AN ANALYSIS OF ICDC SMALL INDUSTRIAL LOAN COMMITMENTS, 1961 - 1975

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WORKING PAPER NO. 251

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February, 1976

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ABSTRACT

This study concerns loan commitments by the I.C.D.C. to small industrial projects in the period 1961 - 1975. It analyses the distribution of these loans by region, by product and over time. Other features of these loans are discussed and the concluding section discusses some reasons explaining the distribution of these commitments.

The Industrial and Commercial Development Corporation is one of the major arms of government policy designed to further industrial and commercial growth in Kenya. In particular it aims to further the extent of participation by Africans in the economic life of the country. Since it was established it has provided extensive assistance to Africans establishing new industrial or commercial enterprises and to those taking over existing enterprises from departing non-citizen businessmen. It has also been involved in the establishment of larger ventures through joint ventures with international firms. Finally it has also been involved in the purchase of shares on the stock exchange through its Investment Company.

This study confines itself to only a small part of ICDC activities, that is to the operations of the small industrial loans section. The Small Loans section (offering loans up to £37,500) of the ICDC accounted for 53% of total net assets in 1973/4. Of this 36% was given over to commercial loans, 42% to property loans, 6% to "Machinery" loans and 16% to industrial loans. This means that the small industrial loans covered in this study account for less than 10 of total net assets, particularly as we are only examining non defaulting loans.

The source of the ICDC funds is diverse. The bulk came from the Government of Kenya (57% in 1974), bank loans accounted for 19% and loans from the West German government comprised 7% of the total. The Danish and West German government are also involved through their participation in the Kenya Industrial Estates.

A description of the data base may be useful in setting this study in context. Initially the ICDC small industrial loans section was approached in an attempt to establish what proportions of loans were being given to the food industry in Kenya. Access to the loan files was given and it became clear that the information contained in these files was sufficiently interesting to justify further detailed study of other, non-food industry loans. The loan files are divided into two sections - defaulting and non.- defaulting. This study concerns only the non-defaulting section. It should be made clear that the distinction between defaulting and non- defaulting files is not watertight, since some of the files in the non - defaulting section either were in default or had been in default at some stage in the past and

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* I am grateful to the ICDC for their cooperation in this project. Particular thanks are due to Mr. Masinde and Mr. Shah for their assistance.

therefore pass between defaulting and non-defaulting sections. So it cannot be said that all of the files in the non-defaulting section fitted this classification unambiguously.

Between the establishment of the loans section and the most recent file available at the time of the research, a total of 828 small industrial loans were offered by the corporation.[1] In fact not all of these loans were for industrial projects as the definition of 'industrial' has been stretched to cover inter alia, fish and chips shops, dry cleaning and a bowling alley. The sample in this study is of 357 loans.[2] comprising a total sum of £1,609,109 - it is limited therefore to only a proportion of these 828 loans. The selection of the357 files was made in the following way. All of the files in the years up to and including 1971, as well as all the files available for the year 1975 (ie up to 4/7/75 when the study was begun) were examined. For 1972 all files in the latter half of the year were included and for 1973 all files from the end of March were included. The sample of 356 files therefore comprises almost all of the files remaining in the non-defaulting section, with the exception of part of 1972 and part of 1973.

The information stored in the files varies, particularly over the years. Earlier files have little indication of any analysis of applications some are so depleted that there is not even a record of how much was offered in response to particular requests. In later years the files are much more informative and currently each application has to be analysed by the provincial ICDC officer who is responsible for assessing the viability of the enterprise, the adequacy of s curity and the estmated monthly/yearly profit. The applications also include comments by the district commissioners or some other local civil servant of standing. The applications are sent to headquarters in Nairobi where final assessment is made (sometimes after an interative process of bargaining with the district officials or the applicant). After the offer is made the applicant is given a period of three months to accept

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1. Not all of these offers were infact acepted by applicants.

2. Another six files were examined which covered the very early period of loans, but no details were available a concerning these committments.

inwriting, after which a reminder is sent and then the offer is withdrawn. Loans are generally offered for repayment over a period of five to eight years at commercial rates of interest.

From these files the information gathered included the product to be produced; the estimated fixed capital cost of the project; the estimated working capital requirements; the ICDC loan offer to the applicant(s), the estimated personal contribution of the applicant(s): the postal address and physical location of the applicants; whether the loan offer was accepted (where available); whether it was for a new e enterprise or for the takeover of an existing one (whether available) and any comments of particular interest made by the provincial ICDC officer or anyone else on the application.

The analysis of the data will take the following form. The second section will comprise a discussion of the geographical distribution of the loan offers in the sample. The third section concerns the product distribution of loan offers and will be followed by a fourth section examining changes over the years since the loans were first offered. The fifth part discusses other notable features of the loans and the sixth section is concerned with a discussion of the factors explaining the patterns which are found and some discussion of other points which emerge from the research. This is followed by a concluding section.

In reading the following sections, care should be taken in noting that it is a sample of loan offers, not of disbursements. The difference between committment and disbursement is an important one, the former reflecting the concerns of the loanor and the loanee and the latter the ability of potential loanees to take-up the loan offers of the loanor.

II

Geographical Distribution of Loans Committments

Table I presents the geographical distribution by province of loans in the sample. Table 2 presents some relevant ratios which are used to determine whether there exists a different pattern of loan committment between the different provinces By average <u>size of loan</u>, the largest is Nairobi, followed by Coast Province and Nyanza Province. Rift Valley Province, Western Province, Central and Eastern Province have similar sized loans and North Eastern Districts lags far behind (although there is only one loan committment to it in the sample). None of these differences are statistically significant (t - tests used to compare average for districts with average of total). To some extent there is an explanation for these (statistically insignificant) differences in that the three large figures include three of the four largest cities in the country and there is a tendency for the cities to attract larger projects.

TABLE I [1]

Distribution of Loans by Province

	Loan Committments		Average Size of Loan (/-)	Aggregate Loans	
Province	No	% of total			% of total
Nairobi	71	19.9	168507	11963997	38.4
Rift Valley	54	15.2	64685	3492990	11.2
Nyanza	60	16.9	91033	5462000	17.5
Western	46	12.9	61152	2813000	9
Eastern	47	13.2	53011	2491500	8
Central	68	19.1	56099	3814698	12.2
Coast	10	2.8	112900	1129[illegible]	3.6
North Ea Districts	1	0.3	15000	15000	0.1
Total	356	100.	87345	31182185	100.

t - test used between average loan size for province against average loan size of total. No significant differences found in average size of loans to provinces.

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1. Some care should be taken in reading these and subsequent tables. Average loan size is derived by sonsidering all loans to each province over the period 1962-75. . Since inflationary factors influence loan size and since the patterns of loans vary over the years, there is some possibility of distortion in the data. It is not believed, however, that this distorts the averages in any significant way. The variation of loans by province by year is treated in a later section of this paper.

In terms of the number of loan committments, the marked difference concerns Coast Province (with only 10 committments) and North Eastern Districts (with only 1 committment). The aggregate size of loan committments follows from the consideration of number and average size of loans. Nairobi alone accounts for 38.4% of total loans a committment followed by Nyanza Province with 17.% This relatively high figure for Nyanza is to some extent explained by the large share of Kisumu (10.1% of total committments). What is suprising there is not so much the large share going to Nairobi and Kisumu, but the small share obtained by Mombasa and Nakuru.

When account is taken of the relative populations in the provinces the picture does change a little (table 2). Central Province appears to command a marginally larger share (but statistically insignificant) of loans by number and aggregate committment. Nairobi obtains siginificantly larger average size of loan and a significantly larger amount of loans (both significant at the 5% level, using a Z score). Once again the picture which emerges for the Coast and North Eastern District Provinces with regard to number and aggregate committments is small. However both register a relatively high(though statistically insignificant) figure for the average size of loans per share of population.

TABLE 2

Distribution of loans by Province: Normalised by Population.

Provinces	Population (Estimate) for 1971	No of Loans per million people	Average Loan pwr 1000 people **	Total Loan per 10 people **
Nairobi	580586	122.29	290.2	206.07
Rift Valley	2365010	22.83	27.4	14.77
Nyanza	2270588	26.42	40.1	24.06
Western	1421279	32.37	43.03	19.79
Eastern	1960194	23.98	27.04	12.71
Central	1144900	59.39	49.	33.32
Coast	1010168	9.9	111.76	11.18
North Eastern Districts	262960	3.8	57.04	0.57
Total	11015185	32.32	80.7	40.31

** Significant at 5% level: Z Score used.

Similar data is presented by district in table 3. The number of loans per million population is highest for Nairobi and Embu (both significant at the 1% level). In terms of average size, committments to Nairobi are particularly high (significant at 1% level). These to Isiolo (1% significance) and, Laikipia (significant at 5% level) and Taita Taveta (significant at 10% level), are misleading in that only one committment was made to each of these districts. When aggregate committments per population are considered, once again only Nairobi registers a statistically significant difference (1% level). Committments to Lamu are also significantly different, but there is only one committment in the sample.

In the case of seven districts - Samburu, Turkana and Kajiado (Rift Valley Province), Marsabit (Eastern Province) Tana River (Coast Province) and Wajir and Mandera (North Eastern District Province) - there is no record of loan offers in the sample.

TABLE 3

Loan Committments by District

	No of Loan Co-mmittme-nts	Populaion (Estimate for 1971)	Average Size of Loan Committ-ments(/-)	Total Loan Committ-ments(/-)	No of Loan Co-mmittme-nts per million people *	Average Loan Co-mmittme-nt per 100 people (/-) *	Total Loan Committ-ment per 10 people (/-) *
Nairobi	71	580586	168507	11963997	122.29	29.02	206.7
Kiambu	26	508866	49846	1296000	51.09	9.8	25.47
Murang'a	17	476482	83929	1426793	35.68	7.61	29.94
Nyeri	11	386104	43636	479996	28.49	11.3	12.43
Kirinyaga	10	232177	40800	408000	43.07	17.57	17.57
Nyandarua	4	189313	61250	245000	21.13	32.35	12.94
Nandi	5	223703	28400	142000	22.35	12.7	6.35
Kericho	12	512675	21667	260004	23.41	4.23	5.07
Elgeyo Mar.	1	170414	15000	15000	5.87	8.8	0.88
Naroko	2	133984	77000	114000	14.93	57.47	8.51
Baringo	2	173063	21000	42000	11.56	12.13	2.43
Trans Nzoia	2	133066	20000	40000	15.03	15.03	3.01
Samburu	-	74385	-	-	-	-	-
Laikipia	2	71161	80000	160000	28.4	(**) 112.42	22.48
Turkana	-	176791	-	-	-	-	-
W.Pokot	2	88230	15000	30000	22.67	.17	3.4
Kajiando	-	91916	-	-	-	-	-
Uasin Gishu	8	204409	128000	1024000	39.14	62.62	50.1
Nakuru	18	311213	92556	1666008	57.84	29.74	53.53
Siaya	5	410011	16800	84000	12.19	4.1	2.05
Kisii	18	722294	72300	1305000	24.92	10.01	18.07
S. Nyanza	20	709595	46350	927000	28.19	6.53	13.06
Kisumu	17	428688	185059	3166000	39.66	43.17	73.39
Bugoma	6	369392	62500	375000	16.24	16.92	10.15
Busia	5	214520	28600	143000	23.31	13.33	6.67
Kakamega	35	837367	65571	2295000	41.8	7.83	27.41
Kitui	3	366960	71000	213000	8.18	19.35	5.8
Isiolo	1	32405	50000	50000	30.86	(*) 154.3	15.43
Machakos	12	756719	55417	665000	15.86	7.32	8.79
Marsabit	-	55192	-	-	-	-	-
Embu	20	191436	48175	963500	* 104.47	25.17	50.33
Meru	11	557482	54546	600000	19.73	9.18	10.76
Mombasa	5	264368	101800	509000	18.91	38.51	19.25
Kwale	1	219994	140000	140000	4.55	63.64	6.36
Kilifi	2	329098	40000	80000	6.08	12.15	2.43
Lamu	1	23969	300000	300000	41.72	1251.62(*) (***)	(**) 125.16
Taveta	1	118493	100000	100000	8.44	84.39	8.44
T. River	-	54255	-	-	-	-	-
Wajir	-	92266	-	-	-	-	-
Garissa	1	69038	15001	15000	14.48	21.73	2.17
Mandera	-	101656	-	-	-	-	-

*** 10% significance

** 5% significance

* 1% significance (Z Score used)

( ) means sample too small for firm conclusions.

The overall picture which emerges from this analysis is the relative absence of differences between provinces and districts. Nairobi commands a higher share of loan committments by number of loans, size of loans and share of aggregate committments. Kisumu, too, appears to have attracted a relatively large proportion. But when amount is taken of the large industrial sectors in Nakuru and Mombasa (particularly) it is somewhat suprising that these two cities attract so far few albeit large) loans.

The relatively large share of loan committments going to Central Province (even when population is taken into account) is expected but is less than anticipated. By contrast the small number of loans committed to Coast Province is somewhat suprising.

III

Distribution of Loan Committments by Product

Loan committments were made for a total of seventy nine different activities over the years. Many of these were for the same product (e.g. maize flour), but some product groups only feature once in the committments (e.g. armature winding).

Classification of these seventy nine industries is naturally somewhat arbitrary. To some extent the wider research interests of this researcher (i.e. food processing) have necessitated the use of certain product groups, such as that for jaggery. Some product groups also feature prominently and suggest themselves. But others are not of frequent occurrence, so to make the analysis less unwieldly, the categories include miscellaneous manufacturing activities and miscellaneous services.

Miscellaneous manufacturing accounts for 13% (by value) of all committments. It comprises; assembly of refrigeration equipment (1), mixing of animal feeds (2) tyre retreading (4) sugar cane juice (2), salt grinding and packing (2), Galvanising of iron (2) shoe polish (1), soap (1) fish processing (1) Bicycle repairs (2), sisal decortification (2) sisal brushes (1) fishing (1), manufacture of agricultural implements (1) mixing of milk powder (1), battery assembly (1) mixing of baking powder and spices (1), machine building (1), Cosmetics (1) and armature winding (1). As we can see this comprises a broad range of activities from the relatively simple (sugar cane juice) to the more complex (machine building, ets)

The Miscellaneous Services category is somewhat less diverse, being made up of cinema (4), bowling alley (1) music recording (3), dry cleaning (12), hairdresser (1) fish and chips (3), photography (5) tour operator (1) transport fleet (1), tie and dye (1), butcher (2) an hotel (1) and typewriter servicing (1), Miscellaneous Services account for 11.2% (by value) of all loans.

The full product range and the relative size of loan committments is given in table 4. The largest average size loan has gone to printing (significantly higher at the 1% level), quarry and cement block, jaggeries and saw mills. At the other extreme, the smallest size loans went to maize mills (statistically insignificant due to high standard deviation), leather and shoes (significant at 1% level) and metal working.

TABLE 4

Loan Committments by Product

	Number of Loans	As % of total Loans	Average Size of Loans	Total.Comm. of Loans	As % of total Loans
Maize flour	166	32.6	19692	2284272	7.4
Bakery	16	4.5	206063**	3297008	10.6
Jaggery	5	1.4	153000(*)	765000	2.5
Wood Working	25	7.0	60320	1508000	4.9
Car Repari & Sales	28	7.9	108643	3042000	9.8
Misc. Services	36	10.1	93973	3477000	11.2
Misc. Manufactuting	33	9.3	121942	4024100	13.0
Quarry and Cement Blocks	19	5.3	178053**	3383000	10.9
Printing	21	5.9	261619*	5494000	17.7
Building & Electrical Contractor	5	1.4	57000*	285000	0.9
Tailor	17	4.8	56471	960000	3.1
Metal Working	115	4.2	52400	786000	2.5
Leather & Shoes	7	2.0	20714*	145000	0.5
Saw Mills	12	3.4	126917	1523000	4.9
Total	356	99.8	87004	30973380	99.9

** 5% Significance

* 1% Significance

t Test used

() means Significant but sample too small for firm conclusions

These differences naturally show up in the share of particular product groups in the total. Thus while loan committments to maize mills account for almost one third of total committments by number, they account for only one fourteenth of loans by value. By contrast, committments to printing firms account for only one seventeenth of the number of committments and for one sixth of the total value of committments .

The average size of committments to the provinces (see table 2) is largely explained by the range of the enterprises which have been offered loans. Committments to Nairobi, as we have seen (table 1) are of a larger average size than to the various provinces and this is largely explained by the type of enterprises which hav been offered loans in Nairobi (see table5) There are no loans for maize mills (which make-up the smallest enterprises) and a particularly large shore of loans to printing (the largest type of enterprise) in Nairobi.

The diversification of economic activities in Central Province is clear from this table, where there appear to have been a relatively large number of loans to miscellaneous manufacturing as well as to wood and metal working activities. By contrast the loan committments to Western Province are predominantly related to agricultural activities or other rurally based enteprises (e.g. quarrying).

The picture which emerges from this analysis of product groups is of the relative 'simplicity' of the enteprises. The level of skills required to operate most of these firms is seldom high and the primary constraints to earlier entry have presumably been lack of capital, lack of state support and (in isolated cases) smallness of market size. The availability of financial capital through the ICDC and other sources and the removal of state - imposed barriers after independence have led to the rapid entry of african entrepreneurs. The speed with which they initially entered the market will be shown in the next section on changes over time.

A point of interest is whether there has been a trend towards entering more complex activities (e.g. machine building) over the years. If ,this has been the case it may suggest a pattern of underlying growth for this type of small scale manufacturing enteprise, as new skills are learnt. If not, it may suggest that the underlying **constraints** to the growth of this sector may be more fundamental. The analysis will be carried forward later in this paper.

TABLE 5

LOAN COMMITTMENTS BY PRODUCT AND PROVINCE

	Nairobi	Rift Valley	Western	Nyanza	Eastern	Central	Coast	North Eastern Distri-cts.	Total
MAIZE FLOUR	–	20	23	28	19	25	–	1	116
BAKERY	6	3	–	1	3	2	1	–	16
JAGGERY	–	–	3	1	1	–	–	–	5
WOOD WORKING	6	3	2	3	5	6	1	–	26
CAR REPAIR AND SALES	5	7	5	5	1	3	3	–	29
MISCE SERVICES	13	8	4	3	3	3	3	–	37
MISCE. MANUFUCT-URING	7	4	2	5	3	11	1	–	33
QUARRY & CEMENT BLOCKS	–	3	5	4	2	5	1	–	20
PRINTING	17	1	–	1	2	–	–	–	21
BUILDING & ELEC-TRICAL CONTRACTOR	3	–	–	1	–	–	1	–	5
TAILOR	9	1	1	4	1	–	–	–	16
METAL WORKING	3	1	1	2	1	7	–	–	15
LEATHER & SHOES	2	–	–	1	1	3	–	–	7
SAW MILLS	–	3	–	1	5	3	–	–	12
TOTAL	71	54	46	60	47	68	11	1	358

IV

DISTRIBUTION OF LOAN COMMITTMENTS BY YEAR

It was expected that as the years went by there would be a greater number of loan committments. This would partly be a consequence of increasing class differentiation and the emergence of an industrial bourgeoisie, and partly a consequence of the removal of state barriers to indigenous entrepreneurs.

Table 5 summarises the number of ICDC committments by year and the number of files examined for each year in the period 1966-1975.

Number of Loan Committments by Year

	TOTAL ICDC FILES		IN SAMPLE		SAMPLE AS % OF TOTAL
	No	%	No	%	
1966	28	3.7	19	5.8	68
1967	102	13.5	81	24.7	79
1968	116	15.3	69	21.0	60
1969	188	24.8	29	8.8	15
1970	92	12.2	30	9.2	33
1971	93	12.3	39	11.9	42
1972	50	6.6	19	5.8	38
1973	26	3.4	13	4.0	50
1974	35	4.6	12	3.7	34
1975	27	3.6	17	5.2	63
TOTAL	757	100	328	100	43.3

1 up to 4/7/75

The picture which emerges from columns 1 and 2 in table 6 is an initial increase and then a consistent decline in loan committments. The peak of 188 committments was reached in 1969 after which we can note a distinctly declining trend. The main reason for this decline in the number of committments over the last six years was a policy decision by the ICDC to divert funds from small to large industrial projects.[1] Subsidiary reasons may be that there were only a limited number of small scale opportunities open (e.g. takeover of non-citizen forms; establishment of maize mills), and that there were rapidly filled within the first decade of independence. It may also reflect the delay between the application for loans and their committment which led applicants to tap other sources of capital.

Table 7 considers the change over the years in the number of committments by province. Central Province appears to have been an "early starter" and to have maintained a steady number of committments over the years. The same is true for Nairobi. Rift Valley Province has only been

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1. The significance of this decision will be discussed in the concluding section of this paper.

the recipient of a substantial number of loans in later years and this perhaps reflects the relatively "late start" of non-agricultural activities in the province, particularly in and around Nakuru. Nyanza Province appears to have attracted most of committments in 1973 and although the period is too short for definitive statements there is some evidence of a decline in the number of committments to this province in the last two years. By contrast Western Province appears to have held its position with a steady share of committments. Eastern Province, after a relatively late start appears to have maintained a high level of committments in recent years. Coast Province, as we have seen, has attracted a relatively for few number of committments. This is particularly suprising when consideration is given to the size of the industrial sector in Mombasa.

TABLE 7

Number of Committments by Year by Province

	Pre 1966	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	2. 1971	3. 1972	4. 1973	1974	5. 1975	
Nairobi				1	1	2	3	5	2	8	10	2	7	10	16	4	71
Rift Valley						1	1	2	4	2	9	1	2	15	12	3	54
Nyanza		1					3	1	2	2	5	10	6	16	7		60
Western							2	1	2	3	1	9	6	2	13	4	46
Eastern					1		2				2	2	5	13	15	5	47
Central			1	2		1	6	2	3	3	8	6	2	13	15	3	68
Coast	2							1		1	3		1		3		10
N. Eastern Districts											1						1
Total	2	1	1	3	2	4	17	12	13	19	39	30	29	69	81	19	357

1. This classification used due to lack of specifity in files
2. Files from 1/1/71 to 11/3/71 excluded
3. Files from 1/1/72 to 7/7/72 excluded
4. Files from 1/1/73 to 28/5/73 excluded
5. Up to and including 4/7/75

In table 8 we can see how the relative size of committments has varied over the year. Given that this was an inflationary period, particularly in recent years, it is an a/priori expectation that the nominal size of loans will increase over the years even if the real value is static or declining. This pattern is confirmed by the data available - there does appear to be steady increase in the size of loans over the years, with 1969 .

Average Size of Loan Committment by Year

		Average Size of Loan	
1966	2	8000	
1961	1	5000	
1962	1	10000	
1963	3	7211	
1964	2	70000	
1965	4	31250	
1966	17	23353	*
1967	12	36667	*
1968	13	31077	*
1969	19	121684	
1970	39	56795	
1971	30	41167	
1972	29	99552	
1973	69	110475	
1974	81	112828	
1975	19	117263	
Total	357	87345	

* Significant difference with total average at 5%
(+ test used)

TABLE 9

Distribution by Product Group by Year: Number of Committments.

	1966	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	TOTAL
Maize flour							2		2	9	13	18	5	22	33		156
Bakery					1			1	1	1		1	1	1	4	6	16
Jaggery												1		1	2	3	5
Wood working						1	3	1	1		1	3	4	3	6		25
Car repair and sales	2					1	1	1	2		4		2	10	4	2	29
Miscelleneous Services			1	1	1	1	1	2	2	1	3	4	6	5	7	1	37
Miscellaneous Manufacturing		1					3	2		2	4	1	1	6	8	1	33
Quarry and cement blocks											2	1	5	4	5	4	19
Printing								1		5	4		2	5	4		21
Building and electrical Contractor						1	1				4						5
Tailor							2	1	4	1	1			5	2		17
Metal Working			1				2	2				1	2	3	4		15
Leather and shoes							2	1			3				1		7
Saw Mills			2	2					1				1	4	1	2	12

appearing to be at an unusually high level. Whether this increase is at a rate appropriate to maintain real values of loans is not clear, since there is no index for inflation in capital goods prices in Kenya over the period.

The distribution of committments by year and by product groups is shown in table 9. Suprisingly, given the high incidence of loan committments to maize milling, the presence of a large market and the relative simplicity of the operation, this product group appears to have been a "late starter". There seems to have been an increase in committments to bakeries, Jaggeries and quarry and cement blocks and a decline to car repair and sales and miscellaneaus services in recent years. Wood working, miscellaneous manufacturing, printing, metal working and saw mills seem to have maintained a steady share of committments over the years.

There is little evidence to support the contention that there has been an increasing trend to more 'complex' manufacturing activities. For example loans to maize mills have occured fairy recently and this is clearly on easy enterprise to manage. The more 'complex' enterprises in the miscellaneous manufacturing category have not been offered loans exclusively in later years. - eg armature winding (1967), Zip manufacture (1969) coach building (1972). On the other hand some of the larger enterprices requiring large investments and greater managerial ability (such as the larger bakeries and printing works) have been given loans recently. But here too there is evidence of larger enterprises being assisted in earlier as well as later years.

The general trend over the years seems to show a decline in the overall number of committments. At the same time the norminal (if not the real value of these committments) has steadily increased. Some products groups have received a greater share in later years, others seem to have received a steadily declining share and yet others to have maintained steady share of loan committments over the years.

V

Other Notable Features of Loans.

We have hitherto examined the spatial, temporal and product group dispersion of loans. Of interest also is the relationship between fixed and working capital, fixed capital and ICDC loans, and ICDC loans and capital provided by the applicants themselves. The problem with this analysis is that the data drawn from the files is not very reliable.

There are a number of reasons for this. Working capital requirements may be incorrectly estimated due to the inexperience of the applicants. Or applicants may deliberately overestimate their requirements in the hope that the ICDC loan will give them cash-in-hand for other activities;or, and it is suspected that this is a rather common occurrence, when the ICDC loan is less than that anticipated by the applicant, the applicant does not make-up the full capital requirement with his own funds.

Considering these factors, together with the fact that the capital provided by the applicant has had to be estimated by the provincial officer, care should be taken in interpreting the following sets of data. Another feature of this data is that the size of the sample varies - thus while there were 357 ICDC loan committments, there were only 249 recording for fixed capital requirements, 240 for working capital and 252 for self-generated capital (The absence of information is distinct from zero-readings for these parameters. Thus where there are no fixed capital requirements - ie where the loan is only for working capital-this has been recorded as a zero-reading in the fixed capital column).

The three ratios will only be considered for different product groups as there is no expectation that there exists a pattern of variation over the years or by provinces unless this is explained by loans to different product groups over different years in different provinces. In addition to these three factors, other notable features of the loans will be discussed.

(a) The Relationship between Fixed and Working Capital

The relationship between fixed and working capital varies between different industries. Those products which require relatively large inputs of labour (as a proportion of total unit costs) and/or where the time taken to convert inputs into final output is relatively long, can be expected to have a smaller fixed capital/working capital ratio. Table 10 presents this ratio for the different product groups.

The highest ratio is clearly that for maize mills where the cost of holding inputs while they are being processed is borne by the customer and working capital costs are confirmed to fuel and depreciation of equipment (labour is paid after revenue is collected). At a lower level, miscellaneous services appear to have a ratio marginally higher than the average for all industries. Tailoring, leather and shoes, wood working and car sales and repair all appear to require relatively large amount of working capital in relation to fixed capital.

TABLE 10

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Ratio of fixed to working capital

Product	
Maize flour	27.3
Bakery	4.2
Jaggery	5.2
Wood Working	2.2.
Car repair and sales	2.2
Miscellaneous Services	7.3
Miscellaneous manufacturing	4.3
Quarry and cement blocks	5.2
Printing	5.7
Building and electrical	(a)
Tailor	0.9
Metal Working	5.0
Leather and shoes	1.5
Saw mills	4.9
Weighted average	4.7

(a) No information available.

(b) The Relationship betweeb Fixed Capital and ICDC Loan Committments

Table 11 presents the ratio of fixed capital to ICDC loan Committments. Tailoring appears to have been able to command the greatest share of fixed capital in the form of ICDC loans, followed by car repair and sales. Bakeries, miscellaneous manufacturing and saw mills seem to have had the least likehood of generating fixed capital through ICDC loans.

The explanation for this pattern is not entirely clear. It may be thought that the tendency to obtain a greater share of fixed capital through ICDC loans was related to the size of fixed capital. But when correlated with fixed capital, no significant difference was found (r=.3871). It was thought that this ratio may be correlated to the ratio of fixed to working capital, but here the correlation was even weaker (r=.2447).

TABLE 11.

Ration of Fixed Capital to ICDC Loan Committment

Product	
Maize Flow	1.3
Bakery	1.5
Jaggery	1.2
Wood Working	1.4
Car repair and sales	0.8
Miscellaneous services	1.1
Miscellaneous manufacturing	1.5
Quarry and cement blocks	1.0
Printing	1.2
Building and electrical contractor	(a)
Tailor	2.5
Metal Working	1.3
Leather and shoes	1.0
Saw Mills	1.5
Weighted average	1.1

(a) Information not available.

(c) The Relationship between ICDC Loan Committment and Self!Generated Capital

The ratio of ICDC Loan Committment to self-contribution reflects the tendency to favour some industries with a higher share of loans (when compared to own contribution) than others. This ratio is shown in table 11. Quarry and cement blocks appears to have had the greatest ratio followed by saw mills, maize flow and jaggery. The lowest ratio (i.e. where self-generated capital was higher, relatively speaking) was recorded for car repair and sales, wood working and bakeries.

No clear explanation for thus pattern was found. The ratio was correlated with the ratio of fixed to working capital on the belief that the size of the ratio may reflect a propensity by ICDC to favour/disfavour projects with high working capital requirements. But the correlation was not significant (r=.4325). It was also thought that the size of the ratio might reflect the size of the project itself but once again the correlation proved to be insignificant (r=1412).

TABLE 12

Ratio of ICDC, Loan Committment to Self Committment

Product	
Maize flour	4.4
Bakery	2.0
Jaggery	4.1
Wood Working	1.5
Car repair and Sales	1.0
Miscellaneous services	2.3
Miscellaneous manufacturing	2.5
Quarry cement blocks	5.3
Printing	3.1
Building and electrical contractor	(a)
Tailor	2.2
Metal Working	2.4
Leather and shoes	3.1
Saw mills	4.5
Weighted average	2.7

(a) Information not available.

(d) The Rents to early Entry

The period with which this study has been concerned has been one of continued and increasing inflation in the Kenyan and the world economy. It is our guess (and it is hoped to prove this in future research) that the price of a commodity is related to costs of production by the most recently innovated technique. (Otherwise there would be a greatly diminished incentive to innovate). Therefore those producers who have installed machinery at an earlier date when equipment prices were lower, are able to earn greater profits than more recent innovators.

To state this phenomenon a little more precisely. The price (p) of a commodity in period tj is determined by unit capital costs of machinery purchased in t, (k_{tj}), unit labour costs (l_{tj}), other costs e.g. rent, fuel etc (O_{tj}) and the going rate of profit in the industry M_{tj}

Thus $P_{tj} = k_{tj} + l_{tj} + O_{tj} + M_{tj}$ ....(1)

In year tn, the price of the commodity is determined by

$P_{tn} = k_{tn} + e_{tn} + O_{tn} + M_{tn}$ ....(2)

However in year tn, while the price is determined by the cost of production (including profit) of an innovator purchasing machinery in tn, the producer purchasing machinery in earlier years gains a rent due to having incurred a lower k (due to inflation in machine prices). Thus his costs of production in year tn will be.......

$k_{tj} + l_{tn} + O_{tn} + M_{tn}$ ....(3)

Since all costs other than capital costs are related to current prices, the element of rent due to inflation (R) will be

$= (k_{tn} - k_{tj}$)...................(4)

This time- rent must be balanced against the loss of productivity by the machinery over the same period of time.

At this stage it is difficult to put precise figures to this time - rent. It depends upon the share of k in total unit costs and the size of D. But it appears to be high. Thus, taking the example of ICDC loans to maize mills we can attempt to fill in some of the details. At the end of 1970 one of the applicants bought a ND30 maize mill for a total price of 14,860/- With the rate of interest then prevailing of 8½%, this meant a monthly repayment for k of 314/29. In Dec. 1975 the same equipment would cost 38,400/-. With the current interest rate of 10% this would mean a monthly repayment of 955/39. This Preliminary research by this author on maize mills suggest that the productivity loss over time is not significant, certainly for mills less than ten years old.

(e) ICDC Assistance with Bargaining

A large number of ICDC loans were committed to african citizens taking over businesses from departing asians (predominantly) and european non-citizens. The price agreed between purchaser and vendor results from a process of bargaining between the two parties. In some cases however the intervention of ICDC has led to a reduction in the agreed price.

The procedure has been for the purchaser to apply to ICDC for a loan to cover part/whole of the purchase price. For the larger enterprises the ICDC has demanded that the enterprises be independently valued, often by Kenya Industrial Estates. In some cases this valuation has been considerably lower than the price intially agreed and has led to renegotiation at a lower sum. One particularly notable example has been in the case of a bakery where the initial agreed price of 1.952m/- was lowered to 0.857m/- after two ICDC valuations.[1]

VI

Factors Explaining ICDC Loan Committments

The conclusions to be drawn from this research are obviously clearly circumscribed by the nature of the data used. It is worth restating these limitations before embarking on an analysis of factors explaining the incidence of ICDC loans.

One limitation is that we are working with only a sample of non-defaulting loan committments. There is an expectation of bias in the sample, in that it is to be expected that some enterprises are more liable to default than others.[2]

A second limitation is that the data in the files, particularly that which relates to fixed and working capital and the contribution of the applicants, may not be accurate. Here there is no a priori expectation of systematic bias, but this may will occur, particularly in the case ,of data for contributions by the applicants themselves.

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1. The limit of 0.750m/- on small industrial loans has only been imposed recently. There is only one committment in this sample which exceeds this figure. It was a loan for 1.284/- given for a takeov r of a car repair and sales franchise in Kisumu.

2. Research being undertaken by Mwaniki of the I.D.S. on non-defaulting loans seems to confirm the view that some enterprises (notably maize-milling) are more prone to default than other. See Mwaniki, forthcoming, "An analysis of defaulting ICDC loan Committments!

A final limitation is that we are referring to loan committments and not to disbursements. Although there is no expectation that in certain provinces and/or years, and/or product groups there are differential patterns towards acceptance of loans from ICDC, such a bias may well occur.

Keeping these limitations in mind we can proceed to suggest some factors which explain the incidence of ICDC loan committments.

(a) The Nature and size of the Industrial Bourgeoisie

One of the main uses to which the information contained in this study can be put (as we shall argue in the conclusions) as to provide a picture of the extent and nature of the emergence of an industrial bourgeoisie in Kenya. Yet at the same time it is the very existence of this industrial bourgeoisie which to a large extent explains the incidence of these loan committments.

Thus it is to be expected that many of these loan committments will go to the cities where opportunities for industrial development arise. The data obtained does reflect this, particularly with regard to Nairobi and Kisumu. Suprisingly there are only a small proportion of loans committed to Mombasa and Nakuru.

Yet clearly this industrial bourgloisie does not exist in isolation to the agricultural sector and many of the enterprises funded are closely linked to farming (egmaize mills). It is to be expected therefore that loans will go to the more developed agricultural areas and this is confirmed by the high committment of loans to Central and Western provinces and, in recent years, to Rift Valley Province. The relative absence of committments to Coastal and North E stern Districts Provinces reflects the underdevelopment of both agricultural and non-agricultural activities in these provinces.

(b) Security and Loan Committments

It is a condition of ICDC that loans are committed only when adequate security exists to cover the loan. This condition has become particularly stringent in recent years as the number of applicants has increased. Since for many potential applicants land is the most common form of security available, the degree of adjudication of land in an area (giving title deeds to individuals which can be used as security) is an important factor in explaining the incidence of loans.

This is probably one of the most important factors explaining the geographical incidence of loans. Coast and North Eastern District Provinces especially, and to a lesser extent Eastern Province, have large areas of unadjudicated land. This appears to have been an important factor in explaining their relatively low share of loans. Thus of the ten loans committed to Coast Province, in three cases no details of security were given and in four cases the equipment/buildings themselves were given as security. (As the ICDC became more stringent with regard to security, this type of security has become more difficult to obtain). In only two cases the security given was of land at the Coast (one in Malindi and one in Mombasa) and in one case land in Machakos was given as a security. In at least five of the ten cases, the loan applicants were not indigenous Coast people.[1]

No attempt was made to gather data systematically on the nature of the security offered by each applicant, but it is a clear impression of the researcher that overwhelmingly it was agricultural and or development of this land (e.g. coffee bushes) which was used to support applications.

(c) ICDC Policy and Loan Committments.

There is some evidence from the files that ICDC has attempted to steer applicants out of maize milling. Thus the ICDC comment on one application in mid 1971 was "The Corporation has already placed a ban on posho mills... the applicant is recommended for rejection" (Loan in fact committed). Yet at the beginning of 1975 an application for a maize mill was considered and the comment in the files reads " although general rule for suspension of loans for posho mills in Western Province, this application has very strong support from ICDC provincial officer in Western Province and also good security". Between this loan and July (when the study ends) a further eight loans were given for maize mills in Western Province.

Aside from this unmaintainable policy on maize mills there is little indication of active ICDC channelling of loans. One exception to this is the comment in the i file for a loan to buy a galvanising - iron works in 1971. "There are few africans in this type of industry which needs technological knowledge and as such the Corporation should encourage them."

Another important aspect of ICDC loan policy is the apportionment of funds between small and large scale projects, These large scale projects,

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1. On the other hand it is possible that people from Coast Province are investing in Nairobi and other areas where suitable opportunities are more available. Unfortunately no systematic account was taken of either the origin of the applicants or of the nature and whereabouts of security offered. These loopholes will be covered in the forthcoming study by Mwaniki.

invariably in association with foreign capital have been favoured in latter years at the expense of the smaller projects. Of particular significance here is the very recent decision that in an attempt to slaw down government spending loans to all small projects have been suspended. Significantly there is no indication of a suspension of loans to larger projects.

(d) Personnel and Loan Commitments

It has been said that one of the factors explaining the incidence of loans has been the quality of a particular ICDC Provincial Officer. This is supposed to have been particularly true of Western Province where the new Provincial officer is supposed to have been particularly successful. There is no way of assessing the relative importance of this factor and we can only note it as a factor of potential importance.

(c) Accumulation in Other Sectors

Entepreneurs, almost by definition, are concerned to maximise profits. Determining the correct investment required to maximise profits is not possible unless the discount rate of the entrepreneur is known. The higher the rate of discount the lower the present value of returns in the distant future.

There is some presumption that the implicit rate of discount used by small-scale entrepreneurs in Kenya is high, reflecting not only the risks involved in investing in the current political climate, but other reasons as well. Investment in other, more speculative activities in the economy provides a greater return concentrated in the immediate future,compared to steady returns over the lon life of an industrial investment.

Most notably this realm of speculative investment concerns land transations. There is evidence of considerable appreciation in land values, particularly in recent years, and this may well explain the small number and the recent decline in applications for small industrial loans.

VII
CONCLUSIONS

The limitations of the data-base used in this study have been stated at length through this paper. Yet in spite of these limitations the patterns which emerge in this analysis of loan committments are of considerable interest. Notably they provide some picture of the type and extent of accumulation which is taking place in a particular sector of the economy.

Leys.[1] argues in his analysis of Kenya that the industrial bourgeoisie in Kenya is predominantly allied to international x capital. Yet the activities covered in this study refer to a different group of industrialists. With two exceptions (one given in the early 1960's to the first African representatives of an International firms in East Africa and another for a radio assembly plant which later went bankrupt.) none of the sample committments were made to any industrialists having links with international capital.

The group in this study therefore are representative of a national industrial bourgeoisie, and are thus of particular interest in analyzing

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1. Under-development in Kenya: The Political Economy of Neo Colonialism. C. Leys, Heineman Educational Books 1975.

the trajectory of future development in Kenya. A number of questions of particular interest arise.

The first point of interest is to establish whether the industrialists sponsored by the small industrial loan scheme are merely the tip of an iceberg or whether there are other sources of capital which are financing accumulation by a similar group of industrialists. It is difficult to assess this question with any certainty, but the guess is that scale is the crucial factor. In the smaller sorts of enterprises covered in this study, such as maize flour, tailoring etc, the capital required is not so large as to rule out other sources for potential industrialists. Yet in the larger enterprises eg, such as printing, motor body-building, bakeries etc, it is unlikely that there have been other sources of capital available in the past.

The significance of these trends stated above is that this group of national industrialists is likely to be significantly larger in the smaller type of enterprises than those in this study. But in the large firms, the ICDC sample probably covers a fairly large proportion of operating firms.

The second point of interest is to speculate whether this group of industrialists is likely to expand in future years. Here there is some evidence to support the argument and it points clearly to a decline in the number of committments made by the ICDC in recent years.

There are a number of factors which may explain this decline. The first is that there may only have been a limited number of "empty spaced" for aspiring industrialists (eg the takeover of departing, non citizen owned enterprises). Once these werefilled in the years immediately after indepen - dence , the number of committments has slowed down. There is some evidence to support this trend. Morris and Somerset[1] have pointed to this in relationship to the baking industry.as small bakeries face increasingly strong competition from large ones. The same factor is clearly taking place in relation to Maize Mills in Central and Western Provinces where,[2] in many areas there is evidence of mills closing down due to excess capacity.

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1. African Businessman, Oxford University Press, Nairobi.

2. One of these at least is to be documented in future research by this author.

Another factor which may explain this decline in ICDC loan committments is that once the "empty spaces" in technologically more 'simple' sectors are filled, prospective industrialists are faced with the prospect of going into large and/or more complex sectors. They may be constrained by shortages of skills or by the existence (prior/or potential) of subsidiaries of international firms or local Asian and European industrialists (eg. large scale maize flour mills). Future progress by this group of industrialists will therefore clearly depend on the relationship to the state.

The third and most important factor which explains the decline in the number of committments is the policy to favour large projects, generally in collaboration with foreign capital, at the expense of small projects. This is a most important development since it tells us something of significance about the composition of the state.[1]

Two other factors may perhaps explain the apparent decline in ICDC committments. On the one hand it may be due to a number of essentially beeruracratic reasons, such as the long delay in acquiring ICDC loans may push aspirant applicants to other sources of capital. On the other hand the recent inflationary period coupled with the even more recent slowdown in the level of economic activity may explain some of this slowdown in loan committments.

It is believed that the data presented in this paper is of considerable significance in understanding the trajectory of undervelopment in Kenya. Partial as the information may be, it does give a clear indication of the pattern of accumulation by the nationalist bourgeoisie in the fist decade since independence. The major unsettled point at this stage, it is believed, as an indication of whether these loans represent the tip or the base of the accumulating "iceberg." in the small industrial sector.

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1. Leys has argued that the dominant group in the state is the "auxiliary bourgioisie" linked to foreign capital. Yet to the extent that the state does encourage and support indigenous small scale entrepreneus free of links with foreign capital, there is evidence of the existence of a nationalist" group in the state apparatus. However the recent decision to suspend all loans to small projects in favour of the larger projects linked to international capital suggests that this auxiliary bourgeoisie is clearly dominant in this respect and leys' argument appears to be borne by the data collected in this project.