

HOW CREDIT FACILITIES HAVE BENEFITED LAND (AGRICULTURAL)
DEVELOPMENT IN KISII DISTRICT, WITH PARTICULAR PREFERENCE
TO MASIGE (OGEMBO) DIVISION OF THE KISII DISTRICT

A dissertation submitted in partial
fulfilment of the requirement for
the LL.B Degree, University of Nairobi.

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APRIL, 1977

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For sometime now loans have been issued to farmers - both large scale and small scale. These loans come from both public and private institutions; the purpose being to enhance agricultural development in Kenya's capitalistic economic establishment.

The purpose of this dissertation is to investigate into the success of these loans to the small scale farmer in rural Kenya (specifically Kisii). Because of the restriction of words imposed on the writer, the time available and the financial difficulties involved, it will not be possible to discuss loans to large-scale farmers, or extend our discussion beyond 1963. It is intended in this paper to discuss whether credit facilities at the disposal of the smallholder have benefited him in any way or at least helped him to advance and improve his agricultural income. We shall also want to look into whether such loans are worth maintaining under the present economic set up, and if so, by what means.

I shall attempt to show whether infact there is need of such loans, and if the same are beneficial. If they are, to show whether the present machinery is suitable to its provision or not. I shall look into the institutions providing the loans, what type of loans they issue, under what terms and for what purposes such loans are granted. Through interviews with farmers and those issuing the loans I hope to establish the general reaction of the smallholder towards loans in this area.

No system operates without law. I shall therefore attempt to investigate into the legal regime providing for the administration, regulation and implementation of the credit policy, and whether such law has provided a suitable machinery. Whether such law has been a success shall also be examined.

Where possible a comparative analysis will be made, otherwise the discussion will be strictly restricted to the small-scale farmers.

Various problems were encountered in the preparation and writing of this dissertation, time and finance being the major constraint. While many people cooperated in furnishing the requisite material, yet others were unwilling to make available crucial data for this paper. In several cases I was forced to look elsewhere for information which otherwise could be obtained in a nearer office.

I am deeply grateful and wish to record my thanks for all who cooperated and who made available the materials on which this dissertation is based.

I must thank Professor G.G. Munoru, my supervisor in this paper, who without his invaluable expert advice, this paper would not have been of any success. May I also extend my thanks to the following:- the District Agricultural Officer, Kisii, the A.F.C. Officer (in charge of the Kisii Office),

Mr. Odindi, of Backlays Bank, the Manager Kenya Commercial Bank, Kisii, all of whom had very meaningful discussions with me and availed me with very valuable information. I must not forget to thank Rose Nancy Wanjuki (Miss) who typed this paper, and and Mr. S. K. Manoti and Oyaro who endeavoured at their expense to make available enough photostat copies of this dissertation.

Abuki, O.

CHAPTER ONEI N T R O D U C T I O N

Kenya is a developing country and agriculture contributes the main share of the national income. The rural composition of her population constitute almost of a peasant African community whose sole and reliable income is basically derived from the smallholding each family cultivates. In these areas, therefore, agriculturally productive land is the most valuable asset anybody can wish to own. It is only logical then that any relevant and useful development plan in this country should as of necessity put due emphasis on the development of the agricultural sector which supports about the whole populacy. The place of the rural peasant in our economic strata is very significant indeed. He substantially dominates the agricultural sector, and therefore should be accorded every possible priority in line with his production. We must not also forget that large scale farming is also significant in Kenya, at least as much as we need it.

The peasant smallholders lack capital, which factor critically limit their farm development. It is therefore inevitable that assistance from outside sources, e.g. government, are crucially needed. This is so because, the small farms, if left alone are quite unable to accumulate enough capital to effect any meaningful and profitable expansion. Credit then becomes an important instrument in improving and expanding farm productivity. However, many factors limit the availability of credit to smallholders. Many hardly realize adequate security to enable

them to secure meaningful loans. This and other requirements pose a big problem yet to be solved, if credit facilities available have to benefit those intended.

Sessional Paper, No. 10 of 1965 - African Socialism, like many legislations, stressed the importance of the smallholder in the contribution of agricultural output. Credit facilities in most quarters are expressly necessary to expand this output. It remains to the government, its agencies and other institutions to see to it that this is made possible. As the above paper pointed out "future development in agriculture will be given priority, to increase output, yields, employment and per capita incomes". Much has been done both by government and private institutions since this pronouncement in regard to provision of development tools to the rural farmer. As it shall be pointed out in this paper, it has been government policy to develop the rural peasant areas, which infact are the mainstay of this country's economy. Whether such policies have been implemented successfully is beyond the scope of our present discussion. It is only aimed in the dissertation to demonstrate how credit facilities in particular have benefited the smallscale farmer, and how this has in effect helped to increase agricultural production and ultimately economic development in a particular area. The area chosen, on which this discussion is based, may not be representative of all areas of Kenya, but I hope it will serve the purpose and intention of this dissertation paper - the relevancy of credit facilities to an agriculturalist peasant community, the Gusii.

FARM SIZE AND POPULATION

Kisii District is a political unit which physically does not correspond with the Kisii Highlands, an extension of the Western Kenya Highlands. It is situated 400 km West of Nairobi and 50 km east of L. Victoria. Its area is 2217 sq. km. and is inhabited by a population, in 1969, of 675,041¹. Its height above sea level ranges from 1525 m to over 2135 m, and has a cool temperature and abundant rainfall. It is the home of the Gusii people, a bantu ethnic group.

Traditionally the Gusii practice mixed farming, i.e. they are "basically smallholder cash crop and subsistence agriculturalists" to use Garsts words.² On the small farms are grown a variety of food crops both for home consumption and sale at the 75 local markets, and cash crops such as tea, coffee, etc are grown, etc. These crops are the mainstay of the Kisii economy, for there is little else besides agriculture to bring money from outside the district. A very small part of the population is engaged in service (e.g. teaching) and other gainful employment in the outside the district.

Population pressure has necessitated the utilization of nearly all suitable land for agriculture. Farms average five acres in size. However, it is very common to find holdings of less than 0.5 of an acre housing a family of 5 or more brothers, who will customarily sub-divide it further.

Within Kenya, Kisii district has the second highest level of population density, and is growing considerably faster than the country as a whole. Garst³ estimated population growth in the district at 3.6% per annum during the period 1962 - 1969. Such a growth, he said, will double the present population by the year 2000 A.D.. In 1969 the mean population density of the district was 788 persons per square mile. Population density, however, varies in the district. It is, for instance 148 per square mile in Borabu location whereas in Kitutu Central Location it is 1442 per square mile.

As is common knowledge not all people in all places in any society can be economically productive. In this area only about 42% of the population is in the productive years, the rest being under 15 years old or over 60 years old. Even in the former group, not all contribute to agricultural output (e.g. students).

Kisii district was originally sub-divided into seven locations, all of which have been sub-divided into more administrative locations. The area of research covered by this work correspond to the Bassi-Majoge constituency comprised of the original Bassi and Majoge locations but now sub-divided into four - locations.

THE LAW

In order for any economic system to be efficient and stable, there must be a legal system to safeguard and enhance the required development in the community. Such a legal system should provide a machinery conforming to the community's aspirations and objectives. The Legislature should thus

The legislature should thus be able to give to society a legislation which is relevant, economically sound and socially justifiable and acceptable.

In relation to the provision of credit facilities in Kenya, several legislations have been enacted. These include those establishing credit institutions, providing for an administrative machinery, and those which give the courts and other institutions jurisdiction in dealing with matters pertaining to credit and agricultural development as a whole. How these legal institutions and techniques have been used to solve various problems connected with credit facilities, and agricultural development, and whether the same have been successful, is a matter within the scope of this paper, and shall be examined in chapter three.

The provision and administration of government loans to smallholders (and indeed to all farmers) is principally governed by the Agriculture Act (cap 318) and the Agricultural Finance Corporation Act (cap 323). These two Acts, especially the latter, provide a legal machinery through which credit is administered. Other institutions which advance credit to farmers like Commercial Banks and the Co-operative Bank of Kenya, are also governed by their respective legislations. Other statutes, less important here, but by no means irrelevant include the coffee Act, the Tea Act, the Maize Marketing Act, the Pyrethrum Act and the Dairy Industry Act. Reference of them shall be made elsewhere.

Transactions in land are controlled by the Land Control Act, enacted in 1967 in fulfilment of a proposition in the 1965 Sessional Paper (No. 10) which provided that "the use of land will be closely controlled and legislation will be needed to make such control effective". The Act (s.3) established Land Control Boards throughout Kenya, which provide a strict control mechanism over transactions of agricultural land (though such control is in most cases quite theoretical). This shall also be examined later.

IMPORTANCE OF SMALLSCALE FARMS IN KENYA'S ECONOMY

Kenya's economy principally depends on agriculture which employs about 90% of her population and contributes more than 70% of her exports. Production from the land is, therefore, the foundation of the country's economic strength.⁴

Before 1963 European large scale farmers dominated both the domestic and external markets. For example, they were about the sole producers of cash crop products. After 1963 things changed quite alot, though gradually and smallscale farming gained tremendous importance in the agricultural sector. In several cases large farms were bought from the large scale farmers, Sub-divided and given to peasant farmers. In 1965 the peasant African farmer contributed 28% of the value of the Marketed Produce. During this year, i.e., 1965, 40% of the Gross Domestic Product was derived from the agricultural sector, as said above, dominated by the few European large scale farms.

Agricultural products and livestock as a whole contributed for 80% of Kenya's foreign exchange earnings in 1965.⁵ Since this period production in the peasant sector has increased greatly. This has been so because of several other reasons, among them the Africanisation of the former "White Highlands", the enhancement of settlement schemes and the availability of financial and technical assistance to the smallholder.

Since independence promotion of rural development has been the main thrust of Kenya's development efforts. Illustrative of this is the 1974 - 1978 Development Plan where stress is placed in directing and increasing the share of national resources towards rural areas, which is dominantly peasant.⁶ As the Ministry of Finance and Economic Planning contends, "development of agricultural sector has been geared to the benefit of the smallscale farmers." The role of these smallscale farmers in production of cash crops has increased steadily. In the case of production the number has increased threefold since 1966/67.⁷ Smallholders and cooperatives in 1975 accounted for about 47% of the sugar production, which was only 8% in 1972.⁸ Other cash crops which are substantially produced by the smallholder are on the increasing scale of productivity. The small scale farmer dominates the production of subsistence crops in all areas. In terms of gross marketed value of all agricultural produce, small farms now contribute over 55%.⁹

Of the 1.6 million families in Kenya (1968) about 1.2 million families earned their living directly from agriculture and animal husbandry,¹⁰ needless to say that more than three quarters of Kenya's rural population is composed of smallholders.

SMALL FARMS FINANCIAL REQUIREMENTS

The specific uses made of farm credit vary inevitably according to the nature and stage of development of the agricultural sector of any economy, with generally more credit being used as farming becomes progressively more commercialized.¹¹ Credit is needed to provide access or control over the basic factors of production, notably land. It is needed to promote increased production through development of resources (e.g. tea, livestock, etc., in this area). It can also be needed to facilitate commercial transactions e.g. financing storage, holding of stock, etc.

With the sort of economic situation prevalent in this country, "if rapid development has to be fostered for political and other reasons, loan funds, are about the only alternative means to investment", says Clayton.¹² Individual smallholders need financial assistance in various kinds. This financing can be divided into three types according to various needs of recipients:-

i) Short term loans

This type which runs for periods less than two years is required for seasonal crop planting, to meet recurrent cost of livestock production and other unavoidable expenditure on the farm, e.g. paying for hired labour.

ii) Medium-Term Financing

It runs for periods from two to ten years and is required for planting and raising of permanent crops, farm machinery and equipment, livestock and even for making small

permanent improvements.

iii) Long-Term Loans

This sort of financing is intended for the purchase of land or for making more costly permanent improvements, e.g. building watertanks, installation of the water supply, permanent houses and stores or sheds on the farm. It runs for periods exceeding 10 years.

I shall argue in the forthcoming chapters how each of the above type of credit has in fact helped or applied to the peasant farmer in Gusii.

Various authorities have argued unfavourably of the credit needs in the peasant economy in our agricultural set up, where land is a crucial restraint. Whether or not credit is a major over all constraint in the Kenyan agriculture may be irrelevant. "What is almost certainly the case in Kenya is that credit is required for certain purposes and situations"¹³

The rate of cash crop expansion is limited by shortage of capital. Since it is important that produce entering a competitive export market should be of high quality, something positive must be done. Without adequate resources for close and continuous field supervision of these crops, quality is likely to suffer. So every effort should be made to order a realistic scale of priorities to enable profitable allocation to investment.

CHAPTER TWOPROVISION OF SMALL-FARM CREDIT

In relation to the provision of loans smallholders face nearly the same problem throughout Kenya, i.e. credit facilities upon which the development of their farms may often depend are very limited. Kisii District is no exception. There are various factors and problems attributable to this phenomena. Many smallholders are denied access to the new technology for want of funds which are indeed difficult to raise. One of the ~~most~~ or most important handicap in this area, in land/ credit development, is scarcity of land. Many holdings are too small to generate a cash surplus under traditional technology and, hitherto no adequate programme has been envisaged to offset this situation. Some farmers are unable to obtain credit under the present circumstances because they are technically uncredit worth. Where natural disasters, e.g., bad weather affects the crop, there is little remedy in the form of credit to facilitate reconstruction.

Nevertheless, many people in Kisii District try hard, however unsuccessful, to get across these problems to acquire credit for development purposes. Fortunately, land in the whole district is governed by the Registered Land Act ¹⁴ which places individual parcels at the complete discretion of the title deed holder, strengthening the basic principle of private ownership, and making it an acceptable charge.

Unfortunately, most parcels are too small to attract lenders when offered as security.

Various institutions provide credit to the smallholder. Prominent in this field and area are the Commercial Banks, the Agricultural Finance Corporation (A.F.C.), Cash Crop Authorities,¹⁵ and the Co-operative Bank of Kenya. The last two and other experimental programmes¹⁶ are the most recent farm credit institutions introduced to directly promote the development of smallholder in Gusii.

Comparative to other fields of development, e.g., Commercial businesses, very little credit is available to the smallscale farmer in this area and Kenya as a whole. In 1971 - 1972, for example, all Commercial Banks advanced only 3% of their total loan transactions to both large-scale and small-scale farmers in Kenya.

(a) COMMERCIAL BANK LENDING TO AGRICULTURE

There are three commercial banks serving Kisii District. These are the Kenya Commercial Bank, Barclays Bank and Standard Bank. These banks here are but only small branches of multinational bank systems operated from headquarters outside Kenya.¹⁷ There is also the Cooperative Bank of Kenya, whose lending is only to the Cooperative Societies which are well distributed throughout the district.¹⁸

Well established largescale farms in Kenya with clear land titles have enjoyed a normal banking transaction with Commercial banks for many years now. On the other hand, commercial banks have been very reluctant to provide credit to small farms.¹⁹ But, in 1957 and on a very small proportion, these banks started to advance credit to small farmers in rural Kenya. Since banks prefer to grant loans secured by land property, these loans were mainly limited to those areas in Kenya where registration had been carried out. Kisii District had its land registration completed in late 1960's. This then means that until registration was completed small farm loans from commercial banks in Gusii was virtually unknown. But even now when the whole district is under the R.L.A., for other reasons, credit from commercial banks is very small indeed.

The banks offer three types of loans. These are short-term, which is up to two years, medium-term loans - over two years to five years, and long-term credit for periods exceeding 5 years.²⁰ Interviews with bank personnel revealed that most loans advanced do not exceed two years. Interest rate charged has varied through the years. In 1973 it was 9%. This was increased to 10% in the period 1973 to 1976. It is now (1977) 9%.²¹ Interest rates may also vary with the amount borrowed, the maximum being the figures herebefore given. A farmer wanting a loan from commercial banks must satisfy several conditions. He applies either in writing or by making a personal call to the Manager, the latter being most preferred

are
Loans available to applicants who maintain a bank account, or who have had some prior relationship with the banks. The applicant's income must be within the scope of the loan. This is to ensure that the borrower is capable of repaying. Loans are thus advanced to those who have regular non-farm incomes, who are able to meet this requirement. The banks mostly prefer those who maintain a current account with them. Credit worth applicants are thus restricted to civil servants, businessmen and political personalities who, by virtue of their positions and status, are advantaged. Typical smallholders hardly satisfy the above requirements.

Most Commercial bank lending to the agricultural sector is on secured basis, with land the most common form of asset offered for security. This may be accompanied by an irrevocable letter of instruction issued by the loan recipient to his employer or cooperative society to which he delivers his farm produce, authorising them to effect repayment on the loan from his salary or from the sale of the produce. Alternative security offered by farmers include movable assets,²² but charges against such assets are not attractive to commercial banks. In event of default such assets can be moved elsewhere to defeat creditors. Life insurance where available, is acceptable by banks as security. Even where it has been accepted, charges over peasant agricultural land presents problems on default of repayments. In sporadic instances land has been found inflated on the title deed itself by loanees in cooperation with the land office (Kisii) personnel²³ in order to make it favourable.

Besides this, seizure of land, involves complicated procedures which take time and involve substantial cost to the creditor. Secondly, eviction (where such order is issued) of a farmer from his land has public relations and political repercussions which, may make commercial banks extremely unwilling to resort to seizure. It is often impossible to sell the land once seized. A bank Manager (Barclays) assure the author that hitherto no security has been realized because of the foregoing problems. "People are willing to pay back however long, and the bank opts for this instead", he said.²⁴

The loans are repaid on monthly instalments. Most of the loanees do pay back, especially during the first few months. The banks never insist that the loan granted should be utilized for the purposes for which they were specifically given. In most cases, so long as the farmer observes the repayment conditions, the banks are satisfied. This tendency of the banks not minding where the loan is utilized increases the rate of applying the loan money to other purposes, i.e. non-agricultural. Such policy should be discouraged and if possible done away with without reservations. The author is of the opinion that banks should insist or be compelled to insist that loan money be applied to specific agricultural purposes, and if they can not afford supervision (which is not the case) government administrative personnel, e.g. chiefs and subchiefs, should be made to supervise these projects and report on their progress and success.

The main constraint to bank lending, is of course, the problem of security, but there are other difficulties.

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The banks insist that the loans are expensive to administer. If the loan has to be successful, the loaning bank must also provide advise and supervision, which the banks say involve high costs. The banks also argue that they quite undertake a substantial risk that the loan may not be repaid. Non-repayment to them looks quite inevitable and unavoidable, especially on those farms for which the money is a factor limiting the farm's development.²⁶ The farmer, however, thinks differently. Many farmers do not seek credit from banks. It is not uncommon to find peasants who totally do not know of the existence of commercial bank credit. A few are successful farmers who do not want loans from banks. They are scared away by the strictness of the proceedings that banks would take in event of default. Furthermore, the banks prefer short-term loans, whereas the farmer requires more time to repay.²⁷ Some farmers are reluctant to put their money in banks, because of the low rate of interest paid on their deposits on savings account, and no interest at all on a current account deposit.²⁸ They instead prefer investing the money on other more lucrative businesses.²⁹

Commercial banks do not advance loans for building permanent houses on the farms, neither are they accepted for security.

In order to avail themselves of credit facilities (banks included) people need to be educated. Group agricultural classes, say once every two weeks, and conducted by agricultural extension officers (or infact anybody knowledgeable) will help

the farmer to understand what type of problems he is likely to face. Such courses plus the farm visits of the agricultural staff will enlighten the farmer. It is useless giving the farmer a loan in the present circumstances without at the same time giving him the requisite technical knowledge.

The banks are profit motivated institutions. They are interested to invest where they earn maximum profits. Kisii society rears a system which, is infact, hybrid - a mixture of Western capitalism and Gusii (or African) socialism. Although the element of profit making also existed in the traditional economics, the new concept of profit maximisation - investing where the risks are least, is as new as the commercial banks in this area. The local people hardly understand what the institutions may mean by capital, interest rate or even profit, in a commercial language. To the poor peasant, it matters not much what these terms are, whatever rate of interest the banker charges, the recipient does not know why nor does he know the economic mechanism involved. What he needs is money (loan) to help him do something now. The consequences can be dealt with later and when they arise. So exploitation on the poor peasant continues. What we want to argue here is that the concept of free contract as envisaged in the constitution and other various legislations, Much helps the bank (which knows the law, and being in a better and strong economic positions) to exploit the peasant (who is illiterate, knows little of the capitalist law, and is economically dependant).

(b) CREDIT FROM GOVERNMENT INSTITUTIONS

Prior to 1963 statutory bodies extended medium- and long-term credit mainly to European large-scale farmers. The average African in Kenya could not get such loans. During the "state of emergency" years the colonial government concentrated on reorganising its economic policy and strategies so as to cope with the current and future situations. More attention was accorded to the process of land consolidation and later land registration in African areas, which, as the colonial government argued, would give a secure title to title deed holders. The law enacted during this era was directed to strengthening such policy. On the other hand the colonial government, was concentrating its efforts into consolidating the position of the European farmers who controlled the large-scale production. Different policies were formulated to deal with the different economic communities of the day.

The European controlled all cash crops. Credit institutions were manned by them. With the racial bias of the day, it was impossible for European to allow other races, especially Africans, to use these facilities. They effectively used the existing law, and the doctrine of creditworthiness to exclude African peasants from benefiting from such sources. Even after 1963, the African manned, but foreign controlled, government continued to apply most of those policies. On taking control, the African elite, in many occasions used the available machinery to consolidate himself - e.g. buying the large European farms.

In 1963 the World Bank recommended that "an agricultural credit corporation be set ... to provide funds on terms suitable for the average farm ... to supply all types of agricultural credit where facilities are not sufficiently provided by commercial banks and other institutions outside the government"³⁰. The government took up this advice and by the Agricultural Credit Act, 1963³¹, the Agricultural Finance Corporation (A.F.C.) was established.

(i) THE AGRICULTURAL FINANCE CORPORATION

The A.F.C. was established in 1963³². It took over the function of the central Agricultural Board,³³ and in 1966 was amalgamated with the land and Agricultural Bank, taking full responsibility of the latter's assets and liabilities. Under the A.F.C. Act, 1969,³⁴ the A.F.C. was reconstituted and assumed wider powers. The A.F.C. is a statutory body responsible to the office of the President and works intimately with the Ministry of Agriculture.

The A.F.C. now is the primary agricultural credit institution in Kenya, the only lender serving both large- and smallscale farmers through a variety of programmes. Its functions are "to assist in the development of agriculture and agricultural industries by making loans to farmers, cooperative societies, Incorporated Group Representatives, Private Companies, Public Bodies, Local Authorities and other persons engaged in Agricultural Industries"³⁵.

A.F.C. is thus a multi-purpose institution which does not deal with the smallholder alone. In 1971 only 12% of all its resources went to the smallscale farmers.³⁶

A.F.C. advance all the three types of loans - short-term, medium-term and long-term . To A.F.C. Short-term loans are for periods not exceeding two years; Medium-term 2 to 10 years, and long-term 11 to 30 years. Any loan which is less than Shs. 15,000 is described as smallscale. Anything more than Shs. 15,000 is said to be largescale. It should be noted here that (per this definition) there are no largescale farms in Kisii District these days.³⁷ Even the Agriculture Act (cap 318) defines largescale farms as "a farm which produces a gross income of not less than Shs. 10,000" per annum, and a smallscale farm as "any farm which is not large scale".

A.F.C. provides loans for the following:

Seasonal Crops Loans

The Agriculture Act (s. 126) provides that "the A.F.C. shall act as agent for the Central Agricultural Board in making, on the order of the Board, out of moneys provided by" the Agriculture Act:

"(a) advances under Guaranteed Minimum Returns" as provided by s. 116 of the Agriculture Act;

"(b) payments of or on account of Guaranteed Minimum Returns,

and in collecting for all payments of capital and interest and other payments on account of all such advances and payments..."

Under the Guaranteed Minimum Returns (G.M.R.) Programme loans are advanced for the growing of wheat and Maize whose minimum

acreage is 15 acres. S.110 and S.111 of the Agriculture Act provide how such money shall be available i.e. "out of public funds". Wheat is not grown in Gusii. The 15 acre requirement is too high for the Kisii average peasant. The whole of Gusii³⁸ does not therefore qualify for this sort of loan. In this programme crops are planted within gazetted planting dates. Loans are only available to farmers who have no previous debts, a registered lease of at least 3 years and who are considered credit worthy. The farmers must also be within the area specified as suitable for crops under G.M.R. Security is a first charge on the crop which must be delivered through official Marketing agent. This is so provided in the regulation and control provisions of various legislations - the Agriculture Act, A.F.C. Act, and Several Acts which govern cash crops.

A.F.C. pays against invoices only, certified correct by an officer of the Ministry of Agriculture in case of contract work. In case of harvest costs, payment will be made against³⁹ deduction by Marketing agent. Usually the crops is insured.

Apart from G.M.R. Programme A.F.C. gives loans to other seasonal crops. Maximum loans in this case is Shs. 800 per acre and security offered is the title deed. No Insurance.

Repayment is after harvest, at 10% or 11% interest depending on the type of loan.

- " (a) Make loans to persons, or grant subsidies to producers or manufactures, for such purposes and on such terms and conditions as the Minister may approve."

No-where in the Act, other than S.27 is anything concerned with loans mentioned, nor any other machinery established to deal with them. All is thus shouldered on the Minister. Author could not trace any of such loans advanced directly by the Dairy Board to peasants in Ogembo Division in recent years. But few dairy loans have been granted by the A.F.C. We can then logically conclude that the Minister had seen it fit to delegate this function to A.F.C., if the latter is not operating it alone.

A.F.C. gives loans for dairy cattle, milking sheds, milking tools, drugs, dips, and fencing. The cows to be bought must be over 7 years old, being ⁱⁿ calf or being milked and be of improved breeds. Interest rate is 9% p.a. and loan is repayable within 5 to 10 years. Repayments are made through K.C.C. The farmer can pay annually.

Most applicants for A.F.C. loans go for these type of loans, and specifically for cows. Once a farmer starts producing milk he is required by S.32 of the Dairy Industry Act to register with the Dairy Board. Apart from administrative conveniences, this provides for easy trace of the loans, and determination of the credit worthness of a dairy producer.

Poultry Loans

Although A.F.C. contend that this type of loan is available, it is only so in paper.

The terms of the loan and lack of skill makes it impossible for people to apply for it. It is required that the applicant must be able to keep at least (a minimum number of) 100 birds. The cost is high, and infact A.F.C. does not seem to favour its establishment here.⁴⁰ Nobody has ever applied for the loan. A.F.C. argues that there are no training facilities for the prespective poultry farmer, and the market is neither adequate nor reliable. The author feels that, it is the reluctance of A.F.C. and its allies which is persitently killing or suppressing the enterprise, rather than the reasons advanced by it. It is not, for example, understandable why the Ministry of Agriculture and A.F.C. can not succeed, if several secondary schools in this area have succeeded, by mere harambee spirit of fee individuals (students and teachers, infact), to raise high standard poultry chicken.⁴¹

Other Loans

Mostly not applicable to Gusii. These include pig, Bush clearing, cotton, Ranch development, sheep and goats loans. The A.F.C. (officials) in this area contend that these items are not economically justifiable in Gusii.

No more loans are advanced for the purchase of land within Gusii.

Source of A.F.C. Resources

A.F.C. gets its resources mainly from the government. In 1971 over Shs. 200 million of A.F.C.'s total assets of Shs. 232 million was financed by the Kenya Government.⁴² Other sources include the International Development Association (I.D.A.) whose money is channelled through the government to A.F.C. A.F.C. acts as principal for the German Assistance Loan (KFW), and the World Bank Smallholder Project.

(ii) KFW SMALL CREDIT PROJECT

The Kreditanstalt Fur Wiederaufban (KFW) - the German Government assistance programme is administered by A.F.C. as principal. The project is confined to Kisii and Kericho districts only. The project began in 1969, spent Shs. 3.4 million by 1972,^{and} phase II projected to spend Shs.8 million by 1976 -with Kericho spending more than Kisii.

The purpose of the loans from this project was to develop crop⁴³ livestock and poultry production. Terms are similar to A.F.C.'s. Preference is, however, given to those who are members of a cooperative society. The loan is aimed at subsistence farmers, whose cash incomes are about Shs. 500 per annum (in Kisii). The size of the loan varies as does the repayment period.

As noted by A.F.C. officials, arrears position is worse in Kisii than in Kericho. But it is also true that, where loans are concerned, no place in Kenya is without deficiency.

(iii) THE KENYA TEA DEVELOPMENT AUTHORITY (K.T.D.A.)

S.190 of the Agriculture Act makes provisions that any crop can be declared a special crop, and thus come under statutory regulation and control. Under this authority L.N 242/1961 declared tea a special crop and therefore S.192 of that Act applied. S. 191 (1) provides that "whenever a crop is declared a special crop ... the Minister shall after consultation with the Treasury, by order in the Gazette, establish an Authority for promoting and fostering the development of that crop for such area" as specified. Among other functions, S.192 (1) gives us that, such an Authority may make provisions "to make loans for the purpose of the development of crops"⁴⁴. Under the authority of S 191, order 3 (1) of The Agricultural (K.T.D.A.) Order "established an Authority to be known as the K.T.D.A. for promoting and fostering the development of tea" in areas, including Masige (Ogembo) Division. Order 19 (g) gives the Authority power to "make loans for the purpose of developing tea"⁴⁵.

The K.T.D.A. provides loans to approved varieties only and in an approved K.T.D.A. area. The Authority gives loans in kind for planting materials, nursery establishment, land clearing, and fertilizers. It operates in conjunction with AFC. K.T.D.A. is the most efficient and established institution dealing with smallscale farmers in this area. Interest rate is 9% per annum.

The Tea Board of Kenya⁴⁶ has also very special interest in the tea industry.

S.4 (2) of the Tea Act ⁴⁷ provides that "the functions of the Board shall include the carrying on of such activities and the doing of such things as are necessary, and advantageous, proper or for the benefit of tea growers and the tea industry" and a further provision of that Act (s.19) says that moneys accruing to the Board may be used, inter alia, for "(k) assisting the tea industry of Kenya in such a manner as the Board may think fit", The provision can also be used to provide loans if necessary.

Although KTDA is the most efficient and successful of the institutions operating in Kisii district, a look at the tea gardens in Ogembo area suggests that, what is given is not enough. More money (for labour) and more skilled staff ⁴⁸ is needed.

(iv) Pyrethrum Board of Kenya

The Pyrethrum Act, 1964⁴⁹ was enacted "to provide for the reorganization and regulation of pyrethrum industry and the control of the growing, processing and marketing of pyrethrum, for scientific and agronomic research and for other purposes incidental to and connected with the foregoing" S.4 of this Act established the pyrethrum Board of Kenya which by s.6 (1) shall "act in such a manner as appears to its best calculated to promote the pyrethrum industry" As per s.6 (2) the functions of that Board includes "the licensing of pyrethrum growers in accordance with the annual quota" and

"investigation and research into all matters connected with the growing of pyrethrum". No specific provision in the Act expressly authorising provision of loans. But it can reasonably be implied from the foregoing provisions, especially s.6., that the Board is able and empowered to make loans to growers. The Board deals with growers through cooperative societies. The fact is that loans are provided and in kind. Very many growers have received such loans since 1973 in this area.

The Board insists that growers should adhere to the quota allocated to them, but this is always ignored. Farmers grow as much as they can. As a matter of fact Kenya produces more than $\frac{3}{4}$ of the world's pyrethrum. Kisii District provides more than $\frac{3}{4}$ of Kenya's crop. The market has not found it necessary not to take all the crop harvested. The main complaint from the growers is, however, that the processing factory situated in Nakuru is too far away from the main producing area. That it should be situated within Gusii to defray communication and transportation costs.

(v) COOPERATIVE BANK OF KENYA

The Cooperative Bank of Kenya was set up in 1968. It lends to societies under the cooperative production Credit Scheme for crop finance. S. 40 (1) of the Cooperative Societies Act provides that "a registered society shall not make a loan, nor allow any credit, to any person other than a member". The Minister under S.84 may "fix the conditions under which a registered society may grant loans to its members and the maximum amount of such loans, and prescribe the payments

to be made and the conditions to be complied with by members applying for loans, the period for which the loans may be made and the amount which may be lent to an individual member"⁵¹

Pursuant to s.84 the cooperative societies Rules⁵² provide that (Rule 48) "No loan shall be made to a member of a registered society save in accordance with the conditions laid down for the making of such loans in the society's by-laws" Rule 7 (1) empowers the society to "make by-laws" in respect of matters affecting it. Where the objects of that society include the creation of funds to be lent or advanced to its members Rule 7(2) gives that "by-laws shall be made in respect of the conditions on which loans or advances may be made to members including (a) the rate of interest, (b) the maximum amount which may be lent to a member (c) the extension, renewal and recovery of loans, (d) the period and purpose of loans, (e) the security for the loans and (f) the consequences of default in the repayment of any sums due".

Each applicant must therefore be a member to a specific society through which he markets his produce. If a member fails to pay, the society to which he belongs will be liable to pay to the cooperative Bank. No security is needed.⁵³ Coffee and pyrethrum societies are the most prominent in this area. The bank works closely with A.F.C. and the Coffee Board of Kenya (established under s.3 of the Coffee Act, 1960).

This type of lending is the most suited and the most convenient to the peasant in Gusii, because many of the

intricate requirements present in other institutions (e.g. Commercial Banks) are absent. However, this institution needs much reorganization and improvement in order to cope with the suggested lending. The Ministry of Agriculture should be able to provide expert cooperative officers to man each society, which are now run by local men whose positions go with the local politics and not with cooperative experience.

(vi) INTEGRATED AGRICULTURAL DEVELOPMENT PROGRAMME

Operated by A.F.C., but also incorporates several other parastatals. It was started in 1976 to help those farmers who have not benefited from other loans because of certain constraints. Farmer required to grow at least one crop which this institution will help him to market. They will encourage the farmer to join in a cooperative society. The Loan size depend on the requirement of the farm. Officers visit the applicants farms and then assess how much he should get. The project is so far on the initial stages, and merits not much comment.

C ADMINISTRATION OF GOVERNMENT CREDIT

Provision of credit needs an effective administrative machinery to make it useful and profitable. Administration of smallholder credit in Gusii faces various problems. The administrative costs involved in implementing the credit requirements are high. Secondly, there is a further difficulty in the collection of loans from the peasantry where the

infrastructure is as poor. Much is to be done to remove all inherent problems. Though so, the institutions concerned have tried to go through the problems by providing credit through specialized agricultural organizations like the K.T.D.A. or the cooperative movement. But still problems subsist. The A.F.C. and the cooperative bank of Kenya have a big role to play in any administration of credit in this area.

1. APPLICATION AND APPROVAL OF LOANS

A prospective borrower purchase loan forms ⁵⁴ for shs.10 from the A.F.C. and is assisted to fill them by extension officers. This application forms are then sent to the District Loan Committee in Kisii. A short visit is arranged and undertaken by A.F.C. officials to the applicant's farm to assess the security and productivity of the land. Then the Loan Committee sits to consider the application taking into consideration the field officers' recommendations. The main function of the loan committee is to advice head office in Nairobi, and other institutions, on the creditworthness of the applicant. For every application form submitted an application fee of Shs.50 non-refundable is paid to A.F.C. ⁵⁵

The District Loan Committee is chaired by the District Commissioner with A.F.C. branch officer as Secretary. If the Central Loan Committee (Nairobi) approve the loan the decision is conveyed back to the District Committee and arrangements made to pass the loan to applicant. S.29 of the A.F.C. Act requires that once a loan has been approved it

must be executed within three months, after which time it may be withdrawn if unexecuted. As said earlier, loans are given in kind.

(ii) ADVANCES AND REPAYMENTS:

Before 1966 loans were issued in cash, but after 1966 they are issued in kind. "Although this system prevents initial misuse of the loan" says Vasthof "it can not stop farmers from selling their cattle or implements afterwards" which abuse has in fact occurred severally in many farms in Ogembo Division.⁵⁶ A further disadvantage in this system is that sellers overcharge the recipients; knowing that the latter will be financed by a loan, and the recipient being in weaker bargaining position. Loans in many instances are misappropriated. A.F.C. and other institutions insist that the loan facilities should be applied on specific projects, but supervision is poor. In that s.31 and s.35 of the A.F.C. Act, which prohibit such practices are hardly effected. In the case of commercial banks, a farmer can apply the money to any use so long as he observes the instalments. A.F.C. recalls loans immediately misappropriation is detected. (But this is more so in theory than in practice).

Repayments is by regular quarterly instalments. There is no strict observation to this. The instalment vary with the productivity rate.

Most repayments are made through official marketing agents, or directly in the loan offices in Kisii Town. Extension officers do go out in the chief's camps to solicit repayments.

(iii) ADVICE AND SUPERVISION

Actual supervision and advice giving is carried out by Agricultural Instructors and Assistant Agriculture Instructors. Special counselling from A.F.C. is indigenously lacking, K.T.D.A. has its own staff in the field to supervise and advice the farmer on how to get a better crop from his farm, and how to utilize the loan facilities. Coffee, and pyrethrum Authorities, etc, do not provide the same. Unskilled, inexperienced and in most cases inefficient staff is common. Generally, the number of extension workers is so small, in that not all farmers who need service are visited.

d CREDIT FROM OTHER SOURCES

The tradition of extended family as is common in African communities remains strong among the Gusii. Outside the formal institutional credit sources there is of course a traditional supply of credit within the society. This includes financial transactions between members of families and clans who may lend money to one another. Although this source of income is small it is not insignificant. It helps to boost development in the area. Those working outside Gusii also send money home for farm development.

Local businessmen in market places like Nyamache, Mogonga, Ogembo and Igare also provide finance both in cash and in kind to peasants engaged in farming. In such domestic family loans there is strictly no interest charged. Repayment is effected when the loanee is able to raise the money.

Majority of people never rely on loans.

The Kenya Farmers Association (K.F.A.) operates a few shops in Kisii, Keroka and has agents in other local markets. Farm implements, fertilizers and seeds are available. It sells to the farmer through other credit institutions, and only on a very small scale does it provide credit on its own to its farmer customers.

Author did not get any evidence as to whether local authorities, i.e. Gusii County Council, Area Councils and Town Council provide any credit to agriculture.

CHAPTER 3(a) IMPACT OF CREDIT ON SMALL FARM AGRICULTURAL DEVELOPMENT

It is not without reason that the institutions of credit facilities were established by the legislature. The specific aim has been to benefit the farmer. Many farmers have received loans, but it is no guarantee that the effect has always been handsome. Loans are not generally always advantageous to the farmer. They involve many additional risks to the farmer. It is not uncommon to get into a situation where farming failure is high due to the lack of skill or experience. Whole herds of grade cattle have died because of lack of the necessary knowledge or care; or in other cases crops have failed because no requisite attention has been given. As a result the capacity for repayment in such cases is low - a disincentive to lenders.

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A number of limitations to borrowing is evident. Farmers have access to bank credit only if they have strong commercial operations or have other ties with the modern financial sector through non-farm activities. Many farmers are not so fortunate. Even where credit alone is so available, a mere acquisition of the same is not enough to effect development. In Vasthof's words "it is generally accepted that for the most of the ... smallholders, loans will only be successful if accompanied by advice and supervision,"⁵⁷ which providing institutions find too expensive to give.

In fact, the small number of field officers available for this task are largely or wholly occupied with matters concerned with the creditworthiness of loan applicants. Many loanees are never even visited, by such officers after getting the loan until something goes wrong, especially defaulting, and only where the farmer does not heed the many notices warning him to repay. The eligibility requirement for the establishment of a current account with a bank is even beyond the reach of the majority of the farmers in Kisii district. This factor alone is very restrictive. Added to this, the A.F.C. is only very eager to grant loans only to farmers who have proved by their farming methods that they are keen to develop their farms.

The land parcellation and fragmentation is persistent albeit discouraged by imposition of a minimum economic unit. The provisions of the Registered Land Act⁵⁹ and the land Control Act⁶⁰ fails terribly in connection with this aspect (in Gusii). The reason is that customary law which is stronger here in matters involving succession, especially where land is concerned, has not shown any sign of giving way in favour of the new provisions. Customary law continues to apply and in it every male son to a family is entitled to a portion in the available land. The size of land and the number of successors does not bar subdivision. In the present circumstances where poverty reigns, it will be unequitable not to subdivide.

The effect subdivision has on smallholdings is degeneration of development; whatever development establishment there is.

The World Bank loans, through I.D.A., to farmers, were designed to provide 90% financing, requiring the applicant to supply the balance. I.D.A. Projects are primarily designed to ensure that borrowers will have sufficient manpower and equipment of operating level to administer the project in question. This is a good and sound programme which would help the smallfarmer greatly in Kisii, but other factors make it inapplicable. The crops assigned to this programme are not gazetted to be grown in this area except maize. As for maize it is not considered attractive because of considerations of profitability at farm level. Potatoes, the other crop available in this scheme can grow abundantly in this area, but very little has been done to advance present and future prospects.

Machinery lending is absent. It is difficult to find borrowers who are capable of maintaining the machines. Specifically peasants in this area find it almost impossible to tame tractors for the holdings are too small to be tilled by such means. Oxen are the more popular and economic way of ploughing, but even here the number is limited.

The farmers very often do not realize the risk involved in accepting a loan, and often do they get into uncomfortable situations.

A farmer may accept a loan intending to apply it in purposes which, without due expert advice, may turn unrewarding. The machinery available for encouraging farmers to borrow when necessary is in this area inadequate, in most cases inefficient and distinctively inexperienced. Many of the extension officers resident in this area have attended only a minimum agricultural training and hardly went beyond primary school formal education.

School fees, the largest single family expenditure creates a burden to nearly every farmer in Gusii. The Society values nowadays, dictates that every child should attend school. Where no other source of revenue is available the farmer may find himself forced to use loan property (notably livestock) to provide for school fees. This in many occasions increases the rate of defaulting. A peasant will rather default but have his children go to school.

The changeover in 1966 from giving loans in cash to giving them in kind was an encouragement to apply the loan property to the right purposes, although this did not eradicate misappropriation. "Cash advances" agreed one farmer "would easily lure one to other spending". However, other eventualities, though improper, developed with such a change. As said earlier in this dissertation, in more than a few occasions sellers who have to provide invoices overcharge the applicants, well knowing that the latter will not reject the inflated price, for doing so will mean missing the loan.

DEFAULTING AND CONSEQUENCES

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A.F.C. Loans

Instalments on most loans are due at the end of each calender quarter. Instalment reminders are sent to loanees. Where no address ~~is~~ maintained reminders are sent through the branch chairman who then sends them to the person concerned. Chiefs and assistant chiefs may be involved in such distribution.

Generally payments are supposed to be made at the A.F.C. local office when they become due. Failure to do so a notice is given to effect payments within 14 days. If no payments, still a further notice is sent to the defaulter. Arrangements are made to visit the farm and establish the course of non-payment. Inspection fee of Shs.30 on a smallfarm and Shs.60 on largescale farm plus Shs.1 on every mile travelled (from and to the local office by such inspectors) is charged and debited to the farmer. If satisfactory results are not achieved after that, a second demand notice is made and 14 days are given within which to effect repayments. If nothing happens the matter is referred to headquarters (Nairobi).

Several options are open to A.F.C. when matters have been referred to headquarters. The credit controller may decide to accept repayment proposals which have been made by the farmer, overruling the branch officer's rejection of these proposals. The defaulter may be called to headquarters at his own expense to discuss things and hopefully to conclude

satisfactory arrangements for repayment of arrears. The credit controller may ask the A.F.C. Farm Management Officer in head office to undertake a thorough economic, financial or other relevant type of analysis of the defaulter's farming operations and make recommendations for remedying the problem situation. The Credit Controller may at the conclusion of other steps, or immediate upon the referral of account by the branch manager, place the case on the agenda of the Foreclosure Committee. Foreclosure of course is the **ultimate** sanction which A.F.C. can exercise.

The defaulter is given three weeks notice (in accordance with s.33 of the A.F.C. Act), a final warning in registered post (s.33 (1)), to repay or that the assets pledged will be foreclosed. If the notice is not heeded, the case is referred to A.F.C.'s Board of Directors by the General Manager. The Board may then authorize the General Manager to foreclose. A further notice of 14 days is given. The property may be sold by public auction. ⁶² S. 33 (4) (a) provides that a notice of sale shall be "published in the Gazette or in a newspaper circulating in the area in which land is situated, stating the date, time and place of the sale, and the terms and conditions of the sale". Twenty one days should elapse since the date of publication of notices before sale is effected. ⁶³

The smallholder foreclosure fee is Shs.30. Another Shs. 221 is charged for the publication of the notices.

Shs. 450 is charged as Auction expenses. If the defaulter pays after publications, Shs.300 is charged for advertisement cancellation.

S.33 (1)⁶⁴ give A.F.C. power to institute foreclosure proceedings "without recourse to any court".

Defaulters generally make up suitable arrangements or repay the arrears before auction takes place. Very few small-scale farms are consequently put on paper for auction. Even auctions are not easy as has been argued elsewhere.

COMMERCIAL BANKS

When instalments fall in arrears persistent notices are sent to defaulters. When loanees refuse to respond favourably or are unable to repay, the matter is taken to court where orders of foreclosure and auction may be issued. If the security property is not sold, or if sold, where it does not raise enough money to cover the loan, there is very little else a commercial bank will do to raise the balance. This may help explain why they are very selective and restrictive in their lending.

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When interviewed by author, the District Agriculture Officer pointed out that the figures of defaulters were too high in the district. He said for example that G.M.R alone had Shs. 62 million unpaid (since its inception).

The reason, he argued, were that a lot of cheating prevailed.
 People would obtain loans on false names ⁶⁵ and then abscond.
 Another reason advanced by farmers is crop failure, he
 contended. Although the foregoing contribute to such defaulting,
 they are not the only ones. The author feels that the
 administration mechanism and the training and skill of the farmers
 employing these loans are poor, and are among the major
 reasons consequenting defaulting.

Some farmers do not fully understand the financial
 character of loans - that they must be re-paid and when
 instalments full due. Such farmers are usually illiterate and
 hardly know or understand the legal consequences of non-repayment.
 Some further think that a loan is a government gift. Such
 ignorance genuinely pose a problem.

Visiting defaulters is costly. Nevertheless real pressure
 is put on the farmer by taking him to court where necessary
 and proves expedient to do so. In most cases even the threat
 to do so seem to be very effective, for reasons given in the
 foregoing paragraph. But even where such threat does not work
 few are taken to court. This involves other problems. Court
 proceedings are not for free; and court fees adds to the defaulter's
 amount he is sued for. The defaulter may be eventually unable
 to repay the cumulative amount. Neither can such a person be
 committed to civil imprisonment - even that is not for free.

The end

The creditor will maintain such a debtor in jail. (who will eventually pay?). Secondly selling the defaulter's property, especially land, is not easy (it is infact almost impossible now).. It can not be bought by the sympathetic neighbours - for social reasons, nor can it be bought by outsiders - for buying such land one buys a bundle of problems.

Loans, however, aren't without advantages in general. Some farmers have made the best they can out of the loans and greatly benefited. These are the lot who understand what loans, their implications and consequences are. They know why they have borrowed and when to repay. Unfortunately this group is small. It includes the resident extention officers, who use the available machinery to get the most for themselves. This has specifically occurred even in the well specialised field of the K.T.D.A. where extension officers in the field grow a large number of tea stumps, avail themselves of the little training they are given, take up the fertilizers, and other tools at the expense of the ignorant and illiterate farmer they are supposed to help. This group also include teachers, who by using their salaries, manage to develop their holdings and subsequently obtain credit from the said sources. The few other civil servants in Ogembo division also have played a role in such development.

The rest of the other people though aspiring for a higher standard of living, are met with a host of limiting factors as said earlier. Lack of income and scarcity of land are

however major factors limiting advancement. Plot size being too small and number of occupants too many.

Most farmers interviewd preferred loans in kind.

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Loans, as a whole, they argued encouraged them to engage in more development than before. Medium term loans are the most preferred and thought appropriate. They needed more skilled officers. Farmers however, complained of the poor state in which loan records were kept. They contended that unless a farmer is vigilant he may be made to pay more than he ought to have paid, and vice versa, because of official error. Many farmers would like to get loans, but not all are willing to borrow under the existing terms. Though A.F.C. repayment conditions are generally acceptable to the farmers, the general feeling is that instalments should fall due at the time of year in which the farmer receives the bulk of their annual income from the produce.

To ascertain specifically what benefit was accrued to the individual loanee a lot of other things would have to be done. It would involve an analysis of each smallholder's economic farming investment and output, what sales and expenditure he has made, then compute the benefit. It would also involve an assessment of all his incomes against his expenditures. A lot of time and money would be needed for such an endeavour than was available to the author. In this respect, it was impossible in this dissertation to come out with actual figures earmaking specifically particular benefits in certain quantifications.

The task would be made more difficult since nearly every smallholder in this area⁶⁷ do not keep any books of accounts for his small agricultural enterprise from which any assessment can be based. So one would rely on the peasants memory and knowledge. This said, we shall want to add ~~that~~ credit facilities have not faired very handsomely with the small farmer in Gusii, as will be seen in a future part of this chapter.

The interest rates charged vary from 8% to 11% depending on what institution is issuing the loan, the size and type of loan. On longterm loans such interest rates would be reasonable, but on short term and medium term loans, the author feels that they are abit excessive, especially then advice and supervision, which goes with these loans, is at a minimum. It is felt also that government statutory institutions should give loans to farmers without charging them any interest, for this adds to the burden of the farmer, who they purportedly want to help develop.

(b) IMPACT AND INFLUENCE OF LAW

Development demands organized institutions to effect systematic re-ordering of economic factors and implementation of the relevant economic policy. Such a system requires a legal regime which penetrates into providing abundant machinery for a required development set up. It is true that any society needs and aspires for rapid economic developments, but it is also true that such a society also needs law to regulate and enforce its objectives. As has been argued elsewhere, the agricultural sector contributes heavily to the national income in this country, and supports either directly or indirectly over 90% of Kenya's population. It is no coincidence then that great importance and attention is accorded to this sector.

Farm planning is an important aspect of agricultural development which requires a sound, sensible i.e. relevant, and controlled system of tenure. The Registered Land Act 1963 (R.L.A.) conferred to the land owner "absolute ownership of that land together with all rights and privileges belonging and appurtenant thereto"⁶⁸. This then means that farm planning is entrusted on the farmer who, according to R.L.A., has right to use or misuse his holding. But, any system of land tenure would be unsatisfactory which permitted unrestricted transfer and unrestricted use or misuse of land, especially if such system aspires for positive economic development. This realized, the government enacted in 1967, the land Control Act (L.C.A.)⁶⁹ whose main operation was to "control land transactions in agricultural land".

The ~~Surge~~ ⁷⁰ ~~nerton~~ Plan envisaging individualisation of land still holds, and is, however indirect, among the parent reasons culminating to the enactment of the R.L.A. and other subsequent legislations, related to the ownership of land. Though this policy of individualisation earned itself fertile breeding ground in the minds of the legislators,⁷¹ the opposing institution of customary land tenure, which the former successfully blackmailed - at least in legislation, has hitherto practically not been extinguished. Notwithstanding government insistence that registered land may not be sub-divided below un-economic units, fragmentation has in fact continued and most of the holdings have been rendered uneconomic. The theory that only five persons of those entitled to inherit should be allowed to succeed, and then pay compensation to the rest, is both unrealistic and impracticable.

It was argued that registration of land, as laid down in the relevant Acts,⁷² would convert land into a marketable commodity and provide a freely transferable title, which would be chargeable as security for securing development credit. The exponents of this philosophy further argued that individualization would improve individual farmer-decision making by giving the farmer a better incentive to invest and plan for his farm development. One does not have to look far to discover that the whole concept of individualization was a foreign (English) concept deep rooted in Western Civilization and was hardly conducive in an African environment.

As Okoth-Ogendo argues, this argument "fails to appreciate the fact that it is the political, economic and social functions of tenure arrangements and not their structure per se that will determine decision-making process in land use".

Laws regulating the system of tenure are as important as any other factors contributing to development on agricultural land. Control of land use and agricultural education are as vital and must be given due consideration if implementation and the development aspect of providing credit facilities is to be successful. Giving credit alone to peasants is surely not enough.

The purpose of the L.C.A. was to control inter alia, fragmentation of economic farms, and to protect the poor peasants, as Bosire puts it, "against their prodigality and exploitation by people economically more powerful". It was the purpose of the Act, as a justification for its control, to ensure that loans to farmers went to goodhands - hands which will ensure that the loans are effectively used and for the intended purposes. The government never infact intended to allow credit institutions to advance loans indiscriminately, especially where agricultural land was offered as security. The L.C.A. was aimed at regulating the flow of credit and prevent it from being put into "unproductive"uses. For this the consent mechanism of the Land Control Boards was used. However, such censor does not affect A.F.C. loans.

longer find their savings sufficient to defray expenses, and secondly, those who want credit in order to start developing their farms. Of the second type Okoth-Ogendo has this to say:

"Firstly land tenure reforms have ushered in a group of farmers who need credit for initial development. Secondly, many policy makers have urged individualisation of land for the reason that it would make easier for the ambitious farmer... to raise credit on security of his title. Thirdly, it is more than any other group notwithstanding that they are the most risky and uncreditworthy... In other words they are the ones who present the biggest problem in credit financing"⁷⁵

As hinted above things have worked to the disappointment of this group. Both private and public agencies have been very reluctant in issuing credit even to persons with land title deeds, because they have found out that charged securities on them are not very helpful; the sales being very difficult and foreclosure widely unpopular.⁷⁶ These institutions have instead resorted to issuing credit to those with extra-agricultural source of income. Title deeds alone are thus never sufficient security for a loan, whatever legal value is entrusted on them. Other collaterals are necessary. It most appears that in order to receive a loan what counts is the social status of the applicant and his liquidity in the monetary system. As one writer rightly asserts "one of the most lamentable aspect of creditworthness... is that one has to prove to the creditors that he does not need the credit before he can get it", e.g. in seeking a loan to dig a well.

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The Agriculture Act provides that development should have the effect of "maintaining by the provision of guaranteed

prices and assured markets for crops and animal products, a stable and efficient agricultural industry capable of producing" enough as needs of Kenya may dictate. The Act also gives the Minister very wide powers and discretion to almost do and undo everything to his satisfaction, as a measure of controlling and regulating agriculture. Another provision (s. 25) insists that the District Agricultural Boards advise the District local A.F.C. personnels.

Section 48 provides for the land preservation rules, which, because of lack of any effective and expert extension staff are never followed, s.56 and s.60 which provide for penalties for failure to comply, have never been used (especially in Ogembo division). Both the extension officer and the farmer alike are ignorant of such rules, not to mention the complexities and the legal standards set by S.48 for preserving the land. The Agriculture Act which was enacted in 1955, is infact, more applicable to large scale farmers (to whom it was originally designed) and does not lean towards much benefitting the small holder unless other things were accomplished. There is too much bureaucratic structuration which makes certain process un-workable. The steps a recommendation or order travels up and down the bureaucratic tunnel are too many and take too much time which more than often lead to disastrous results.

Part XIII (SS. 185 - 189) provides for a machinery for the "dispossession of owners and occupiers of agricultural land"

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in event of non development, seems to have no place in Kisii District. There is acute shortage of land in this area, in that, non-developed land in the context of these provisions is non-existent. What, however exists is land not developed because of lack of capital, which the Act fails to provide. What the smallholder requires is not a machinery to dispossess him of land where he fails to develop it, but one which helps him to find suitable ways and means to effect and enhance improvements.

The Agriculture Act, however, is a bourgeoisie legislation enacted when the colonial government sought to encourage and appease the 'privileged' farmers for political manipulations. It still stands to proffer the same ends.

The Agricultural Finance Corporation Act⁷⁸ in s.3.(1) enumerates the functions of A.F.C.⁷⁹, and as by s.14 (1) its powers include the power to furnish managerial, technical and administrative advice, or to assist in obtaining such advice for agricultural "development". Though committed in this and other aspects of agricultural development, the Act has paid no more than lip service towards achieving this end. In conjunction with other department, A.F.C. provide an extension service no more than a projection into the field, of agricultural officers who make attempts to demonstrate to the few "better" farms the modern methods of farming. S.14 (1) will have no meaningful application until such a time when there is sufficient and adequately trained agricultural officers - a time which with the present training

facilities in Kenya is quite remote.

S.15 and S.48 express the statutory character of the A.F.C. and details its source of assets. It is further here provided that A.F.C. assumed responsibility of all assets and liabilities of a former land and agricultural bank which became redundant on inception of A.F.C. This means that A.F.C. is the major government institution now issuing loans to all farmers.

S.19(1) is, for the purposes of our discussion, the key section in the A.F.C. Act. It provides that the corporation may "make a loan to a farmer to enable him to engage more effectively in agriculture:

"(a) Upon his applying for a loan in writing in such form as the Board from time to time may approve,

"(b) Upon the authority of a resolution of a meeting of the Board at which the application is properly considered and approved"

S. 19 (3) provides that "a loan ... shall be made for such a period not exceeding 30 years, and on such terms as the Board may determine"

It is clear that without the help of extension officers illiterate farmers who may require a loan will never even apply because of the provisions of S.19 (1) (a). More so the forms are framed in a technical language such that only experienced eyes will read them and an expert hand to fill it in. But however, it is not a bar to others.

S. 23 (1) gives us that "the corporation may make a loan to any cooperative society primarily engaged in agriculture to

enable the society to erect buildings, instal equipment or buy land or otherwise to promote any one or more of the objects of the society". The cooperative Society is also bound by s. 19 (1) (a), In such a loan the farmer is affected indirectly. The Cooperative Society markets his crops and provides other things. S. 25 (1) makes all cooperators "jointly and severally liable to repay the loans and to pay interest payable on the loan"

It is S.20 (1) which allows the farmer applicant to offer his land as security. Sub - s (3) provides that movable property (other than households and personal effects) can be mortgaged to secure a loan, but as has been seen already movables are not favoured by A.F.C. in Kisii because of the problem of control. Encumbered registered land may not be acceptable, as are farmhouses, whether permanent or not.

The Board under S.21 has discretion to postpone the repayment or extend the time for repayment of a loans; provided such extension does not exceed 30 years. As experience has shown, this is likely to be exercised where legal proceedings (in case of default) will yield no fruitful results, or where a farmer shows prospect to resume repayments in specified future period. Several such postponement were made in 1975 and 1976 in Kisii District.

If the farmer defaults, or applied the loan to other purposes, or has expended the loan carelessly and uneconomically or becomes insolvent, or is imprisoned, or is in breach of any term in the loan contract, or fails to apply the loan within reasonable time, A.F.C. can use S.31 and S.35 to withdraw the loan.

But such deficiencies on the part of the farmer are in most cases never realized or discovered because there is no effective administrative machinery to supervise the loans. Where an approved loan has not been executed by the applicant within three months, such a loan may be withdrawn under s.29. S.33 gives A.F.C. power to realize the security in any legal way without recourse to the court. Where property is foreclosed and auctioned or transferred, A.F.C. confers good and unencumbered title.

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CHAPTER FOUR(a) CONCLUSIONS

The government clearly recognized that small farms critically need capital for development. As a result it established various institutions to provide credit in order to enhance such development on the farms. Unfortunately the institutions are inadequate and their management insufficient rendering the whole exercise unsatisfactory, the basic problem remaining at large, undone.

The problem of raising adequate security and the mechanism (or concept) of creditworthness, which more than other factors, make it difficult and infact impossible; for peasants to borrow capital, has hitherto remained unsolved. Very little credit is available to smallholders generally, but even the little that is available is difficult to get, under the present system, which in the first place is not suitable for the smallholder. As suggested below something need be done.

All the three types of credit are needed in Gusii with short-term credit the most needed, but, the problem is ^{that} it is almost never available. The lender simply elects what type to offer, and most likely that which will yield high interest rate and profit, and which entails least risk. Short-term loans are the most risky and involve high adminstrative costs, so it is argued.

Peasants have no say in the formulation of credit policy.

Commercial banks are very reluctant indeed to offer credit to smallholders. This is so because the banks are more oriented and interested in the profit-making enterprises. Maximisation of profits is their code of transactions, and smallholder farming involvement has very little to offer in that direction.

As seen in chapter one, Gusii can raise a variety of several crops which would easily benefit under the Guaranteed Minimum Returns Programme were it to apply. However, this opportunity is unreasonably denied the peasant in this area only by reason that his land is less than 15 acres. There is nothing at all why such programme should not apply. It is contended that the provisions related to G.M.R. should be reconsidered and the Agriculture Act amended accordingly.

Among others, the Dairy Industry Act, and the Tea Act caters exclusively the "bourgeoisie highlands". The Acts constructively ignores the native livestock owner or the tea gardener of Masige. Even the K.T.D.A. efforts are half-hearted measures. Not much has been accomplished.

Among the factors limiting peasant farm development is experience and skill. The available legislation fails to provide a system of institutions to facilitate these commodities.

Training facilities and agricultural institutes or Farmer Training Centres, are poor or inadequate. Illiteracy and ignorance both of the law and other development factors is dominant in rural Gusii. This state of affairs much helps (especially) the commercial banks to exploit the poor peasant more effectively. It also enhances the rate of defaulting.

Most of the prevalent law is the old pre-1963 law, which had among its aims to consolidate those in power then, and to "civilize" or "westernise" this country. Since 1963, the same laws have been maintained, with slight changes of course, but the ultimate result being to maintain the status quo. Whether the Kanu Government will achieve different ends using the same law is very doubtful.

The Land Control Act has proved a failure in trying to control sub-division of land in Gusii. A more realistic legislation, which takes into consideration customary law and its values, is urgently needed to stop fragmentation which is already chronic here. Unless fragmentation is stopped, all efforts to development will, in fact, be fruitless. With R.L.A. advocating individualisation and sole proprietorship of land, and other legislations excessively protecting property, or taking little interest in such affairs, the land will remain or become undevelopable.

Presently, loans are issued to those who least needs them.

The ignorant poor peasant, who can not start off because he lacks means, is ignored and avoided, and yet it is he who needs the loans (and indeed more than just loans).

Controlled farm development is necessary. The economic and legal processes concerned should be re-examined with a view of demystifying them and giving them meaning within the obtaining social structure. The Boards should assume a more active role other than just advising the Minister. They should undertake more supervision of the approval, granting and implementation of loans than they are doing now. The small scale agricultural credit market is compartmentalised venture which allows little co-ordination between lenders serving complementary functions. It is suggested that the boards should be more active in providing more solutions to peasant problems as relates to credit, and not creating problems and difficulties for them.

Interest rates and interest rate policy are not based on a comprehensive view of the functions of the rate of interest, including its potential role of the mobilisation of funds. At least something should be done to clean up the tunnel through which credit flows.

Looking at it as a whole one will come to this very inevitable conclusion. The smallholder credit facilities as they are of now are of very little assistance to the peasant who purportedly is intended to benefit from it.

In occasions (e.g. where his land is auctioned or interest rate is as high as it is) loans promote poverty than remedy it. Unless the whole machinery is revolutionised and provisions (legal or otherwise) created to fit the situation, those who do not need such credit will continue to benefit at the expense of those who desperately need the loans. However, even the group which is able to raise adequate security, or keep a current bank account and meet other requirements is a very small section of the community. It must also be said here that loans per'se are not the solution to development. The people need a conducive infrastructure ~~to~~ - roads, schools, etc, which presently is very inadequate.

(b) RECOMMENDATIONS

Commercial banks are, as it has been seen, genuinely ^{not} interested in promotion of smallscale agriculture. Where they lend out money they are much concerned whether the loanee does pay at a profit and promptly. It is their money which matters and not the welfare of the peasant. It is therefore strongly felt that commercial banks should not be allowed to lend to smallscale farmers. They are not the type of institutions appropriate to the type of small farming development envisaged.

Largescale farming and smallscale farming are of different diverse development stages. The two use different methods and techniques in approaching development problems.

There are problems which are unique to each type of farming. It is only reasonable that statutory bodies dealing with smallscale farm areas (like Gusii) alone and providing credit to the same should be established. It is hoped then that, such bodies will specialise in the smallscale farming, and by devoting undivided efforts to these areas, they will be able to remove many of the persistent peasant problems.

It should be clear from the beginning that it is the small farmer who does not have the means to develop who infact needs credit most. While encouraging the already flourishing peasants, stress should be put to develop the undeveloped and the underdeveloped. It must also be recognised that loans alone are not the solution to the problems. Other things as said elsewhere should be done.

If lending shall be handled by smallfarm statutory bodies, and especially if the cooperative movement shall have been reorganized the cope up with this task, the problem of security for loans will have to disappear. When supervision of the credit is efficient loans will be put into more effective and intended uses and repayment will improve.

A system of credit establishment aimed at benefiting a society must also seriously take into consideration the social economic philosophy of that community. The social superstructure therefore should not be ignored. Foreign ideas, like English law and values should not be imposed on the people.

They should be allowed to assimilate and take their place gradually.

The Cooperative Bank of Kenya now stationed only in Kisii Town should extend its services to rural Gusii. Branches should be established in various areas so as to enable the farmer to utilise its facilities effectively. Normal banking facilities should be available (but not with the commercial bank restrictions) to enable the farmer to begin saving what he gets from the farm.

Present Agricultural institutes should be improved. F.T.C., Kisii, should be expanded and equiped to train both the farmer and the extension officers. In the field, instructors should organise on-the-shamber classes to educate the farmers and equip them to deal with the frequent problem associated with their farms, and how to handle credit more effectively.

Small farm credit institutions (statutory) should get their money from public funds as to be allocated by Parliament. Interest rates should be abolished forthwith. Parliament will get the money in other ways (e.g. tax) to administer the statutory bodies.

Locational Planning Committee should be given more meaning, i.e. they should be used more frequently by the creditor.

Such committees will then be able to advise the creditors that the local peasant in Gusii need oxen, ploughs and other relevant farm implements like jembes and pangas, and not tractors, combine harvestors and the like.

The law should be shaped to meet the needs of the community, and not the needs of people outside that community.

FOOT-NOTES

1. Kenya Population Census, 1969, Vol. 1. P. 39
2. Ronald Carst: Spartial Diffusion of Agriculrual Innovations in Kisii District of Kenya
p. 87
3. Ronald Garst (Ibid)
4. African Development: Kenya - Tanzania Economic Survey
December 1975.
5. Daily Nation, December, 12th 1976
6. Sessional Papaer No. 4 1975
7. Daily Nation (Ibid)
8. Daily Nation (Ibid)
9. Daily Nation (Ibid)
10. Vasthof, J: Small farm Credit and Development
This includes 200,000 wage earners on
largescale farms.
11. I.D.S., USAID/SR 107
12. Clayton: Agrarian Development in Peasant Economics, p. 131
13. I.D.A., USAID (Ibid) P. 11
14. 1 of 1963
15. e.g. Kenya Tea Development Authority, Pyrethrum Board
of Kenya, etc.
16. e.g., the I.D.A. stationed near Kisii Town
17. Only in Kenya Commercial Bank does the Government own
controlling shares.
18. The cooperative Bank of Kenya is strictly not a
Commercial Bank.
19. Vasthof, J: Small Farm Credit in Kenya, p. 21

20. Agricultural Credit Returns: Central Bank of Kenya
directive to all commercial banks lending to agriculture
21. Agricultural Credit Returns: Central Bank of Kenya
directive to all commercial banks lending to agriculture.
22. These include standing crops machinery, etc.
23. Author assured that this practice has stopped.
24. Interview with Barclays Bank Manager, Kisii.
25. The author thinks that this is not so Administrative,
supervisory and advisory costs would greatly be minimised
if the banks and agricultural officers worked together.
26. No satisfactory reason was given for holding such a view.
27. Because of pressure of domestic family expenses, like
school fees. This was a feeling expressed by those
peasants who have at least obtained loans from other sources.
28. Interest varies - between 2½% and 3% p.a.
29. E.g. buying and selling cows, goats, maize pyrethrum, etc.
30. International Bank for Reconstruction and Development:
Economic Development of Kenya, Baltimore, p. 265.
31. No. i of 1963
32. Agricultural Credit Act, 1963
33. which in 1957 had also taken over from the African
Development Board established in 1953.
34. No. 1 of 1969.
35. A.F.C. Act, 1969, S. 3 (2)
36. See USAID/SR 107 P. 26 - I.D.S.
37. Except in Borabu Settlement Scheme - the former Kenya
"White highlands".

38. Except Borabu Scheme where some holdings are over 15 acres. Of all people interviewed in Ogembo division, only 5 had land over 15 acres, but still they can not qualify because of other reasons e.g. that the whole of the 15 acres must be under maize.
39. Insurance plus loan - maximum amount is Shs.350 per acre. An Insurance premium of Shs. 5 is paid before loan is issued.
40. of 1958 - (cap 336, Laws of Kenya)
40. Interview by author with A.F.C. Personnel, Kisii
41. There is a big farm (hundreds of acres) adjacent to Kisii town which can be used for training not only poultry farmers, but all types of farmers. Facilities there can be improved.
42. I.D.S. - USAID/SR 107 (Ibid)
43. Crops - Tea, passion fruits, potatoes, pyrethrum, maize etc.
44. S. 192 (1) (h) (v), Agriculture Act, cap 318
45. See also L.N. 20/1967, (Kenya)
46. Established under s. 3 of the Tea Act, cap 343, 1961
47. Cap 343, 1961,. Also see L.N. 14/1971, 207/1974, 7/1975.
48. For higher yields tea need constant expert attention.
49. Cap. 340 1964, L.N. 38/1968.
50. Cap 490, 1966, See also s. 40
51. S. 84 (1) and (2) (g), cap 490 (Ibid)
52. L.N. 175/1969, (cap 490, Laws of Kenya)
53. Eligibility standard for cooperators (under c.p.c.s):

The members must,

- a) be over 21 years old
- b) have been a member of a society for over 3 years
- c) have marketed produce through the society for each of the three years preceding his application for a loan;
- d) be the owner or a recognized holder of the shamba cultivated or obtain owners consent agreement.
- e) agree to have included in the loan for which he is applying any debts due to the society which will not be covered by the next payout due to him;
- f) be considered honest, hardworking and trustworthy by the managing committee of his society.

Credit is granted for specific purposes related to agricultural productivity - contained in a list drawn by District Agricultural Officers. Term of loan is 18 months to 3 years. Payments are made in kind (where possible). A Cooperator can not borrow more than $\frac{2}{3}$ of the average value of his deliveries to the society over the last 3 years, nor can he borrow less than Shs. 100. No member can borrow more than 10% of the total amount available for loans to members.

54. Form LON 201/A, LON 236 for GMR
55. This is not indicated anywhere expressly, although it is thought generally that no fee paid on applying for smallscale loan. Criteria A.F.C. applies to decide whether to make a loan:
- a) The loan must be for a specific project
 - b) The project must be technically and economically sound
 - c) A.F.C. must be satisfied that the project will be well managed - during implementation and after completion.
 - d) There must be reasonable assurance that loan shall be repaid.
 - e) The loan must not impose an undue burdern on the financial position of the loanee.
56. Author encountered six loanees who had sold their loan property and entered into different business. One farmer sold his two grade cattle given by A.F.C. to raise money for school fees.
57. Vasthoff J. (Ibid)
58. A.F.C. Estimation. Economic Unit is 4 units, but it varies from area to area. In others it is 7 acres.
59. cap 300, ss 101, 106, s 120
60. Act 34 of 1967: part V
- 61 S. 33 A.F.C. Act, cap 323, Procedure for recovery on default by occupation or sale of property.
62. S. 33 Sub-s (1) - (3)
63. S. 33 (4) (b)

64. A.F.C. Act (Ibid)
65. Using two or more I.D cards (illegally of course without the knowledge of lender).
66. Only those who have obtained such loans.
67. A general view from those interviewed. None kept any book of accounts in whatever form.
68. R.L.A. (cap 300) s. 27 and s. 28
69. Act 34 of 1967
70. Swynnerton, 1954
71. It is possible and true that not all legislation (members of Parliament) truly represent the values of the society for which they legislate. Many M.P.s in the Legislature never seem to understand what they legislate.
72. R.L.A., Land Adjudication Act, L.C.A., etc.
73. Bosire, S.: Transactions of Agricultural Land in and the application of L.C.A.: Kisii
74. Bosire (Ibid)
75. Okoth-Ogendo: Land tenure and Agricultural development
76. Sale and appointment of receivers not always easy. Hence in a majority of cases the closest they get to the realization of security through the machinery of law is the issue of threats.
77. Cap 318, 84
78. Cap 323, Act 1 of 1969.
79. Enumerated in Chapter Two of this paper.

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1. Agriculture Act, 1955, (cap 318, Laws of Kenya)
2. Agricultural Credit Act, 1963,
3. Agricultural Finance Corporation Act, 1969, (cap 323
Laws, of Kenya)
4. Cooperative Societies Act, 1966, (cap 490, Laws of Kenya)
5. Dairy Industry Act, 1958 (cap 336, Laws of Kenya)
6. Land Control Act, 1967, (Act Non 34 of 1967)
7. Registered Land Act, 1963, (cap 300, Laws of Kenya)
8. Pyrethrum Act, 1964 (cap 340, Laws of Kenya)
9. Tea Act, 1955, (cap 343, Laws of Kenya)
10. Maize Marketing Act.

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