived from sugar sales.

As mentioned earlier, the KNTC has an authorised equity capital of 10,000 shares of 20.00 shillings each, all of which are issued, fully paid and held by the ICDC. Some working capital is supplied by credit on sugar purchases. Sugar manufacturers are paid by the Ministry of Commerce and Industry at the end of the month for all purchases made during the month. The KNTC pays the ministry at the rate of one third at the time the ministry pays the manufacturer, one third on the 15th of the following month and the final third at the end of the month. This gives an average credit of approximately one month's sale of sugar. However, the KNTC was required to have 1 1/3 months of sugar in stock; one month for commercial purposes and a third of a month at the request of the government for strategic purposes.[164] Therefore, if the KNTC did, in fact, keep this required amount of sugar on stock, it would have to have obtained working capital from other sources.

It would appear that the required amount of sugar had not been stored for in all three balance sheets stocks at cost amounted to less than two weeks sugar sales. In addition, some of this total would have been made up of stored textile and hardware products.[165]

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164 Information supplied by Mr. Odary.

165 KNTC audited financial statements for the years 1965/66, 1966/67 and 1967/68. Summaries of these financial statements are presented in Appendix E.

TABLE V.5

SUMMARY OF KNTC BALANCE SHEET 1968

	K Ł		K Ł
Share Capital	10,000	Fixed Assets	39,020
Unappropriated Profit	83,421	Subsidiary Company	5,650
Unsecured Loan	14,072	Trade Investment	30,090
Current Liabilities	1,305,879	Current Assets	1,338,612
Total Liabilities	1,413,372	Total Assets	1,413,372

Source: Adapted from audited KNTC balance sheet 30th June 1968.

This credit arrangement could have accounted for approximately K Ł 800 thousand of the source K Ł 1.3 million current liabilities in 1968. No further information was available concerning the remaining K Ł 500,000. Either the KNTC had received more liberal credit on its sugar purchases or it had secured some kind of government loan.

Provisions for bad debts were K Ł 104,948, K Ł 3,878 and K Ł 200,372 in 1966, 1967 and 1968 respectively, summing to a total of K Ł 309,198 giving a figure of K Ł 1,338,612 for current assets in 1968 (Table 2). In 1967, the auditors of the KNTC's books reported that, in their opinion, the provision for bad and doubtful debts might prove insufficient.

TABLE V.6

REVISED KNTC BALANCE SHEET, 1968

	K Ł		K Ł
Share Capital	10,000	Fixed Assets	39,020
Unappropriated Profit	83,421	Subsidiary Company	5,650
Unsecured Loan	14,072	Trade Investment	30,090
Current Liabilities	1,305,879	Current Assets	847,810
Total Liabilities	1,413,372	Total Assets	922,570

Source: Adapted from audited KNTC balance sheet 30th June 1968.

Time proved the auditors to be correct for in February 1970, Mr. Osogo, admitted that some Ł 800,000 were outstanding.[166] If K Ł 800,000 had been allowed for bad and doubtful debts instead of K Ł 309,198 the 1968 currect assets would have been reduced to K Ł 847,810 giving the following revised balance sheet.

SUMMARY

The KNTC is organised along three division lines, produce and provisions, textiles and hardwares. The first two and one half years of the KNTC's existence, apart from

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166 James Osogo, Minister of Commerce and Industry, as reported in the East African Standard, February 10, 1970.

Africanising sugar distribution, were spent clarifying objectives and creating the administrative machinery necessary to achieve these objectives.

Almost all the goods confined to the KNTC are non-luxury items largely consumed by African. Also, with one of two exceptions these goods are relatively simple to wholesale. To a large extent these goods are low risk goods because supply and demand are relatively predictable and because very few are persihable goods. Not one of the goods confined to the KNTC requires special storage or processing equipment other than a secure, rainproof, vermin-proof storage facility. Finally, not one of these commodities requires a great deal of technical knowledge for its marketing and none of them require any after sales servicing. Not surprisingly, given the nature of all these restrictions, only 9 percent of all Kenya's imports and only 13 percent of all Kenya's output from domestic industries have been confined to the KNTC.

The KNTC is moving away from a policy of trading on its own account to a policy of approving indents for importing and buying on behalf of sub-distributors. When the KNTC trades on its own account it provided useful marketing services such as credit, transport and storage. This system of marketing reduced the capital requirements of African wholesalers but increased the working capital requirements of the KNTC. Credit data and the financial accounts of the KNTC show

that the KNTC is short of working capital and it suggested that it is this shortage of working capital which has resulted in the shift in marketing policy exhibited by the KNTC.

CHAPTER VI

THE ROLE OF THE KNTC IN INCREASING AFRICAN PARTICIPATION IN WHOLESALE TRADE IN KENYA

1. INTRODUCTION

As was noted earlier the KNTC has concentrated its efforts on Africanisation of importing and wholesaling in Kenya. With only 9 percent of all imports and 13 percent of all domestic manufactures confined to the KNTC its impact on total importing and wholesaling is severely limited. The aim of this chapter is to determine how successful the KNTC has been in Africanising those commodities that have been confined to it and to discuss some of the factors that may be preventing KNTC appointed sub-distributors from trading.

It is hypothesised that the KNTC has had a measure of success in its Africanisation objectives but has been hampered partly by shortcommings of supporting measures such as the Trade Licensing Act and partly because of the lack of resources under the control of African traders. It is also hypothesised that the KNTC policy change from importing and trading on its own account to appointing African importers will result in a partial de-Africanisation of wholesaling of that commodity.

II. THE SUCCESS OF THE KNTC IN AFRICANISING IMPORTING AND WHOLESALING OF SELECTED COMMODITIES

The KNTC had appointed 635 produce and provisions sub-distributors, 124 textile sub-distributors and 131 hardware sub-distributors by early 1970.[167] Of the 635 produce and provisions sub-distributors, 414 were permitted to trade in all provisions including sugar whereas the remaining 221 were permitted to trade in all provisions with the exception that they were not permitted to purchase sugar from the KNTC warehouses.[168]

In chapter III it was shown that African traders may be constrained by lack of capital and experience. It is hypothesised that many sub-distributors are not trading due to these constraints. The hypothesis that many sub-distributors were not trading was tested using the sales slips,

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167 The KNTC has lists of African traders that it has appointed as produce and provision textile and hardware sub-distributors. These lists are periodically updated and are for circulation within the KNTC. They are not published.

168 The apparent reason for not allowing certain produce and provision sub-distributors to trade in sugar is that the KNTC allows each sub-distributor to purchase up to 500 bags of sugar per month, any appointments of produce and provision's sub-distributors over the required number necessary for sugar distribution would not be permitted to sell sugar. If for example, assume a district has monthly sugar consumption of 5,000 bags. The first 10 produce and provisions sub-distributors appointed to the district would be permitted to purchase sugar. Any sub-distributors appointed subsequent to the appointment of the first 10 would not be permitted to sell sugar.

indent orders and import licences from KNTC files.[169]

The KNTC in 30 commodities during the period under analysis. There was insufficient time to conduct the analysis on all commodities, therefore, a sample of six commodities was chosen; sugar, vegetable oil and ghee, textile fabrics stored in the KNTC warehouses, imported blankets and domestically produced cement. These six commodities represented 70 percent of the KNTC sales between July and December 1969 (Tables V.1, V.2 and V.3).

In addition, to representing a major proportion of sales, these six goods represent the full range of operations of the KNTC. For example, two of the six commodities are classified as produce and provision and both were stored by the KNTC in the 17 warehouses. Three of the chosen commodities are classified under the textile division. One of these three, textile cloth, was sold on the KNTC account and was

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169 When a KNTC sub-distributor makes a purchase from a KNTC warehouse, or when the KNTC makes purchases on an indent basis on behalf of a sub-distributor, or when a KNTC sub-distributor imports directly commodities confined to the KNTC a record containing the date, sub-distributors's name, warehouse, quantity purchased price paid is filed at the KNTC's headquarters in Nairobi.

A sheet of paper was prepared for each sub-distributor with columns for the relevant sales information, i.e. date, warehouse, quantity, price and total value. The information contained on each sales slip in the six files was transcribed to the relevant sub-distributor's sheet of paper. The end result of this exercise was detailed information on the number of KNTC appointed sub-distributors who were trading and the value of the product they were purchasing. This data was used for the following analysis.

stored in and purchased out of the KNTC warehouses in Nairobi, Mombasa and Kisumu. The remaining two textile products were imported shirts and imported blankets from Uganda, Tanzania and the rest of the world. These two commodities were not traded on the KNTC account but all imports had to have the approval of the KNTC and Trade and Supplies. The Hardware division was dominated by cement purchases so cement sales were chosen to represent hardware.

Sugar

Two hundred and thiry commercial traders purchased sugar from KNTC warehouses during the month of January, 1970.[170] One hundred and ninety two of these were KNTC appointed sub-distributors i.e. in the month of January, 1970 less than fifty percent of all African traders permitted to purchase sugar from KNTC warehouses actually made purchases (Table VI, 1). Not only were there a large number of sub-distributors trading in sugar but no single firm or small group of firms dominated sugar distributed in Kenya; the three largest firms between them distributed only 6 percent of the sugar wholesaled during January 1970 and 81 percent of all sales were made by firms individually selling less than 1 percent of the total Kenyan sales (Table VI. 1).

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170. Sugar sub-distributors make purchases relatively frequently on average 10 times per month. It was therefore thought that sales figures collected over a period of a month would suffice to determine the number of active traders and the degree of market concentration.

TABLE VI. 1

NUMBER AND CONCENTRATION OF SUGAR SUB-DISTRIBUTORS IN KENYA, JANUARY 1970

PERCENT OF NATIONAL SALES PER SELLER	KNTC SUB-DISTRIBUTOR		NON-KNTC[a] SUB-DISTRIBUTORS		ALL DISTRIBUTORS	
	Number	Percent of National Sales	Number	Percent of National Sales	Number	Percent of National Sales
0.49	120	30	51	6	171	36
0.50-0.99	59	42	5	3	64	45
1.00-1.49	11	13	1	1	12	14
1.50-1.99	0	--	1	1	1	1
2.00	2	5	0	-	2	5
TOTAL	192	90	58	11	250	101[b]

Source: Original data extracted from KNTC files

[a] Two hundred and fifty separate individuals, firms or organisations purchased sugar from the KNTC warehouses during the month of January 1970. One hundred and ninety-two were positively identified as being KNTC appointed sugar sub-distributors i.e. they appeared on at least one of the lists of KNTC appointed produce and provisions sub-distributors. The remaining 58 organisations that purchased sugar during January were not on any of the lists of the KNTC sub-distributors that are periodically produced by the KNTC. Twenty of these identified as government institutions. The remaining 38 were either appointed sub-distributors who did not appear on the lists of sub-distributors or they were not appointed sub-distributors.

[b] Does not sum to 100 percent due to rounding.

TABLE VI.2

NUMBER AND CONCENTRATION OF OIL SUB-DISTRIBUTORS IN KENYA, OCTOBER 1969 TO JANUARY 1970

PERCENT OF NATIONAL SALES PER SELLER	KNTC SUB-DISTRIBUTORS		NON-KNTC[a] SUB-DISTRIBUTORS		ALL DISTRIBUTORS	
	Number	Percent of National Sales	Number	Percent of National Sales	Number	Percent of National Sales
0.49 <	92	16	130	7	222	23
0.50-0.99	15	11	6	4	21	15
1.00-1.49	7	9	3	3	10	12
1.50-1.99	4	7	1	2	5	9
2.00 >	7	23	5	18	12	41
TOTAL	125	66	145	34	270	100

Source: Original data extracted from KNTC files.

[a] Two hundred and seventy separate individuals, firms or organisations purchased vegetable oil from the KNTC warehouses during the 4 months of October 1969 and January 1970. One hundred and twenty five of these were listed as KNTC sub-distributors. Of the remaining one hundred and forty-five, nineteen were government institutions and eighty five were considered commercial non KNTC appointed sub-distributors. The remaining 41 individually purchased less than 50 cans from the KNTC warehouses. Commercial sub-distributor wholesalers each purchased hundreds or thousands of cans during the same period so quite obviously they were not sub-distributor wholesalers. Many were identified as employees of the KNTC working at the individual warehouses.

Vegetable Oils

Two hundred and ten commercial traders purchased vegetable oils from seventeen KNTC warehouses during four month period October 1969 to January 1970 (Table VI.2).[170] Only 125 of these were KNTC appointed produce and provisions sub-distributors. The KNTC had appointed 635 firms as distributors of vegetable oil and other produce and provisions; i.e. over 80 percent of the African traders who were permitted to purchase vegetable oil directly from KNTC warehouses did not do so during October 1969 and January 1970.

Although there were almost as many distributors selling oil as there were selling sugar distribution was more concentrated with vegetable oil than with sugar. For example 12 oil distributors, representing less than five percent of the total number of active traders, each individually sold more than 2 percent of total national vegetable oil sales and between them they sold 41 percent of the national sales (Table VI.2).[171]

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170 Vegetable oil purchases were made less frequently than were sugar purchases. It was therefore decided that data collected over a four month period would provide a more accurate picture of the number of traders actively trading and the market structure rather than one month as was the case with sugar. The same reasoning was used for all the other commodities.

171 The reason for this is that whereas quotas are allocated for sugar sales—i.e. no individual sugar purchaser may purchase more than 500 bags of sugar per month, no quotas are placed on the amount of vegetable oil that may be purchased by individual traders. The sugar quota system is not strictly adhered to but it does appear to prevent individual purchasers from buying several times their quota.

TABLE VI. 3

NUMBER AND CONCENTRATION OF TEXTILE SUB-DISTRIBUTORS PURCHASING TEXTILE CLOTH FROM KNTC WAREHOUSES BETWEEN OCTOBER 1969 AND JANUARY 1970

PERCENT OF NATIONAL SALES PER SELLER	NUMBER OF KNTC SUB-DISTRIBUTORS	TOTAL PERCENT OF NATIONAL SALES
0.9 <	6	3
1.0-2.4	9	17
2.5-4.9	6	24
10.0-9.9	1	14
20.0-39.9	1	22
>4.0.0	0	0
5.0-9.9	3	20
TOTAL	26	100

Source: Original data extracted from KNTC files.

Textiles

One hundred and twenty four enterprises had been appointed as KNTC sub-distributors of textiles and textile products. During the four month period of October 1969 to January 1970, 26 i.e., just over 20 percent exercised this right and made purchases from one or more of the three KNTC warehouses situated in Nairobi, Mombasa and Kisumu. In Chapter II, it was shown that in 1960 textile whole-salers were based in Kenyas' largest cities especially Nairobi and Mombasa. This area concentration has been unchanged by the KNTC's involvement. Approximately one third of the country's textiles were purchased from each of the three warehouses. Twenty two of the twenty six distributors that were active during the period under analysis were based in Nairobi, Kisumu and Mombasa and between them they sold 96 percent of the textile cloth purchased from the KNTC.[172]

Not only was there a smaller number of textile sub-distributors appointed than there was produce and provisions sub-distributors but the proportion of those actually trading was also smaller than the proportion trading in sugar. In addition, there was more variability in the size of purchases amongst textile sub-distributors. For example, 15 of the 26 active traders individually purchased less than 2 ½ percent

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172 This information is not presented in any of the tables. However, the source is the same, i.e. the KNTC files of sales from each of their warehouses.

of total national sales, whereas the largest firm purchased 22 percent (Table VI.3).

Imported Shirts

Thirteen of the one hundred and twenty four appointed textile sub-distributors imported shirts between October 1969 and January 1970 (Table VI.4). All of these thirteen were based in either Nairobi (10) or Mombasa (3). Not only were more of the firms based in Nairobi than in Mombasa but these firms also imported more i.e. Nairobi based KNTC sub-distributor importers imported 85 percent of the shirts.[173]

The market structure for shirt importers during the period under analysis was charaterised by one large sub-distributor, two intermediate sized importers and several small importers. The largest importer[174] imported 49 percent of all shirts imported during this period and the smallest seven importers, comprising more than fifty percent of the total importers, imported less than 10 percent of the total (Table VI.4).

Imported Blankets

The situation was similar for imported blankets. As with imported shirts, only 13 of the one hundred and twenty

173 Figures developed from data extracted from KNTC files of import licences for shirts granted between October 1969 and January 1970.

174 To the best of my knowledge this was a genuine African owned KNTC appointed sub-distributor of textiles.

TABLE VI.4

NUMBER AND CONCENTRATION OF TEXTILE SUB-DISTRIBUTORS IMPORTING SHIRTS BETWEEN OCTOBER 1969 AND JANUARY 1970

PERCENT OF NATIONAL SALES PER SELLER	NUMBER OF KNTC SUB-DISTRIBUTORS	TOTAL PER CENT OF NATIONAL SALES
0.9 <	3	1
1.0-2.4	3	5
2.5-4.9	1	3
5.0-9.9	3	20
10.0-19.9	2	22
20.0-39.9	0	0
40.0 >	1	49
TOTAL	13	100

Source: Original data extracted from KNTC files.

four KNTC appointed textile distributors actually exercised their right to import blankets during October 1969 to January 1970 (Table VI.5).[175] Again there was a concentration of purchasing by firms based in the major cities, i.e., Nairobi 73 percent, Mombasa 22 percent and Nakuru the remaining 5 percent of total blanket imports.[176]

175 Five of them also imported shirts.

176 Figures developed from data extracted from KNTC files of import licences for blankets.

Table VI .5

NUMBER AND CONCENTRATION OF TEXTILE SUB-DISTRIBUTORS IMPORTING BLANKETS BETWEEN OCTOBER 1969 AND JANUARY 1970

PERCENT OF NATIONAL SALES PER SELLER	NUMBER OF KNTC SUB-DISTRIBUTORS	TOTAL PERCENT OF NATIONAL SALES
0.9 <	5	2
1.0-2.4	3	6
2.5-4.9	1	3
5.0-9.9	2	11
10.0-19.9	1	15
20.0-39.9	0	0
40.0 >	1	63
TOTAL	13	100

Source: Original data extracted from KNTC files.

Importing of blankets during this period was dominated by a single large importer which imported 63 percent of all blankets imported during the period under analysis.[177] The majority of blanket importers imported small quantities, i.e. eight of the thirteen between them imported eight percent of the total blankets imported into Kenya (Table VI.5). Again, Nairobi dominated importing with over 70 percent of imports of blankets being imported by Nairobi based firms.

Cement

Market structure of cement distribution was more similar to the distribution of produce and provisions than of textiles. During the four month period of October 1969 and January 1970, sixty of the 131 KNTC appointed hardware sub-distributors actually made purchases of cement (Table VI.6). There was no concentration of purchasing in any one area as sub-distributors based in twenty two separate districts traded in cement. Neither was there any one large sub-distributor which dominated trade. Instead there were four intermediate sized distributors which together distributed 37 percent of the cement distributed

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177 This firm was Hemraj Bharmal Ltd. and was not on any of the lists of KNTC approved textile sub-distributors. It has already been shown (Chapter II) that this firm was one of the large Asian importers (and manufacturers) of textiles prior to these commodities being confined to the KNTC.

by KNTC sub-distributors and 56 smaller sub-distributors who marketed the remaining 63 percent of the cement (Table VI.6).

TABLE VI.6

NUMBER AND CONCENTRATION OF HARDWARE SUB-DISTRIBUTORS PURCHASING CEMENT FROM THE KNTC BETWEEN OCTOBER 1969 AND JANUARY 1970

PERCENT OF NATIONAL SALES	NUMBER OF KNTC SUB-DISTRIBUTORS	TOTAL PER CENT OF NATIONAL SALES
0.9 <	33	15
1.0-2.4	18	31
2.5-4.9	5	17
5.0-9.9	2	14
10.0-19.9	2	23
20.0 >	0	0
TOTAL	60	100

Source: Original data extracted from KNTC files.

Evidence presented thus far in this chapter suggests that a large number of the KNTC appointed sub-distributors are not trading on a regular basis. This evidence is summarised in Table VI.7.

III. POSSIBLE REASONS MANY SUB-DISTRIBUTORS ARE INACTIVE

A number of possible factors might be hindering appointed sub-distributors from acting as primary

distributors.[178] First, some of the traders may have applied for and been appointed to sub-distributorships and then for a variety of reasons decided not to exercise their option to trade, i.e. better uses for their money, have too many other interests and therefore have not had the time. Secondly, other appointed sub-distributors may have had a genuine desire to be active traders but may have lacked sufficient capital to buy commodities from the KNTC or to import. Alternatively they may not know how to go about importing especially if they have no contacts with overseas buyers. Thirdly, some may have been appointed as sub-distributors and may have actually done some trading but for a number of reasons no longer trade. Possible reasons for this might include economies of scale and too many appointed sub-distributors; insufficient services provided to retailers in the form of variety of stock and credit facilities; and possibly connected with the previous reason competition from the well established non-African traders.

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178 A primary sub-distributor is here defined as a KNTC appointed sub-distributor who purchases directly from the KNTC and/or is an importer of goods confined to the KNTC. However, a sub-distributor who trades in a commodity confined to the KNTC by purchasing from another sub-distributor is not regarded as a primary sub-distributor because anybody (African, Asian, European, citizen, non-citizen) who has a valid trading license for the commodity in question may purchase from a primary sub-distributor.

NUMBER OF APPOINTED AND ACTIVE SUB-DISTRIBUTORS OF SELECTED COMMODITES

COMMODITY	NUMBER OF APPOINTED SUB-DISTRIBUTORS	NUMBER OF ACTIVE SUB-DISTRIBUTORS	PERCENTAGE OF ACTIVE SUB-DISTRIBUTORS
Sugar	414	192	46
Vegetable oil	635	125	20
Textiles	124	26	21
Imported Shirts	124	13	10
Imported Blankets	124	13	10
Cement	131	60	46

Source: Original data extracted from KNTC files.

Some light is shed on the possible reasons for lack of participation by African sub-distributors is provided by some ongoing research being conducted by Jasper Okello.[179] which attempts to determine how successful African retailers have been in taking over textile trading which previously had been (and too a large extent still was) in the hands of non-Africans and to determine those factors which lead to success for African textile retailers.

Certain areas of Nairobi are reserved for citizen traders (both African and non-African) under the provisions of the Trade Licensing Act i.e. non general trading areas.

179 At the time of doing this research (1969/70), Okello was a Junior Research Fellow in the Institute for Development Studies, University College, Nairobi, Kenya.

Okello obtained a population of textile retail outlets in the reserved area by walking along these streets enumerating each textile retail outlet and classifying outlets as being operated by Africans or non-Africans. For his pilot project, Okello randomly selected fourteen of the African operated shops to test his questionnaire.[180] It is not known what percentage of the total population of African textile retailers doing business in restricted areas of Nairobi this fourteen retailers represents. For this reason and because the sample size is so small caution is exercised when interpreting the results of Okello's pilot project.

One of the questions put to each of the fourteen retailers was, "who are your suppliers?" As four of the fourteen retailers were appointed textile sub-distributors they are initially excluded from the results of the analysis to this question. Of the ten remaining retailers, 8 obtained some of their supplies directly from the manufacturers, 6 obtained some of their supplies from wholesalers other than KNTC appointed textile sub-distributors and 6 obtained some of their supplies from KNTC appointed textile sub-distributors.[181] It is probable that any African trader in

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180 Mr. Okello had not published his results by May 1970. However, he very kindly available all information pertinent to this study on state trading. Okello's results will probably be available in the form of a staff paper of the Institute for Development Studies, University College, Nairobi, Kenya.

181 As some of the retailers obtained their supplies from two or three different sources the number of suppliers sums to more than 10.

textiles large enough to be doing wholesaling is also a KNTC appointed textile sub-distributor. This is likely because many African traders best classified as retailers have been appointed as sub-distributors and it would be logical for the KNTC to appoint the larger distributors as its agents. For this reason it is likely that most, if not all the wholesalers who were not KNTC appointed sub-distributors were non-African traders.

Two of the four retailers who did not purchase from KNTC sub-distributors stated that the reason for this was that the KNTC sub-distributors would not give them credit whereas the non-KNTC wholesalers would sell on credit. In addition, one of these two retailers stated that he could purchase from a much greater selection of stock from his non-KNTC supplier. The other two retailers who did not purchase from the KNTC sub-distributor gave no reasons for their not doing so.

As mentioned above, four of the fourteen textile sellers that were interviewed by Okello were KNTC textile sub-distributors. Two of the four were acting as primary sub-distributors, i.e. actually purchased from the KNTC. The other two did not purchase from the KNTC but purchased from other wholesalers. Both of these textile sellers claimed that the reason they bought from other wholesalers was that in that way they could purchase on credit whereas if they bought from the KNTC they would have to pay cash.

A second question put to all fourteen retailers was, "What are the services the non-KNTC wholesalers provide that the KNTC and the KNTC agents do not provide?". Eleven of the fourteen claimed that the major difference was that non-KNTC wholesalers were willing and able to grant retailers credit facilities and that it was impossible to obtain credit from the KNTC sub-distributors or when credit sales could be arranged the terms offered by the KNTC distributors were less favourable than the terms offered by non-KNTC wholesalers.

In addition to lack of credit being a problem, three of the fourteen retailers mentioned that the KNTC wholesalers were far less willing to sell lots than were the non-KNTC wholesalers. In a situation where shelf and storage space is limited and where money is scarce the willingness of suppliers to break bulk and sell in small units is a valuable service. It is the provision of credit and bulk breaking services which is likely to attract a retailer to a textile wholesaler who is willing to supply these services.

This reseacher's interviews of produce and provisions sub-distributors revealed that over 50 percent of the twenty sub-distributors interviewed did sell some of their sugar and oil on credit. However, in general, credit was granted sparingly and only to their well known customers.

Tentative conclusions might be drawn from Okello's pilot study. First, it would appear that retailers see the granting

of credit facilities as an important service when provided by wholesalers and that non-KNTC wholesalers were more willing and/or able to provide this important service than were KNTC sub-distributors. The most probable reason for this was that the KNTC did not grant credit facilities to its sub-distributors.

It has already been shown that importers get credit from their overseas supplier or from the commercial banks in Kenya. Importers then give the wholesalers credit and so on down the distribution chain through the sub-wholesalers and retailers to the consumers. The KNTC, by not granting credit, breaks this credit chain. This puts a very heavy burden on the African sub-distributor who not only must find cash to make purchases from the KNTC but sometimes must give credit to retailers as a means of competing for customers.

A second tentative conclusion is that there exists an alternative source of supply of goods confined to the KNTC other than KNTC sub-distributors.[182] And not only is it an alternative but to some retailers it is seen as a preferable one because it grants credit facilities and is more willing to perform bulk breaking services.

Officials within the KNTC were also questioned on this

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182 This problem of alternate sources of supply is discussed again later in this chapter during the discussion of the workings and shortcomings of the Trade Licensing Act.

phenomena of sub-distributors not being active traders. The consensus was that these traders had insufficient money to trade or that the appointed sub-distributor had other business activities which as yet prevented them from spending the time necessary to initiate their trading activities.

Another possible reason why a large number of sub-distributors are not trading is that economies of size exist in trading in some commodities more than in others. More importantly economies of size may possibly exist in importing that do not exist in wholesaling. If this was true it would result in a pyramid of the number of intermediaries in the different levels of the distribution system. At the apex would be a few importers, the importers would sell to a larger number of wholesalers who in turn would sell to a larger number of retailers. Finally, at the base of the pyramid are the mass of consumers. This line of reasoning is supported by the data on the number of active traders already presented in Tables VI.1-6 of this chapter, e.g. there were 13 importers of shirts and blankets, 26 purchasers of textiles, 250 purchasers of sugar and 270 purchasers of vegetable oil and ghee.

Another way of looking at this is that as more of the distribution functions are performed by the KNTC the greater the number of African traders that become involved. When the KNTC performs no marketing functions other than permitting its sub-distributors to do the importing only a few of the

sub-distributors are active importers. When the KNTC imports and stores a commodity in three of its warehouses 26 traders are active and finally when it transports commodities and stores them in 17 separate locations hundred traders are active.

In the light of this it would seem that the general drift of KNTC policy away from trading on its own account to identing orders and approving import licences is likely to result in fewer active African traders being created than might otherwise have been the case and to the extent that importing requires more capital and experience this policy change places a greater burden on African traders.

Data was presented in chapter V which shows that there has been a gradual shift in KNTC policy away from trading on its own account to approving sub-distributor trading. It is hypothesised that this may result in a reduction in the number of African wholesalers.

Early in 1970 the KNTC made a major policy change with respect to its role in the marketing of vegetable oil and ghee. Prior to this change, the KNTC purchased oil and stored it in the 17 KNTC warehouses. The policy change involved the appointing of 29 sub-distributors of oil who would do all importing of oil. The KNTC no longer performed any of the marketing functions.

The new system of vegetable oil and ghee marketing had not been in operation for a sufficient length of time to

collect data on the number and concentration of importers when this field research was completed in May of 1970. However, the interviews with the twenty produce and provisions sub-distributors and casual observations along the shopping streets of Nairobi, especially Bazaar street, suggested that this change in policy had created a number of problems, not the least of which was a partial de-Africanisation of the wholesaling of vegetable oil and ghee.

Of the twenty KNTC produce and provisions sub-distributors interviewed, two had been appointed by the KNTC as importers of vegetable oil. Both in fact import oil, the one paying 55.50 shillings per 16 kg. can of vegetable oil and the other paying 56.00 shillings per 16 kg. can of vegetable oil. Both importers claimed that they resold vegetable oil for 58.50 shillings. This figure of 58.50 shillings per 16 kg. of vegetable oil was confirmed by two other interviewed sub-distributors who purchased oil from these importers. Prior to the price change all KNTC appointed sub-distributors were able to purchase oil from KNTC warehouses at 58.00 shillings per 16 kg.can.[183]

Both of these African importers of vegetable oil complained bitterly that non-African wholesalers were getting

183 Information obtained from file of vegetable oil sales slips. The price was not always 58.00 shillings but fluctuated a few cents around this price. The actual price paid appears to have been a function of time, place and brand of oil being sold.

possession of large quantities of vegetable oil and selling it at wholesale for 55.00 shillings per 16 kg. can. This researcher was unable to confirm this price of 55.00 shillings but observations of trading activities along Bazaar street confirmed that quite substantial amounts of vegetable oil was being wholesaled by non-African.[184] Although unable to confirm a purchase of price of 55.00 shillings per 16 kg. can of vegetable oil, three of the produce and provisions wholesalers interviewed admitted to buying oil on credit from Asians for 56.50 shillings.

Some of the produce and provisions sub-distributors were unhappy about this change in marketing policy. For instance, one sub-distributor claimed that he had applied to the KNTC for a licence to import oil but had received no response to his application. He further claimed, as did two other sub-distributors, that oil distribution was no longer an important part of his business because, although he could now buy oil more cheaply from Asian importers than he could from the KNTC, it was now difficult to make any profit because his former customers could also buy oil from the Asian wholesalers or from the KNTC appointed sub-

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184 Vegetable oil is a specified good under the provisions of the Trade Licensing Act. Therefore the Asian traders were either non-citizens dealing in oil illegally, non-citizens trading legally because their trading licence had been endorsed to trade in oil, citizens dealing illegally in oil without a trading licence or citizens dealing legally with a trading licence. Regardless of which of these alternatives is appropriate, non-Africans wholesaling oil obviously defeats the objective of Africanising the wholesaling of vegetable oil.

distributor importers for the same price that he could purchase oil.

Interviews with KNTC appointed produce and provisions sub-distributors and observations along Bazaar street and other trading centres in Nairobi suggest that much of the wholesaling of vegetable oil in Nairobi was firmly back in the hands of non-Africans in April 1970. No evidence of whether or not this occurred in other parts of Kenya is available to this researcher. Although it is clear that Asians were trading in oil it is not so clear how they obtained the oil. One suggestion put forward by sub-distributors was that one or more of the appointed importers was acting as a front for the Asians. Any citizen, regardless of whether he is African or non-African, may wholesale vegetable oil providing that he has a valid wholesale licence. In addition, non-citizen may also wholesale vegetable oil providing that they possess a wholesale licence which is endorsed for vegetable oil distribution.

Given that non-Africans possess these licences it was perfectly legal for them to buy oil from the oil importers. In fact it appeared that there would have been nothing illegal about them approaching African sub-distributor importers and requesting the importer to make some purchases specially for him. If the African trader was unable to obtain credit from the supplier so that he could not purchase large amounts for himself he might be willing to buy for the non-

African and once in possession of the vegetable oil the Asians may be willing to sell oil cheaply in order to attract customers for their other non-KNTC products. No evidence was collected to test this hypothesis.

This type of practice is difficult to prove although one piece of evidence suggests that one of the two oil importers interviewed may have been doing this. This importer claimed he had been in business for only a few years and before getting a produce and provisions sub-distributorship he had a retailer. It was obvious that much of the trade at his store was retail. Yet he showed this researcher an indent for oil for an amount substantially in excess of 100,000 shillings. As this trader had never received a government loan and as he had insufficient storage space it seems reasonable to assume that this purchase of oil had been made for someone else.

The real effect of the KNTC policy change with respect to oils was to withdraw the sub-distributorship from the 635 appointed sub-distributors of oil and to appoint 29 importers. The previous sub-distributors of oil no longer have any advantages in oil distribution because anybody with a valid licence may purchase oil from the importers. Not only is this true for oil distribution but will be true for any other commodity which is first traded on the KNTC account and stored in its warehouses and later imported by a select few African importers. In addition, such policy

changes may make it easier for non-Africans to regain control over a sizeable amount of the commodity being Africanised.

Another reason that some of the appointed distributors do not exercise their right to trade is that they may be unable to compete with non-African traders. Okello's evidence suggests this may be so for textile sub-distributors in Nairobi. It is hypothesised that the ineffectiveness of the Trade Licensing Act is a contributing factor.

To engage in wholesale or retail requires a licence Non-citizens may trade in general trading areas but they may not trade in areas outside the general trading area or in specified goods unless their licence is specially endorsed. There are several ways in which the law may be evaded; e.g. trading without a licence or after the deadline date of a quit notice; trading by non-citizens without an endorsed licence outside a general business area; or tradeing by non-citizens in specified goods without an endorsed licence.

The problem of non-citizens trading without licences and trading after the expiring of quit notices exists and several warnings by government officials have been reported on in the newspapers.[185] In addition, a problem during the first few months of the Act was that a large number of citizen traders were also trading without licences. It was reported in the Daily Nation.

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185 "Embu warning to non-citizen traders,"Daily Nation, May 9, 1969, and "Licensing Act being 'undermined', "East African Standard, March 24, 1969.

> In a letter to the District Commissioners for Kakamega, Bungoma and Busia, Mr. Nj'ang'a stated: It has come to light that a majority of traders in Western Province have not obtained their trading licences for this year.[186]

A more difficult problem to tackle is that of non-citizens persisting in trading in specified goods without an endorsed licence. The difficulty stems from the fact that it would be very expensive to effectively police all traders. Accusations have been voiced that the police are not concerned about enforcing the law and the suggestion has been made that the Ministry of Commerce and Industry should operate an inspection system of its own.[187]

The frustration felt by African traders in the spring of 1970 was voiced at a meeting of the National Chamber of Commerce and Industry where they condemned the Government for the failure of the Trade Licensing Act. This condemnation was largely due to the fact that non-citizens were still trading in specified goods.[188]

It is not altogether clear whether the source of this frustration is that non-citizens are trading in specified goods or that non-citizens are trading in specified goods and at the same time selling these goods at a lower price

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187 "Problems with Trade Act, "Daily Nation, July 7, 1969.

188 "Police 'not bothered' - wholesalers, "East African Standard, February 4, 1970.

189 "Trade Act has failed, claim Kenya traders, East African Standard, April 20, 1970.

than the Africans. One often reads about African traders complaining about the cut throat competition that they faced from well-established non-citizen traders.[190]

It is to be expected that the non-citizens who have been adversely affected by the Trade Licensing Act are going to do all in their power to reduce the economic consequences as much as possible. If, after the new zoning under the provisions of the Trade Licensing Act, a non-citizen trader's premise falls outside a general business area the trader has several options to alleviate the economic consequences.

The first thing that the trader might do is to attempt to get a licence which would allow him to trade. The Trade Licensing Officer has discretionary power to grant non-citizen traders licences outside the general business area if, in his opinion, there would be a shortage of citizen traders and subsequent disruption of trade. There will, of course, be genuine cases where such licences are issued. However, it is equally obvious that this situation, a situation in which the Licensing Officer has such sweeping discretionary power, is open to abuse.[191] It is easy to imagine a situation in which a non-citizen trader will be willing to offer money to persuade a Licensing Officer in his decision.

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190 "African trader complain of illegal rivalry," East African Standard, February 17, 1970

191 "Trade Act will bring corruption says Mr. Odinga," East African Standard, May 14, 1969 and "Licensing powers under fire," East African Standard, June 21, 1969.

A second way of obtaining a licence is to enter into a partnership with citizen traders. At first this was a successful way of obtaining a licence. However, the Government quickly passed an amendment which prevented this window by defining a partnership as being a citizen of Kenya, if, and only if, all the members were themselves citizens of Kenya.[192] A newspaper account suggests the amendment is fairly effective.[193]

Another alternative is for the non-citizen trader to sell his business to a citizen of Kenya. This accomplishes the objectives of Kenyanisation. However, if the citizen to whom the business is sold happens to be an Asian it does not accomplish the objective of Africanisation.[194]

Phelps, in his study of textile and garment manufacturers in Nairobi, draws some interesting conclusions about the Trade Licensing Act.[195] The study consisted of interviewing 19 of the 21 manufacturers of textiles

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192 "New bill to stop 'window dressing' - Licensing Abuse," East African Standard, June 23, 1969 and "Front of shop. "East African Standard, June 24, 1969.

193 "80 percent citizen firm to close, "Daily Nation, July 17, 1969.

194 "Change of User hampering Trade Licensing Act, "Daily Nation, June 11, 1969.

195 Mr. G. Phelps, Marketing Problems in Textiles and Garments in Nairobi, Staff Paper of the Institute for Development Studies, University College, Nairobi, July, 1970. The information used here was drawn from textual papers 7,12,14,22-24, and 27 and tables 3, 7 and 20.

and garments based in Nairobi who employed more than twenty people. Phelps, on the basis of these 19 interviews, reports that typical complaints of manufacturers concerning the operations of the Trade Licensing Act were:

a) that new African traders bought less than the Asian traders who preceded them. This they claimed reduced sales, probably permanently;

b) that Africans were not replacing Asians fast enough to prevent sales from falling;

c) and that sales fluctuated a lot because the remaining Asian traders delayed ordering at the end of the year until they were sure of receiving a licence for the following year.

Phelps also asked the question, "what are the things that prevent you from expanding your sales faster?". In answer to this question, three manufacturers mentioned a drop in sales due to trade licensing, four mentioned a temporary shortage of retailers due to trade licensing and three mentioned the difficulties of obtaining retail licences that were complementary to the manufacturing process.

The evidence on the effectiveness of the Trade Licensing Act in preventing non-citizens from trading supports the impression that African traders still perceive Asians traders as a threat and that manufacturers of textiles and

garments face problems in selling their products. It also suggests that both groups blame the Trade Licensing Act, the traders because it does not prevent enough Asians from trading and the manufacturers because it prevents too many Asians from trading.

The evidence from the two Nairobi newspapers suggests that at times the Act has been ignored by citizens and non-citizens alike and that the new African perceive that they face illegal competition from Asians. Yet the evidence presented by Phelps suggests that the Trade Licensing Act has been quite effective in preventing Asians from trading in textiles and in the case of textile distribution the problem has been the lack of Africans coming forward to replace the Asians.

IV. SUMMARY

Although the KNTC has managed to place much of the commodities confined to it in the hands of Africans, thus transferring trade from Asians to Africans, through May, 1970, at least, it had been nothing like as successful as it claims in increasing the number of African traders. Although the KNTC has appointed 635 produce and provisions sub-distributors, only 250 firms purchased sugar and 210 purchased vegetable oil during the period under analysis. Of the 124 textile sub-distributors 26 purchased textiles from the godowns and only 13 imported shirts and blankets.

The evidence relating to several tentative hypotheses has been summarised in this chapter that might explain why so few of the appointed sub-distributors were active as primary traders. These included (a) the more marketing functions performed by the KNTC the greater the number of appointed sub-distributors that would be active and its corollary that the fewer the functions performed by the KNTC the fewer will be the number of traders. One possible reason for this that there may be economies of size in importing which exist only to a lesser degree in wholesaling and retailing; (b) a number of sub-wholesalers may not have the capital and experience to be successful this may be especially true where importing is concerned; (c) some of the commodities confined to the KNTC are still wholesaled by non-Africans and that these non-Africans are to extract customers by providing better service.

Insufficient data is available to rigorously test these three interrelated hypotheses. However, the evidence that does exist tends to support these hypotheses and suggests that not all sub-distributors have the resources to trade especially when they face competition from non-Africans.

CHAPTER VII

KNTC PRICING AND DISTRIBUTORSHIP POLICIES

I. INTRODUCTION

As noted in Chapter I, the stated objectives of the Kenyan Government include an equitable income distribution among the population[1] involving redistribution between the richer and the poorer people and between the urban and rural areas. The government has several means of doing this including progressive income taxation, high sales taxes and excise duties on luxury items, a proportional increase in public investment in rural areas vis a vis urban areas and using a system of state trading.

It has also been noted that most manufacturing and importing is through establishments based in Nairobi and Mombasa. It is therefore reasonable to expect that under a private enterprise profit maximising economic system prices would be lower in these two cities and would increase the further one moves away from these cities because of the increased transportation changes. Even assuming that per capita monetary incomes were the same in these larger cities and the rest of Kenya such a pricing system would result in lower real per capita incomes in the rest of

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1 Republic of Kenya, African Socialism and its Application to Planning, "Sessional Paper no.10, (Nairobi: Government Printer, 1965) pp.1-2

Kenya because of the higher prices. The KNTC, by having a monopoly/monopsony of goods confined to it has it in its power to alter the distribution of real income by manipulating the price system. The objective of the first part of this chapter is to describe the actual pricing system followed by the KNTC and to determine the economic consequences of such a pricing system.

The KNTC pursues distributorship policies which appear to be designed to restrict competition presumably in order that an appointed sub-distributorship may be economically viable. Examples of policies which may lead to restricted competition include assigning distributors to specific districts and instructing them not to trade outside of those districts; preventing free entry by refusing to grant all applicants sub-distributorships; and by suggesting prices at which sub-distributors should sell to retailers. An analysis of these restritive practices plus an analysis of the consequences of introducing sub-distributor wholesalers into marketing channels which require no wholesaler intermediaries is the subject matter of the second half of this chapter.

II. AN ANALYSIS OF THE KNTC PRICING POLICIES

It was shown in earlier chapters that both the Kenyan government and the KNTC perceived that marketing was less than adequate in areas outside the main urban centres.

For example, the government has declared increasing penetration in rural areas to be one of its marketing objectives and the KNTC lists reducing pricing in rural areas some of its objectives. The essence of economic development is increased internal specialisation and exchange. It is therefore imperative that the marketing system should facilitate this by ensuring that low cost farm imputs and consumer goods are made available to rural inhabitants as inexpensively as possible and that the produce of farmers is also marketed as inexpensively as possible. The implication of the government and KNTC objectives is that the marketing system was not doing this.

Some very interesting evidence on the sufficiency or otherwise of rural distribution is presented in the Survey of Distribution published by the Kenya government.[2] The evidence in that document indicates that many people, although not living in the main towns, do much of their purchasing in those towns (Table VII.1), although caution must be exercised in interpreting these data. First, retailers' sales included sales to British Army and Air Force personnel and visitors to Kenya. Much of these sales would probably have been in urban centres. Secondly and probably more seriously, the data on retailers' sales

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2 Republic of Kenya, Survey of Distribution, 1960 (Nairobi Government Printer, 1963), pp. 14-15.

exclude the sales of retail shops employing no full time employees or retail shops having sales of less than £ 1,000 per annum. Finally, some of the retail sales may in fact include wholesale sales. Both of the last two factors would probably result in a relative under-estimation of rural retail sales vis a vis urban retail sales. These provisos notwithstanding, the evidence presented in Table VII.I suggests that for the eight towns, i.e. Thika, Nyeri, Nanyuki, Kisumu, Kericho, Eldoret, Kitale and Nakuru,

TABLE VII.I

ESTIMATED CASH WAGE BILL AND RETAILERS' SALES OF GOODS ANALYSED BY TYPE OF AREA

LOCATION	Estimated Cash Wage Bill 1960	Retailers' Receipts, 1960	Retailers' Receipts as a Percent of Wage Bill, 1960
	K £ '000	K £ '000	
Nairobi & Mombasa	43,872	44,782	102
Other Eight Towns	8,093	16,093	206
Rest of Kenya	22,670	15,011	66
Total	74,635	76,427	102

Source: Republic of Kenya, Survey of Distribution, 1960 (Nairobi: Government Printer, 1963) Table 6, P. 14

the retailers' sales are 206 percent of the wage bill (Table VII.I) which suggests that much of the trade in these towns is conducted with persons living outside of them.

It will also be seen that the opposite is true for the areas outside the ten main towns which was probably partly due to the tendency to shop in the towns and partly due to the fact that in such areas retailers' sales are more likely to be understated because of the large number of retail shops which individually sell less than K £ 1000 per annum. In addition, it is possible that much of the sales of the smaller towns which are recorded as retail are in fact small wholesale sales and the products are later resold in the rural areas. No definite conclusions can be drawn on how adequate the marketing system in rural areas of Kenya is other than the evidence suggests that much of the goods consumed in rural areas were retailed in the larger areas. While this does not prove inadequacy of the marketing system in rural areas, it does possibly help clarify the characteristics of an inadequate rural distribution system. Distribution might be considered inadequate in the rural areas of Kenya if the more common articles consumed by rural Africans i.e. provisions, basic cloth and the more essential hardwares were not available within reasonable walking distance at a reasonable price and/or if there was inadequate means of transport for Africans to get to the larger urban centres where these and other goods could be purchased.

Because manufacturing and importing is largely based in Nairobi and Mombasa it is reasonable to assume that whole-

sale and retail prices will be higher the further one moves away from these centres because of increased handling and transportation costs. The government does collect price data on consumer items in Nairobi but regrettably does not collect them for other cities or in rural areas. For this reason no data exist to see whether retail prices are higher in towns such as Thika, Kisumu, Eldoret, and Kitale than retail prices in Nairobi and Mombasa. Nor is it possible to test the hypothesis that retail prices in the rural areas are higher than in the urban centres. However, there are data suggesting that transportation costs are a much higher proportion of total costs in areas outside of Nairobi and Mombasa for both wholesalers and retailers, a cost disadvantage that is partially offset by higher property rentals in the larger cities (table VII.2).

It was noted in Chapter IV that the Kenya government plans to correct imbalances between urban and rural incomes through taxation, provision of public services and incomes policies. It was also mentioned in chapter IV that real incomes of rural and poorer people could be raised if the prices of some of the more commonly consumed goods were lowered. It was also suggested that the KNTC might be an appropriate organisation for doing this.

There are, however, a number of limitations to the KNTC's powers to redress the income imbalance that exists between rural and urban areas. First, the KNTC can only

TABLE VII.2

CURRENT COSTS OF DISTRIBUTION ANALYSED BY TYPE OF COST AND AREA

Type of Cost	WHOLESALERS Nairobi	Mombasa	Rest of Kenya	RETAILERS Nairobi	Mombasa	Res of Ken
	Percentages					
Running own transport	7	4	30	7	8	21
Transport contractors	13	6	8	3	1	4
Rent	10	11	8	19	27	16
Other current costs	70	79	54	71	64	59
Total	100	100	100	100	100	100

Source: Republic of Kenya, Survey of Distribution, 1960 (Nairobi: Government Printer, 1963) Table 20, p.28

control the prices of those goods that have been confined to it. Secondly, the KNTC must trade in the good on its own account including its transportation and storage or it must act as an agent. The KNTC loses almost all its control over prices when it permits individual sub-distributors to do their own importing. Thirdly, the price differentials between the different centres must be no greater than transportation costs between the centres otherwise arbitrage may occur. There is no evidnce, up to May 1970, at least, that the KNTC had used its powers over prices to meet any

of the possible objectives outlined above[3] as is shown by the following description and analysis of the pricing policies of selected commodities followed by the KNTC.

When vegetable oil and ghee were traded on the KNTC account and stored in the 17 warehouses any given brand of oil could be purchased for the same price from any of the warehouses. In addition, the price paid was irrespective of the quantity purchased, i.e., there were no quantity discounts.[4] The KNTC was therefore following a policy of transport costs absorbtion i.e., instead of charging higher prices for oil the further away from the sources of supply corresponding to higher transportation costs the KNTC charged exactly the same price at all points.

If oil had been manufactured in Nairobi or Mombasa or had been imported through Mombasa such pricing policy would have resulted in people in these two cities paying a higher price and people in the rest of Kenya paying a lower price than might otherwise have existed with perfectly competitive marketing. This would have resulted in a reduction of real income of Nairobi and Mombasa dwellers and an increase in real income of people living in the rest of Kenya. However, vegetable oil and ghee consumed

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3 Interviews with senior KNTC officials and analysis of pricing policies.

4 Information obtained from the KNTC files of vegetable oil and ghee sales.

in Kenya is largely transferred in from Uganda (70 percent) and Tanzania (30 percent).[5] Therefore transportation costs in up country areas such as Kisumu and Kitale would be lower than transportation costs to Nairobi and Mombasa. Under these conditions, the KNTC by absorbing transport costs and charging the same price at all warehouses was following a pricing policy which de facto may have resulted in the people of Nairobi and Mombasa paying lower prices and people of other parts of Kenya paying higher prices than would have occured if the KNTC had followed a full cost plus transportation pricing policy.

The pricing system described above was in existence at the time the KNTC was trading vegetable oil and ghee on its own account. When the KNTC changed its policy to allowing selected sub-distributors to do the importing it also gave up almost all control over prices. The new system had been in operation insufficient time to determine whether price differentials existed in the different parts of the country as a result of this policy change. However, what evidence there is suggests that the wholesaler price of vegetable oil in Nairobi was lower after the change than it was before.[6] Why this should have occurred is not easy to explain. One hypothesis is that the KNTC had a very

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5 East African Community, Annual Trade Report of Tanzania, Uganda and Kenya 1969 (Mombasa: East African Customs and Excise, 1970) Table V.

6 Interviews with Nairobi based KNTC appointed sub-distributors.

large mark-up. However, an analysis of the KNTC trading account shows that the gross margin on oil was approximately [illegible] percent.[7] An alternate hypothesis to account for the lower vegetable oil prices in Nairobi after the KNTC dropped trading vegetable oil on its own account is that a number of non-Africans who previously were unable to trade in vegetable oil have been able to do so due to the KNTC policy change and that these non-Africans may be using vegetable oil as a loss leader to attract retailers. No evidence was collected to either refute or substantiate this hypothesis.

Two different pricing systems of textiles were followed by the KNTC depending on the degree of KNTC involvement in the marketing process. When the KNTC purchases textiles on behalf of its appointed sub-distributors or when it approves licences to import textiles it receives a commission from the sub-distributors. This commission is 5 percent for imported second hand clothing, 3 percent for the remaining imported goods and 1 percent for local products. The KNTC exercises no further control over the prices of textiles and textile products marketed in this fashion. As most imports of textiles are through firms based in either Nairobi or Mombasa one may hypothesise that wholesale prices of textiles and textile products increase with distance away from these two centres. It

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7 Unaudited trading accounts of the KNTC for the years 1968 and 1969.

is also hypothesised that prices of textiles imported by sub-distributors from Uganda would be lower in towns closer to the Uganda border i.e. Kisumu and Kitale than they would be in Nairobi or Mombasa. No price data has been collected by the government to test these hypotheses.

The pricing system was different fro textiles traded on the KNTC account. Although all textiles traded by the KNTC are bought and sold by the KNTC in bales, pricing is on the basis of metres. Regardless of the quality or price of the cloth the KNTC had a mark-up of 11 cents per metre. In addition to its own mark-up of 11 cents, the KNTC also recommends that sub-distributors have a mark-up of 16 cents per metre if the cloth is sold by the bale and 21 cents per metre if bales are broken and cloth is sold in units of less than a bale.

The KNTC, in suggesting different mark ups if sold by the bale or in units of less than a bale, is taking cognizance of the fact that different services may be being performed by the marketing intermediaries, i.e. breaking bulk. However, this method of pricing ignores the different services involved in, say supplying a retailer in Kisumu out of the Kisumu depot with 500 metres of cloth costing 2.00 shillings per metre and the cost of supplying a retailer in Kitale out of the same warehouse with 100 metres of cloth costing 4.00 shillings per metre. Selling in Kitale involves greater transportation costs, involves capital being tied up for longer periods of time, and requires more capital per

unit of cloth, moreover, the fixed costs of filling an order are spread over a smaller number of metres of cloth. It is, therefore, unreasonable to expect sub-distributors to charge equal mark-ups irrespective of quantity, quality and place of sales because of each sale provides a different set of services.

In addition, the system of specific mark-ups, i.e. a mark-up of a given amount irrespective of the cost is regressive with a disproportionate amount of the marketing overhead being placed on the least expensive textiles. Some marketing costs are a function of the weight textile, volume of textile, or number of metres being sold, i.e. the costs are a function of the physical quantity being marketed. This type of cost includes transport costs, bulk breaking and certain storage costs. Other marketing costs are a function of the cost of the good being marketed, i.e. the greater the cost per unit of the good the greater the cost of marketing. This is so because more capital is tied up in expensive lines not only because they cost more expensive qualities of cloth tend to have a slower turnover.

The KNTC's method of pricing textiles ignores costs that are a function of value, with the results that the percentage mark-up is much lower on the more expensive textiles than on the less expensive textiles. For example, the KNTC purchased the least expensive first quality textile

for 1.50 shillings per metre and recommended that sub-distributors resell at 1.82 shillings per metre. Eleven cents of this mark-up was for the KNTC and 21 cents for the sub-distributor. This gives a total percentage mark-up of 21 percent. On the other hand the most expensive textile purchased by the KNTC was 4.50 shillings per metre. Applying a 32 cent KNTC and sub-distributor mark-up gives sub-distributor resale price of 4.82 cents. The 32 cents mark-up represents a percentage mark-up of 7 percent.

This problem of specific mark-up is further aggravated by the government imposing an excise duty of 29 cents per metre. This, when summed with the marketing mark-up, gives a total mark-up of 61 cents. Assume two clothes are sold ex. factory at 1.25 shillings per metre and 3.75 shillings per metre. The KNTC could purchase the first of these at 1.54 shillings per metre (1.25 shillings plus 29 cents) and suggest that sub-distributors resell at 1.86, a percentage mark-up of 49 percent. The more expensive cloth could be purchased at 4.04 shillings per metre by the metre by the KNTC which would then suggest that its appointed sub-distributors resell at 4.35 shillings per metre. This represents a mark-up of only 16 percent.

In addition to consumer goods, the KNTC also handles goods that are inputs such as cement, corrugated iron sheets and nails. Currently, the KNTC follows a pricing policy for cement which is basically ex. works price plus transportation.

One cement plant is situated outside Mombasa, the other outside Nairobi. Therefore the price of cement is lower in these two major cities and gets progressively higher the further one moves away from them. The price of cement is 192.00 shillings per ton in Mombasa, 246.00 in Nairobi and 271.75 in Kitale.[8] To encourage construction in areas other than Nairobi and Mombasa, the KNTC could raise the price of cement in those two cities and use the proceeds to lower the price of cement in other parts of the country.

The above examples suggest that the KNTC is not using its control over prices to compliment the government's attempt to increase the real incomes of people living outside the main cities such as Nairobi and Mombasa nor is it using its power over prices to increase the real incomes of poorer people by reducing prices of lower quality goods.

III. AN ANALYSIS OF THE KNTC DISTRIBUTORSHIP POLICY

Two aspects of the KNTC's distributorship policy appear to ignore the fact that different commodities may require different channels and market structures if they are to be marketed efficiently. The first is the method of assigning sub-distributors to districts, while the second is the requirement that certain products must be marketed through appointed sub-distributors irrespective of whether or not there are valid marketing services for

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8 Prices on June 7, 1968. Data supplied by KNTC.

the sub-distributors to perform.

As mentioned in Chapter V Kenya is divided into some 50 districts and the KNTC appoints sub-distributors to most of these districts. The sub-distributors are allowed to distribute either produce and provisions, textiles or hardware within the district boundary but they are not allowed to sell to retailers outside of his appointed district.

The stated rationale of the KNTC for appointing a restricted number of sub-distributors and restricting them to operating in a given district is that this would ensure a market for each sub-distributor of sufficient size for the business to be viable. The large number of inactive sub-distributors, especially in textiles suggests that such reasoning is questionable. Other evidence provides additional support for this conclusion. By January 1970, sugar sub-distributors had been appointed to 40 districts, however, in 5 of the districts where sub-distributors had been appointed not one of the appointed distributors was actively trading. A similar situation prevailed with vegetable oil for which sub-distributors had been appointed to 40 districts but in 9 of these districts not one of the KNTC appointed distributors was active between October 1969 and January 1970.

This method of appointing sub-distributors was even less successful with textile products distribution where

textile sub-distributors were appointed to 32 districts, but, of the 26 active sub-distributors who purchased textiles from the one of the three warehouses at Nairobi, Mombasa and Kisumu only 4 sub-distributors represented 29 districts other than Nairobi, Mombasa and Kisumu. Appointed sub-distributors in the remaining 26 districts were inactive.

In the case of imported shirts, 10 of the 13 sub-distributors were from Nairobi or Mombasa and no information was available on the base town of the other three firms importing shirts. With imported blankets, 10 were from these two cities, one was from Nakuru and the remaining two could not be assigned to a district.[9]

The other reason given by the KNTC for appointing sub-distributors was to ensure that they were African traders and that they were reliable businessmen. Neither of these arguments has much validity. First, at best the only thing that the KNTC can do is ensure that goods confined to it are sold to Africans. The African traders may then sell to whomsoever they please. Moreover it is perfectly legal for non-Africans citizens to trade providing they have a trade licence. Second, ensuring that sub-distributorship were credit worthy and otherwise reliable was certainly valid when the KNTC was selling on credit. However,

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9 Original data were restricted from the files of KNTC sub-distributor sales for the four months October 1969 to January 1970.

evidence presented in chapter V indicates that these checks were imperfect. In addition, this argument no longer has validity as all sales are now made on a cash and carry basis.

When the KNTC ceases to trade on it s own account, abandons its transport and storage functions and changes its trading policy to a system of appointing sub-distributor importers, it is *de facto* cancelling the sub-distributorship of all those sub-distributors not fortunate enough to be appointed importers. This is so because it is no longer any advantage being a sub-distributor because anybody with a valid trading licence may purchase from the importers.

In chapter II, it was noted that different goods require different channels of distribution and that the same good may be marketed through several different channels at the same time. There is some evidence that the KNTC does not always take cognizance of this fact. An article in the East African Standard quotes Mr. J. Karani Gitao, the KNTC manager as follows:

> "From now on we will not allow manufacturers to sell to shopkeepers at wholesale price unless these commodities go through our appointed agents", he said.
>
> ....
>
> Asked if some of the big shopkeepers would be allowed to buy direct from the manufacturers such items as trousers, knitwear, socks and stockings, Mr. Gitao replied, "No. They will have to buy them from our agents."
>
> Mr. Gitao said that the corporation would see to ensure that only genuine African traders were

> appointed as its distributors. He warned against window-dressing and other business malpractices.[10]

For a number of manufactured goods, the most efficient method of distribution is for manufacturers to sell directly to retailers. Either the retailers may take the initiative by contacting and ordering from manufacturers or the manufacturers may take the initiative by contacting retailers through salesmen. In either case, all the functions performed by the marketing system are being performed by one or both of these two groups. It is apparent that certain textile product marketing is done in this way and little purpose is served by introducing redurdant intermediaries.

The role of the KNTC and its sub-distributors in the distribution of textiles and textile products is especially interesting because textiles are an input of the clothing industry. Some interesting insights into the problems this creates are provided by a study by Michael Phelps.[11] Sixteen of the nineteen manufacturers interviewed made no mention of the KNTC or its appointed sub-distributors

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10 "KNTC Takes Over More Items," East African Standard, May 5, 1970.

11 M. G. Phelps,"Marketing Problems in Textiles and Garments in Nairobi, "Staff Paper, Institute for Development Studies, University College, Nairobi, July 1970, pp.7, 8, 24, 25, 26 and 29 and Tables 4, 6, and 7.

when they were asked about the factors that were preventing them from expanding their sales faster. However, the remaining three manufacturers did find faults with the new system of distribution involving the KNTC. All three of these firms were shirt makers and had previously solicited orders directly from wholesalers or from the larger retailers.

Each of these firms complained that nothing had really changed in the marketing system except that an extra middleman had been introduced. The firms continued to solicit orders from wholesalers and retailers but instructed the potential buyers to send their orders to the KNTC sub-distributor who would then pass them on to the manufacturer. This not only caused delays due to extra lines of communication but also involved the payment of commissions. This, the manufacturers claimed, could only result in a loss of efficiency and a rise in costs.

An analysis of the retail price data supplied by the Ministry of Economic Planning and Development and presented in Appendix G indicates that the KNTC involvement has resulted in neither an increase nor a decrease in the Nairobi retail prices of those goods which have been confined to it. This suggests that, if the manufacturers were correct in their assertion that the new system would raise costs, these costs have not been passed on to consumers and were absorbed by the manufacturers and/or any other intermediaries within the

marketing system.

Only three of the nineteen manufacturers claimed that they had problems marketing their products through the KNTC.[12] However, twelve of the nineteen manufacturers complained they had problems in obtaining their raw materials due to KNTC and the KNTC appointed sub-distributors. Before the KNTC became responsible for textile distribution many garment manufacturers bought directly from local textile manufacturers, or did their own importing. After the KNTC took over textile distribution these garment manufacturers were permitted to import some of their textile inputs but increasingly their requirements had to be obtained through the KNTC appointed distributors.[13]

The problems of obtaining textiles outlined above highlights a potential limitation in the role of state trading. Manufacturing firms having to buy their imported or domestically produced intermediate goods through the state corporation can lead to special problems. The knowledge and skills required by the state trading organisation become much greater when they involve purchasing inputs for manufacturing. Not only is a broad knowledge of the market required, but, in addition, the technical

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12 It will be recalled that many manufacturers claimed that sales were down because there were insufficient marketing outlets. It is interesting to note that this was perceived as being due to the workings of the Trade Licensing Act. Insufficient African traders was seen to be a problem by these manufacturers but the role of the KNTC in assisting African traders was not criticised.

13 Information supplied by officials of the KNTC

process of manufacturing must be clearly understood so that the inputs have the proper specifications. If the product must be purchased through the state trading organisation and if the state trading organisation does not possess this expertise then the marketing system contains a redundant middleman which is unable to perform any marketing function or service.

In Tanzania, where the same problem is encountered, a number of firms both in the public and private sector have expressed a concern over the loss of control of their imported inputs due to delivery delays and to the problem of the STC's purchases not meeting specifications requirements. The problem has largely been solved by allowing National Development Corporation companies to do their own importing, by allowing private companies to import their own plant and equipment, and by allowing imports of intermediate goods that are specific to a given firm to be imported by that firm.[14]

IV. SUMMARY

The KNTC could play a vital role in complementing other government programmes for redressing income imbalances between the richer and the poorer people in Kenya and between urban and rural areas through its pricing policy. However,

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14 Interviews with senior officals of the National Development Corporation and the Ministry of Commerce and Industries during August, 1970.

the actual pricing policies followed by the KNTC suggest that this possible policy objective is not being followed by the KNTC. In fact, the evidence that exists allows one to draw the tentative conclusion that the pricing policies actually being followed by the KNTC tend to aggravate the problem of income imbalances between the richer and the poorer and between the two major cities and the rest of Kenya.

The KNTC policy of restricting competition by means of its distributorship policy, and to a lesser extent its pricing policy, has not been a success in ensuring the viability of sub-distributorship as the data suggests that most sub-distributors are not actively trading. In addition, as the KNTC no longer sells on credit, the policy of restriction to ensure that the sub-distributors were reliable and credit worthy is no longer valid. Data presented in earlier chapters suggests it never was an effective method of ensuring reliability.

Finally, data on the channels of distribution of certain textile products suggests that the KNTC is attempting to introduce extra levels of intermediaries where possibly no extra marketing services are required. If sub-distributors are unable to perform valid marketing services it is undesirable that the distribution chain should be lengthened in order to include unnecessary intermediaries.

CHAPTER VIII

SUMMARY AND CONCLUSIONS

This thesis has attempted to analyse the potential and actual role of the Kenya National Trading Corporation in the economic development of Kenya. In order to do this it was first necessary to describe and analyse the structure of the Kenyan economy at Independence and to identify the associated problems.

In 1968, exports were approximately 20 percent of the gross domestic product and imports were approximately 25 percent of gross domestic product. The negative visible trade balance was offset by positive receipts from tourism and capital inflows from private, government and multilateral sources. Major exports were predominantly primary products, the more important of which were coffee, tea, sisal, pyrethrum and meat products. Major imports were predominantly manufactured goods including crude petroleum, motor vehicles and chassis, agricultural machinery and equipment, industrial machinery, consumer durables and luxuries.

The industrial sector in Kenya is large relative to the industrial sectors of both Uganda and Tanzania but is smaller than that of most other developing countries. This industrial sector developed largely because of the presence of a high income immigrant group in Kenya and because the three East African countries were one large

economic bloc with common external tariffs and few internal barriers to trade. The major local industries include food processing and light consumer goods products. This latter group of industries are largely final processors of imported intermediate goods. Nairobi and, to a lesser extent, Mombasa, are the manufacturing centres of Kenya.

At the time of Independence, almost all of the manufacturing capacity of Kenya was owned by non-Africans, either subsidiaries of European firms or financed by local non-African capital. This pattern of ownership was also true for the major import and export firms and the financial institutions, especially the commercial banks. It is argured that because these economic institutions are owned and staffed by non-Africans they would continue to operate as before. This would result, it is argued, in Kenya continuing to export primary products and import secondary products. A state trading corporation might play an important role in Kenya's development by diverting demand from foreign to domestic sources where the latter exist.

In addition, almost all importing was through non-African firms. European importing firms were dealing mainly in industrial machinery, agricultural machinery and equipment, pharmaceutical products and chemicals. Building materials, hardware and consumer durables were imported by both European and Asian firms. Piece goods, clothing,

groceries and provisions were mainly handled by Asian firms. Some wholesaling was done by the European firms but most was in the hands of Asians. Retailing was done by both Africans and Asians but the African traders, although more numerous, tended to have smaller businesses than their Asian counterparts.

Data on the number of importers and wholesalers shows that there was a relatively small number of European importers and domestic distributors of industrial machinery, motor vehicles, and agricultural machinery and equipment. The data shows that Asian importers and domestic wholesalers of hardware, piece goods, clothing, groceries and provisions were far more numerous and also shows that most of the wholesalers were located in the larger cities, especially Nairobi.

Evidence is presented which indicates that there is considerable variation in the number and kind of distribution channels through which commodities are marketed. In some cases a number of channels of distribution are employed at any one time or over time to market a single commodity. Evidence is also presented which indicates that terms commonly used in describing intermediaries, such as importers, wholesalers and retailers, may be imperfect in defining the actual functions being performed.

A consequence of this pattern of resource ownership and allocation was that the rewards of growth accrued largely

to the non-African group. Since Independence, the Kenyan Government has initiated many schemes designed to introduce a greater number of Africans into existing economic institutions; to give Africans greater ownership of existing resources; and to make the foreign owned institutions more responsive to Kenya's development needs.

The Kenyan Government has rejected Nationalisation as a means of controlling productive resources. Instead it has attempted to make the foreign owned firms more responsive to Kenya's needs through government participation on the operation of these businesses by having Africans appointed to the board of directors. The major way of doing this is for the Industrial and Commercial Development Corporation or one of its subsidiaries to purchase shares of the foreign owned companies. In addition, the industiral and Commercial Development Corporation has created a number of subsidiaries designed to assist African entrepreneurs including advances to the Small Industries Revolving Loan Fund, the Kenya National Properties Ltd., the Kenya Industrial Ltd., and the Kenya National Trading Corporation.

Europeans and Asians came to dominate importing and domestic wholesaling and to a lesser extent retailing, largely for historical reasons. However, even when the barriers which may have prevented Africans from trading were trading were reduced or removed, non-Africans still remained dominant in trade. An attempt is made in chapter III to

isolate some of the factors which may prevent Africans from being more successful in wholesaling and importing.

Lack of capital is often blamed for the lack of African participation in wholesaling and retailing in Kenya. The evidence presented suggests that capital from commercial sources was easier to obtain in West Africa than East Africa. Part of this may be due to the poor record of credit worthiness and loan repayment of Africans in Kenya. With the large number of Government credit and loan programmes that are now in existence lack of capital should not be a insurmountable problem to competent and responsible traders.

Lack of experience is also cited as a contributing factor to lack of African participation. Opportunities for on-the-job training for aspiring traders have been almost non-existent in Kenya, largely because Asian firms place Asians in positions of responsibility and employ Africans for manual tasks. In addition, although formal traning may assist traders it appears that it may not be essential.

A summary of the work of one author suggests that two factors concerning the organisation of African entreprises: family relationships in business, and inability to delegate authority; and three factors concerning external relationships: restricted knowledge of markets, restricted knowledge of products, and the extent of competition may be greater barriers to African traders than shortage of capital and formal skills.

The government perceives lack of African participation, lack of efficiency, exploitation, and poor market penetration into rural areas as the main problems of the distributive marketing system. However, the operating features of the Trade Licensing Act and the KNTC suggest that the Government has thus far concentrated on the objective of increasing African participation. It is argued that, given the nature of the inherited economy, this objective is too narrow for the KNTC.

In Chapter IV economic theroy is presented which suggests that certain pricing policies, if adopted by the KNTC, would be complementary to one of the governments overall development goals of redressing income imbalances between rural and urban people and between richer and poorer people. For example, if a greater variety of goods were confined to the KNTC, it could, by setting prices in rural areas below prices in urban areas, increase the price of goods consumed by the majority of the more affluent and use this money to reduce the price of goods consumed by the majority of the less affluent. Similar pricing policies could be followed in a given product, i.e., increase the price of the better quality lines and use this extra money to reduce the price of the poorer quality lines.

The KNTC might also partially offset the real income imbalances between the two major urban centres of Nairobi and Mombasa and the rest of Kenya by increasing the prices

of commodities sold in these two cities and using the proceeds to subsidise transportation costs and thus prices in other areas.

One of the most pressing problems in Kenya is the wide disparity of incomes between the Africans, Asians and Europeans and between Africans living in urban areas and Africans living in rural areas. A closely related problem is that much of the country's surplus which might be used for development purposes if flowing out of the country in the form of importing items and both legal and illegal repatriation of profits. It is argued in chapter IV that the KNTC might be an effective instrument for alleviating some of these problems, and economic theroy demonstrating now a monopponistic state trading corporation might be effectively used to increase the quantity and reduce the price of goods produced by domestic monopolies is reviewed.

Not only might state trading corporation intervention of this kind result in an increase in domestic consumption but it might also result in a transfer fo funds from the foreign owned firms to the state trading corporation of the Government. This would result in more funds in the hands of the Government for development projects and less profits in the hands of the foreign firms and therefore reduced repatriation.

To date few imported luxury items have been confined to the Kenya National Trading Corporation. A useful

function that a state trading corporation might perform is to restrict the flow of luxury imports. Not only would this conserve foreign exchange but could also result in the state trading corporation making substantial profits. One use of these funds might be to hand it over to the treasury for development purposes, a second might be for the KNTC to retain it in order to provide better service for sub-distributors. A third use might be as a source of funds for subsiding the price necessities or for reducing the price of goods sold away from the main urban centres of Nairobi and Mombasa.

Finally, theory is presented in Chapter IV which shows where monopoly profits might accrue when the KNTC restricts imports. All three theories suggest that greater benefits will accrue to Kenya if the KNTC imports and purchases from domestic manufacturers on its own account.

Chapters II-IV presented the problems and the potential role of state trading in the economic development of Kenya; chapters V-VII analysed the actual role of the KNTC. The KNTC has three operating divisions, produce and provisions, textiles and hardware. Produce and provisions sales have always been greater than either textiles sales or hardware sales but its relative importance has declined with increased textile and hardware sales.

By May 1970, some 51 commodities had been confined to the KNTC, however, during the July-December 1969 period goods

confined to the KNTC represented 9 percent of all imports into Kenya and 13 percent of the sales of domestic industry. The KNTC employs three distinct methods of marketing the goods that have been confined to it. Certain goods such as sugar, salt, certain textiles and cement are traded on the KNTC account. That is to say, the KNTC estimates national demands, purchases from domestic and overseas suppliers, stores in its 17 warehouses, and, in the case of sugar prior to September 1969, sold on credit. For certain other commodities the KNTC acted as an indent agent. In this case, the KNTC purchases commodities only after it has received a firm order from one of its sub-distributors. He services by the KNTC are guaranteeing payment to the seller, and initial chanelling and goods through African traders. In the final method the KNTC permits a sub-set of its appointed sub-distributors to purchase from domestic and overseas suppliers.

Trading on the KNTC account requires the KNTC to have more working capital than do either of the other two methods of marketing. Data on credit sugar show that the KNTC has accumulated large amounts of bad debts and an analysis of the KNTC financial accounts suggests that this has left the KNTC short of working capital. It is suggested in chapter V that this shortage of working capital has resulted in the shift in KNTC policy of trading on its own account and thus in a partial withdrawal of the KNTC from supplying valuable marketing services such as credit, storage and

transport. This in turn has resulted in the African traders having increased problems in providing the full range of services to their retailers thus making it increasingly difficult for the African sub-distributors to compete with the non-African wholesalers who are able to provide these services.

Data presented in chapter VI supports the hypothesis that the KNTC has had a measure of success in Africanising those commodities that have been confined to it. However, the same evidence suggests that non-Africans are still trading in commodities confined to the KNTC and that for many commodities only a small proportion of the African traders entitled to trade as primary sub-distributors were in fact doing so.

Non-Africans continue to trade in goods confined to the KNTC for two reasons. The first reason is that the rights of citizens to be treated as equals regardless of ethnic origin is guaranteed under the constitution of Kenya. The Trade Licensing Act allows discrimination between African citizens and non-African citizens. Once in possession of a valid trade licence it is legal for non-Africans to purchase commodities confined to the KNTC from appointed African sub-distributors and then perform the wholesaling functions.

The second reason is that in order to compete with the KNTC appointed African sub-distributors, the non-African wholesalers must provide equal or better service. Evidence

available suggests that, in Nairobi at least, non-African wholesalers of textiles and produce and provisions give better credit facilities than do textile wholesalers appear to be more willing to sell in smaller lots than are their African counterparts.

Inability to compete with non-Africans may be a contributory factor accounting for the large number of KNTC appointed sub-distributors who are inactive. Another factor to be that the fewer the services such as credit, transport, storage and bulk breaking provided by the KNTC the fewer the number of active sub-distributors. When the KNTC stores commodities in all its warehouses several hundred sub-distributors are active but when sub-distributors do their own importing, the number of active sub-distributors is greatly reduced. This may result in a partial de-Africanisation of wholesaling when a commodity which was originally imported and stored by the KNTC is then imported by a restricted number of appointed sub-distributors.

Finally, when the KNTC trades on its own account it reduces the amount of capital, skill and experience needed on the part of the African sub-distributors by securing sources of supply, transporting, bulk breaking and storage.

The pricing policy of the KNTC could play an important role in redressing income imbalances in Kenya. Data on pricing policies pursued by the KNTC presented in chapter VII shows that the KNTC is not currently using this potential

to correct imbalances. In fact, the data suggests that at times the actual pricing policies may have aggravated the problem of income imbalances.

The KNTC policy of restricting competition by means of its distributionship policy, and to a lesser extent its pricing policy, has not been a success in ensuring the viability of sub-distributorship as the data suggests that most sub-distributors are not actively trading. In addition, as the KNTC no longer sells on credit, the policy of restriction to ensure that the sub-distributors were reliable and credit worthy is no longer valid. Data presented in earlier chapters suggests it never was an effective method of ensuring relaibility.

Finally, data on the channels of distribution of certain textile products suggests that the KNTC is attempting to introduce extra levels of intermediaries where possibly no extra marketing services are required. If sub-distributors are unable to perform valid marketing services it is undesirable that the distribution chain should be lengthened in order to include unnecessary intermediaries.

In conclusion, much of the KNTC's potential has not to date been realised largely due to the narrowness of its objectives. If it is to achieve its potential contribution to Kenya's economic development broader objectives such as transferring demand from overseas sources to domestic sources and redressing income imbalances must be considered. In order

to be effective in meeting these broader development needs it is important that the KNTC continue to trade on its own account and not simply permit selected traders to do importing.

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APPENDIX A

TABLE A. 1

PRINCIPAL DOMESTIC EXPORTS

KL '000

Category	1964	1968
Unroasted Coffee	15,396	12,808
Sisal	6,028	2,020
Tea	6,056	10,041
Pyrethrum	2,453	3,040
Meat and Meat Products	2,167	3,026
Hides and Skins	1,294	1,671
Soda Ash	708	1,132
Wattle Extract	883	1,134
Petroleum Products	2,124	6,111
Cement	802	1,174

Source: Republic of Kenya, Kenya Statistical Digest, September 1969 Table 13.

TABLE A.2

SELECTED NET IMPORTS 1964 AND 1968

K £'000

Category	1964	1968
Crude Petroleum	7,274	9,656
Motor Vehicles and Chassis	4,940	8,072
Agricultural Machinery and Tractors	1,468	2,295
Industrial Machinery	9,138	14,690
Iron and Steel	3,818	6,147
Fabrics of Cotton	2,399	2,752
Fabrics of Synthetic Fibres	2,212	3,183
Paper and Paper Products	3,198	4,798
Pharmaceuticals Products	1,415	2,194
Fertilisers	1,330	1,875

Source: Republic of Kenya, Kenya Statistical Digest, Sept. 1969, Table 12.

TABLE A. 3

CENSUS OF INDUSTRIAL PRODUCTION 1963

Industry	Establishments	Persons Engaged	Years Production
	Number	Number	K £'000
Meat Products	8	2,068	6,296
Dairy Products	16	881	4,872
Canned Fruit and Vegetables	4	994	1,011
Grain Mill Products	39	1,973	9,114
Bakery Products	37	1,086	1,826
Sugar and Confectionary	5	1,587	1,808
Miscellaneous Foods	13	535	589
Spirits, Beer and Malt	17	2,058	4,063
Soft Drinks and Tobacco	19	1,454	3,963
Cordage, Rope and Twine	6	2,233	1,343
Textiles	10	1,820	1,342
Clothing and Footwear	17	1,881	2,876
Sawn Timber	64	5,299	1,199
Other Wood Products	7	320	217
Furniture and Fixtures	74	1,218	1,113
Paper Products	11	706	1,521
Printing and Publishing	73	2,977	4,102
Tarring and Leather Goods	10	503	553
Rubber Products	10	276	543
Basic Industrial Chemicals	15	1,561	2,445
Paints	4	246	659
Soap	17	788	3,275
Miscellaneous Chemicals	20	864	4,191
Clay and Concrete Products	17	533	301
Glass and Products	3	307	462
Cement and Other Minerals	7	921	2,312
Metal Products	48	2,870	5,276
Non-electrical Machinery	35	711	612
Electrical Machinery	19	251	278
Shipbuilding and Repairing	12	2,107	949
Railway Rolling Stock	1	6,392	2,616
Motor Vehicles	17	464	507
Motor Repairs	96	1,454	1,790
Miscellaneous Manufacturing	24	491	792

Source: Republic Of Kenya, Kenya Census of Industrial Production 1963, p. 102.

APPENDIX B

THE DEVELOPMENT OF A VERTICAL MARKET STRUCTURE[1]

The purpose of theis Appendix is to show how the introduction of middlemen between producers and consumers will, under certain circumstances, result in a lowering of marketing costs.

A vertical market structure or marketing channel may be viewed as the set $(A_1 - A_m, X_1 - X_n)$, where A_i is the ith producer and X_j is the jth consumer. Membership of the structure is characterised by each firm having at least one cooperative relationship with a consumer and each consumer having one cooperative relationship with at least one producer. Efficiency then concerns a comparison of costs of exchange given the following two systems,

$$(A_1 - A_m, X_1 - X_n)$$

and

$$(A_1 - A_m, R_1 - R_o, X_1 - X_n)$$

where $R_1 - R_o$ are competing intermediary firms.

The sources of costs and therefore the potential sources of efficiencies are contact and communication, inventory carrying and storage, financing, physical distribution costs,

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1. Based upon material presented H. Baligh and L. Richartz, *Vertical Market Structures* (Boston: Allyn and Bacon, 1967).

supplying of non-waiting utilities to buyers, the implementing of exchange transactions, production, buying and selling.

Assume a vertical market structure with m sellers each of whom are in contact with n sellers. Also assume that the cost of each contact is 1 then the total contactual costs are n x m or:

$TC = nm$ ---------------------------1

The entry of one middleman who is in contact with all sellers (contact cost of m) and with all buyers (contact cost of n) reduce total costs to n + m or:

$TC_{u} = m + n$ ---------------------------2

Assume the n sellers and the n buyers are indifferent to the entry of the middleman providing that their net income is at least as high after the entrance of the middleman as it was before. Given this assumption the middleman gains a total equal to the contact costs prior to his entry, i.e., mn.

$TR_{u} = mn$ ---------------------------3

Therefore middleman's profits are:

$TP_{u} = m/n - (m + n)$---------------------4

Because profits are made new entrants will be drawn into the system until the number of new entrants has increased to the point where total profits in the system are zero:

$TP_{i} = mn - w\ (m = n) = 0$ ---------------5

$TP_{j} = \frac{mn}{w} - (m + n) = 0; \quad j = 1, 2 \ldots w$--6

which solved for the optimum number of middlemen yields:

$$W_1 = \frac{mn}{m+n} \qquad \text{------------------------7}$$

The formation of one level of middlemen allows for the formation of additional levels of middlemen for exactly the same reason that the first level was created. E.G., if m=n=8 then no middlemen contactual costs are 64. With one middleman contactual costs would be 16 yielding a profit of 48. However, the entrance of further middleman would reduce total contact costs. Cooperation between levels and competition within levels would lead to the following vertical market structure:

```
0   0   0   0   0   0   0   0    m sellers
              0                  (c)
            0   0                (b)
              0                  (c)
        0   0   0   0            (a)
              0                  (c)
            0   0                (b)
              0                  (c)
0   0   0   0   0   0   0   0   0  n buyers
```

Let us assume that the m sellers and n buyer would not be indifferent to the entrance of new cooperating firms at existing profit levels after the realisation that, through bargaining with intermediaries, profits could be increased, i.e., new cooperating firms must grant rebates to existing firms in order to gain entrance and cooperation from firms

already in the structure.

Assume the m sellers and n buyers are indifferent to the entrance of any middleman provided the middleman grants a rebate of at least r_{j1}, the total rebate granted by all middlemen in the first level of intermediaries is:

$$R_1 = \sum_{j=1}^{w_1} r_{j1} \qquad \text{--------8}$$

The total rebates granted by the first level of intermediaries can be expressed as some proportion of the total cost of the system:

$$R_1 = k(mn);\ 0 \quad K \quad 1. \qquad \text{--------9}$$

The total revenue within the system, to be allocated among the intermediaries at the primary level, is reduced from mn to (1-k)mn, thus:

$$TP_1 = (1-k)\,mn - w_1(m+n) = 0 \qquad \text{--------10}$$

and

$$TP_{j1} = \frac{(1-k)mn}{w_1} (m+n) = 0 \qquad \text{--------11}$$

giving an equilibrium number of intermediaries at the primary level of:

$$w_1 = \frac{(1-k)mn}{m+n} \qquad \text{--------12}$$

Thus, the number of intermediaries at the primary level is reduced in proportion to the size of the aggregate rebate. This analysis can be expanded to several levels of intermediary with each new level having to pay a rebate to existing members of the structure in order to join.

If we now assume that the cost of information transmittal

is not one (as was assumed for equations 1 through 11) but is made up of two parts: a fixed element q and a variable element r which varies with amount of information transmitted. Let us further assume that the total cost of direct contact between a member of the m group and a member of the n group is now a cost of contact and communication, $q + 2p$, then

$$TC = mn(q+2p) = qmn+2pmn \quad \text{------------------13}$$

i.e., each m sends out his price to all n and each n his price to all m.

The total cost of a single middleman of attaining the given output of information for the system is the sum of the costs of contacts and the costs of information transmitted:

$$TC_{j'} = (q(m+n) + pn(m+1) + pm(n+1) \quad \text{-----------14}$$

The total profit of the system in equilibrium is:

$$TP_{'} = qmn + 2pmn - w_{'} (q(m+n) + p(m+n+2mn)) = 0 \text{--}15$$

and

$$TP_{j'} = \frac{qmn+2pmn}{w'} - q(m+n) - p(m+n+2mn) = 0 \quad \text{----}16$$

therefore

$$w' = \frac{qmn+2pmn}{q(m+n) + p(m+n+2mn)}$$

the introduction of an information transmittal cost (p) results in a reduction in the number of intermediaries in the primary level. This then leads to a reduction in the number of levels of intermediaries and the number of middlemen in each level.

Finally let us drop the assumption that there are no

fixed costs associated with the entry of middleman into the structure. Also let us assume that in order to induce middlemen into the system the middleman is assured the opportunity cost of his capital inputs;

if S_j, are the setup costs of the jth middlemen into the primary level of intermediaries

and I is the acceptable rate of return

a firm will not enter unless expected profits are equal to or greater than $IS_{j'}$,

i.e. $$\text{Min } (TP_{j'}) = IS_{j'} \qquad \text{------17}$$

therefore

$$TP_{j'} = mn - (m+n) \geq w_1 (IS_{j'}) \qquad \text{------18}$$

or

$$TP_{j'} - IS_{j'} = \frac{mn}{w'} (m+n), \text{ for all } w_1 \qquad \text{----19}$$

and

$$w_1 = \frac{mn}{(m+n)} + IS_{j'} \qquad \text{------20}$$

again the number of intermediaries at each level and the number of levels of intermediaries is reduced.

Bringing rebates, fixed and variable costs of communications, costs of setting up a business, and minimum rate of return, into one model gives:

$$TR = (1-k)mn(q+2p) - IS \qquad \text{------21}$$

$$TC = w_1 (q(m+n)+p(m+n+2mn)) \qquad \text{------22}$$

$$w_1 = \frac{(1-k)(mn)(q+2p)}{IS_{j'} + q(m+n) + p(m+n+2mn)} \qquad \text{------23}$$

So far we have looked at the optimal market structure, when the only costs are contact and communication costs. A similar type of analysis can be carried out concerning the costs of inventory carrying and storage, financing, and physical distribution. The introduction of each new function introduces the further possibilities of increasing efficiency through economies of scale and further reducing the number of levels of intermediaries and the number of agents in each level.

The conclusion to be drawn from this analysis is that provided there is

a) perfect competition

b) the ability to reduce costs so that

i) new entrants are adequately rewarded

ii) old participants receive sufficient rebate to induce new entrants

then either a new level of intermediary will come into existence or a new middleman will enter into an existing level.

There is a major drawback in the above analysis. There is a total revenue in the system mn from which some or all of the following is subracted:

$$R = \sum r_{ij} \text{ where } r_{ij} \text{ is fixed}$$

$$S = \sum s_{ij} \text{ where } s_{ij} \text{ is fixed}$$

and new entrants will enter until,

$$mn - R - S - I - = 0$$

i.e., new entrants will occur until costs have increased enough to eliminate profits. This leaves the impression that competition instead of reducing costs results in an increase in costs, i.e., competition decreases efficiency rather than increases efficiency where efficiency is measured as the quantity of resources to produce a given output.

True, excessive competition may result in too many resources entering an industry for all resources to be fully utilised. What is not mentioned in the above model is that competition or the threat of competition results in pressures to reduce costs, i.e., use resources more efficiently. An increase in the number of firms, instead of increasing the quantity of inputs may reduce the quantity of inputs. The second point is that r_j' is fixed. In reality the size of r_j', w' and R will all be function of the degree of competition the greater the potential competition the greater the size that r_j' will be. In summary, competition increases R and may or may not increase costs.

Example:

Assume a village of woodcarvers who produce woodcarvings for sale in Nairobi. Further assume that this village contains ten ggod woodcarvers and ten mediocre woodcarvers. Finally assume that a good woodcarving can be sold for 20 shillings and a mediocre carving for 14 shillings. The initial production/marketing system consists of each wood carver producing one carving a day, working six days per week and

carving for two weeks. After two weeks each has produced 12 carvings. Each carver then takes the bus to Nairobi and spends the rest of the month selling his carvings. The bus fare is 50 shillings and out of pocket expenses are two shillings per day while in Nairobi.

This production/marketing system would yield the following profits.

Good woodcarver

profit = price times quantity - fixed costs - variable costs

$= P \times Q - FC - VC$

$= 20 \times 12 - 50 - 15 \times 2$

$= 240 - 50 - 30$

$= 160$

Mediocre woodcarver

profit = $P \times Q - FC - VC$

$= 14 \times 12 - 50 - 15 \times 2$

$= 168 - 80$

$= 88$

Let us assume that one of the mediocre woodcarvers, that is mediocre at carving not at business, realises that both he and a good woodcarver could make more money if the good woodcarver specialised in carving and he, the mediocre woodcarver, specialised in selling. For instance, if the good woodcarver carved all month he would produce 24 carvings. Providing that the middleman offers at least 6.66 shillings per carving the good carver will be at least as well off.

Let us assume that after a period of negotiation the final price settled on is 8.00 shillings per carving.

Good woodcarver

profits = total revenue - total costs

= P x Q - FC - VC

= 8 x 24 - 0 - 0

= 192 (up from 160)

Mediocre woodcarver cum middleman

profits = total revenue - total costs

= P x Q - FC - VC

= 20 x 24 - 8 x 24 - 50 - 30 x 2

= 480 - 192 - 50 -60

= 178 (up from 88)

The introduction of a marketing middleman has made everyone better off. This example could be expanded so all 20 people could be made better off if the ten good woodcarvers sold to the middleman who then sells to the remaining nine woodcarvers who become permanent retailers in Nairobi. Such a production/ marketing system would consist of ten producers, one wholesaler and nine retailers.

APPENDIX C

AN ANALYSIS OF AFRICANISATION

The policy objective of Africanisation may be formulated in terms of maximising the proportion of trade being handled by the favoured group subject to one or more constraints. One such objective might be the maximisation of the proportion of trade being handled by Africans subject to the constraint that there is no increase in prices or decrease in services offered.

The variables important in Africanisation are the number of commodities, the value of these commodities as the proportion of all commodities, the levels of distribution involved and, the proportion of each commodity taken over.

Assume that 100 commodities exist, that Africans trade in 70 of them and that these 70 commodities comprise 40 percent of the total value of all goods traded. Further, assume that 20 percent of the value of trade is derived from imports, 35 percent from wholesale trade, and 45 percent from retail trade. Finally, assume that Africans control 30 percent of all imports, 40 percent of the wholesale trade, 90 percent of the rural retail trade, 60 percent of the urban retail trade and that 75 percent of the retail trade is carried out in rural areas and that the remaining 25 percent is in urban areas. Given this basic information the percentage of trade that is conducted by Africans can be

calculated.

e.g., Imports .3 x .4 = .12, i.e., 12 percent of the value of all imports are made by Africans

Wholesale .4 x .4 = .16

Rural Areas .9 x .4 = .36

Urban Areas .6 x .4 = .24

The total retail trade controlled by Africans is then obtained by weighing the rural trade by the proportion of goods retailed in rural areas and urban retail trade by the proportion of goods retailed in urban areas.

e.g., Retail .36 x .75 + .24 x .25 = .33

Thus in this hypothetical example, 12 percent of the value of the import trade, 16 percent of the value of the wholesale trade and 33 percent of the value of the retail trade is handled by Africans. The proportion of all trade carried out by Africans is calculated by weighting these percentages by the proportions of the value of trade carried out at each level.

e.g., .12 x .20 + .16 x .35 + .33 x .45 = .23

i.e., using this definition of Africanisation, 23 percent of trade is Africanised.

Such a definition of Africanisation has merit in terms of very broad policy goals. For instance, it may be decided that the goals for Africanisation are, say, 25 percent by the end of 1970, 35 percent by the end of 1972, 60 percent by the end of 1975 and 90 percent by 1980. However, in

terms of implementing programmes such objectives would have to be narrowed to have operational content.

For instance, the goal that say 35 percent of all trade is to be in the hands of Africans by the end of 1972 could be accomplished using a number of strategies:

(a) increasing the number of commodities handled by Africans so that they handled another 50 percent of the value, i.e., from 40 percent to 60 percent;

(b) leaving the number of commodities the same but increasing the proportion of each commodity at each level by 50 percent;

(c) or by increasing proportion at different levels by different amounts;

(d) or by a combination of (a) and (c).

There are an infinite number of ways that Africanisation can be accomplished.

In conclusion, a timetable for accomplishing Africanisation could be established as follows:

Commodity Class "A"

	1970	1972	1975
Import	No change	20%	100%
-Rural	No change	100%	100%
Wholesale			
-Urban	No change	50%	100%
-Rural	100%	100%	100%
Retail			
-Urban	50%	100%	100%

Commodity Class "B"

	1970	1972	1975
Import	No change	No change	No change
-Wholesale	No change	No change	100%
-Rural	No change	100%	100%
Retail			
-Urban	100%	100%	100%

APPENDIX D

CONSUMPTION PATTERNS IN KENYA[1]

Most Africans in Kenya obtain most of their day to day requirements outside the commercial distribution system, by growing them, by making them themselves or buying or bartering in the local market. Only the comparatively small number who are in fulltime paid employment or on estates buy their requirements from retailers. For most Africans, piecegoods (cloth) and cheap clothing, which they cannot produce themselves, form by far the most important part of their purchases; the next most important are staple foodstuffs such as maize meal, rice, beans, sugar and salt. These staple foodstuffs are more heavily consumed in towns, but are also consumed in most rural areas to supplement the local produce.

Other major items of African consumption which are stocked in almost all small shops are cigarettes, soap, kerosene, tea, tinned milk, various types of cooking oils, matches, various patent medicines, razor blades, aluminium and enamelware, frequently biscuits, and cotton thread.

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1 This appendix is based on information contained in M.C.G. Hawkins, Wholesale and Retail Trade in Tangainka, A Study of Distribution in East Africa (Frederick A. Praeger, 1965), pp. 12-19. The similarity of stages of development in Kenya and Tanzania justify the use of Tanzanian consumption pattern as a proxy for Kenyan consumption patterns.

In the towns and trading centres where there is sizable population receiving a regular cash income, there is a demand for a variety of foodstuffs which include wheat flour, many varieties of peas and beans, potatoes, onions, various vegetable also, coffee and tinned baby food.

Items which are brought only occasionally, but for which there is a relatively large demand are shoes, hoes, bicycles and spare parts, corrugated iron sheets, sewing machines, radios, cheap crockery and cutlery, padlocks, hurricane-lamps, watches, and radio batteries. These are normally only found in shops in towns or trading centres.

The Asian population is highly urbanised and has to buy almost all its requirements from shops in towns or trading centres. The range of basic foodstuffs bought does not differ greatly from that bought by the African population. The main differences are no maize flour and more wheat flour, ghee, onions, potatoes and other vegetables, spices, butter and milk. Much of the clothing and materials used by the Asian community are imported from India.

The pattern of consumption by the European community is practically the same as in Europe. The Europeans together with the wealthier section of the Asian community provide the main market for consumer durables. However, possibly the most rapidly expanding market is among the wealthier Africans.

APPENDIX E

TABLE E. 1

SUMMARY OF FINANCIAL ACCOUNTS 1965/1966

(A) Profit and Loss Account	K £	K £
Gross Trading Profit		222,837
Staff Costs	38,894	
Administration and Financial Expenses	121,822	
	160,716	
Net Trading Profit		62,121
Non-Trading Income	15,253	
Net Profit Before Tax		77,274

(B) Balance Sheet	K £		K £
Share Capital	10,000	Fixed Assets	6,898
Unappropriated Profit	38,624	Subsidiary Company	-
Unsecured Loan	4,607	Trade Investment	10,000
Current Liabilities	1,436,361	Current Assets	1,472,694
Total Liabilities	1,489,592	Total Assets	1,489,592

Source: Audited accounts of the KNTC.

TABLE E. 2

SUMMARY OF FINANCIAL ACCOUNTS 1966/1967

(A) Profit and Loss Account	K £	K £
Gross Trading Profit		111,385
Staff Costs	59,282	
Administrative and Financial Expenses	31,056	
	90,338	
Net Trading Profit		27,047
Non-Trading Income	4,498	
Net Profit Before Tax		35,545

(B) Balance Sheet	K £		K £
Share Capital	10,000	Fixed Assets	25,209
Unappropriated Profit	57,657	Subsidiary Company	--
Unsecured Loan	2,357	Trade Investment	10,000
Current Liabilities	1,249,237	Current Assets	1,284,042
Total Liabilities	1,319,251	Total Assets	1,319,251

Source: Audited accounts of the KNTC.

TABLE E. 3

SUMMARY OF FINANCIAL ACCOUNTS 1967/1968

(A) Profit and Loss Account	K £	K £
Gross Trading Profit		342,088
Staff Costs	87,861	
Administrative and Financial Expenses	266,085	
	353,946	
Net Trading Profit (Loss)		(11,858)
Non-Trading Income	11,395	
Net Profit (Loss) Before Taxation		(463)

(B) Balance Sheet	K £		K £
Share Capital	10,000	Fixed Assets	39,020
Unappropriated Profit	83,421	Subsidiary Company	5,650
Unsecured Loan	14,072	Trade Investment	30,090
Current Liabilities	1,305,879	Current Assets	1,338,612
Total Liabilities	1,413,372	Total Assets	1,413,372

Source: Audited accounts of the KNTC.

APPENDIX F

QUESTIONNAIRE

NAME

LOCATION

DATE

1. Which of the following KNTC distributed goods do you trade in?

   a) Sugar
   b) Cotton seed oils
   c) Soap
   d) Oil

2. Are there any other KNTC distributed goods that you trade in?

3. Which one of the above is the most important part of your business?

4. What other goods do you trade in that are not distributed through the KNTC?

5. What proportion of your business is with KNTC distributed goods?

6. How many manufacturers do you supply?

7. How many wholesalers?

8. How many retailers?

9. How many government insitutions?

a) What stimulates you to put in an order for........?
   i) When stocks are low?
   ii) When you get a firm order from a customer?

b) Would you please tell me how you order.............?

c) How is it delivered to you?

d) Do you store it? All of it?

Approximately how many weeks storage do you have at present?

e) Do you sell..........in the same units that you buy it in?

f) Do you ever sell any..............retail?

g) How is ....transported from you to your customers?

h) Do you think the retail price of ....has increased, decreased, or stayed the same over the last three years?

i) Are there any problems in the distribution of .... that we have not dicussed?

10. What sort of technique do you use to increase sales?

    i) Advertising
    ii) Price cutting
    iii) Visiting customs
    iv) Brochures and pamphlets
    v) Showroom
    vi) Giving credit

11. Has financing your business been a major problem?

12. Have you ever had a loan or been granted credit from

    i) ICDC
    ii) KNTC
    iii) Trade Development Joint Loan Boards

13. Have you ever had a loan or credit from any of your customers?

14. Have you ever taken any business courses?

15. In what year did you first start in business? What kind of business was it?

16. When did you first start this business?

    How?

17. What other business do you currently run?

18. Are you sole owner or do you have any partners?

19. Are there any improvements you would like to see the KNTC make?

APPENDIX G

HIGH INCOME INDEX OF COST OF LIVING

Item		Year	March	June	Sept	Dec
			Shillings			
John Haig Whiskey (with duty increase)	per bot.		44.06	44.06	44.03	44.04
	per bottle	1968				
	" "	1969	44.04	44.16	46.00	46.00
	" "	1970	46.00			
Soap	1 bar	1966	1.60	1.63	1.92	1.92
	1 bar	1967	2.39	2.05	2.28	2.46
	1 bar	1968	2.45	2.31	2.21	2.18
	1 bar	1969	2.14	2.21	2.16	2.06
	1 bar	1970	2.06			
Blankets	each	1966	84.75	84.75	79.50	80.00
	"	1967	80.00	84.75	84.75	84.75
	"	1968	85.00	85.00	84.75	85.00
	"	1969	85.00	86.25	86.25	86.25
	"	1970	86.25			
Matches	each	1967	2.70	2.70	2.69	2.66
	"	1968	2.78	2.80	3.00	3.00
	"	1969	3.00	3.00	3.00	3.00
	"	1970	3.00			
Razor Blades	Packet 5	1967	3.83	3.83	3.80	4.00
	"	1968	4.00	4.00	4.00	4.00
	"	1969	4.00	4.00	4.00	4.00
	"	1970	4.00			
			AUGUST 1939 = 100			
Food, Drink and Tobacco		1966	354.9	355.4	355.3	354.9
		1967	357.8	367.6	373.7	371.0
		1968	371.2	377.4	377.8	378.2
		1969	379.1	386.9	389.2	391.9
		1970	396.0			
Average Weighted Index of All Groups		1966	340.5	342.2	343.6	344.7
		1967	346.4	351.1	355.4	354.9
		1968	357.8	360.0	361.0	361.6
		1969	361.9	365.5	367.0	371.8
		1970	384.7			

Source: Original data provided by the Ministry of Economic Planning and Development.

MIDDLE INCOME INDEX OF COST OF LIVING

Item	Year	March	June	Sept	Dec
Kimbo per 1 lb.	1968	2.50	2.50	2.50	2.50
" "	1969	2.50	2.50	2.50	2.84
" 1 kg.	1970	6.26			
Ghee per 1 lb.	1968	2.40	2.40	2.40	2.40
per 1 kg. from June	1969	2.40	5.30	5.30	5.30
" "	1970	5.40			
Salad Oil bottle (1)	1968	3.00	3.00	3.00	3.00
"	1969	3.00	3.00	3.00	3.00
"	1970	3.25			
Salt (fine) per 1 lb.	1966	0.25	0.25	0.25	0.25
"	1967	0.25	0.25	0.25	0.25
"	1968	0.25	0.25	0.25	0.30
Per 1 kg. from May	1969	0.30	0.76	0.75	0.72
	1970	0.74			
Shirts Shikibo ea.	1965	25.00	25.00	25.00	25.00
" "	1966	25.00	25.00	25.00	25.00
" "	1967	25.00	25.00	25.00	32.50
" "	1968	32.50	32.50	32.50	32.50
" "	1969	32.50	31.00	32.50	29.00
" "	1970	29.00			
Blankets each	1966	28.33	30.00	30.00	30.00
"	1967	30.00	30.00	30.00	30.00
"	1968	30.00	30.00	32.50	32.50
"	1969	32.50	32.50	31.63	32.50
"	1970	32.50			
Lifebuoy Soap 1 Cake	1966	0.80	0.80	0.85	0.85
"	1967	0.87	0.85	0.88	0.93
"	1968	0.95	0.95	0.90	0.90
"	1969	0.95	0.95	0.93	0.93
"	1970	0.93			
Raleigh Bicycles each	1968	435.00	435.00	435.00	435.00
"	1969	435.00	435.00	435.00	435.00
	1970	435.00			

MIDDLE INCOME COST OF LIVING INDEX

INDEX	Year	March	June	Sept	Dec
		July, 1964 = 100			
Food Index	1965	101.1	105.1	106.1	107.9
	1966	112.5	113.2	112.5	112.0
	1967	113.2	116.5	115.2	115.8
	1968	115.8	115.0	114.8	115.4
	1969	113.8	115.9	115.6	117.1
	1970	118.7			
Furniture and Utensils Index	1965	100.0	100.0	100.2	100.4
	1966	103.0	109.1	109.3	109.2
	1967	109.2	107.7	101.1	103.5
	1968	103.7	107.3	107.8	107.8
	1969	108.9	109.7	109.9	107.3
	1970	107.3			
Average Weighted Index of All Groups	1965	101.7	103.9	101.7	102.4
	1966	104.8	106.2	106.8	106.7
	1967	107.1	109.6	108.6	109.6
	1968	109.8	110.0	111.1	110.4
	1969	109.9	110.9	111.0	111.6
	1970	112.6			

Source: Original data provided by the Ministry of Economic Planning and Development

WAGE EARNERS INDEX OF COST OF LIVING

Item	Year	March	June	Sept	Dec
		Shillings			
Salt (per 1 lb.)	1966	0.20	0.20	0.20	0.20
"	1967	0.20	0.20	0.20	0.20
"	1968	0.20	0.20	0.20	0.20
per 1 kg.	1969	0.45	0.50	0.50	0.50
"	1970	0.70			
Khaki Drill shirt each	1965	10.15	9.99	9.37	9.56
"	1966	10.04	9.70	9.90	10.06
"	1967	10.40	10.70	10.39	10.10
"	1968	9.77	10.05	10.52	11.01
"	1969	11.23	10.35	10.43	10.58
"	1970	10.55			
Whiteshirt each	1965	12.50	12.50	12.50	12.50
"	1966	9.65	10.40	10.81	11.00
"	1967	10.80	10.77	11.31	11.47
"	1968	11.55	11.69	11.56	11.47
"	1969	11.67	12.00	12.00	12.00
"	1970	12.25			
Jinja Fabric each 1yd	1965	3.00	3.03	3.40	3.01
"	1966	3.05	3.05	3.00	3.00
"	1967	3.00	3.00	3.00	3.00
"	1968	3.00	3.00	3.05	3.09
from Feb. 1 meter	1969	3.50	3.50	3.51	3.53
"	1970	3.52			
Cotton Blanket each	1966	8.32	8.99	8.95	9.17
"	1967	9.07	8.83	9.06	8.73
"	1968	8.44	8.62	8.90	8.93
"	1969	8.97	9.24	9.50	9.85
"	1970	9.93			
Blue Soap 1 lb. bar	1966	0.91	0.86	1.26	1.22
"	1967	1.22	1.24	1.36	1.43
"	1968	1.47	1.48	1.50	1.50
"	1969	1.50	1.47	1.50	1.50
"	1970	1.47			
Matches (swedish) ea.	1967	0.25	0.25	0.25	0.25
"	1968	0.25	0.25	0.25	0.25
"	1969	0.25	0.25	0.25	0.25
"	1970	0.25			

WAGE EARNERS INDEX OF COST OF LIVING

Index	Year	March	June	Sept	Dec
	October - December 1958 = 100				
Clothing and Footwear Index	1965	103.4	104.4	104.7	103.6
	1966	103.6	104.7	104.9	104.4
	1967	103.4	105.1	104.5	103.3
	1968	104.2	104.6	103.6	106.6
	1969	107.6	107.1	108.6	109.7
	1970	109.8			
Average Weighted Index of all Groups	1965	110.3	113.9	112.8	115.1
	1966	117.5	117.3	117.8	117.8
	1967	118.5	121.7	120.2	120.1
	1968	119.9	119.7	120.0	121.0
	1969	117.4	120.0	120.3	120.9
	1970	121.8			
Household Index	1965	93.6	96.8	98.9	106.0
	1966	102.6	105.5	113.5	118.5
	1967	117.3	116.8	121.8	121.0
	1968	120.1	121.5	120.5	122.3
	1969	123.3	123.2	125.6	127.6
	1970	126.2			

Source: Original data provided by the Ministry of Economic Planning and Development

APPENDIX H

POSSIBLE ALTERNATIVES FOR MEETING THE OBJECTIVES OF INCREASING AFRICANISATION

Before testing the hypotheses concerning the role of the KNTC in Africanising wholesale trade and imports and exports and its effect on other aspects of marketing it is worthwhile to discuss briefly the alternatives that existed at the time of Independence for meeting the goverment's Africanisation objectives. An outline of these alternatives follows:

A. Prevent non-Africans from trading.

1. Expulsion of non-Africans from Kenya;
2. Make it illegal for non-Africans to engage in trade;
3. Persuade local manufacturers to Africanise the distribution of their products;
4. Direct government involvement in trade;
   (a) producer marketing cooperatives and/or consumer cooperatives,
   (b) product marketing boards,
   (c) system of state trading at import/export and/or wholesale and/or retail levels of distribution,
   (d) system of licences and quotas,

B. Allow non-Africans to engage in trade but give positive assistance to Africans.

1. Provide trade credit, loans, subsidies, business courses and extension services to Africans;
2. Discourage non-Africans;

3. Direct government involvement in trade;
   (a) producer marketing cooperatives and/or consumer cooperatives;
   (b) produce marketing boards,
   (c) system of state trading at import/export and/or wholesale and/or retail levels of distribution,
   (d) system of licences and quotas,

C. Prevent non-Africans from trading and give positive assistance to Africans.

The government has chosen to pursue simultaneously a number of alternatives to meet its objectives rather than concentrate on only one.

A. 1 Expulsion of non-Africans from Kenya. This could have been done by passing residence or immigration laws which could have made non-Africans illegal residents in Kenya thus forcing non-Africans to leave Kenya. A major advantage of solving the problem this way would have been that it would have guaranteed the non-Africans no longer engaged in trade. However, there would have been no guarantee that this would have accomplished the real objective of having all trade in the hands of Africans. Even with the assistance provided by the government it has at times been difficult to get Africans to replace non-Africans after the non-Africans had received quit notices withdrawing their trade licences thus preventing them from trading.[1] Given the importance of the marketing function, it would

1 "Potential Traders Criticised", Sunday Nation, May 11, 1969.

have been highly deleterous to have removed non-Africans from Kenya if insufficient Africans were available and forthcoming to maintain minimal standards.

On occasion non-Africans have been expelled under Kenya's immigration and residence laws after the first declaring them non-residents. However, by far the largest cause of exodus of non-Africans (most of whom are Asians) has been by the withdrawal of trade licences under the provisions of the Trade Licensing Act and the refusal to grant work permits. Most non-Africans who left Kenya after losing their trade licences did so in 1969 and early 1969.[2]

<u>A.2 Making it illegal for non-Africans to engage in trade.</u> This could have been accomplished by making it illegal for goods to have been sold to non-Africans unless the non-African was the final consumer; or, by making it illegal for goods to have been purchased from non-Africans. A slightly more sophisticated, and possibly more effective variant would have been a law requiring all traders to have been in possession of a trade licence. By refusing to grant licences to non-Africans the government could effectively have prevented non-Africans from trading. A variant of this licensing theme would have been to reserve part of trade to African traders by placing restrictions on non-Africans

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2 "No signs of Mass Exodus of Asians, "Daily Nation, April 2, 1969 and "Another Asian Exodus Unlikely say Embassies, "East African Standard, June 25, 1969.

on the types of commodities they could have sold, the areas where sales could have been made, the quantities of goods that could have been sold and the times when goods could have been sold and the Kenyan Government has used licensing to restrict the trading activities of non-citizen traders. Under the provisions of the Trade Licensing Act.[3] certain areas of Kenya (non-general trading areas) and certain types of goods (specified goods) are reserved for citizen traders. In the goods that non-citizens are allowed to trade no special restrictions have been placed on non-citizens as to the quantities that may be sold and the hours of business other than they must be sold in a general trading area.

<u>A.3 Persuading local manufacturers to Africanise the distribution of their products.</u> It has already been shown that there was a relatively large manufacturing sector in Kenya at the time of Independence. It has also been shown that the channel of distribution employed is a function of the type of commodity that is being marketed. For some goods the manufacturer perfer to sell to a wholesaler and leave distribution to him. For other goods where specific services are required, such as quality control and advertising, the manufacturer may find it more convenient to retain possession or at least control of the product through to the retailer or in some cases right through to the final consumer.

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3 Republic of Kenya, "The Trade Licensing Act, 1967, <u>Kenya Gazette</u> (Nairobi: Government Printer, 1967)

Examples of this type of commodity might be cigarettes, beer, and footwear. It would have been no problem for these manufacturers to have trained African personnel to do the distribution of these goods.

Other goods do not require the manufacturer to maintain possession or control of the product through to the retailer or consumer. Instead it is more efficient to sell to a wholesaler who deals in that type of commodity. For example a manufacturer of nails would not want to go around to every little retail outlet trying to sell 2 or 3 lbs. of nails. Rather, it would be more efficient to sell his nails to several hardware wholesalers who would sell to retailers or sub-wholesalers. If African hardware wholesalers did not exist it would have been difficult for manufacturers of nails to Africanise the distribution of their product. It has already been shown that few African wholesalers existed in the early sixties. It is therefore logical to assume that most locally manufactured products which were best suited to be distributed through wholesalers were in fact marketed through non-African wholesalers.

If a manufacturer had been unwilling to Africanise his marketing channels the responsibility for distribution could then have been taken over by the government or its appointed agent. Given the alternative of developing its own channels or having the government take over distribution through some state trading agency, it is probable that the

manufacturer would have chosen the former as it would have allowed him to maintain greater control over distribution.

This method of Africanisation however, would not have counteracted some of the problems associated with imperfect competition and foreign ownership in the manufacturing sector such as high profits and repatriation of funds.[4] Nevertheless, it would have had the advantages of forcing the private sector to further train Africans and any programme that would have resulted in greater training for Africans would have been to Kenya's advantage. In addition, any training that does not require the expenditure of scarce government resources is doubly advantageous. This is especially true of training in business where the private sector is better equipped to give on the job training than is the public sector.

<u>A.4 Direct government involvement in trade.</u> Both producer marketing cooperatives and producer marketing boards could perform all the marketing functions necessary for export crops, thus excluding all private intermediaries. In addition, by having a monopsony/monopoly of domestic distribution they could effect Africanisation of domestic distribution by selling to African wholesalers. The actual role that producer cooperatives and producer marketing boards

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4 A.W. Seidman, Comparative Development Strategies In East Africa (Nairobi: East African Publishing House, 1971). Ch. III

play in distribution in Kenya has already been discussed in Chapter II.

Another possible form of government involvement in domestic marketing might have been the introduction of consumer cooperatives as was tried in both Guinea and Tanzania. The principle is that cooperative consumer retail units would be set up throughout the country which would then be supplied by cooperative wholesalers. Consumers cooperatives were not a success in either Guinea or Tanzania.[5]

A final form of direct government involvement in trade might have been the creation of a state trading corporation which would have been granted monopsonistic/monopolistic rights in some or all commodities produced and traded in Kenya. This trading corporation could have acted as the initial purchaser by importing or purchasing from producers and manufacturers. The state trading corporation could have effected Africanisation by selling to African wholesalers or by performing many of the wholesaling functions itself and selling to sub-wholesalers and retailers or it could

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5 For more reading on consumer cooperatives in Tanzania see E.J. Berg, "Socialist Ideology and Marketing Policy in Africa," in Moyer and Hollander (eds) Markets and Marketing in Developing Economics, (Richard D. Irwin, 1968), pp. 30-35; United Republic of Tanzania, "Report of the Presidential Special Committee of Enquiry into Cooperative Movement and Marketing Boards, " (Dar es Salaam, 1966); H.C.G. Hawkins, Wholesale and Retail Trade in Tanzania, A Study of Distribution in East Africa, (Frederick A. Praeger, 1965) pp. 154-158

have gone the whole way and sold directly to the final consumer through its own retail outlets.

Alternatively, the state trading corporation could have set up different channels for different commodities. Certain commodities could have been imported by the state trading corporation and sold to wholesalers whereas others could have been imported and sold through the state trading corporation's own retail outlets. In addition, the quantity of services such as transportation, selling on credit and storing provided by the state trading could have varied from commodity to commodity. Yet another alternative might have been a state trading corporation which would have provided no marketing services at all but rather would have acted simply as a licensing body; granting trade and import licences to Africans and refusing to grant trade and import licences to non-Africans.

The first approach to Africanisation of trade discussed might have been to have given Africans an absolute advantage by preventing non-Africans from engaging in trade. The second approach, to be discussed now, could have been to allow non-Africans to continue trading but attempted to give Africans special advantages so that they could have competed with the well established non-African on a more equal basis.

B.1 Providing trade credit, loans, subsidies, business courses and extension services to Africans. The final

section of chapter III involved a discussion of why non-Africans had come to dominate trade and why Africans had problems in becoming successful wholesalers. A number of reasons were discussed including lack of capital education and experience and the inability to delegate authority. Probably, most of these deficiencies could have been made up by well conceived programmes of credit and loans, business education courses and subsidised rentals. Regrettably, this would still have left a major barrier in the form of lack of experience. In agriculture, extension services have been provided to assist both established farmers and new Africans farmers. Ideally, and equivalent extension service should have been set up for marketing. Unfortunately the pool of existing skills and experience is in the community of non-African traders and it is difficult to see any way of transferring these skills from the one community to the other.

B.2 Discouraging non-Africans. It is hard to imagine how one would have devised a system that would have discouraged non-Africans which would have at the same time provided Africans with a special advantage. One possible method would have been a system of discriminatory taxes. If successful this would have resulted in a lowering of the profit level of non-Africans, and in addition, if these taxes had been high it might have also put some non-Africans out of business thus opening up new opportunities for Africans. If this tax had been in the form of sales tax

or income tax it would probably have been difficult to administer, and, to have been successful, would have required large amounts of resources in the collection process which, to some extent, would have been self defeating.

However, if the tax had been in the form of discriminatory prices for trading licences, i.e. by simply charging non-Africans a higher price for the privelege of conducting business in Kenya than Africans, this would have been easy to administer as the machinery for selling licences already existed. It would also have had the advantages of reducing profits of non-Africans and putting some non-Africans out of business thus opening up opportunities for Africans. It would also have been a source of revenue from which the other programmes designed to assist African traders could have been financed.

<u>B.3 Direct government involvement in trade</u>. In essence, this alternative would have been essentially the same as the alternative A.4. Possible differences would be that instead of being granted monopoly/monopsony powers, the producer cooperatives, producer marketing boards and other state trading organisations would have had to have competed with the pre-existing intermediaries for sources of supply. Africanisation could then have been accomplished by selling the product to African traders. These organisations could either have performed marketing functions along commercial lines or else they could have acted as agents of the government if the latter had wished to subsidise.

African traders.

Alternatively, these government agencies could have been granted a monopsony/monopoly position. Then they could have sold some given percentage of the commodity to Africans and the remainder to non-Africans. This would have at least guaranteed Africans a source of supply. However, special advantages could have been given to African traders more and using the proceeds to provide services to Africans traders such as extension services, credit or reduced prices.

The third approach that the government might have followed would have been to prevent non-Africans from trading and to have given positive assistance to African traders. This approach is in fact a combination of the first two approaches and the alternatives are therefore also very similar.

APPENDIX I

MARKETING SERVICES PROVIDED BY THE KNTC

As mentioned earlier, the power of the KNTC to Africanise distribution of those commodities confined to it stems from its being a monopsonist of imports and domestic production of the commodity. As also mentioned earlier, the KNTC attempts Africanisation by either trading on its own account and selling out of its warehouses to its appointed sub-distributors; by purchasing on an indent basis on behalf of appointed sub-distributirs; or by approving either all or some of the sub-distributors to purchase directly from domestic manufacturers or overseas suppliers. The services performed by the KNTC and by its appointed sub-distributors in these three alternative methods of Africanisation will now be looked at in more detail.

TRADING ON THE KNTC ACCOUNT

In this first approach the KNTC buys commodities directly from overseas suppliers or from domestic manufacturers and stores the commodity in some or in all of the KNTC warehouses situated in the major cities and towns. The commodity is then purchased by KNTC appointed African sub-distributors from the KNTC warehouses who in turn sell to retailers, sub-wholesalers or to final consumers. The services provided by or through the KNTC include credit,

storage, transport, securing a source of supply, ordering, bulk breaking, and price setting. Commodities Africanised using this approach include sugar, salt, edible oils and ghees (before policy change) imported matches, razor blades, certain textiles (before policy change) and cement. The distribution of these commodities will now be discussed in some detail in order to indicate the services provided by the KNTC and its appointed sub-distributors.

Sugar

In 1967, 62 percent of the sugar consumed in Kenya was Kenyan produced, 27 percent was transferred into Kenya from Uganda and Tanzania and the remaining 11 percent was imported from the rest of the world.[1,2] The KNTC does not order sugar from manufacturers but through the Ministry of Commerce and Industry. Sugar shipments are then railed directly from the manufacturer to the relevant KNTC warehouse. The manufacturer obtains payment from the Ministry at the end of the month in which the sale was made. However, the

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1 East African Community, Annual Trade Report of Tanzania, Uganda and Kenya, 1967 (Mombasa: East African Customs and Excise Department, 1968), tables I, III and V and Republic of Kenya, Development Plan, 1970-74 (Nairobi: Government Printer, 1970), p.307.

2 The KNTC includes products of Uganda and Tanzania under the rubric of local products. The reason that they are considered local products rather than imported is that Tanzania, Uganda and Kenya belong to an economic union, the East African Common Market. With the exception of a few manufactured goods which have a *de facto* internal tariff called a transfer tax there are no internal barriers to trade within this common market.

KNTC pays the Ministry at the rate of one third at the end of the first month, one third in the middle of the second month, and the final at the end of the second month. The credit facilities supplied by the Ministry provide working capital for the KNTC on a revolving basis to the extent of approximately 18 million shillings, i.e., one month's sugar sales[3]

Fourteen of the seventeen warehouses that are used for sugar storage are supplied by rail. The KNTC is responsible for supplying the remaining three warehouses by road which is done commercially under contract since the KNTC owns no trucks. The responsibility for the delivery of sugar from the KNTC's warehouses to all the sub-distributor's places of storage rests with the sub-distributors.

In 1966, the KNTC maintained sugar stocks equivalent to two months sugar sales; one month as stock for commercial requirements and one month for strategic purposes at the request of the government.[4] By 1969, the number of days sales of sugar that the KNTC had to store for strategic purposes had been reduced to ten.[5]

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3 Based upon information supplied by Mr. Odary, Commercial Executive, Produce/Provisions.

4 This requirement was made at the request of the Ministry of Commerce and Industry to prevent shortages in the event of flooding or some other break in sugar supplies.

5 Information supplied by Mr. Odary.

The KNTC first became responsible for sugar distribution in August 1965. Between August 1965 and November 1965, the KNTC sold all sugar for cash. Many sub-distributors were unable to purchase sugar because of lack of money, therefore, at the request of the government, the KNTC commenced selling sugar to sub-distributors on credit in November 1965. Between November 1965 and September 1969 almost all sugar sold by the KNTC to its appointed sub-distributors was sold on credit.[6] However, in September 1969 the KNTC had to reverse this policy because of the accrual of substantial bad debts. An exerpt from the East African Standard summarises the problem:

> The Kenya National Trading Corporation had run into difficulties because traders had failed to pay back loans granted for sugar, the Minister of Commerce and Industry, Mr. Osogo, said in Nairobi yesterday.
> Some £ 800,000 was still outstanding...
> As a result the Treasury had refused to give further advances to traders until the money was repaid. The KNTC for its part had stopped granting loans to traders.[7]

All sugar leaves the KNTC warehouse in the same 100 kg. bag that it arrives in. However, the KNTC does perform the function of breaking bulk as it buys in railroad car lots (hundreds of bags) and sells them in truck loads (50-65 bags).

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6 Information supplied by Mr. Odary.

7 East African Standard, February 10, 1970.

The KNTC faces few risks in sugar distribution apart from the previously mentioned risk of credit default. There is no economic risk of an adverse price movement whilst sugar stocks are being held by the KNTC because all sugar prices are fixed by Act, i.e., the price that the KNTC purchases sugar from the Ministry of Commerce and Industry and the price at which it can sell sugar to its appointed sub-distributors are both fixed by law.[8] All other physical risks such as fire, theft, and water damage can be insured against.

The following information on the marketing services performed by produce and provisions sub-distributors was obtained from the survey of twenty Nairobi produce and provisions sub-distributors, described in Chapter I. Although twenty produce and provisions sub-distributors were interviewed they were not questioned on all commodities handled. For this reason, only fourteen of the twenty sub-distributors were questioned about sugar distribution.

Sub-distributors are responsible for transporting sugar from the KNTC warehouse to their place of storage. Ten sub-distributors collected sugar in their own trucks. The remaining four had sugar delivered to them in hired trucks. Only one of the fourteen never delivered to customers.

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8 Republic of Kenya, "The Price Control (Sugar) Order, 1962 and The Price Control (Sugar) (Amendment) Orders of 1966, 1967, 1968, and 1969." Kenya Gazette (Nairobi: Government Printer).

The other thirteen delivered some or all of their sugar sales. Each of the fourteen sub-distributors had storage facilities. However, two admitted that they did not put in store all the sugar that they bought but delivered about half directly to other wholesalers and retailers. If the size of an order warranted it these two sub-distributors would deliver to customers directly from the KNTC warehouse rather than out of their own place of storage.

An average of five days' sales were kept on hand but the average would have been much lower had it not been for three sub-distributors who sold 150 bags per month and who only purchased three times per month. It was not at all surprising to discover that sub-distributors chose not to hold large stocks of sugar which would require capital for both stock and storage facilities as it is convenient to buy from the KNTC warehouse. The KNTC, by storing sugar and by selling sugar on credit greatly reduced the capital requirements of sugar distributors.

Eleven of the sub-distributors broke bulk only to the extent of buying in lots of 50-65 100 kg. bags and selling in smaller lots of 100 kg. bags. The remaining three went further selling approximately 30 percent of the sugar they handled in 1 and 2 kg. paper bags. However, not one of these three sub-distributors purcahsed more than 150 bags of sugar per month.

Granting credit to sub-wholesalers and retailers appeared to be the exception rather than the rule. Six of the fourteen admitted that they never granted credit and most of the remaining sub-distributors gave credit sparingly.

Vegetable Oil and Ghee

With the exception of a little vegetable ghee, all vegetable oil and ghee consumed in Kenya is produced in East Africa.[9] The marketing services provided by the KNTC in oil and ghee distribution were essentially similar to those provided with sugar distribution.[10] First, national oil requirements were estimated by the KNTC which then placed the order with the refiners in Uganda and Tanzania. The ordered product was then railed to the 14 warehouses by the refiners. The major difference between oil marketing and sugar marketing was that whereas sugar was sold to sub-distributors on credit all oil to sub-distributors were on a cash basis. In addition, except for periods of scarcity there was no restriction on the amount of vegetable oil and ghee that individual KNTC sub-distributors could handle as was the case with sugar.[11]

The marketing functions performed by sub-distributors of oil were essentially the same as for sugar.[12] Oil and

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9 East African Community, Annual Trade Report of Tanzania, Uganda and Kenya, 1965-69 (Mombasa: East African Customs and Excise Department), Tables I, III and V.

10 This section describes the marketing system before the change in the marketing system in early 1970.

11 Information is supplied by Mr. Odary.

12 Survey of 20 Nairobi KNTC appointed produce/provisions sub-distributors.

ghee transportation from the KNTC warehouse to the sub-distributor's place of storage was the reponsibility of the sub-distributor.

Breaking bulk in terms of buying in large lots and selling in smaller lots was another function performed by all sub-distributors. Not one of the 20 sub-distributors interviewed sold oil in quantities of less than 1 can. However, they all admitted that they charged different prices depending on the number of cans sold. However, only 50 percent admitted to selling oil at retail, i.e., to the final consumer.

As with sugar, sales of oil were predominatly on a cash and carry basis. However, the same sub-distributors who sold some sugar on credit also sold some oil on credit. But again this was the exception rather than the rule. The one area where services provided differed was storage. Whereas with sugar distribution the amount stored was equivalent to a few days' sales with oil it amounted to the equivalent of a few weeks' sales.

Other Commodities Traded on the KNTC Account

Kenya's requirements of salt are provided by both local production at Lake Magadi and by imports from the United Kingdom and West Germany. Distribution of imported salt is very similar to the distribution of sugar. National requirements are estimated by the KNTC which then places orders with manufacturers in the United Kingdom and West

Germany. The manufacturers ship the salt to Mombasa, where, upon instruction from the KNTC, the maritime forwarders rail the salt to the KNTC warehouses. The marketing functions and services provided by the KNTC and its sub-distributors in the distribution of salt are identical to those provided in sugar distribution with the exception that no salt is sold on credit.

Matches are manufactured in East Africa and also imported from Sweden. The KNTC places its orders directly with the Swedish.manufacurers. The manufacturers ship the order to Mombasa. Maritime forwarders in Mombasa, upon instruction from the KNTC, rail to the various KNTC warehouses. The functions performed by the KNTC are similar to those performed with imported salt, i.e., locating sources of supply, ordering, arranging for transport, storage and bulk breaking.

Very few textiles were traded on the KNTC account in early 1970. However, during 1968 and 1969 many of the standard textile cloths were traded and stored by the KNTC.[13] When doing this the KNTC locates sources of supply, orders, transports, stores in warehouses in Nairobi, Kisumu and Mombasa, and breaks bulk by buying in large lots and selling

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13 Information on textile distribution was obtained from interviews with Mr. Muindu, Commercial Executive of Textiles, Mr. Murangi, also of the KNTC, the chief storekeeper of the Nairobi warehouses and interviews with five Nairobi KNTC textile sub- distributors.

in smaller lots.

Before July 1968, cement distribution in Kenya was done by Dalgety, Baumann, Smith Mackenzie, the Kenya Farmers Association and the Manufacturers. After July, it became the responsibility of the KNTC. In 1969 there was a gradual increase in the role played by the KNTC. At first, the KNTC utilised the established distributors to ensure that there would be no dislocation of services. However, as the number of appointed sub-distributors increased so did the amount of cement being channeled through them. By the latter half of 1969, the previous agents were handling less than 40 percent and the proportion handled by the KNTC had increased to over 25 percent (Table I). The extent to which cement distribution had been firmly placed in the hands of KNTC sub-distributors was afforded by the December 1969 data. In December approximately one-third of all cement sold in Kenya was being distributed by the old agents, another third by the KNTC sub-distributors and the remaining third directly by the manufacturers (Table I).

The KNTC stored some of the cement that was traded on its account. This is usually in those cases where sub-agents had sufficient storage space. In July 1968, cement could be purchased from any one of eleven KNTC warehouses. In line with its policy of storing less the KNTC is gradually reducing the quantity of cement that is being stored.[14]

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14 Information obtained from Mr. Yaya, Commercial Executive of Hardwares and from other KNTC personnel.

TABLE I

CEMENT DISTRIBUTION IN KENYA 1969

Type of Distributor	January to June	July to December	December	Total Year
		(Percentages)		
Old Agents	54.9	39.6	33.9	47.1
KNTC	18.8	26.4	31.0	22.9
KFA	4.1	4.6	-	4.2
Manufacturers	22.3	29.4	35.1	25.9
Total	100.0	100.0	100.0	100.1

Source: Developed from data supplied by the KNTC.

[a]Percentages may not sum to 100.0 percent due to rounding.

At first the KNTC sold some cement on credit to those sub-distributors with ICDC loans or bank guarantees. However, in line with the KNTC's new policy of not selling on credit, sub-distributors now have to purchase on a cash and carry basis. Government institutions and agencies are exempted from this rule.

THE KNTC ORDERS GOODS FOR ITS SUB-DISTRIBUTORS

The second type of marketing procedure used by the KNTC is purchasing on behalf of appointed sub-distributors. Sub-distributors place their orders with the KNTC which then places it with the manufacturer. The KNTC pays the manufacturer who sends the goods to the railway station closest to the sub-distributor. The KNTC sends the release papers to the sub-distributor's banks which will hand over

over these papers only after the sub-distributor pays the KNTC. The sub-distributor takes the release papers to the railway station and takes possession of the goods. The major services provided by the KNTC are locating sources of supply and guaranteeing payment to the manufacturer who might otherwise be unwilling to sell to unknown African traders. Commissions are paid to the KNTC either by the manufacturer or by the sub-distributor. Examples of commodities traded in this way include domestic salt, certain Ugandan textiles, and Japanese Khangas. Sub-distributors wishing to purchase local salt place their own order with the KNTC which in turn places the order with Lake Magadi. The manufacturer then rails the salt to the railway station closest to the sub-distributor's place of business. The necessary papers are forwarded to the sub-agent's bank and are released after the draft payment has been made. The manufacturer pays the KNTC a commission on all salt produced.[15]

Certain textiles manufactured in Uganda and confined to the KNTC were purchased by textile sub-distributors through the KNTC. On receipt of a firm order from a sub-distributor the KNTC would place an order with the Ugandan manufacturer. This filled order would then either be delivered to the railway station closest to the sub-distributor or would be railed to the KNTC warehouse in Nairobi or Mombasa.

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15 Information supplied by Mr. Odary.

initial payment to the Ugandan manufacturer was made by the KNTC. The documents necessary for the release of the goods from the station or warehouse were sent to the sub-distributor's bank and were released only after the sub-distributor had drafted a cheque to the KNTC. The KNTC received a commission of 5 cents per metre. Imported Japanese khangas were purchased in a very similar manner, i.e., appointed sub-distributors placed their orders with the KNTC which then ordered from the overseas suppliers. Payment was made by the KNTC to the overseas supplier and the sub-distributor obtained the release papers from his bank after making payment to the KNTC. The KNTC received a 3 percent commission on imported khangas. Up to November 1969 the KNTC traded in Japanese Khangas on its own account. The mark up was approximately 10 percent.[16]

THE KNTC APPROVES SUB-DISTRIBUTORS DIRECT PURCHASES FROM SUPPLIERS

In the final approach the KNTC does not purchase goods for sale on its own account nor does it act as an agent and purchase commodities on behalf of its appointed sub-distributors. Instead, it permits either all of a subset of the appointed sub-distributors to purchase directly manufacturers or from overseas suppliers. The only function performed by the KNTC is to prevent non-Africans from purchasing directly

16 Information obtained from Mr. Muindi and from the trading accounts of the KNTC.

from either domestic or overseas suppliers. This is done by instructing domestic manufacturers that they may only sell through appointed sub-distributors and by approving all indents for importing before they are sent to Trade and Supplies to become import licences. Commodities Africanised using this method include imported sweets and confectionary, certain imported textiles and imported second hand clothing, shirts and blankets.

KNTC appointed produce and provisions sub-distributors wishing to import sweets or confectionary may do so by sending indents to the KNTC. The KNTC will approve the indent provided the correct information is supplied and provided that the indents conform to government quota and price restrictions. Copies of the indent are sent to Trade and Supplies which transforms the indent into an import stamping the indent. Copies of the import licence are then returned to the KNTC which will release them to the sub-agent upon receipt of a 3 percent commission.[17] Almost all khaki drill used in Kenya was produced in Kenya or transferred from Uganda. Appointed sub-distributors order Kenyan produced textiles directly from the manufacturer. The KNTC received a commission of 1 cent per metre of cloth.[18]

The procedure for importing other textiles was different. An original indent plus copies were sent to the KNTC. If the

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17 Information on sweets supplied by Mr. Odary.

18 Information on textiles and textile products supplied by Mr. Muindi.

indent was approved three were sent to Trade and Supplies. The approval and stamping by Trade and Supplies converted the indent into an import licence. Two copies were returned to the KNTC, one of which was sent to the sub-distributor. A sub-distributor could then place his order with the overseas manufacturer. The product was released from customs when the sub-distributor produced an import licence. The KNTC received a 3 percent commission based upon the F.O.B. price. The method of importing second hand clothing, shirts and blankets was essentially the same as for importing cotton piece goods discussed above. The KNTC received a 3 percent commission on imported shirts and blankets and a 5 percent commission on imported second hand clothing.

In the latter part of chapter V it was suggested that one of the advantages of state trading was that it could redirect purchases from one source of supplies to another source of supplies. For example, it could reduce imports of a commodity so that domestic producers would have a larger market. This might be especially important in East Africa where the state trading organisations might shift purchases from an overseas source to a domestic source or an East African source.

The KNTC appears to play a very passive role in approving indents before passing them to Trade and Supplies. Indents were approved providing that the correct information was contained in them and there appeared to be no attempt to re-

direct imports away from overseas supplies to either Kenyan supplies or to Ugandan or Tanzanian suppliers. In fact, as there appears to be a fairly widespread felling amongst some manufacturers and government officials in Kenya that the STC of Tanzania may have, at times, discriminated against Kenyan goods, it is unlikely that the KNTC will be strongly motivated to redirect sources of supplies in Tanzania's favour.[19]

19 No proof of this actually occuring was even produced. But many manufacturers and government officials interviewed during August 1970 firmly believed it to be true. In addition officials in the STC freely admitted that at one time they were directed to purchase local goods providing that they were no more than 20 percent higher in price than foreign goods. Kenyan and Ugandan goods were at first classified as foreign goods but subsequently this policy has been changed so that Kenyan and Ugandan goods are now classified as local goods.

TITLE OF THESIS AN APPRAISAL OF SOME OF THE DEVELOPMENTAL IMPACTS OF THE KENYA NATIONAL TRADING CORPORATION

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