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PUBLIC POLICY AND POLITICAL DEVELOPMENT: THE IMPLEMENTATION OF THE AFRICANIZATION POLICY THROUGH ICDCs SMALL INDUSTRIAL LOANS SCHEME 1961-1973*

by

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I: INTRODUCTION

The Conceptual Framework

Since Paul Baran, and certainly with roots stretching much before then, a new approach to problems of development in the developing countries has emerged. It views development at the periphery of capitalism, or in the neo-colonies, as the development of underdevelopment.

In the Eastern African context, this view has recently and forcefully been proposed by, among others, Walter Rodney, Colin Leys, and R.M.A. Van Zwanenberg.

Rodney has outlined how the process of colonialism in Africa led to underdevelopment or, in slightly different terms, to "rape" and "extraction". Leys has shown how this "underdevelopment" will be consolidated in the post colonies as long as efforts of development remain within the capitalist system, or its periphery.

In contributing to this general discussion R Van Zwanenberg now contests the argument advanced by Leys that there cannot be any autonomous development at the periphery of capitalism.[1] He says that there can. Giving Kenya as case in point, he discerns the growth of an autonomous bourgeoisie which persues its own interest and those of international capitalism simultaneously, with the aim of emerging independent.

Surely, this view can easily be tied to observed currents in political development. In Kenya, the attainment of political independence satisfied, to an extent, the aspirations of political, cultural and plaintive nationalism. It then gave way to a quest for the aspirations of integral and economic nationalism.

It is in that context that we see a philosophy like "African Socialism and its Application to Planning in Kenya," as an expression of economic nationalism, more that of a political ideology.

The policy of the Africanization of commerce and industry, which has now become a common slogan on political platforms, was one material manifestation of Kenya's philosophy of African Socialism, and a formaldeclaration of an intent to fight for the triumph of economic nationalism.

But to say so lands us at once in the midst of a contradiction. The application of African Socialism to Planning in Kenya meant, as a first prerequisite, the Africanization of Commerce and Industry. Since that to be Africanized was the property and wealth existing before independence in the colonial period, and since the colonial system was essentially a capitalistic system, we can see quite clearly that the application of socialism in Kenya was the same as the africanization of capitalism.

The question to be asked now, we suppose, is whether there is any way of reaching independence by a process of africanising inherited capitalism?

It seems to us that that is what the efforts of Kenya's Industrial and Commercial Development Corporation are all about, to attain economic independence, and economic justice, and at the same time reach other goals of development such as employment, growth, and the like.

This study will attempt to identify the contradictions inherent in such efforts, and this will involve an assessment of the achievements and results of the Africanization policy in the last 13 years of independence.

Soon indeed, the Kenya Government itself will want to assess the results of its efforts of intervention in the economy on behalf of Africans. But it ought not to do so only in terms of figures and accounts, but also in terms of the effects of that policy in a variety of aspects in economic and political development. In such a circumstance, it is hoped that a study of this sort will be timely and useful.

(2) OBJECTIVES OF THE STUDY, AND THE PROBLEM BEING STUDIED:

Even within the Colin Ley's framework of the theory of underdevelopment, there is a need to identify the relationship between (a particular) public policy and political development. It is the public policies conceived and put to work in the developing countries which will determine the nature of development, rather than vice-versa. For example, in order to come out of a situation of underdevelopment which Rodney and Leys describe, post-colonies have to conceive definite policies and implement them. The question remains as to whether an attempt to implement those policies in a system of under-development is futile, or whether it is these efforts which can, indeed, change or help change that system.

Such policies would perhaps be futile if (i) they were mis-conceived or (ii) the method of their implementation was ridden with contradictions which amount to failure.

The objective of this study is to show (a) the emergence and development of the Africanization policy and (b) the implementation, of Africanization (of small industry) in Kenya since independence through the ICDC. and(c) some results of this on development, particularly political development.

For that purpose the study will will specifically loot at (i) the background of ICDC and its relationship to the emergence of the Africanisation policy, (ii) its role in the provision of capital to local small-scale industries (iii) the criteria and evaluating techniques used by the corporation in the consideration and disbursement of loans (IV) the sources of ICDC capital and the effect on ICDC Policy and (V) the distribution of ICDC loans and the Incidence of defaulting on loans among the receipients.

In the same way that an economist may consider and evaluate the extent to which ICDC loans have contributed to real and extended investment and thus to the overall development of the economy, we wish to consider and evaluate the extent to which the Africanization policy in respect of industry has contributed, if at all, to Kenya's political development, and the implications of this development in general. And in the same way that an economist may want to investigate, in that line, whether the Africanised projects are, say, capital intensive, and therefore of a probable negative contribution to employment, we would like to investigate whether the ICDC, as the implentor of the policy, is an agent of class formation, of the integration of foreign capital in Kenya, both of which are or could be negative contributions to the cherished goals of economic independence, economic justice, and economic equality .

(3) HYPOTHESIS

The following hypothesis, will be tested.

(i) Africanization policy is a product of Economic Nationalism, and not of the Concept of Socialism

(ii) The Criteria of Consideration and Disbursement of Loans is dependent, a among others, on political criteria such as the level of political participation of loan applicants.

(iii)ICDC is an Agent of Class Formation.

(iv) ICDC is an Agent of Foreign Capital.

(v) Default among ICDC loan receipients is an impendiment to the implementation of the Africanization policy.

(Vi) The class of bussinessmen supported by ICDC is largely doing well and may emerge as an autonomous entrepreneurial class.

(vii)The policy of Africanization of small industry through ICDC is fairing very well.

(4) THE IMPORTANCE OF THIS STUDY.

Given that much of the European and Asian business community is transient, focus is needed on African participation in business and in the economy with particular attention on the result of Government efforts made so far to assist Africans in this endeavour.

Although some work has been done in this field much of it ignored the political aspects of the policies and/their results in terms of context of Kenya's present and future political development. And much of such business and work, at any rate needs re-assessment in view of the period in which it was carried out viz-a-vi the period and maturity of political independence.

Findings of this study could well be used in working out a model of political development in Kenya, or in approving or disapproving the theoretical model of the underdevelopment theory outlined above.

In more concrete terms, it is hoped that the study will be useful towards reaching some viable policy recommendations to ICDC.

(5) PREVIOUS WORK.

Africanization of course, is not a policy unique to Kenya. In Ghana a Government Document.[2] outlines areas where public resources should support African entrepreneurs, and work has been done by academicians assessing the effect of that policy. Similar and detailed work has been done in Uganda by G.R. BOSA (MAKERERE INSTITUTE OF SOCIAL RESEARCH ! 1972) and some others.

In Kenya, an analysis of some ICDC loan committments to small industry has been undertaken by Kaplinsky (IDS, 1976) (4). The analysis raised important questions regarding the pattern of distribution of loans and the attendant policies. There was implicitly a question as to the validity of ICDC's policy when assessed against some economic criteria, such as that relating to the location of industry and viability of small-scale industry in the broader context of the economy. The study also pointed at some interesting areas of inquiry such as " whether the industrialists sponsored by the small industrial loans scheme are merely the tip of an iceberg, or whether there are other sources of capital financing accumulation. and, more significantly "whether this group of industrialists is likely to expand in future years" However, the researchers wider interests concerned the adaptation of technology in small size firms with particular reference to the food processing industry in

Kenya, and since his interests in this research were merely to present a source of data, the paper did not answer many of the questions it raised. Our study will make use of this data, and attempt to tackle some of the issues raised in a context of political development.

Marris and Somerset's survey of Kenyan entrepreneurs included ICDC-supported businessmen. (African Businessmen ! London, Routledge and Kegan Paul, 1971.) It gave an account of the origins of entrepreneurship among the Kikuyu and the Masai from the pre-colonial terms, and traced its development up to post-independence Kenya. Mainly a sociological study, it showed the African businessmen as alienated from both the private institutions (e.g. financial companies) and non-African businessmen, and showed them relying more and more on a non-economic code of conduct for achievement. By its significant finding that the obstancles to the progress of African businessmen are not wholly economic but have to be seen in the social, political and economic circumstances of Kenya's development, the study underlined the importance of further investigation into the nature of such non-economic factors. Its recommendations, such as the need for legal aid to businessmen, relate to the administration supporting the entrepreneurs, and therefore, imply or assume the necessity of a certain level of efficiency and scope of operations from public lending institutions like ICDC. There was also evidence in the study to suggest a direct connection between the nature of the administration of credit and the actual performance of businessmen in the field.

A point of note from this study in contradistinction to that made in the Kaplinsky study above, is that a number of factors which contribute to failure/ success of business or entrepreneurship are extraneous to the firm and to the entrepreneur. For example, as pointed out elsewhere.[4] the socio-economic circumstances of development may affect business in may ways. Lack of development could mean lack of purchasing power and lack of raw materials, and therefore failure of business. Or it could mean abundance of a whole lot of potential to be tapped for gain. Where extraneous factors are non-economic, the use of economic models such as those in the realm of economic theory may not produce satisfactory results when applied to an analysis of emergent entrepreneurship in the developing countries.

However, Marris and Somersets' work needs re-assessment in view of the passage of time which has resulted in changes and developments in African entrepreneuship.[5]

Much of the other work on ICDC - supported businessmen has tended to be technically economic. In a project on "The Financing of Small Scale Enterprises" N.O. Jorgensen (IDS. 1967) concluded that "the public financing of private enterprises in Kenya has been fairing very well, and that when it comes to small-scale enterprises, the results are far better than could have been expected." (6) In the context of our study, especially as it relates to the Theory of underdevelopment, it is important to note that Joigensen, in this study, found that well over 70% of value-added in all of Kenya's industrial production accrues from foreign-capital (or foreign-owned firms).

These studies have, , left out the significance of the impact of direct financing or encouragement of African enterpreneus in Kenya's political development, political development, of course, also entails economic development in some way, since it also depends and aims at multiple factors such as growth, employment, reduction of poverty etc. but it also implies the broader concepts of equality, justice, independence, and the like While this study will invariably allude to related issues such as I.C.D.C's role in the accumulation of capital, and the position of small-scale industry in Kenya, it will concentrate as its long run aim ICDC's Africanization policy and its impact on the country's political development.

(6) THE DATA-BASE & METHODOLOGY:

The sources of data used in this study are as follows:-

(a) ICDC Small Industrial Loan Files

These comprised (i) 363 files in the nondefaulting section (data gathered by R. Kaplinsky) and (ii) 213 files in the defaulting section (gathered by Mwaniki). Each of these files contains information about an industrial project for which a loanhas been issued or approved (7) From each of the files, systematic information was taken down on the amount of loan approved issued, capital requirements of the project; working capital, fixed-capital, self-finance, original capital requirements and amount of loan originally requested, the type and value of security offered, type of project and its physical location whether project "starting" or being taken-over from non-citizens, amount of required loan repayments interest, duration etc., and whether product has been liquidated or not.

Other scattered features of the project were noted. Of particular interest to the study, the files contained numerous correspondance between ICDC and government officials, politicians, loanees and potential loan receipients and relevant information from these was taken down.

As shown in table 1, below, ICDCs small industrial loans schemes accounted for 47.5% of the Corporation's total net assets. Out of this industrial loans accounted for 15.8%. This study therefore is based on a very small part of ICDC's operations, representing about 7.5% of the Corporations total net assets.

Table 1: Current Distribution of Small Loans by Provinces and Sectors:

K Shs. '000

Province	Commercial	Property	Industrial	Machinery	Total	Rank
Coast	1,768	5,542	574	-	7,885	7
Eastern	17,912	6,476	3,290		27,578	5
Central	5,214	19,797	4,294	-	29,306	4
North-Eastern	6,109	59	-	-	6,168	8
Rift Valley	6,949	14,922	5,732	8,813	36,416	2
Nyanza	16,300	9,044	6,881		32,223	3
Western	7,180	2,633	4,112	-	13,923	6
Nairobi	15,936	29,072	10,802	15,349	71,160	1
Total	77,366	87,446	35,685	24,163	224,661	
% Age of Total	34.4	37.5	15.8	10.7	100	

Total Net Assets = 472,809.

Source: ICDC Report and Accounts 1974/75.

The Small Industrial Loan Scheme was chosen as a focus of study for various reasons. One is that industrial projects, unlike most others, can be followed up at their different stages of development. Most significantly, they concern a sector (manufacturing) of production which we think is of very fundamental significance in any type of development.

Manufacturing also happens to be a sector in which African participation was denied, and also proved difficult, for a long time. It should then be expected that this area is now the remaining biggest challenge of the Africanization policy.

Data obtained from this source has been analysed in terms of (i) distribution of loans by type of product, (ii) distribution by year, and (iii) distribution by region. The purpose was to find out whether observed differences were due to region, project or year groupings. This also helped to determine various questions related to the hypothesis being tested such as those concerning the pattern of regional distribution (whether it is related to political participation or ethnic composition); whether success is related to size of project and amount of initial capital and whether there are marked differences in the distribution by years which could indicate the progression of Africanization since 1963. (The Year of Kenya's Independence).

An analysis was also made on security, ratios of capital - requirements and capital contributions on the origins of business (ie ratio of those taken-over and those started from scratch).

In the study, particular attention was paid to the incidence of default and the factors causing it. Using the t-test of significance, two different samples: non-defaulters, and defaulters were compared against the hypothesis that there were no differences among them. The purpose was to pinpoint at factors of probable significance in default.

(b) This source of data was supplemented by:

(i) Information from ICDC publications, interviews with ICDC officials, and conversations with ICDC - supported businessmen in Nairobi. (The study in the future, envisages interviews with a selected sample of loan receipients). The purpose was to obtain understanding of the background of ICDC, its policy and criteria of disbursement of loans, and the reaction of businessmen to these.

(c) Data will also be used from previous studies concerning the financing of African small-scale enterprises in Kenya.eg. the Kenya Commercial Bank-sponsored study on leading rural small-scale industries (8) and lending activities of the joint Loan Boards of the Ministry of Commerce and Industry. The purpose is to determine the extent to which the study of ICDC small loans scheme is representative viz a vi the provision of credit to African businessmen.

(d) Literature used included that on (i) Kenya Government africanization policy, (ii) small -scale industry, (iii) development institutions (iv) public policy political theory, political development, and political economy. This was necessitated by the need to tie the study, and the data, to a well-defined theoretical framework.

1(a) II THE STUDY

1(a) The Background of ICDC.

The Industrial Development Corporation (IDC) the parent body of the present ICDC, was launched by the Industrial Development Act of 1954. The Act stated that the aims of the Corporation were " to facilitate the industrial and economic development of the colony by the initiation, assistance, or other undertakings or enterprises in the colony or elsewhere."

There seems to be evidence that IDC was given through legislation a maadate to consolidate the role and accumulation of foreign capital in Kenya One regulation reflected the importance of encouraging "enterprises which appeared unlikely to come to Kenya without some form of protection"(10)" The Corporation was also to launch its own direct investments as well conduct research in areas of potential development.

Also, a paramount aim of the Corporation, even during the colonial period, was to encourage the participation of Africans in the economy. The Committee drafting the ordinance to launch the IDC had recommended that "a propaganda campaign should be undertaken to explain to the African People's, the need for increased output of work", and," research should be undertaken into the problem of finding an incentive (11) for the African to advance himself."

These aims were voiced more blatantly and plainly around the same time by the New Kenya Group, a political party comprising settler and financial interests bracing for the forthcoming, era of self-government. Their manifesto stated that;

"The inherent problem of Kenya lies in the wide gulf between the living and cultural standards of the well-to-do, and those of the poorer majority, but this is magnified into a crucial problem by the fact that in our country, racial and economic difference lie together --------"

" The only solution, in our view is vigorously to tackle the basic problem of low living standards, so that there may rapidly. emerge from the poorer majority people having similar interests and similar ideals; those economically more advanced. To this end, we advocate the allocation of considerable financial resources to enable such people.

to be trained and where deserving financed, for entry into the fields of Commerce, Industry and improved farming, as well as into the professions." (12)

After independence the role of the ICDC was redefined, or rather re-emphasised, in two major aspects. First, the Corporation while providing support for economic development in both industry and commerce, was simultaneously to pursue the political goal of Africanization, that is, ensuring the participation of nationals in the economic development of their country. Second, the Corporation was to become the Government's major agent for initiating new industrial and commercial enterprises on its own or through joint ventures with foreign and or local investors.

These objectives were strongly backed up by legislation, the most notable of which were the Import Licensing Act of 1965 and the Trade Licensing Act of 1967, both of which provided the legal framework for the implementation of the policy of Africanization. This policy was defined, in ideological terms, in the Government Sessional Paper No.10 of 1965 entitled "African Socialism and Its Application to Planning in Kenya."

(b) The Present Operation of ICDC.

As shown in table 2, the present operations of ICDC are as follows:

(i) Capital Shareholdings.

This involved wholly-owned subsidiaries which in fiscal year 1974-75 accounted for some Sh. 47 million of the Corporations assets, and associated companies which in the same year accounted for nearly Sh. 86 million. As mentioned above, the aim of this part of the Corporation's operations is to increase the "degree of local control" or "to enable citizens to have a stake in ownership of existing profitable companies.(13). In 1975, the Corporation established a scheme whereby citizens could buy shares in its enterprises. This was meant to be another way of encouraging the participation of Africans in the economy. It also fulfilled the role of mobilising local savings for investment in industry.

By fiscal year ending June 1975, ICDC's wholly owned subsidiaries were Kenya National Trading Corporation,(14) Kenya Film Corporation, Kenya National Properties, African Diatomite Industries, Kenya Industrial Estates, Kenatco Transport Company, East African Fine spiners, Somerset Africa, Fluospar Company of Kenya, and Kenya Mining Industries, all limited companies. It is worth of note in advance that these largely involve areas of trade, transport, and distribution where initial control by Africans in a short time was feasible; and mining, perhaps illustrating the wish to control indegenous natural resources, and manufacturing, illustrating the need to create production and productive assets.

(b) Large and Medium Size Loans:

These represent ICDC's equity participation in existing industries, both subsidiaries and associates, as outlined in (a) above. More specifically, large and medium loans are the Corporation's channel of participation in joint ventures with foreign and local investors, particularly the former. As shown in Table 2: ICDC's equity capital in joint ventures exceeds by far it capital investments in the wholly owned subsidiaries. By Fiscal Year 1974-75 ICDC's associated companies included names like J.H. Minet (42% shareholding), Block (4.3%), Kearlines (12%), Firestone (20%), Union Carbide (26%), Unilever EAI (14%) etc. These names are mentioned to illustrate the extent of the Corporation's integration with foreign capital and transnational business interests. The objective according to ICDC, is to attract funds as well as technology.

Table 2: ICDC's Operations As Seen From the Distribution of Investments

Investments	1975	1976	Increase	%
(a) Capital Shareholdings				
(i) Subsidiaries	47,316,180	35,705,820	11,610,360	33
(ii) Associates	85,893,740	74,475,060	11,418,680	15
(b) Large and Medium Size Loans	50,566,548	24,336,680	26,229,868	108
(c) Kenya Industrial Estates				
(i) Infrastructure	34,681,178	18,860,740	15,820,438	84
(ii) Machinery Loans	24,162,757	111,700,280	12,462,477	107
(d) Small Loans:				
(i) Industrial	35,685,336	30,058,320	5,627,016	19
(ii) Commercial	77,338,791	67,104,500	10,234,291	15
(iii) Property	87,445,732	78,017,800	9,427,932	12
(iv) Share purchase	28,726	33, 33,220	4,494	-
(e) Fixed Assets	26,501,521	26,292,080	209,441	1
TOTAL	469,620,509	366,584,500	103,036,009	

Source: Report and Accounts 1974/75 p.27.

(c) Kenya Industrial Estates

This is a wholly owned project of the ICDC which "provides not only finance to purchase equipment but also ready - made factory premises". (16) Started in 1968, the project now has establishments in Nairobi, Nakuru, Kisumu, Eldoret and Mombasa. Each of the estates have between 25 and 55 factory units for the use of industrial entrepreneurs who have already been provided with loans to purchase machinery. As shown in Table 2, these loans accounted for a total of Shs.24 million of the Corporations assets, while the infrastructural investment amounted to Shs.34.7 million. The scheme, which is expected to eventually have in production 150 citizen-owned factory units, is associated with the Rural Industrial Development Centres, which is the same operation on a smaller scale in the rural areas.

(d) Small Loans Scheme

As shown in Table 1 and Table 2 this scheme comprises of short-term loans of between Shs.10,000 and Shs.780,000/- to property, industrial, commercial and machinery enterprises. By the end of last fiscal year these acounted for the largest proportion (53%) of the Corporations total net assets. The scheme was established to meet the "ever increasing" demand for funds by "small" businessmen in the country.

By the time of the research this scheme had financed 5, 685 Commercial Loans, 1,271 property loans, 477 Machinery loans, and 809 industrial loans.

(c) The Sources of Funds:

ICDC is a public company and a statutory body. Its policies are formulated and their implementation supervised by a Board of Directors comprising 10 persons appointed by the Minister for Commerce and Industry in accordance with the Industrial Development Act, Chapter 517. By the same legislation, the Ministry of Commernce and Industry has de facto power over the board and therefore the leading policies of the Corporation.

As a statutory body, the Corporation can be questioned in Parliament, and its accounts are subject to inspection by the members of the public.

It would therefore perhaps be expected, as is shown in Table 3, that Government is the major source of ICDC's funds. Government's contribution since 1968 has ranged between 61 - 55% annually of the Corporation total fresh fund. Next major external financiers were Bank Loans and the Federal German Government. The category marked other, which is diverse but of very small amounts, included SIDA, Eldoret Municipal Council, Mackenzie (Kenya) Ltd and the US Government.

Table 3: Sources of ICDC's Funds Since 1968

	(Percentage Contribution to Total Fresh Fund)						
Source	1968-69	69-70	70-71	71-72	72-73	73-74	74-75
1) Kenya Government Funds	61	57	53	56	56	57	55
2) BankLoans	15	24	28	25	22	18	22
3) W.German Govt. Loans	9	8	9	8	8	.7	9
4) Capital and Revenues Reserves	11	9	8	8	11	14	12
5) Others	4	2	2	3	3	4	1
	100	100	100	100	100	100	100
Total Net Frsh Fund K£'000	2,650	NA	2,449	3,041	3,756	4,315	6,121

Source: ICDC Reports & Accounts 1968/69 onwards.

NA = Not available.

An attempt was made to correlate the sources of ICDC's funds and the pattern of the Corporation's investment. The purpose was to determine, whether the sources of the corporations funds effected its policy and the type and pattern of investments. No positive and consistent trend was determined, although it was clear the sources of funds did of course affect the Corporations operations in some ways. In one instance, however, there was found to be a negative correlation while the major sources of funds continued to come from Government, the small loans scheme (which is the "Africanization" Scheme per exellence) was cancelled due to "liquidity problems" but funds continued to be available for large and medium size loans which represent the Corporations joint ventures with overseas investors.(12)

We suggest that to prove a connection between the sources of ICDCs funds and its activities and policies, it is necessary to compare the terms of the Corporations financiers and the terms and policies of loans and investments made by the Corporation. Most unpointently, it is necessary to examine in detail the MANAGEMENT CONTRACTS in ventures and enterprises (18) in which the Corporation is involved.

The Policy and Criteria of Disbursement: of Loans (19)

Application forms are bought for 10 Shs.by potential loan applicants. On these forms is required basic details regarding the proposed project which include the personal data of the applicant, amount of loan required, nature of project proposed and its project costs and production targets, number expected to be employed, whether applicant has received previous loans, and nature and value of property currently held including that to be offered as security for the loan.

The application form is first fowarded to the I.C.D.C. Provincial Officer who interviews the applicant and varifies the information on the form with particular emphasis on whether (a) applicant knows well the project he proposes to embark on eg. the demand for the product (b) there is sufficient security to cover the loan and (c) projection of finance requirements and expected performance are realistic.

Subsequently, application forms are sent to ICDC offices in Nairobi for analysis by the project officers. The initial process involves an analysis of details given by the Provincial Officer as compared to details given by the applicant. Then follows an analysis of the capital requirements of the proposed project: fixed costs, operating costs (eg. administrative, salaries, insurance, licenses etc) and variable costs (eg. wages, raw materials etc.) The analysis also involves a consideration of the viability of the project, in particular its past and current performance (if already existing.) and future projections to about 6 years. The managerial competence and know how of the loanee is also considered.

Emphasis is put on the analysis of security offered. This according to the corporation must be at least 25% of the amount of the loan given. if the rest of the loan-value is to be covered by a chattels mortgage on machinery or debenture. Property preferredto be pledged as security are land and permanent building which must have an appropriate title. In certain circumstances.

a document from the Attorney - General was accepted as in lieu of property without title, but this had serious consequences leading to default in the loans scheme. The Corporation has also encountered problems of forged documents, and of land titles which are in dispute. Security is accepted of property without a lease, but only up to 50% of its value. For all types of security, other financial institutions may take a second charge or vice versa for the corporation.

Applications which stand the analysis are recommended to the board of the Corporation, if they involve loan requirements of Shs. 50,000 and over. Others below that amount are considered in Management Committees. After consideration the loan applications are either rejected, withdrawn, accepted, or deferred for further analysis.

Once an application is approved, the applicant is so informed in a "letter of offer" which sets out the specific conditions of the loan. These include terms of repayments which are (a) repayment period of 5 years for loans below Shs. 50,000, and 8 years for those above that amount, and a rate of interest of 9½% (as compared to; property loans 10%, and commercial loans 10%) A period of grace of 6 months is given on capital repayments. The Corporation finances no more than 70% of all financial requirements of the project, which means that the proprietor must be prepared to finance at least 30% of his capital requirements. The "letter of offer" also asks the applicant to forward titles of properties pledged to secure the loan.

If this procedure is followed as outlined, it takes a minimum average of 90 days to be completed, i.e. from the date of the application to the time that the loan is issued.

During the allocation of loans, according to the ICDC official interviewed, there is no particular priority on the product, size of project, or region. Each loan application is analysed on its own merit. The analysis is technical and largely based on financial considerations. Preference is given to projects which promise high financial returns irrespective of what they produce or where they are located.

The assessment of managerial knowhow applies as that term is liberally defined e.g. how the applicant intends to run his business.

Other criteria may include the capital - intensity and employment potential of the project, but emphasis is on profitability. Factors taken into consideration while assessing profitability are potential or projected demand, competition, capacity, size of firms etc. (ICDC recommends an initial capacity to satisfy about 140% of discerned demand - i.e. firms to start operating at excess capacity in anticipation of greater demand and scope of operations.)

Industrial projects are defined liberally as those, enterprises where machinery is involved. These include manufacturing and service industries.

The Corporation has ceilings in terms of amounts of loans (in money terms) which can be approved per year. According to the officials, successful loans requests are usually below this ceiling. In theory small industrial loans should range from a minimum of Shs. 10,000 to a maximum of Shs. 750,000.

According to the Corporation, administrative officers under the office of the President do not influence the process of application since I.C.D.C. Provincial Officers were appointed.

(2) OTHER SOURCES OF LOANS TO AFRICAN BUSINESSMEN BESIDES ICDC

Studies have been in progress on other sources which are financing accumulation in Kenya. The only knowledge obtained about the results of these studies, at the time of writing, is that they leave ICDC as the main agent of accumulation of capital on behalf of nationals

3) The Analysis of the Small Industrial Loans Scheme.

As mentioned previously the bulk of data for this study is obtained from information collected from 576 loan files in ICDCs small loans scheme. But since Kaplinsky has already presented and analysed the data from the non-defaulting section, this paper will draw most of the analysis from data found in the 213 files which were in the defaulting section of the small industrial loans scheme, and Kaplinsky's data will be used for comparative purposes.

The analysis here is as follows (i) distribution of loans by region, (ii) distribution of loans by project and (iii) distribution by year. The next section analysis the incidence of default, with particular attention on differences between loan-receipients found in the defaulting section and those found in the non-defaulting section. Other salient features of the loans scheme will be discussed.

(i) distribution by region

Kaplinsky, working on the sample of 336 small industrial loans, found that Nairobi predominated (38.40%) followed by Nyanza (17%) but that although the regions accounted for more than half of the Corporation's loan commitments, the differences found in the geographical distribution were not statistically significant. When the loans were weighted by population figures, in the regions, Central Province was found to be leading in terms of loan endowments.

In our sample which was of loanees in default at that time, S. Nyanza, Kakamega, Nairobi, Bungoma and Kisii are leading in number of loan receipients. But this did not necessarily correspond with rank in terms of aggregate amounts of funds involved. For example, Nairobi, although ranking third in number of loan receipients in the defaulting section, accounted for only 19.9% of funds in default, which is more than that of S. Nyanza and Kakamega put together, 7.7% and 11.7% respectively.

Table 4, makes the situation clearer.

From this table it appears that Western Province is leading in the number of loans in the defaulting section. This could be explained by the fact that Posho Mills, which appear to be prone to the highest rate of default, are concentrated there. However, Western Province does not account for the highest amount of money involved which is 18.7% as compared to 25.4% in R. Valley (the highest) 22.8% in Nairobi, and 21.2% in the Central Province.

Table 4. Distribution by Province:

PROVINCE	No in Default Section	% Age to All	Average Loan	Total Involved	% of Total	Rank
NAIROBI	18	20	106,277	1,913,000	22.8	4
R. VALLEY	19	26	112,263	2,133,000	25.4	3
WESTERN	56	54	27,982	1,567,000	18.7	1
EASTERN	17	26	45,058	766,000	9.1	5
CENTRAL	36	34	49,430	1,779,480	21.2	2
COAST	10	50	30,571	214,000	2.5	6
N. EASTERN	0	-	-	-	-	7
TOTAL						

(ii) distribution by project

First, the product groupings need be explained. The term industry, as pointed out previously, is loosely defined as an activity involving machinery and these range from dry-cleaning services to saw-milling, canning, repairs and food processing.

Table 5: Distribution by Project

PROJECT PRODUCT	No. in Defaulting Section	% of All	Average Loan Size	Total Loan (amount)	% of Total	Rank
POSHO	97	45	19,350	1,877,000	18.6	1
BAKERY	4	20	51,681	206,725	2.0	10
JAGGERY	5	50	54,394	217,576	2.1	12
WOOD-WORKING	19	43	37,602	676,848	6.7	2
GARAGE	13	31	81,538	1,060,000	10.2	4
MISC. SERVICES	6	14	78,677	393,385	3.9	9
MISC. MANUF.	11	25	83,936	387,553	5.8	5
CONCRETE	8	29	135,365	1,082,920	10.7	7
PRINTING	7	25	180,000	1,260,000	12.5	8
CLOTHING	9	34	26,510	238,590	2.3	6
LEATHER	5	41	53,228	266,140	2.6	10
SAWMILL	14	53	157,714	2,208,000	21.9	3
TOTAL				10,074,737	99.3	12

In the groupings used in Table 5 POSHO covers projects dealing with flour milling, WOOD WORKING includes carpentry, furniture making, wood products etc. GARAGE includes vehicle repairs, spares, and sales etc. MISCALLENEOUS SERVICES include canning, fish distribution, hair dressing, ploughing, sound and photo studios. MISCALLENEOUS MANUFACTURING includes animal feed, metal work, milk processing, paper, electrical works, production of art and hardicraft and production of icecream and coconut oil. CONCRETE includes quarry, block - making, cement and ballast, CLOTHING is predominantly tailoring but also includes sales of clothes and clothe "repairs." LEATHER includes tannery, and shoe - making An important industry DRY CLEANING AND LAUNDRY, has been left out of this comparison because it was included as a service industry in one sample (Kaplinsky) and as a major category of its own in another (Mwaniki)

Noticeable in the type of these projects is their diversity and the loose definition of industry in the consideration of the classification of loans. Some, like clothing, could have been classified under commercial loans even though sewing machines were probably involved, and there are clothing enterprises in the commercial loans section.

As far as default is concerned, POSHO mills clearly emerge as the most dominant category of defaulters, 97 out of a total of 213 projects. They involve the smallest average loan disbursement, although almost the largest percentage of total amount of funds involved in default. This can not be due to the fact that this is a food processing industry if we compare with figures of BAKERY and JAGGERY. It is probably due to the fact that this project seems the easiest to entrepreneurs because of its smallness of size and capital requirements. But this would be refuted by figures in the category of SAWMILL, which require large capital investments (ICDC maximum per sawmill is 250,000 shillings as compared to 25,000 for posho mill) as this category ranks high in default Of particular note is the nature of the projects which ICDC - supported businessmen decided to go into. They are largely projects which needed resources ambundant in the country, but which were not necessarily labour - intensive. They are projects largely involving processing of raw materials sometimes to non-finished products. For example, those in the category of leather largely involved the tanning of hides and skins, and only one of the five produced a final product, (in this case shoes). Thus, as is pointed out elsewhere there is a simplicity of choice in the small industrial scheme.

(iii) distribution by Year

Kaplinsky, in his analysis of a sample of loan commitments says he expected that as the years went by, there would be greater number of loan commitments and that 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 indegenous enterpreneurs."[20]

The data, as shown in Table 6 below, does show that loan commitments increased both in number and amount. So did those involved in default.

Table 6. Distribution by Year

YEAR	No. in Defaulting Section	% Age to all	Average (shs) Loan	Total involved (shs)	% of Total	Rank by No. in D. Section
73	7	21	218,714	1,531,000	8.5	8
72	63	55	45,365	2,858,000	15.8	1
71	45	32	55,333	2,490,000	13.8	2
70	32	25	53,187	1,702,000	9.4	3
69	17	8	47,852	8,138,000	45.0	5
68	9	7	22,888	206,000	1.1	6
67	19	15	29,736	565,000	3.1	4
66	6	17	22,500	135,000	0.7	7
65	8	NA	31,125	249,000	1.4	7
64	2	NA	49,000	98,000	0.5	11
63	0	NA	-	-	-	13
62	2	NA	23,500	47,000	0.2	11
61	3	NA	26,333	79,000	0.4	10
TOTAL						13

NA = Not available.

It would, of course, be possible to sustain Kaplinsky's expectation, but it is more important to determine whether the stretch of time since independence has given small Industrial African businessme[n] sophistication and skill which can be reflected in a lower rate of defau[lt] and more success in performance. There is nothing of the sort shown here. But this may not disapprove or prove anything because the data is mixed up with ICDC's method of accounting on loan repayments.

Thus it is obvious that at a repayment period of 5 years most of those who obtained loans before 1970 are bound to have repaid them completely or to have been liquidated, so that the high figures shown between 1969 and 1973 do not necessarily reflect greater difficulty in business. At any rate, as will be shown in a later section, default may not necessarily reflect failure or difficulty in business.

Note should be given to column 3 which shows that the average loans issued have increased steadily since independence. This could reflect that bigger - size projects were entered into, that applicants had accumulated more assets for securing bigger loans, or that businesses were growing bigger, and businessmen becoming more sophisticated.

But again, according to Kaplinsky's analysis, there is little to support the contention that there has been a trend to more complex manufacturing activities. The incidence of Posho Mills is a case in point. They are small and the least complex in terms of management and capital requirements, yet they form the greater percentage of projects in later years.

(4) Defaulters and Non-Defaulters:

The Corporation has constantly been perturbed by the high rate of default in the small industrial loans scheme. This was 34% in February 1976 involving 23,640,000 shillings. The default rates in other areas of the small loans scheme were 50% in Commercial loans (which have the highest rate of default,) 9% in property loans, and 12% in machinery loans. Default in the whole scheme, at that time, involved some shs. 175,277,000 of the Corporations funds. Between 1975 and 1976, default cost the Corporation an entire loss of 2.5 million shillings in doubtful debts and 0.5 million shillings in bad debts.

The reasons given by the ICDC (through interviews conducted with the Head of the Investments Supervision Department) for the high rate of default were; bad planning, bad management, location of projects, competition and lack of protection, misconceptions among loan receipients the lack of follow-up reluctance of banks to give overdrafts for working capital, problems regarding the nature of security offered for loans, and the (mis)identity of borrowers.

Important and extensive work is required to verify these factors as the cause of default on loans, and the extent to which each of the factors, if at all, accounts for the rate of default.[21] Then it would probably be useful to understand the roots of these factors and their long-run effects and implications on the ICDCs policy and supported businesses, and, therefore, the Africanisation of small industry in the country.

For the time being however, our study concentrates on statistical differences between the observed characteristics of defaulters and those of non-defaulters.

Using two different sized samples, an attempt was made to determine statistical differences between industrial projects found in the non-defaulting section (KAPLINSKY'S sample), and those found in the defaulting section (Mwaniki sample)

We started with the null hypothesis that there were no significant differences between the two samples i.e. that $X_1 = X_2$. Results were then sought for differences in (A) Fixed Capital (B) Working Capital (C) Self Finance and (D) ICDC Finance as analysed by region and by project. The purpose was to indentify the factors, around these parameters, which influence default and to determine where such factors are concentrated. When the null hypothesis, or the assumption that there are no essential differences, was disapproved, it was taken that the statistically significant difference so indicated implied a significant cause of default or, non-default.

The results of the 't' test[22] are presented in Tables 6 and 7.

What emerges from Table 6 is that most differences are concentrated in the "Working Capital" category, which represents the costs allocated to or planned for labour, raw materials, administration and "Working capital". This finding could also relate to the problem of "reluctance of banks to grant overdraft for working capital" mentioned in the interview with the ICDC official. It therefore seems probable that constraint in Working Capital is a significant factor underlying default.

Table 6: Statistical Differences By Province:

Province	KAPLINSKY N_1	X_1	SD_1	MWANIKI N_2	X_2	SD_2	t	Level of Significance. Hyp. Confirmed or not confirmed. 10%	5%	1%
(A) FIXED CAPITAL										
Nairobi	44	215,054	224,126	15	107,609	97,184	2.55	NC	NC	NC
R. Valley	36	123,716	123,716	18	157,878	257,489	1.17	C	C	C
Western	36	62,636	75,896	52	34,562	34,046	2.07	NC	NC	C
Eastern	33	67,122	96,637	13	58,630	75,925	0.31	C	C	C
Central	49	67,277	113,559	35	56,899	64,972	0.57	C	C	C
Coast	41	223,025	156,771	5	52,911	6,572	2.16	NC	NC	C
(B) WORKING CAPITAL										
Nairobi	44	54,714	71,640	14	69,345	124,513	0.41	C	C	C
R. Valley	34	12,799	18,786	14	35,667	38,428	2.05	NC	NC	C
Western	36	15,123	23,746	46	7,913	11,640	1.67	NC	C	C
Eastern	33	9,286	14,840	12	32,745	52,523	1.52	NC	C	C
Central	46	90,841	18,607	24	15,360	20,617	15.02	NC	NC	NC
Coast	3	168,367	160,505	3	4,113	3,794	1.77	NC	NC	NC
(C) SELF FINANCE										
Nairobi	42	81,179	87,864	13	74,022	121,588	0.19	C	C	C
R. Valley	33	15,791	19,523	14	83,135	95,508	2.61	NC	NC	C
Western	39	12,316	19,697	41	15,573	24,360	0.42	C	C	C
Eastern	35	12,759	23,546	-	-	-	-	-	-	-
Central	53	20,219	45,093	26	31,907	38,227	1.19	C	C	C
Coast	4	128,550	129,122	2	3,730	1,796	0.61	C	C	C
(D) ICDC FINANCE										
Nairobi	71	168,507	81,258	18	106,277	83,239	2.84	NC	NC	NC
R. Valley	54	64,685	86,459	19	112,263	186,059	1.07	C	C	C
Western	46	61,152	96,732	36	27,982	25,116	2.02	C	C	NC
Eastern	47	53,011	68,662	17	45,058	58,358	0.45	C	C	C
Central	68	56,099	90,868	36	49,430	55,683	0.46	C	C	C
Coast	10	112,900	99,672	7	30,571	23,365	2.51	NC	NC	NC

Table 7: Statistical Differences By Project

	KAPLINSKY			MWANIKI				Level of Significance. Confirmed or not confirmed		
Project	N_1	X_1	SD_1	N_2	X_2	SD_2	t	10%	5%	1%
(A) FIXED CAPITAL										
Posho	100	25,627	51,022	91	25,319	34,029	0.04	C	C	C
Bakery	10	337,865	287,812	4	51,681	28,690	2.99	NC	NC	NC
Jaggery	4	188,612	75,629	4	54,394	30,442	3.29	NC	NC	NC
Woodworking	17	83,059	103,992	18	37,702	29,104	1.73	NC	NC	NC
Garage	11	88,094	66,437	11	112,650	171,658	0.42	C	C	C
Misc. Services	23	105,275	101,252	5	78,677	66,295	2.24	NC	NC	C
Misc. Manf.	24	187,732	195,619	7	83,936	72,574	2.14	NC	NC	C
Concrete	14	180,227	173,439	6	81,926	16,324	1.21	C	C	C
Printing	14	302,881	178,992	8	135,365	111,221	2.70	NC	NC	C
Clothing	6	27,780	25,381	9	26,510	12,770	0.16	C	C	NC
Leather	3	20,835	7,214	5	53,228	91,600	0.78	C	C	C
Saw Mill	7	186,903	112,955	14	211,735	283,915	0.28	C	C	C
(B) WORKING CAPITAL										
Posho	95	939	3,055	78	7,255	24,369	-2.27	NC	NC	NC
Bakery	10	73,230	92,682	2	20,000	0	-	-	-	-
Jaggery	4	36,110	33,006	5	11,400	7,829	1.46	NC	C	C
Woodworking	16	37,056	71,042	14	21,340	26,499	0.81	C	C	C
Garage	11	40,246	85,695	10	23,842	28,047	0.60	C	C	C
Misc. Services	22	14,507	17,828	3	21,195	20,506	0.53	C	C	C
Misc. Manuf.	25	43,953	60,852	7	86,958	178,135	0.62	C	C	C
Concrete	12	34,858	24,887	8	61,712	75,983	0.96	C	C	C
Pringint	14	53,147	59,820	6	27,333	20,701	1.42	NC	C	C
Clothing	7	29,719	20,902	9	34,931	33,281	-0.38	C	C	C
Leather	3	13,753	23,822	4	75,395	135,139	-0.89	C	C	C
Saw Mill	6	37,800	10,257	-						
(C) SELF FINANCE										
	99	4,531	5,019	73	11,075	30,969	-1.80	NC	C	C
	11	104,532	118,023	1	24,600	-	-	-	-	-
	4	37,475	39,904	3	19,972	21,915	0.59	C	C	C
	16	41,321	80,610	12	23,455	25,648	0.88	C	C	C
	10	113,795	230,382	6	100,079	97,168	0.21	C	C	C
	22	41,735	56,211	-	-	-	-	-	-	-
	22	48,473	74,363	7	88,600	160,768	-0.63	C	C	C
	13	33,838	36,634	-	-	-	-	-	-	-
	15	85,649	68,805	6	41,405	45,997	0.05	C	C	C
	10	25,508	41,159	7	12,472	6,290	1.93	NC	NC	C
	5	6,653	6,237	4	68,680	130,231	-0.95	C	C	C
	8	28,353	29,313	8	103,635	103,675	-1.97	NC	C	C

Table 7 cont.....

Project	KAPLINSKY N_1	X_1	SD_1	MWANIKI N_2	X_2	SD_2	t	L. of Sign. confirmed or not confirmed 10%	5%	1%
(D) ICDC FINANCE	116	19,692	35,367	97	19,350	23,034	0.08	C	C	C
	16	206,063	220,768	4	23,214	61,750	2.09	NC	NC	C
	5	118,090	115,036	5	49,000	22,748	1.98	NC	NC	C
	25	60,320	75,426	19	33,868	31,003	3.7	NC	NC	NC
	28	108,643	239,124	13	81,538	110,818	0.49	NC	C	C
	36	93,973	107,645	6	50,800	28,864	2.0	NC	NC	C
	33	121,942	153,709	11	69,444	67,195	–	–	–	–
	19	178,053	143,246	8	122,500	72,061	2.14	NC	NC	C
	21	261,619	142,328	7	180,000	113,834	0.71	C	C	C
	17	56,471	58,679	9	29,222	20,197	1.73	NC	NC	C
	27	20,714	13,973	5	54,500	98,085	0.76	C	C	C
	12	126,917	104,956	14	15,714	211,638	1.93	NC	NC	C

Noticeably, Nairobi stands out as showing no significant differences in that category, but in that of "Fixed Capital". Perhaps an explanation for this is that Nairobi entrepreneurs are more likely to estimate working costs more realistically that those /elsewhere because, for example, they presumably have more experience in business. This assumes in turn that constraint in working capital is due to bad planning.

In Nairobi, on the other hand, the monetary value of fixed capital e.g.buildings etc. is likely to flunctuate more often than in other areas thereby deviating more from planned costs than in other regions.

The next table shows that most differences are concentrated in the category of FIXED CAPITAL and ICDC FINANCE in certain product groupings. The projects most noticeably involved are Bakery, Jaggery, Woodworking, Misc. Services and Misc. Manufacturing. This could imply that factors causing default have to do with businessmen's computation of fixed capital requirements and/or ICDCs allocation of fixed capital funds, in these projects.

More work, which lies beyond the present stage of this study, is necessary to relate Table 6 and Table 7 and to seek more interpretations of the figures in connection with the problem of default.

Suffice here to say that there are significant differences between defaulters and non-defaulters by product and by region in the parameters of Fixed Capital and Working Capital.

(5) Other Characteristics of the Data

(i) Security

The type of security offered or pledged for loans was land, plot, machinery, and other (which included stock market shares, bank guarantees, personal guarantees of directors and high ranking politicians, Special Power of Attorney, debenture on machinery to be bought with the loan money, and developments on land such as buildings, coffee trees and tea bushes).

The average value of properties pledged to secure loans ranged from Shs. 40,480 in 1967 to Shs. 331,728 in 1973. Land was continually the predominant form of security, ranging from 19% to 50% of all assets used to secure loans throughout the years 1967-1973 (Figures for 1961 - 1966 were not available). This percentage would have been much higher if plots were also considered as land, probably as high as beyond 50%. From this it can perhaps be inferred that accumulation of land led to easier access to credit, and vice versa, which could lead to far-reaching implications such as that the African landed class will presumably emerge as the business class since there was no other opportunity of concentrating assets.

On the other hand, however, it could be inferred that 'static' assets once pledged for loan are unlikely to be useful assets in securing additional funds and this could lead to default. There seemed to be a relationship between the percentage of loans in default, by year, and a high percentage of land as the security pledged for the loan.

The analysis of data also showed that the value of security offered was always in excess of value of loan offered; the ratio of value of security to ICDC finance ranged between 1.11 to 1.88. Thus businessmen probably tied up excess assets which could be used to secure additional funds.

Table 8 shows an analysis of security by project.

Table 8: Analysis of Security By Project

Project	No	L	P	M	O	Av. value	% Land	Sec/ICDC	% Loan Request
POSHO	97	44	44	15	26	36,577	34	1.89	74.2
PRINTING	7	4	2	5	4	212,781	26	1.18	78.1
SAWMILL	14	6	3	4	7	263,015	30	1.67	66.7
GARAGE	13	7	6	2	8	133,516	30	1.64	66.6
CARPENTRY	19	10	5	6	10	67,515	32	1.99	57.9
CLOTHING	9	6	2	3	6	65,617	35	2.25	75.4
D-CLEANING	14	8	3	9	7	131,015	29	2.15	63.7
CONCRETE	8	7	2	5	6	175,773	35	1.43	73.7
LEATHER	5	3	3	0	4	78,250	30	1.43	60.4
BAKERY	4	2	2	1	2	133,375	28	2.16	98.9
JAGGERY	5	3	1	1	2	79,925	42	1.63	83.0
TOTAL									

L = Land p= Plot(s)

M = Machinery

O = Other

In the Table the proportion of land as security varies from 26% for Printing,an. industrial town-based project, to 42% for Jaggery, a food - processing rural-land based industry. The ratio of security to ICDC finance is noticeably highest for clothing and dry-cleaning industries, perhaps reflecting the high amounts of capital required in these enterprises.

TABLE 10: Ratio of Enterprises "Taken Over" (T) to Enterprises "Starting" (S) by Year.

YEAR	NUMBER OF PROJECTS	RATIO T: S	
73	7	6.00	
72	63	0.17	)
71	45	0.15	) Second
70	32	0.68	) Period
69	17	0.55	) Starters
68	9	0.50	)
67	19	2.17	) Taken
66	6	2.00	) After
65	8	7.00	) Independence Legislation
64	2	0.50	)
63	0	-	) 1st Period
62	2	0.50	) Starters
61	3	0.50	)
TOTAL	213		

TABLE 11: By Region.

Province	Number	Ratio
Nairobi	18	2.00
Central	36	1.19
Nyanza	60	0.11
Western	56	0.22
Coast	7	1.33
Eastern	17	0.89
R. Valley	19	2.17

illustrating that there is no priority as to project which can be related to response to demand for credit. In table 9, it appears that Central Province received least proportion to loan requests (66.7%) while say Coast (91.8%) and Nairobi received the highest. With further statistical testing these figures could determine whether there is any regional or ethnic discrimination in the provision of credit.

(iii) Comparison of businesses 'taken over' to bussinesses 'started'

Data was obtained on whether the business offered the loan was starting from scratch or was being taken over (mostly from non-citizen Asians and Europeans)

Table 9: Analysis of Security by Province

PROVINCE	No.	Av. Security (shs)	Land	Sec/ ICDC	Loan Given / Loan Requred %
NAIROBI	18	10,277	31	1.48	74.5
CENTRAL	36	49,430	31	2.18	66.7
NYANZA	60	39,081	32	1.55	71.7
WESTERN	56	27,982	33	1.75	71.2
COAST	7	30,571	33	3.05	91.8
EASTERN	17	45,058	44	1.82	72.8
R. VALLEY	19	112,263	25	0.72	67.9
N-EASTERN	0	-	-	-	-

It would have been expected, contrary to the figures in table 9, that land as security would be predominant in areas where it has been accumulated and registered into legal assets. On the other hand, if the weight of land as an asset for securing loans is lowest as it seems, in the R. Valley and Central Provinces it could be explained that this is because it had previously been tied in securing other funds.

It needs further statistical testing to relate ratio of security to ICDC, and of types of security to the default rate to determine questions such as whether (a) people who committed land as security which was their only asset were left with nothing more to fetch additional funds, and therefore went into default because of lack of continuous source of capital funds and (b) as land is fixed, people used it as a basis to accumulate other assets and therefore the predominance of land as security declined over the years.

(ii) Comparison of Loan Given to Loan Requested

The last columns on tables 8-9 above show the percentage of credit given as a proportion of credit originally required. Less percentages of money required was given in the "middle years" 1966 - 70. There is no particular trend in table 8, and the range is smaller, perhaps

TABLE 12: By Product

PROJECT	NUMBER	RATIO
Posho	97	0.11
Printing	7	6.00
Saw Mill	14	3.33
Garage	13	2.25
Woodworking	19	1.71
Clothing	9	0.29
Dry Cleaning	14	0.40
Concrete	8	0.33
Leather	5	0.67
Bakery	4	0.00
Jaggery	5	0.67
Misca. Manuf.	11	2.67
Misca. Services	6	0.17
TOTAL		

It would be expected as shown in Table 10 that the ratio would decline from 1961 upwards, i.e. as years of independence go by T would become smaller and smaller and 5 larger and larger, meaning that the taking over of businesses from non-citizens is a post-independence phenomenon which is declining and has to be replaced by citizens starting their own business. The figure for T are noticeably high for the year 1965, 1966, and 1967, probably due to the regulation going on that time in favour of Africanization (see previous pages viz. Trade Licencing Act, Foreign Exchange Act etc. and the Socialist Manifesto, Paper No. 10 of 1965).

Perhaps this expectation is confirmed in Table 11. Regions where non-citizen enterprises predominated show a very high ratio of industrial projectstaken over from non-citizens: Nairobi (2.00), Coast (1.33) and R. Valley (2.17) Central (1.19) as compared to areas where non-citizens in businesses were not predominant at all e.g. Nyanza (0.11). Western (0.22) and Eastern (0.89).

Table 12 tends to show that smaller projects are the ones most started from scratch by citizens e.g. Posho mills (0.11) Woodworking (1.21), Clothing (0.29) etc. and service industries (0.17) as compared to the big firms like Printing (6.00) etc. This could be explained by the fact that Africans did not have entrepreneurial experience and therefore hesitated in starting big projects which were easier to take over than to start.

In the context of default, a point of interest remains in statistical correlations to prove whether project "started" were more prone to default than projects "taken over" or vice-versa, or whether this is a factor influencing default at all.

(iv) Ratio of Costs:

Finally, an analysis was done on the ratio of costs between fixed capital to working capital, I.C.D.C. finance to self finance, and fixed capital to ICDC finance.

In almost all the cases, the fixed capital input of projects predominated over and above the working capital input. Except for two product groupings, leather and Misc. Manufacturing. Fixed capital ranged from 168 - 747% of working capital. One possible implication of this finding is that ICDC supports highly-capital - intensive projects, if it is not a coincidence that most such projects fall in the defaulting section. When the analysis was repeated by province and by year the predominance of fixed capital funds as compared to working funds prevailed.

The same trend was to a lesser extent evident for ICDC finance to self - finance, and Fixed Capital to ICDC finance. That is, funds contributed by enterpreneurs were more often less than those contributed by the corporation. Funds allocated to fixed capital requirements were more often above funds provided by ICDC. This is true when analysis was done by project, by region, and by year.

III DISCUSSION & CONCLUSIONS

The study, as far as reaching the objectives originally set out is concerned, is still incomplete. However, the patterns which have so far emerged from the exposition and the analysis are of considerable interest, and go some way in confirming the hypothesis set out at the beginning.

It seems clear that the roots of the Africanisation policy in Kenya are to be found in the capitalist colonial system. Since the Send World War, political planners in the metropolitan state had realised that the colonies would have to be "granted" self-government soon or later. The immediate concern then, was to find out ways of laying the foundations for an economic and political system subservient to the interests of British and world-wide free enterprise, or what Colin Leys aptly calls "the transition (of colonialism) to neo-colonialism." There is ample evidence to show that devices were made to create classes of well - endowed Africans who would fulfil two purposes. One, to serve as a buffer between the metropolitan ruling classes and the masses during the colonial period. And, two, eventually become a propertied class smoothly integrated with the local ruling class and with international capital.

These devices were made so as to be consistent with the aspirations of economic nationalism. As the New Kenya Group aptly put it, the "only solution" to demands of emerging economic nationalism would be to rapidly create "from the poorer majority people having semilar interests and similar ideals (to) those economically more advanced" The latter could only have been the international bourgeseoie, so that this manifesto was plainly laying out a strategy to create an African class allied to them, and therefore to international capital.

How does the ICDC fit into this? It was the product of that thinking and the vehicle to translate the ideal into practice. To be brief, ICDC was established to create an African enterpreneurial class allied to international capital. The only question which can be asked is whether it is carrying out that calling to the maximum. And it is difficult to answer that in the affirmative, because there is much evidence in the study to show that ICDC is more active as an agent of integrating state capital with foreign capital : than of accumulating capital on behalf of nationals .

In a capitalist system, the state, as an instrument of the ruling class, usually plays a crucial part in the accumulation of capital, as was the case in the beginnings of industrial Japan. But this is not synonymous with accumulation on behalf of nationals or of the economy in general because such accumulation can be on behalf of international capitalism when the ruling class steering the state is closely allied to the international bourgeois ruling class.

To come back closer to our study, there appears evidence that the concern with state participation in joint ventures with foreign business interests is a paramount objective of ICDC. This is shown in the areas where ICDC has maximised such participation. A small fact of note in this regard, is that the corporation frequently discontinues credit to African enterpreneurs so as to direct funds to the joint ventures with international big business. Thus local savings or local capital is integrated with foreign capital, but, as shown in the percentage of share holdings, control remains in the hands of the foreign firms. This seems hardly the way to wage for economic independence.

The Corporation claims, on the other hand, that this strategy is geared towards economic independence because (1) it attracts needed technology and (ii) it paves way for nationals to take part in big business in their country. True, a system does exist whereby ICDC's shares can be obtained in the open (stock) market by nationals, and it is true that the corporation is continually for more and more control of the enterprises it is involved in. But there is still no evidence anywhere to quarantee that ICDC will in the foreseeable future emerge as the catalyst of churming foreign capital into autonomous local capital. On the contrary, studies show that dependence in general, particularly in the area of industry, will continue to prevail if the present policies designed to achieve independence are not drastically changed.

In respect of the Africanization of small industry, it cannot be said confidentlly that ICDCs scheme is fairing very well. This contention is supported on various grounds.

The high rate of default itself is an impendiment to the implementation of Africanisation. And default is most likely to be a result of either failure in business, failure in enterpreneurship, or failure in the ICDC. This study has yet to reach a comprehensive explanation of the incidence of default, but so far it is evident that some of the factors have to do with weaknesses in the way that credit is administered.

That touches on the policy and criteria used by the corporation in the consideration and disbursement of loans. Some businessmen who were talked to indicated the business of seeking credit was quite a hurdle in itself, even when requirements were met. Allegations of corruption among influential officials were made, and some businessmen pointed out they had to spend substantial amounts of money "treating useful contacts".

It did not appear to be true that Administrative officials under the Office of the President had nothing or little to do with the process of the allocation of loans. Often, loan applicants preferred a recommendation from the Provincial Commissioner, the District Commissioner, the Member of Parliament or the Minister, than from ICDC's field officials.

Recommendations from the former often proved more effective than recommendations from the latter. It was therefore not unusual to find in the project files a report of an ICDC field official rejecting the application on technical grounds, and next to it an approval of the loan request.

This type of conduct suggests a number of things. If those on the top of the political hierarchy are able to influence the allocation of loans, there is no doubt that they are likely to first and foremost do so in their favour. This would mean that they have a greater chance of success in business, and that other successes, would to an extent, reflect political loyalties. To stretch it even further, it can be said that the ruling class and part of its bureaucracy would integrate with and be the same as the business and entrepreneurial class.

There exists partial evidence in this study to support this contention. A good proportion of the loans were given though political patronage.

These generalisations lead to the questions of who? What? for Whom? and for what? of ICDC's operations. But to ask such questions in respect of ICDC is tatamount to asking them in respect of the entire Kenyan political system. Their answers could therefore help to illuminate on 'the nature and direction of the political system.' In this particular context they indicate the nature of the impact of the Africanization policy, as it is being implemented, on the political development of the nation.

It is clear that ICDC is an agent of class formation, in the sense it assists those who have to acquire more, and in a sense takes from those who do not have much to give to those who have more. Class formation is an anti -thesis to many ideals of development such as equality and economic justice. But the more urgent question is this, what classess is ICDC assisting to create? Is it creating a bourgesioie class, a mere business elite, a loyalty group for supporting the ideology of the rulling class--? It is when these questions are determined that we shall better be able to support or relegate the contention that Kenya is developing an autonomous bourgeoisie no longer subservient, although still allied, to international capital.

There is another sense in which it can be said that the Africanisation policy, when we consider its total meaning, goals and objects, is not fairing very well. It is when political intervention in the allocation of public credit leads to a conflict of the economic goals of such credit. In such circumstances, the method of implementation defeats the objectives. It may lead to inefficiencies, distortions and unproductivity. For example, where political favour is substituted for enterpreneurial skill, where absentee or 'telephone' management is the norm rather than the exception, and when economic criteria is not given its due weight, the end results may be incompatible with what is desirable in development.

Furthermore, when such practices tend to be institutionalised, businessmen tend to grow up with non-businesslike attitudes. The backdoor is considered always shorter than the front one, the attainment of a loan is considered as an end rather than as a beginning, and the establishment of a business premises alone is itself considered as a status symbol in the socio-political system.

But there is something, on the other hand, to be said against a too - technical criteria of loan consideration and disbursement. As Posa points out in his work on the financing of small-scale enterprises in Uganda, a development corporation like ICDC ought to clearly distinguish its functions from those of a purely financial institution. In the first place, a development institution ought to be an agent of initiating and cordinating change since development itself is a process of change from colonial structures of material endorsments, from inequalities, and racial imbalances from dependence, and so on. There is an extent to which a sacrifice of other goals, like productivity and profit maximization ought to be made for the higher ideals, which is what a development institution should do. Profit maximisation is, to be sure, the measure of entrepreneurial success in a free enterprise system, but it may not be the measure of success of policies like Africanization which encompass multiple ideals.

This point can be pushed further by the examination of ICDC's requirements of security as one of the criteria in approving loans. It means that those who obtain loans are likely to be those who have been accumulating assets in the past,[25] (who will not necessary be good businessmen) which again lands us on the syndrome of class formation and inequality.[26] Since the predominant form of property actually offered to secure ICDC loans was land, the link between the present operations of ICDC and the activities stemming from the Swynnerton. Plan are too obvious to need stressing. The point is made that ICDC's activities lead to inequalities rather that equalities across the indegeneous population, but they lead to equality as regards redressing former racial economic inequalities. Thus Africanisation results in the attainment of a "better inequality", so to speak.

Having gone that far, it is now necessary to ask a slightly different question. Is the entrepreneurial class been created by ICDC likely to expand in future years to become a pioneering group in endogeneous national industrial development?

Kaplinsky, in the analysis of ICDC loan committments to small industrialists, refers to the "simplicity of enterprises" started by African businessmen, thus, perhaps, implying the remoteness of their ability to emerge as big industrialists on behalf of the local system. There are several points on which such a propositionmay be contested. One,of course, is that the industrialists in ICDC's small loans scheme could be merely "the tip of an iceberg". There are bigger local businessmen than those in this scheme and there are other sources besides ICDC which are financing accumulation.

The other point is that we conceive the different stages in the growth of entrepreneurship as (1) the accumulation of assets (in property); (2) accumulation of merchant capital (trade and commerce) and (3) accumulation of productive assets (e.g. machinery, production capital manufacturing, industrialism). It can be said that ICDC has helped uplift African business towards the third and higher stage, which is something unprecedented in the economic history of the country.

Once this is the case, we can see a deeper conflict between local and foreign capital, and enterprise, which when resolved in favour of local capital will score goals to the credit of the Africanisation policy and its role in Kenya's political development.

FOOTNOTES:

1. See R. Van Zwanenberg in "Neocolonialism and the Origin of the National Bourgeoisie in Kenya between 1940 and 1973". Journal of Eastern Africa Research and Development. Vol 4, No.2, 1974.

2. See Keith Halt: 'Small Scale Entrepreneurs in Ghana and Development Planning "in The journal of Development Studies Vol. Six, July 1970, No: 4. Discusses Ghana's policy document of July 5 1968 entitled "The Promotion of Ghananian Business Enterprise."

3. G.R. Bosa: The Financing of Small-Scale Enterprises in Uganda, Occasional Paper 3, Makerere Institute of Social Research. OUP 1969.

4. Raphael Kaplinsky "An Analysis of ICDC Small Industrial Loan Commitments, 1961 - 1975" IDS Working Paper No: 251, February 1976.

5. This survey was conducted in 1965 and is therefore bound to be slightly out of date. More significantly, it could not have assessed the progress of the Africanization programme in the light of the major legislation of that year. The basis and application of this study has been heavily criticised by David Steele in "The Theory of the Dual Economy and African entrepreneurship in Kenya, The Journal of Development Studies, Vol. 12, Oct. 1975, p. 18.

6. See N.O. Jorgensen, "ICDC, Its Purpose and Performance" IDS Discussion Paper No. 47, April 1967.

7. A loan may be approved and not actually issued, for a variety of reasons, e.g. lack of documents supporting asset offered as security. In the defaulting sections, all loans approved had (obviously) been issued.

8. This study was being conducted by Peter Wyeth. Dept. of Economics, University of Nairobi, and the results are to be presented soon.

9. Quoted by N.O. Jorgensen in paper cited above.

10. Quoted by N. Swainson in "the History of Investment in Kenya" IDS Working Paper No: 245.

11. Ibid.

12. From "The Challenge of the New Kenya" the manisfesto of the New Kenya Party launched at the end of 1959, Quoted by Colin Leys in "Under-development in Kenya: The Political Economy of Neo- Colonialism", H.E.B. p. 43. Emphasis is mine but in the first three emphasised lines corresponds to italics in the original.

13. ICDC report.

14. KNTC is the major agent for Africanising trade. In 1974, President Kenyatta passed a degree that all distributive trade was to be put in the hands of nationals immediately. This has been a major source of conflict between aspiring African business and foreign-owned manufacturers. See eg. "The Standard" Nov. 17, 1975, editorial page.

15. J.H. Minet has now been taken over completely by ICDC.

16. ICDC report 1974-75

17. From interview with ICDC official. Also mentioned by Kaplinsky in paper cited above.

18. See a forthcoming work "The Legal - Economic Links in a Neo-Colonial State Apparatus: The Case of ICDC Kenya" by N. Mwaniki (IDS) with Willy Mtunga (Department of Commercial Law, Nairobi), in which some ICDC management contracts will be analysed.

19. This section owes much to an interview with Mr. Muside. Project Officer with ICDC.

20. Kaplinsky, ibid p. 11.

21. I am advised by a mathematically-minded friend, B. Wagacha of Dept. of Economics, that all such probable factors can be put in a linear regression equation as follows;

where D = default

and i,j,k, --- n = hypothesised factors causing default.

Then $D = \beta_0 + \beta_1 \overset{x_1}{(i)} + \beta_2 \overset{x_2}{(j)} + \beta_3 \overset{x_3}{(k)} \text{-------} \beta_\phi \overset{x_n}{(n)}$

Where $\beta_1, \beta_2, \beta_3$ -------β_ϕ are rates or magnitudes in which the factors $x_1, x_2, x_3, \text{--} x_n$ influence default, and where β_0 = the unexplained or "other" factors.

A major problem to be tackled were this method to be adopted would be the quantification of some of the hypothesised factors, like "misconceptions."

22. The formula used for the comparison of means is:

$$t = \frac{x_1 - x_2}{\sqrt{\frac{s.d_1^2}{N_1} + \frac{s.d_2^2}{N_2}}}$$

Where x_1 = Mean of a set of scores in Kaplinsky sample (the larger sample)

x_2 = Mean of a set of scores in Mwaniki sample.

sd_1 = Standard deviation for the set of scores in first sample. (Kaplinsky)

sd_2 = Standard deviation for the set of scores in the second sample (Mwaniki).

N_1 = the scores or observation in the first sample.

N_2 = the scores or observations in second sample.

"For reference, see Ken Prewitt, "Introductory Research Methodology" IDS Occasional Paper No. 10, 1974 p. 166.

23. New Kenya Group Manifesto, see footnote 12.

24. Ibid, footnote 3.

25. In an interview with a Kenyan businessman, 'The Standard' of July 8, 1976 touched on this issue. It reported that the businessman was "critical of the loaning system by the ICDC where too much e phasis put on security ---this contributes to the failure of m ny African businessmen who otherwise know how to do business b t are unable to provide the security needed in order to obtain a loan. This is why Africans who take over businesses from departing Africans fail ."

26. Yet it is difficulty to propose an arrangement that would subsitute for the need to secure loan funds since they must be secured in one way or other.

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