

This work is licensed under a  
Creative Commons Attribution-NonCommercial-  
NoDerivs 3.0 Licence.

To view a copy of the licence please see:  
<http://creativecommons.org/licenses/by-nc-nd/3.0/>

SMALL SCALE ENTERPRISE

Proceedings of a Conference organized by the Institute for Development Studies, University of Nairobi, and held at Masai Lodge, Nairobi, 26 and 27 February, 1973.

Conference Director: Professor Frank C. Child

Foreword 11  
Preface 12  
Opening address by Hon. S. S. Nyanzi, Assistant Minister 13  
The applicability of the new approach to the choice of strategies for small-scale industrialization 19  
P.C. Nay  
Linkages between agriculture and rural small-scale enterprises 37  
Phillip M. Muthi & Fred E. Chege  
Education and training for small business 41  
E.M. Coffey  
The role of credit 44  
Jasper A. Okelo  
The legal framework for small-scale enterprise with special reference to the licensing system 48  
Ichiroo Inukai  
Small industry extension service 100  
A.M. Shikulu  
An approach to the problem of staffing a small business extension service 102  
Malcolm Harper  
The role of the Kenya Government in the development of small-scale industries: organization and policy 120  
E.M. Muthia  
Non-farm economic activities in rural areas 126  
Leopold F. Mursithi  
The African entrepreneur 134  
Jasper A. Okelo  
Discussion and policy conclusions 138  
David G. Davies  
List of participants 142

Occasional Paper No. 6

INSTITUTE FOR DEVELOPMENT STUDIES  
UNIVERSITY OF NAIROBI  
1973

Foreword

The Institute for Development Studies, University of Nairobi, is charged by its statutes to initiate and coordinate research on the socio-economic development problems of Kenya. The research programme of the Institute is thus designed to reflect the national priorities in development. In addition the Institute has always sought to disseminate its research findings to a wider public through a variety of methods. One of the vehicles for this has been the organisation of symposia or workshops on problems of national concern. The objectives of such workshops are to review the state of knowledge on a given problem area, to provide a forum for presentation of new research, to identify research needs and priorities, and above all to seek solutions to pressing policy issues. In pursuance of these objectives, the Institute has endeavoured to bring together to these workshops a wide range of individuals and organisations concerned with a given problem scholars and researchers, the policy makers at the centre, the practitioner in the field, and representatives of parastatal bodies, bilateral and multilateral aid agencies, and voluntary bodies.

In the years since independence, there has been a rapid growth in the numbers and activities of small scale, non-agricultural enterprises. Despite their great importance in employment generation, diversification of the economy, development of indigenous entrepreneurship and promotion of equitable income distribution, such enterprises have tended to be neglected by both scholars and policy-makers. It was in order to obtain more information and analyse the policy issues relating to small scale enterprises, that the Institute decided sometime ago to promote a series of inter-related studies on the subject. The workshop on Small Scale Industry, whose proceedings are presented in this volume, was designed to provide a forum for exchange of ideas, for dissemination of the findings of on-going research, and for better understanding of the problems faced by small enterprises. In all these respects, the workshop was impressively successful, and on behalf of the Institute, I would like to extend my gratitude and appreciation to Professor Frank Child

This volume contains eleven papers prepared for discussion for taking the initiative in organising it. It is to be hoped that the papers and summary of the discussions included in this volume will prove useful to individuals and organisations concerned in one way or another with Kenyan development problems.

*Dharam Ghai*

Dharam Ghai,  
Director,  
Institute for Development Studies,  
University of Nairobi.

of activities, which are being carried out in the  
 various parts of the country. It is to be hoped  
 that the papers and summary of the discussions included in this  
 volume will prove useful to individuals and organizations concerned  
 in one way or another with human development problems. It is  
 not intended to be a reference work, but rather a guide to  
 the various activities which are being carried out in the  
 country at the present time. It is hoped that it will  
 provide a stimulus to further research and development  
 in the field of human development.

*Kevin O'Neil*

Kevin O'Neil,  
 Director,  
 Institute for Development Studies,  
 University of Nairobi.

The Institute for Development Studies is a research and  
 training organization established in 1969. Its main  
 concern is to conduct research and to provide training  
 in the field of human development. The Institute  
 has a number of research projects in progress and  
 has published a number of papers and reports. It  
 is also engaged in a number of training courses  
 and seminars. The Institute is a member of the  
 International Development Research Centre (IDRC) and  
 the World Bank. It is also a member of the  
 African Development Bank (ADB) and the  
 Inter-African Development Bank (IADB).

P R E F A C E

This volume contains eleven papers prepared for discussion at a Conference on Small-Scale Enterprise held at Masai Lodge, Langata, Kenya on the 26th and 27th of February, 1973.

The conference brought together four groups of people whose common interest is small-scale industry. These groups are (1) government administrators and staff whose responsibility includes promotion of small-scale enterprise in Kenya, (2) functionaries whose operating duties lie in the field of small-scale enterprise, (3) expatriate advisers and technicians with counterpart responsibilities, and (4) academicians whose experience and research interests include this sector of the economy.

The purpose of the conference was to exchange information about that which is known and that which needs to be known. More specifically, the conference was an effort (1) to speed dissemination of some recent research results, (2) to increase the researchers awareness of the problems faced by operating functionaries in private or government agencies, (3) to extend understanding and provide new insights through exchange of information, (4) to reveal new and appropriate avenues for research, and (5) to speed the approach to consensus among those with decision-making responsibility.

Within the general topic of small-scale industry, the conference placed special emphasis on very small-scale enterprise located outside major metropolitan areas.

The several papers have been edited somewhat, mostly to reduce their length, to provide some consistency of style and format, and to correct minor slips. There has been limited change in content or substance.

The twelfth (and last) paper, prepared after the conference, is a summary of the comments and discussion of participants. We are especially grateful to David Davies for his undertaking the difficult and possibly thankless task of summarizing the contributions of participants during the conference.

Several participants proposed that the group consider resolutions and vote on policy proposals. In the end this suggestion was not followed partly because the participants, attending the

PREFACE

conference as individuals, might find it difficult to separate their personal views from the policies of the agencies or organizations with which they are affiliated, but more importantly because, on many issues, opinion was well divided and views were strongly held. On the other hand, there were some issues on which there was a clear consensus. We have listed these points--which might be construed as the "recommendations" of the conference--with only minor fear that they will evoke strong or vigorous dissent from anyone in attendance.

Frank C. Child  
Nairobi  
March, 1973

OPENING ADDRESS DELIVERED BY HON. Z.M. ANYIENI,  
ASSISTANT MINISTER FOR COMMERCE AND INDUSTRY.

Ladies and Gentlemen:

I feel very much honoured to be here with you today, at the beginning of what ought to be a very fruitful seminar.

As you all know, the Government attaches very great importance to economic development as a means of improving the standard of living of the country's population. Industrialization is considered as one of the key sectors of economic activity which can contribute to a rapid improvement of the levels of economic well-being enjoyed by the ordinary citizens of Kenya. However, the Government has all along been aware that not every industrial project is capable of increasing the nation's economic well-being. In order that industrialization may be able to make worthwhile contributions towards the enhancement of Kenya's economic well-being each industrial investment should be able to satisfy at least one of the following policy goals:-

- (a) creation of additional employment opportunities;
- (b) geographical dispersal of industrial activity;
- (c) processing of domestic raw materials;
- (d) conservation of foreign exchange;
- (e) Kenyanization of the Kenyan economy; and
- (f) equitable distribution of the national income.

It is a well-known fact that most of the large-scale industries which have been introduced in Kenya have had a tendency to increase capital stock and output more rapidly than they have increased employment. These large-scale industries usually require some technical skills, production processes, and other inputs which are either too scarce or completely unavailable in Kenya. Furthermore, large-scale industries tend to prefer urban locations, except where there are compelling economic reasons (e.g. proximity to raw materials) for these large industries to be located outside the main urban centres. In any case, there are many industrial products, including consumer goods, intermediate goods and capital goods, which cannot be provided by large-scale industries, due particularly to the small extent of the market.

Having clearly decided on the objectives to be pursued and the limitations of large-scale industrialization, the Kenya Government has naturally shown a lot of interest in determining and



elaborating the role which small-scale industries can play to accelerate the rate of growth of manufacturing activities and the fulfilment of the other policy objectives, which were outlined a little earlier. As of now, the Government is convinced that small-scale industries can contribute to the fulfilment of its economic objectives in the following ways:-

- (a) provision of substantial employment opportunities at a relatively small capital cost;
- (b) satisfying a considerable part of existing and potential demand for consumer goods and simple producer goods;
- (c) facilitating the utilization of resources, such as capital, skills and raw material, which might otherwise remain unutilized or underutilized.
- (d) encouraging the development of home-made technology and more extensive participation by local entrepreneurs in the running of industrial enterprises;
- (e) contributing to a more equitable distribution of national income by creating new jobs and increasing employment opportunities in the rural areas.

On the basis of the policy environment I have attempted to explain, it is clear that the Government is fully convinced that small-scale industries can make a very important contribution to the development of the Kenyan economy. However, there is still limited knowledge about how the Government can take more effective action with a view to ensuring that small-scale industries become a much more significant element in the country's economic life.

So far the Government has introduced a number of institutions and services to facilitate a more rapid growth of small-scale industrial activities. These institutions and services include loans from the I.C.D.C., Kenya Industrial Estates and the Rural Industrial Development Centres. Moreover, the Government has recently commissioned a number of studies aimed at helping it to decide what further services and institutions should be provided to ensure that small-scale industries are given every necessary facility to come into being and to become mature business enterprises.

I have no doubt that the economists, industrial administrators and other professional experts who are participating in this conference will strive hard to contribute new ideas which can help the Government to do a better job in the promotion of small-scale industries. May I conclude by wishing you every success in your deliberations. I promise that my Ministry, whose officers are participating in this conference, will study any recommendations which you may decide to make to the Government with all the necessary seriousness and concern.

EMPLOYMENT, TECHNOLOGY AND GROWTH -- ROLE OF THE  
INTERMEDIATE SECTOR

Frank C. Child

Institute for Development Studies

University of Nairobi

For the last fifteen years or so economists have studied the process of economic development within the conceptual framework of a Dual Economy. A Dual Economy model specifies an asymmetry of production and distribution conditions between two sectors, one "Traditional", the other "Modern".<sup>1</sup> The larger Traditional Sector is predominately rural. Small-scale farmers employ "traditional" methods in subsistence agriculture although there is a small and possibly growing margin of output for cash sale. Non-agricultural activity includes "traditional" crafts, cottage industry, petty commerce, and small-scale construction. Social services and infrastructure are limited; schools are scarce, poor, or both. The Traditional Sector is characterized by a paucity of capital, a poverty level of income, and slow growth or stagnation. The Modern Sector, in contrast, is predominately urban and industrial. It is wholly market-oriented with "modern" commercial, financial, and transport facilities. Public services, utilities, and education are (more nearly) ample. The Modern Sector is innovative and adaptive to "20th Century" technology. It grows rapidly using methods of production which are relatively capital-intensive; labor productivity and wages are substantially higher than in the Traditional Sector. Development is seen as a process of expanding the Modern Sector, transferring

---

1. The most celebrated formulations of the Dual Economy model are found in W.A. Lewis, "Economic Development with unlimited Supplies of Labor, The Manchester School, May 1954 and "Unlimited Labor: Further Notes", ibid., January 1958, pp. 1-32; J.C.H. Fei and G.Ranis, Development of the Labor Surplus Economy, Homewood Illinois, Richard Irwin, 1964; D.W. Jorgenson, "The Development of the Dual Economy", Economic Journal, June 1961, and "Surplus Agricultural Labor and the Development of the Dual Economy", Oxford Economic Papers, November 1967 pp. 288-312.

labor from the Traditional to the Modern Sector as rapidly as capital formation in the latter will permit.

This conceptual framework was a major advance over earlier models which placed almost exclusive emphasis on capital accumulation as the instrument of growth. Saving and capital formation now shared the development stage with problems of structural adjustment and of employment. Indeed, some reflection suggests that developing countries may acquire an employment problem. If the Modern Sector employs (say) 20% of the labor force it must, assuming fixed production coefficients, increase capital stock and output by 15% per annum to absorb a 3% annual increase to the labor force. If labor productivity is growing, the output growth and possibly the capital stock growth required for labor absorption by the Modern Sector is greater still.

Modern Sectors of newly developing countries typically employ less than 20% of the working population; labor force growth rates of 3% or more are commonplace. Since a Modern Sector growth rate as high as 15% is unusual, it is no surprise that developing countries exhibit rising unemployment as a concomitant of growth.<sup>2</sup> An alternative to unemployment is to allow (require?) the Traditional Sector to grow and to serve as the "residual" employer of otherwise unoccupied workers. Since labor productivity in the crowded Traditional Sector is substantially below that of the Modern Sector we have, by the standards of the latter, the phenomenon of underemployment or disguised unemployment.<sup>3</sup> Given normally high population growth and limited saving, employment in the Traditional Sector may be expected to increase, absolutely if not relatively, for generations.

---

2. See Yves Sabolo, "Sectoral Employment Growth: The Outlook for 1980", in W. Galenson (ed.) Essays on Employment, International Labor Office, Geneva, 1971, pp. 41-65.

3. The notion of underemployment or disguised unemployment is a bit question-begging. If development is indeed a process of transferring labor from a low to a high-productivity sector, it presupposes such a productivity differential. Development is a process of responding to the disparity. To talk of open or disguised unemployment in the Traditional Sector in terms of labor productivity in the Modern Sector is just another way to say that the country is underdeveloped.

Of course, the growth/unemployment phenomenon is more complicated than the stark model would suggest. First, the classical saving-investment problem is, if anything, more apparent. A higher rate of capital formation will increase the labor absorption capacity and the growth rate of the Modern Sector but the implied compression of current living standards requires either greater inequality of income distribution or heavier taxation. Either method is fraught with social and political problems and, as a long run public policy, must be used with restraint except in a Command Economy or in a society with unusual social solidarity and consensus.<sup>4</sup> Secondly, a preference for, or necessity of, capital-intensive, labor-saving technology will reduce the employment generating effect of any given volume of investment in the Modern Sector. Raising the capital/labor ratio increases labor productivity but it also increases the amount and duration of unemployment, open or disguised.<sup>5</sup> Efforts to mitigate the problem by a "great leap forward" in capital formation raise the social cost of capital formation and intensify the problems mentioned in the previous paragraph.

Thirdly, rapid modernization usually means urbanization at an explosive rate. Urbanization creates social tensions and environmental burdens, costs typically borne by the humbler strata of the population. The alternative is to divert a portion of society's resources away from capital formation and growth toward elimination of pollution and crowding.<sup>6</sup>

---

4. Massive import of capital is another alternative and, possibly, another problem.

5. It has been argued, unconvincingly in my view, that application of technology with a high capital/labor ratio will enhance the growth rate. It does so by increasing capital's share of income which, unlike wage income, is assumed to be saved and invested. See W. Galenson and H. Leibenstein, "Investment Criteria, Productivity and Economic Development", Quarterly Journal of Economics, August 1955.

6. On these and other issues see David Turnham, The Employment Problem in Less Developed Countries, OECD, Development Centre Studies, Paris, 1971.

As students of development and public policy makers have grappled with these and other questions, they have discovered that there is a neglected third sector which generates employment at lower capital cost than the Modern Sector and creates income per worker equal to or greater than that of the Traditional Sector.<sup>7</sup> This sector usually develops spontaneously rather than from overt public policy. It includes craft-based manufacturing plus a wide range of services and mercantile activity; it appears most obviously in rural market centers and on the periphery of the cities. It combines the relatively simple technology and small-scale characteristics of the Traditional Sector with the impersonal market orientation of the Modern Sector. It is a sort of "Intermediate Sector", a half-way house between the Traditional and the Modern.

Kenya's economy is appropriately described by this three-sector model. On the one hand the Modern Sector, referred to as the Monetary Economy in official statistics, is mostly urban, is mostly urban, sophisticated and market-oriented. It accounts for a majority of "measured" output but for a minority of total employment. The Traditional Sector -- small-scale subsistence agriculture, petty trade and traditional crafts in rural areas -- provides a low to poverty level of income for the bulk of the population. The distinction between these sectors is not simply urban/rural or industrial/agricultural. The Modern Sector includes large scale farmers and a growing group of small-holders engaged in commercial agriculture; there is some industry in rural areas. Also there is a substantial trade between the two sectors: commodities are exchanged, the modern sector "imports" labour and "exports" remittances. Recently we have become aware of the third, intermediate sector of very small-scale enterprise -- repair

---

7. See J. Gaude, "Agricultural Employment and Rural Migration in a Dual Economy", International Labour Review Vol. 106, No.5, November 1972, pp. 475-490.

services, food services, very small-scale manufacturing and trade -- in both rural market centers and on the cities' fringe.<sup>8</sup>

Until recently the Intermediate Sector has been looked upon as a social and economic problem or at least an example of backwardness. Rather simple, even crude technology is used to produce low quality products under crowded, even unhygienic conditions. More careful scrutiny reveals, however, that the Intermediate Sector fulfills a valuable social function and, with all its limitations, may be a blessing in disguise. Moreover, it is reasonable to propose that legal constraints on this sector be removed and that assistance be provided, even at the expense of some growth of the modern Sector.

Table I provides a (slightly blurred) picture of the relative size of the three sectors of the Kenyan economy. The Traditional Sector is the overwhelmingly most important employer although, according to the National Income Accounts, it produces only about a fifth of total output. The Modern Sector, in contrast, creates about three quarters of aggregate value added with about a sixth of the estimated labor force.<sup>9</sup>

---

8. It has been called the "Informal Sector" and even the "Murky Sector" but I prefer the more antiseptic term, Intermediate Sector.

9. Caution! Employment rather than output is used as the measure of sectoral size because it is the central economic variable under consideration but also because its estimation, however rough, is easier than estimating the value of output. I have made rough estimates of various kinds of unenumerated employment in the Traditional Sector, viz., irregular and seasonal wage employment, traditional crafts and service occupations, and pastoral activity in arid or semi-arid regions of Kenya.

The difference between total estimated employment and the estimated labor force should not be taken very seriously. Estimated employment in the Traditional Sector may be too high but, for that matter, the same may be true for the estimate of the labor force. Unemployment in urban areas has been independently estimated at 11% - 12% of the urban labor force; rural unemployment or underemployment has not, to my knowledge, been estimated.

Data for the Modern Sector is, we trust, reasonably accurate. Reference in the text to the contribution to output of the Traditional and Modern Sectors is based on data from the "Monetary" and "Non-Monetary" economies as published in the National Income Accounts by the Statistics Division of the Ministry of Finance and Planning. Output of the Traditional Sector is probably understated that of the Intermediate Sector is almost certainly neglected or

TABLE 1

Estimated Employment in Kenya, 1969

(thousands)

<u>Modern Sector (a)</u>		
Agriculture and Forestry	179	
Other Private Sector	211	
Government Enterprise and Parastatal Bodies	58	
Government, Central and Local	179	
TOTAL, MODERN SECTOR		627
<u>Traditional Sector</u>		
Agriculture, Self and Family employment (b)	1,300	
Wage employment	400	
Traditional Crafts and Services	250	
Pastoralists	350	
TOTAL, TRADITIONAL SECTOR		2,300
<u>Intermediate Sector</u>		
Rural Self-employed	110	
Rural Wage Labor	80	
Sub-total Rural		190
Urban Self-employed	55	
Urban, Wage Labor	45	
Sub-total, Urban		100
TOTAL, INTERMEDIATE SECTOR		290
TOTAL ESTIMATED EMPLOYMENT (ROUNDED)		<u>3,200</u>
TOTAL POPULATION	10,942	
ESTIMATED LABOR FORCE	3,700	

Notes: (a) Modern Sector is defined as "enumerated" urban establishments large-scale farms, other large rural enterprise, and the public sector.

(b) Of some 1,100,000 small holdings 225,000 are considered to be "progressive", i.e. income generated exceeds £110 per year and is rising. At the other extreme, some 620,000 small-holdings generate £60 per year or less.

Sources: Modern Sector Data from Government of Kenya, Economic Survey, 1972. All other data estimated from information provided in International Labour Office, Employment, Incomes and Equality, Geneva, 1972. (The ILO Report), chs. 1&3--after examination of a comparison with the several original sources cited therein, and addition of the writer's estimate of wage labor, traditional crafts and services, and pastoralists in the Traditional Sector. See footnote 9.



TABLE 2

Projected Kenya Population, 1970-2000

Year	<u>High Projection (a)</u>		<u>Low Projection (b)</u>	
	Total Population (thousands)	Average Annual Growth (%)	Total Population (thousands)	Average Annual Growth (%)
1970	11,247	3.58	11,247	3.58
1975	13,413	3.65	13,413	3.27
1980	16,053	3.76	15,752	2.92
1985	19,310	3.82	18,186	2.44
1990	23,302	3.90	20,521	1.97
1995	28,213	3.98	22,626	1.35
2000	34,286		24,249	

Notes: (a) Assumes (1) a slow but steady decline in mortality and rise in life expectancy from 49 years in 1969 to 60 years in the year 2000 and (2) no change in specific fertility rates.

(b) Assumes (1) slow decrease in mortality rate, as above, and (2) a decline in "total fertility" --average number of children per surviving adult female--from 7.6 in 1969 to 2 in the year 2000.

Source: Kenya Statistical Digest, June 1971

TABLE 3

Projected Kenyan Labor Force (a)

Year	<u>High Projection</u>		<u>Low Projection</u>	
	Total Labor Force (thousands)	Average Annual Growth (%)	Total Labor Force (thousands)	Average Annual Growth (%)
1970	3,818	3.41	3,818	3.41
1975	4,515	3.48	4,515	3.48
1980	5,358	3.57	5,357	3.57
1985	6,376	3.70	6,376	3.70
1990	7,667	3.85	7,667	3.85
1995	9,258	3.91	9,060	2.99
2000	11,215		10,473	

Note: (a) Labor Force is defined as 95% of males and 45% of females between ages of 15 and 59.

Source: Kenya Statistical Digest, June 1971.

The employment estimate for the Intermediate Sector is rough but not unreasonable. Value of output of this sector is unknown. The Table, in an order of magnitude sense, provides a rough index of the level of development in Kenya -- and the potential which remains to be realized.

Table 2 and 3 present the employment problem to be faced over the next quarter of a century. We may be reasonably sure that the range between the two population projections will include the actual values over the period; the assumptions underlying the extremes are just that, extreme.<sup>10</sup> It is interesting to note, however, that extreme differences in the population growth rate have little effect on the labor force growth rate, none for almost twenty years. This is true because, barring natural calamities, the labor force for the next 15-20 years is essentially determined by the predictable mortality rates among age groups presently living. Even a crash program of family planning, assuming it were immediately effective, would have no impact on Kenya's labor force for the next two decades.<sup>11</sup> Kenya faces the ineluctable necessity of generating employment, hopefully remunerative employment, for a labor force which will double in two decades and nearly triple in three.

Recent experience suggests that job creation on this scale by the Modern Sector is beyond reasonable hope for the foreseeable future. Although output of the Modern Sector, in which 14%-15% of Kenya's National Income is being invested,

---

10. The mind boggles at a sustained population growth rate of 3½% to 4%; since it must approach the biologically possible limit, it also strains credulity. On the other hand a 70% decline in total fertility as assumed in the low projection seems wildly optimistic. The source of these numbers also contains two intermediate projections based on more probable assumptions. See "The Future Growth of Kenya's Population and Its Consequences", Kenya Statistical Digest, Statistics Division, Ministry of Finance and Planning, June 1971, pp.1-7.

11. Family Planning and its limited impact to date is discussed by C.N.Ejiogu, in "The Kenya Programme: Policy and Results", in Ominde and Ejiogu (eds), Population Growth and Economic Development in Africa, London: Heinemann, 1972, pp. 386-392.

has grown by 7½% per annum in real terms, employment in that Sector has grown less than 3% per annum; the Modern Sector is hardly absorbing a sixth of the growing labor force. At this rate the Modern Sector's share of total employment will fall; the Traditional and Intermediate Sectors face the prospect of absorbing more workers, relatively as well as absolutely.<sup>12</sup>

The labor absorption capacity of the Modern Sector might be increased by more capital formation which implies a higher rate of saving, taxation, capital inflow or some combination thereof. One suspects, however, that growth in this sector is constrained as much by limited supplies of administrative and entrepreneurial talent as by capital resources. More interesting and fruitful as a means of expanding employment opportunities in the Modern Sector is a shift toward less capital-intensive technology. To do so would require a reversal of current trends and public policy; since 1967 the gross capital investment for each new job created in the Modern Sector has risen from £2540 to £3680.<sup>12a</sup> This is a question which, we may assume, occupies much time and effort of the staff of the Ministry of Finance and Planning as they prepare the next Development Plan. It is one which cries out for a larger research effort among Kenya's academic and technical assistance personnel. And it is a question to which we will return shortly.

The predominately agricultural Traditional Sector must surely serve as the residual employer of most of the growing labor force, albeit at a meagre wage. As early as 1967 Posner concluded that there was a surplus of unskilled workers in agriculture, that a rising population/land ratio portended diminishing returns and shrinking opportunities for productive employment in agriculture.<sup>13</sup> More recently, in the

---

12. Calculations based on data from Kenya's Economic Survey, 1972 and the Statistical Abstract, 1971.

13. R. Posner, Agricultural Labor Markets in Kenya, unpublished Ph.D dissertation, University of Michigan, 1971.

12a. For Manufacturing, Trade, and Construction--Modern Sector activities most nearly comparable to those of the Intermediate Sector--gross investment per new job increased from £2820 during 1963-67 to £3250 during 1968-71; both figures in current prices.

ILO report,<sup>14</sup> a more optimistic picture is drawn, suggesting that agriculture might do better than merely disguise Kenyan unemployment. The Report's most attractive policy recommendation for agriculture is a reorganization of production - shift to more labor-intensive crops, increased cropping intensity, introduction of advanced bio-chemical (as opposed to mechanical engineering) technology. All these measures would raise yields per acre of land and increase labor requirements. Such a policy presupposes selection of crops and technologies appropriate to Kenyan conditions plus a vastly expanded program of agricultural extension and demonstration. Given the number of people affected and the limited availability of alternatives, we venture to guess a high benefit-cost ratio for such a program.<sup>15</sup>

It is difficult to savour the prospect of a rapidly growing Intermediate Sector. There can be no doubt that this sector produces goods of inferior quality, uses crude methods, and employs facilities that offend our aesthetic sensibilities. The clutter and apparent disorganization around the premises is enough to disturb those with only mild compulsive tendencies. It is clear, however, that these mini-scale enterprises - metal- and woodworking shops, housing construction, hardware and homeware suppliers, cobblers and tailors, repair services, and purveyors of food and drink - have responded to genuine economic needs of the less affluent portion of Kenyan society. If their consumer choice were limited to top quality products or none, it would often be none.

---

14. International Labour Office, Employment, Incomes and Equality, A Strategy for Increasing Productive Employment in Kenya, Geneva, 1972.

15. The political and economic feasibility of reorganizing agriculture, Modern and Traditional, appears to be better than is the case for the other ILO proposals for agriculture: division of large farms into small holdings and expansion of the land area under cultivation. The former not only contradicts conventional wisdom, it faces formidable political problems. The latter requires, in addition to costly irrigation projects, constiction of the area used by pastoral groups in Kenya and infringement of their traditional way of life. See ILO Report, ch. 10, p. 152.

The potential for growth of the Intermediate Sector is only now being studied but preliminary information suggests it is high.<sup>16</sup> In the first place entry is easy. A few thousand shillings, possibly a few hundred, saved from wage income in the Modern Sector or from cash farming is enough to get started. The Intermediate Sector provides an incentive to save and invest small sums which otherwise would disappear in consumption. Reinvestment of earnings is common. Of course, all businessmen complain of a capital shortage, there is never enough. But loan capital is really crucial only for expansion of proven ventures.<sup>17</sup> Secondly, skills acquired in the Modern Sector or from another small firm - rarely from vocational or technical schools or from the formal educational system - are applied in the business and passed on to others through apprenticeships or on-the-job training. This is surely a low-cost way to "up-grade the labor force." Thirdly, managerial skill and business acumen, lack of which account for most business failure, is within the competence of enough entrepreneurs that the business population is growing. At the same time, business attitudes are relaxed, perhaps too much so. Flexible or irregular work schedules imply profit opportunities neglected, but also permit continued links to traditional agricultural (and social) activities as a sort of insurance policy.

To most businessmen of the Intermediate Sector the most visible public policy affecting them is not training programs or credit, it is the discriminatory fees and taxes, the restrictive zoning and, to him, the unduly strict production and building codes all of which represent barriers to be overcome or circumvented. Apart from better roads, transport, and utilities, the enterprisers' greatest need is information,

---

16. Much information can be gleaned from experience of the many public and private technical assistance agencies. Unpublished surveys have been conducted by the Ministry of Finance and Planning, the Nairobi Urban Study Group, and the Housing and Research Development Unit of the University of Nairobi. Okelo and Inukai of the Institute for Development Studies have completed one of four surveys of small-scale enterprise in rural areas. The Institute's extensive research programs in rural and community development and in education and training have generated a wealth of information of value in study of the Intermediate Sector.

17. Too much credit too soon is a millstone around the neck of entrepreneurs whose propensity for risk-taking is very high.

information about sources and prices of raw materials, about better equipment and production methods, about better design or additional products, and about markets.<sup>18</sup>

The Intermediate Sector should be the development planners' delight. It provides its own venture capital and trains its own skilled labor. It needs little of the expensive, high-level professional manpower so much in demand in the Modern Sector. Roads, utilities and communications provided for the Modern Sector will also benefit the Intermediate Sector at no extra cost. A technical assistance program, though not free, must surely cost less than those imported for the benefit of large-scale enterprise and the public sector. It is a low-cost development sector and, returning to an earlier theme, generates employment at minimal cost per job.

Tobin, in a recent and as yet unpublished paper, demonstrates that if a developing economy has a choice between a "modern" capital-using technology and an "old" more labor-intensive technology, channelling of investment to the "old" technology will, normally, reduce unemployment and raise the growth rate of net income simultaneously. The best strategy is to put all investment into the sector with the old technology until unemployment is eliminated. Thereafter investment can be shifted in favor of the Modern Sector but the old sector continues to grow absolutely while declining relatively.<sup>19</sup> In the abnormal case, when the new technology is capital- as well as labor-saving, there is a conflict between the social goals of reducing unemployment and rapid growth. Channelling saving to the Modern Sector will maximize growth but postpone

---

18. This is not an original thought. It finds expression in the Report of the Working Party on Small Business and in establishment, recently, of four Rural Industrial Development Centres.

19. J. Tobin, "Technological Development and Employment", Working Paper No. 69, Institute for Development Studies, Nairobi, November 1972. Unlike the Galenson-Leibenstein model referred to in footnote 5, p.3, the Tobin model assumes a fixed fraction of society's income is saved and invested.

the day when unemployment is eliminated.<sup>20</sup> How frequently the "abnormal" case occurs and how often it should be exploited is an empirical question which, in the Kenyan context, calls for urgent research.<sup>21</sup>

Even the most casual observation reveals that mini-scale enterprise in the Intermediate Sector has a low capital/labor ratio. Furthermore, and here the evidence is only a little less clear, the capital/output ratio is also low; the return on capital, with due allowance for the low quality (value) of output, is at least as high as in the Modern Sector.<sup>22</sup> If so, accelerated investment in this sector will not only generate more employment it will raise the economy's overall growth rate.<sup>23</sup>

In sum, the Intermediate Sector offers a favorable return on scarce capital, generates productive jobs at low investment per job, utilizes saving not otherwise available, develops new skills at low cost to society - a combination hard to beat. It might even slow the rate of urbanization. A developing economy could hardly ask for more.

---

20. See also Turnham, *op. cit.*, p.13

21. For some useful insights into the factor proportions problem, based on empirical research, see K. Marsden, "Progressive Technologies for Developing Countries", *Essays on Employment*, *op.cit.*, pp. 113-140.

22. These observations are being tested by current research at the Institute for Development Studies.

23. In the Modern Sector preference should be given to those technologies with low capital/labor ratios. Investment projects with labor-saving technology should be studied carefully to insure that the capital/output ratio is equally favorable. Examples of investment projects which meet these criteria are less common than is usually supposed. See Marsden, *op.cit* and A.C. Kelley et. al, "Biased Technological Progress and Labor Force Growth in a Dualistic Economy", *Quarterly Journal of Economics*, Vol. 86, #3, August 1972, pp. 426-447.

THE APPLICABILITY OF THE SRDP APPROACH TO THE CHOICE OF  
STRATEGIES FOR SMALL-SCALE INDUSTRIALISATION

F.G. Hay<sup>+</sup>

Institute for Development Studies

University of Nairobi

The theme of this paper is the importance of the choice of approach to the problem of selecting development strategies; it is not concerned with the detailed issues relating to their implementation. In particular the paper examines the approach employed in planning the Special Rural Development Programme, and attempts to evaluate its relevance in the rather different context of encouraging the development of small-scale industry.

The choice of approach to the problem of finding potentially successful development strategies is vitally important for the selected approach strongly influences the scope, nature and results of analysis of a given situation. In turn it conditions the policies which may be based on such results. An approach which cannot penetrate the essential nature of the problems in a given area cannot provide an adequate base for reliable development policies. On the contrary, a superficial approach will yield oversimplified diagnoses, policy recommendations which confuse strategies and objectives, and eventually waste scarce development resources.

The difficulties which attend efforts to devise and implement useful development strategies may be attributed to at least two fundamental conditions. First is the extreme complexity of economic relationships<sup>1</sup> - not a very novel point but one with extremely important consequences where the political climate constrains the government to seek the willing co-operation of the population rather than use compulsion in the development

---

<sup>+</sup> The author was a member of the I.D.S. team responsible for the overall evaluation of the Special Rural Development Program. This paper contains a few descriptive quotations from the as yet unpublished evaluation.

1. And others of course. It is the prerogative of an economist to ignore them despite his willingness to be convinced of their relevance.



effort. Second, and equally commonplace, is the perennial scarcity of resources. An approach to planning which ignores either of these will necessarily be less than adequate.

The frequency of oversimplified diagnoses such as "lack of capital", "lack of credit" or "lack of appropriate technology" suggests that there is room for improving the approach to the search for suitable development strategies. Policies derived from such simple diagnoses frequently confuse strategies and objectives. Supposed tools (e.g. "more credit", or "improved technology") turn out to be formally identical<sup>2</sup> to objectives (e.g. increased employment) expressed in different words and the correct concept of strategy is overlooked. "Strategy" is a procedure for changing the individual's<sup>3</sup> decision-making milieu so that the desired development action appears to the individual to be both feasible and in his best interest. Clearly it may involve the provision of "more credit", but its prerequisite is an understanding of the workings of the local economic system; obtaining this understanding depends on the quality of the approach to the problem.

Unless the diagnostic approach can penetrate and reach an understanding of the workings of the situation in which development is sought, it will not be able to identify the sensitive spots for the application of possible strategies. The outcome will be preconceived assessments and their concomitant strategies, well-tried but generally also well-failed - witness the poor repayment rates achieved in many credit schemes. The approach has to be open-minded but it also has to be disciplined. The thesis of this paper is that the approach used by the Special Rural Development Programme possesses these qualities; the purpose of the following pages is to see if an approach developed primarily for an agricultural context can be successfully transplanted to a small-scale industrial one.

---

2. It is of little significance that to employ a machine operator first requires a machine; its provision is an objective identical to employing the operator. The strategy on the other hand is the modification to the economic system such that investment and employment creation become worthwhile.

3. "Community" can be substituted without change in sense.

THE "SRDP APPROACH" IN OUTLINE

The distinguishing feature of the "SRDP Approach" is the requirement that the search for development strategies, and the strategies themselves, adhere to four "principles"; its value stems from the comprehensive, common-sense nature imparted by adherence to these principles. These principles perform a vital role in disciplining this approach. The four are:

- The Principle of Experimentation
- The Principle of Replicability
- The Principle of Using Existing Resources
- The Principle of Research and Evaluation

The Principle of Experimentation

In certain respects this is the most novel component of the SRDP approach. It has been described as "testing alternative strategies for the attainment of particular objectives in order to show if the strategies work and, if they can, how well they work", it involves "comparison of one strategy with another to find out which works best under specific conditions. New, different, or improved strategies may be compared with existing ones, or compared with each other". Such comparisons may or may not yield results which permit the wider application of the strategy (or strategies). Some strategies will prove to be worthless and in establishing this fact some resources will most certainly be "wasted". A policy of deliberately risking the loss of scarce resources is not so misguided as it may appear at first sight. Experimentation, as the word implies, involves testing strategies on a limited scale, through the use of pilot projects; only successful strategies will be scaled up to a national or regional level. In the absence of experimentation national or regional application of a misguided policy wastes resources on a much grander scale. The corollary is that the potential waste of the experimental approach is less, and it can test strategies which are inherently more risky than can national or regional programs. The experimental approach promises to reveal the usefulness of fairly radical strategies which the planner would hesitate to advocate in the absence of the results of experimentation. Consequently, the most interesting feature of this guiding principle is that it authorises the explicit allocation of resources to testing different (high-risk strategies). The loss of resources through a defective national policy is to be mourned; the loss of resources through effective experimentation is to be welcomed, in view of the national loss

voided by the rejection of a particular strategy before it can cause damage.

The other important facet of this principle is that it requires an ordered approach to finding out if a particular strategy is useful. Three preconditions for adherence to the principle have been identified:

- (1) it must be possible to distinguish strategies being assessed, and to attribute outcomes to separate strategies;
- (2) the strategies must have clearly defined objectives, to give meaning to success or failure;
- (3) if possible the objectives should be stated in forms which are measurable, so that the extent of their success may be measured.

So the Principle of Experimentation does not advocate irresponsible or unlimited application of novel strategies and therefore waste of resources; it only supports those which will clearly operate on the causes of the perceived problem. In turn this guarantees a measure of control over the level of resources to be utilised for experimental purposes. Resources are used only necessarily.

#### The Principle of Replicability

"Replication is the extension or reproduction of successfully tested strategies; it follows the development of blueprints and prototypes of the successful strategy." It has already been implied that experimentation has to be purposeful, i.e. seeking to benefit the greatest number through the wider application of a successful strategy. The discovery of a strategy which can be applied elsewhere must be the target of this development planning not simply the economic development of the areas of the original experimentation. The specialised attention necessitated by this approach can look like preferential treatment - in a sense it is - hence the need for swift action during the implementation of the pilot strategy and for prior careful analysis and design. The payoff in terms of wide application of a successful strategy has to be achieved while interest in the experiment is still high. This principle therefore not only sets the target but also the nature of the process leading

to it. Documentation of the essential parts of the successful strategy is the final stage and depends on the care with which the experimentation in terms of both design and implementation has been carried out.

The Principle of Using Existing Resources:

This principle "involves employing additional resources to meet only the extra experimental needs, scaled down during subsequent replications to the level of normally available resources." There are two levels at which this principle exerts effective control. First and more obviously, it ensures that the experimental input does not become a necessary expense during subsequent replications. The development of prototypes is always an expensive business. In the relatively complex world of development economics, with the virtual absence of a dominating science for the prediction of results and costs, it is probably more expensive than, for example, in engineering. Furthermore it is not easy to distinguish necessary costs of experimentation and the normal level of resource utilisation expected of the operational strategy. Consequently there is a substantial possibility that continued use of resources which are strictly speaking experimental could be advocated in the subsequent replication. Indeed, during the experimental phase this principle calls for a special effort to establish the precise point at which a particular strategy under test can be described as a failure, i.e. when the supposedly experimental inputs become an integral part of the strategy.<sup>4</sup>

The second less obvious influence of this principle relates to the source of the necessary inputs, both those which are experimental and those which will be utilised when the strategy becomes operational. Ultimately the strategy has to be adopted as an operational part of the local economy; this means that the local resources must be mobilised not only during the replication of the strategy, but also during the experimental phase and this

---

4. External-aid-supported enclaves can emerge simply because no limit is set to the process of modification in response to failure to achieve immediate objectives; while such aid may be without limit in the short run, the long run costs of creating an artificially supported project make it very expensive. Better to declare it a failure.

will of course modify the nature of the experiment, reducing, it is hoped, the input of resources from outside, in particular those from abroad. It will ensure that such resources will not become essential parts of the strategy when replication is attempted.

#### The Principle of Research and Evaluation

"Research in this context involves gathering and interpreting information relevant to experimental objectives and strategies; evaluation means gathering and interpreting relevant information about how effectively the strategies have attained their objectives, in order to derive more suitable strategies for future use." It is not an exaggeration to state that this principle is the most important with respect to the manner in which the experimentation is carried out, and the manner in which the other principles are respected. It adds a requirement for responsible assessment and response to what is being done and to what is being revealed of the workings of the economic system. Although it is contrary to common sense, all too often strategies are introduced with minimal knowledge of the local economy, inadequately monitored during their trial stages and, when discontinued through lack of positive results, there is nothing to prevent repetition of similar mistakes. Adherence to the principle of research and evaluation should preclude such an eventuality though, of course, even researchers make mistakes!

To summarise the SRDP approach: it is a structured approach to accelerate development, emphasising finding out, trying out, and learning from doing, especially emphasising activation of local resources, and economising in use of scarce resources.

So far no reference has been made to the administrative requirements of such an approach. The precise content of the SRDP approach has been developed over a long time and the administrative capability has been subject to revision. The basic requirement is that the flexibility inherent in the SRDP principles should not be destroyed through the centralisation of authority. That is not to be interpreted as advocating totally decentralised administration; on the contrary, centralised control is probably both necessary and valuable, particularly where specialised funding

has to be obtained to finance the experimental input. However, the nature of the control should be sufficient only to insure adherence to the principles but not so tight and detailed as to stifle local initiative. This implies some degree of local autonomy. Indeed the essence of the problem, at least during the history of SRDP to date, is more one of co-ordination than of authority, particularly when responsibility for projects is shared among different ministries. In this case of overseeing for small-scale industrialisation, responsibility might be more narrowly based. It should be noted, moreover, that administrative procedures themselves including new systems of supervision and control are good targets for the SRDP approach, e.g. the SRDP reporting system for the continuous monitoring of individual projects by the central SRDP administration.

Having described the SRDP approach we can now examine its benefits for the planner. The most important apart from basic information on the particular area is the careful and reasoned identification of the objectives to be sought and the strategies to be employed. This may seem on the surface to be a slight gain from considerable effort, but in fact precision in defining objectives and strategies is a very rare event. Even the existing SRDP projects do not have too good a record in this respect. The reason for according low priority to careful specification probably lies in the fairly general agreement on the ultimate objective of development--"a higher standard of living of the majority of the population in terms of access to both public and private goods and services"--plus the mistaken belief that such an objective is adequate for the purposes of detailed and specific planning. It appears many of the difficulties encountered by SRDP so far can be attributed to this understandable misconception. Of course the ultimate objective is relevant. But when dealing with a single project it is necessary to define carefully the changes in people's behaviour which the particular project is attempting to achieve -- which "bad" performances are to be replaced by which "good" performances, and so on. A frequently cited objective is "more output", but the questions need to be asked "How much extra output? Of what? Produced by whom? To be sold at what price? Through which marketing channels....?"

The more detailed the specification of the objective, the more specific can be the selected strategy, and a carefully defined strategy can be implemented more easily and at lower resource cost than one which must be constantly subjected to revision as evidence comes to light during implementation. (Of course the ability to respond to the unforeseen is a valuable characteristic to be sought through the SRDP approach.) Even more important, a well-defined strategy facilitates development of replicable blueprints and prototypes. One SRDP project incorporated a multiplicity of strategies any or all of which could have contributed to the favourable outcome. But it could not provide a prototype for application elsewhere. Lack of precision in design can be avoided by strict adherence to the SRDP principles.

Although the Special Rural Development Programme has been employed so far as a "testing-bed" for prototype strategies for area-based planning, this is not a necessary characteristic of the programme. It pertains more to the present overall purpose of SRDP than to specific strategies being developed in individual projects and areas. It is this approach which is both the essential nature of SRDP and the feature which can now be most valuably applied in different contexts.

#### ANALYTICAL SEQUENCES OF THE SRDP APPROACH

The SRDP approach can be summarised<sup>5</sup> in a stylised form as follows:

1. Selection of area, product market, industry group, or other frame of reference as required
2. Research and evaluation to acquire understanding of this particular segment of the economy
3. Determination of development potential and formulation of specific objectives
4. Research and evaluation to identify bottlenecks obstructing the attainment of the objectives (the most complicated stage; see below)
5. Trial specification of the strategy to surmount the obstacle, paying attention to the requirements of replicability, and dependence on local resources

---

5. Excluding logistic elements.

including normally available government inputs

6. Evaluation of the pilot project during its design and implementation stages

7. Evaluation of final outcome and measurement of success

8. Development of a blueprint (documentation of the strategy) for application elsewhere.

The SRDP approach cannot be adequately expressed in this sequential summary, largely because careful adherence to the principles requires continuous response and adjustment to information produced by the evaluation process. Modification of strategies in the light of field experience is a most important feature of the process; there is no reason to pursue an inappropriate strategy to the bitter end of obvious failure when surgery could restore its ability to achieve a particular objective.

The identification of bottlenecks must be done with great care. A frequent error is to equate absence of some feature which might reasonably be expected to be present in the local economy, with the bottleneck. Provision of this feature then, mistakenly, becomes the prescribed strategy. The true bottleneck is the reason for the absence of this particular feature, not just its absence. As noted earlier, a bottleneck in the provision of employment is not necessarily the absence of machines for workers to operate, but the absence of the conditions necessary for profitable employment of men and machines. The error is most frequently encountered in respect to credit provision. It is often said that rural entrepreneurs, including farmers, cannot afford to exploit a particular economic opportunity but that credit provision would permit them to do so. However, it seems reasonable to assume that entrepreneurs behave rationally, whatever their level of development, and will allocate the resources at their disposal so as to be as well off as possible.<sup>6</sup> To say the producer cannot afford a particular opportunity, without seeking the basic constraints on his performance, is to fall into the tautology of saying he is underdeveloped because he is underdeveloped. It is

---

6. It has to be assumed that he will behave thus; if this assumption is found to be unjustified, the only hope for development is expansion of employment in government.



vital to identify the true bottlenecks, those constraints which limit his ability to be better off: limits on the size of the market, limits on his ability to reduce his costs to levels at which new markets open up, limits on his capacity to invest, and many others. Of course limited availability of funds to implement a particular proposal may indeed be the obstacle. But the preconception that this is the case has to be guarded against; credit places a heavy burden on the recipient, disastrously and unnecessarily if its application will not yield a net improvement in his situation.

#### TRANSPLANTING THE SRDP APPROACH

"SRDP to date has concentrated heavily on pulling together projects with immediate objectives of increasing agricultural output. . . . Hardly any experimental activity appears to be aimed at increasing industrial, i.e. manufacturing, output". Furthermore, the experiments' strategies have concentrated largely on strategies to improve husbandry skills rather than, for example, strategies to improve marketing of inputs or outputs. This is more significant than it might appear at first sight; the special conditions within underdeveloped agriculture have not seriously tested the SRDP approach, and a review of them suggests the ways in which the approach will have to be developed in order to transplant it successfully into a new field.

The simple and obvious fact that more people are self-employed in agriculture than in non-agricultural pursuits, is of considerable importance in influencing the choice of strategies. The logic goes something like this: all farmers are in roughly similar situations, bound together by the common medium in which they work, even though broad categories can be differentiated by farm size or "progressiveness". Sampling techniques are therefore the best and most economic means of examining their situation. The next step (a contentious one) is to hold that sample results can be compared with externally derived standards of excellence to identify obstacles to development. The subjective inclinations and assessments of the personal situation of the individual producer, an area rarely tapped by sampling techniques, are not deemed to throw any light on his likely capacities as an entrepreneur. SRDP experience with this "law of large numbers"

approach has not been encouraging. But in the context of accelerating development of non-agricultural activities, where there are fewer entrepreneurs and where personal capacities are more clearly important determinants of performance, there is even less likelihood of successfully identifying the real bottlenecks to development. So high on the priorities must be the development of fact-finding procedures which are consistent with SRDP principles yet which can work in this difficult non-agricultural setting.

There is one important feature which agriculturalists do have in common which non-agriculturalists do not; viz. a body of agricultural science and the existence of non-profit research organisations concerned with the furtherance and dissemination of knowledge of that field. There is no equivalent as far as manufacturing is concerned -- possibly excepting business management. And when there is no common, guiding science, there can be no technical standards of excellence for the identification of the development potential of a particular area; there is no basis for comparing what is and what could be. SRDP experience has shown this method of the specification of potential to be unhelpful, as it does not take into account the question of motivation of the producers themselves. Ascertaining the scope for non-agricultural development in a particular area will have to penetrate the issue of motivation.

A third factor, and possibly the most important, concerns the nature of the market in which the producers operate. It has been assumed that increased agricultural output will always find a ready market at adequate prices, and that individual producers' shares of the market are of no great interest. There is some support for this assumption: considerable scope for improved on-farm consumption, statutory marketing organizations which offer a guaranteed market for certain produce, and a rapidly growing population. (Events in the near future may show this to have been an erroneous assumption to make about agriculture.) For the non-agricultural sector this assumption is clearly erroneous. There is a fairly obvious relationship between the size of the market for locally-manufactured goods and the number of producers who can serve it; unfulfilled demand is slight. One producer

can only expand production substantially at the expense of another producer. Efforts to encourage a particular technology or product must take into account both market size and market shares. This has important consequences for strategy selection, particularly if equity is an important consideration. It is perhaps legitimate to concentrate extension resources in helping those farmers who "lag" since their increased output will, it is assumed, find a ready market. The same approach with regard to non-agricultural pursuits is less defensible; expansion will be at the expense of someone else.

Fourthly is the issue of interdependence between the non-agricultural and the agricultural sector. The most important determinants of the local market for non-agricultural products are the level of activity and incomes in the agricultural sector and the prices at which the goods are offered. The selection of the strategies for development of the non-agricultural sector must reflect what is happening in the agricultural sector. The SRDP approach has little experience in dealing with such interdependencies. This factor and the one preceding will oblige the users of the SRDP approach to come to terms with the problems of the competitive situation and to design strategies functional in such an environment.

There is one further complexity: that rather mystical quality known as "entrepreneurship", the willingness to risk income and capital to improve one's personal economic situation. In many ways the test of a successful development strategy is its ability to release this resource in greater quantities. But this is rarely achieved knowingly. It may be that the prescription of improved technology through training or assisted investment will create an environment more conducive to entrepreneurship, but it is not the entire answer; indeed, in the non-agricultural sector, it may be a very small part of the answer. In this part of the economy the difficulty of understanding the factors which influence entrepreneurship, and the need to do so, are greater than in the other principal sector of the economy.

To summarise: although there is reason to believe that the non-agricultural sector of the economy is more complex than agriculture the SRDP approach used for the latter should prove fruitful provided these complexities are recognized. But that

could be ensured by a careful adherence to the principles of SRDP.

#### CONCLUSION

Searching for useful development strategies is by no means a simple or rewarding task. But if the pace of development is to be accelerated the search must continue. To go about this process in an undisciplined way risks immediate failure. An organised and comprehensive approach, such as the SRDP approach, guarantees an economy of effort in the search process, and, possibly, more useful development strategies. It is sensible, structured, and comprehensive. Its main drawback is that it is difficult to implement. The difficulty does not stem from the approach itself but rather from the intrinsic complexity of social and economic systems, a complexity which appears to be much closer to the surface when non-agricultural enterprises are considered. Since the SRDP approach has to date concentrated more on the agricultural sector it must necessarily be developed further when applied to the more complex, non-agricultural sector.

The guiding principles of SRDP remain valid; they appear both necessary and sufficient for the task at hand. Their meaning in the new non-agricultural situation has yet to be elaborated, however. Experimentation for example, may involve granting temporary preferential treatment to selected entrepreneurs through the relaxation of particular controls or the awarding of contracts on a monopolistic basis; or it may involve manipulation of the resource position of particular entrepreneurs through the provision of credit, or the provision of sites; it may involve the integration of rural production and urban marketing facilities; it may involve expert advice on book-keeping or investment appraisal. Obviously a list of possible strategies is without end -- a more openminded treatment of this sector is called for. Research and evaluation is probably the most difficult principle to apply in this process, since the situation is highly complex and since there is little prior research of an analytical nature regarding this sector. Market analysis, examination of business conduct and performance, estimation of costs and capital requirements, and pricing policy are suitable target areas for research.

It is to be hoped that future efforts to encourage small-scale industrialisation will test the SRDP approach and that it will provide confirmation of the statement that the proof of the pudding is in the eating.

LINKAGES BETWEEN AGRICULTURE AND RURAL  
SMALL-SCALE ENTERPRISES

Philip M. Mbithi & Fred E. Chege

Institute for Development Studies  
University of Nairobi

Linkages between agriculture and industry have been known for a long time. Rodney, writing about development of indigenous African agriculture has said: "... the single most important technological change underlying African agricultural development was the introduction of iron tools, notably the axe and the hoe replacing wooden and the stone tools." Further Rodney writes, "It was on the basis of the iron tools (which were products of manufacturing industry) that new skills were elaborated in agriculture as well as in other spheres of economic activities." (Rodney, 1972). Agriculture's dependency on industry as a source of capital goods, e.g., machines, tools, implements, and other farm inputs like agricultural chemicals and animal feeds, has a long history.

Other important industrial sectors have equally strong linkages with agriculture e.g., agricultural produce processing industries, retail and wholesale marketing industries, and others which have come to be grouped together under names like Agro-Industrial Complex or Agribusiness.

One can show human as well as inanimate linkages between the two sectors. There is for example a very close connection between the agriculturist and the industrialist in the rural areas of some countries; the people who farm the land are, to some extent, the same people who run non-farm rural enterprises. Studies carried out in Kenya and elsewhere show this connection quite clearly. For instance, in a study (Mbithi, 1971) it was found that farmers in marginal and medium potential regions of East Africa were more frequently engaged in non-farm occupations than farmers in high potential regions. Farmers in high potential regions more often found most lucrative occupations on their own farms through the adoption of income-generating innovations or technologies and did not find it either profitable or necessary to engage in activities outside farming. Under marginal and medium potential conditions, however, farmers tended to engage in non-farm as well as farming occupations perhaps as a measure

against the risk of insufficient farming income. Table 1 shows the level of adoption of farm innovation and the degree to which farmers in the various regions engaged in non-farm occupations. The most important finding is that farmers actually engage in non-farm occupations and that they do so in varying degrees depending on the agricultural potential of the farms and also on the level of adoption of recommended agricultural practices (innovations).

In a survey of non-agricultural enterprises in Nyeri, a very high potential area of Kenya, more than 51% of the owners of retail and wholesale businesses had secondary occupations, nearly all in farming. Also, out of 226 owners of manufacturing and repair enterprises, 42% had secondary occupations, nearly all in farming. This study also found that even full-time farmers

TABLE 1  
THE RELATIONSHIP BETWEEN NON-FARM OCCUPATION  
AND LEVEL OF FARM DEVELOPMENT (ADOPTION SCORE)

Farm Innovation Adoption SCORES.	Frequency of Non-Farm Occupation of Farmers		
	Eastern Kenya % Farmers	West Mengo % Farmers	East Mengo % Farmers
0	30	31	48
1-20	17	31	47
21-40	14	5	5
41-60	10	7	0
61-80	8	3	0
81-100	8	16	0
101+	13	7	0
	100	100	100
N	126	62	64

Source: Mbithi "Non-Farm Occupation and Farm Innovation in Marginal, Medium and High Potential Regions of Eastern Kenya and Buganda." I.D.S. , University of Nairobi, Staff Paper 114, 1971.

may devote some hours each week to service outside farming.<sup>1</sup>

TABLE 2

NUMBER OF NON-AGRICULTURAL RURAL ENTERPRISES BY  
ECONOMIC ACTIVITY 1969

<u>Economic Activity:</u>	<u>Number of Enterprises:</u>
Retail-food, drinks, tobacco	11,417
Retail-other	9,094
General retail	8,134
Restaurants & similar services	4,935
Tailoring	4,385
Bicycle repairs	1,575
Furniture and fixture	1,575
Posho (maize) mills	1,337
Footwear manufacture and repairs	1,147
Retail clothing, shoes etc.	914
Fishing	809
Other handcraft	672
Sawn timber mills	479
Charcoal burning	336
All others	4,321
Total	51,005

Source: Ministry of Finance and Economic Planning: Survey of non-agricultural enterprises in rural areas, 1969.

1. Inukai & Okelo (1971). It is very possible that owners of non-farm agricultural enterprises in Nyeri who engaged in farming as a secondary occupation, were also quite progressive farmers. If this is the case, then one can conclude from figures provided by the two studies that, land potential notwithstanding, a substantial number of farmers will engage in non-farm enterprises either as a risk-reduction measure or as a means of diversification of their occupations.



Table 2 shows the number and type of non-agricultural enterprises enumerated in a survey of rural areas in Kenya in 1969. Table 3, shows the employment status of the people engaged in non-agricultural enterprises for the years 1967 and 1969.

TABLE 3

EMPLOYMENT IN NON-AGRICULTURAL ENTERPRISES IN RURAL AREAS 1967 - 1969. ('000s)

	<u>1967</u>	<u>1969</u>
1. Self Employed	71.3	67.9
2. Family Workers	32.6	37.6
3. Regular Employees	34.7	47.5
4. Casual Employees	<u>27.2</u>	<u>34.1</u>
5. Total Employees (3+4)	61.8	81.6
Total Employment (1+2+3+4)	165.7	187.1
No. of Enterprises Covered	53,177	51,088

Source: Survey of Non-Agricultural Enterprises in Rural Areas 1967-1969 (Unpublished data).

The point we emphasise here is that the enumerated enterprises show strong connections with agriculture. For instance the retail trade especially the portion dealing in food, had to obtain food products directly from the farms. Leather works, as well as Posho (maize) mills, processed agricultural products. Considering the type of people employed in this sector and bearing in mind the Mbithi and Inukai/Okelo findings, there is a strong case that a substantial number of the employees (self, family, regular or casual) owned small farms which they cultivated in their free time or which they left under the care of wives or other relatives. It was estimated that of the 67,954 self employed persons in non-farm occupations in 1969, only about 5% were engaged in these enterprises on a full-time basis. Of the other 95% the majority were farmers while a minority was employed in Government and/or local authorities. Teachers and other government and local authority employees are known to have farms of their own meaning that these groups have at least three types of occupations, viz farming, trade, and salaried or wage employment.

Looking back at table 2, one can say that all these non-agricultural enterprises in the rural areas were made possible by the existence of agriculture. In the absence of the farming community one cannot conceive the viability of food, drink and tobacco retailers in the rural areas. Retailers depend on farmers to supply them with food for sale and also the purchasing power or the market for their output.

AN INTEGRATED RURAL DEVELOPMENT FRAMEWORK:

The Place of Agriculture in Rural Industrialization

The close relationship of agriculture to rural industries development is also borne out by various statistics about the structure of our rural economy. About 92% of Kenya's population is rural and earns its livelihood predominantly from agriculture. In 1969, there were 1.7 million rural households and the vast majority of these were owners or occupiers of land. Reliable estimates show that in 1969 there were approximately 1.2 million agricultural holdings. Assuming one household per holding, roughly 70% of the 1.7 million households would have had an agricultural base for generating income and self-employment. As shown earlier, 75% of the 51,000 non-agricultural rural enterprises were owned by farmers.

From the above facts, it is clear that agriculture plays the central role in the rural economy. Kenya's rural development strategy sees increased productivity per unit of land as the precursor to all other development activities including small-scale rural industrialization.

Agriculture is the major source of cash income for the majority of Kenyans. The state of agricultural incomes determines the potential consumption trends and hence determines the rural absorptive capacity for industrial goods. A household budget survey by Mbithi and Barnes, shows quite clearly that cash income is the constraint limiting satisfaction of a myriad of perceived needs -- school fees, clothing, taxes, harambee self-help dues, chang'aa, petty needs such as salt, paraffin, sugar, tea/coffee leaves, bread and other needs such as buying basic agricultural inputs such as ploughs, jembes, hired labour, seed etc.

The search for viable agricultural enterprises must be treated as part and parcel of a rural industrialization programme, if one is to pull the rural economy out of what Sol Tax (1953) called Penny Capitalism and what Schultz (1964) considers as a vicious cycle of smallness of scale. Rural industrialization

must be programmed to produce goods complementary to products generated or required by the rural economy. Noting that over 70% of the rural people are actually land owners, it would be logical to conclude that their demand for industrial goods will tend to be farm specific i.e., tools, machines, building materials etc. A stagnant agriculture will stunt a budding rural industrialization programme.

A developing agriculture absorbs more rural labour than a stagnant one and removes the strain on a budding rural industry which would succumb under the weight of an army of unskilled, untrained, competing artisans. This factor is important when one notes that small-scale rural enterprise cannot avoid stiff competition from larger scale, urban-based industries. It is also important when one notes that 75-80% of all the new entrants into Kenya's labor force each year will have to be absorbed in rural areas. This is mainly because of the small urban industrial base and its slow employment growth rate.

To compete effectively, a rural industrialization programme must be developed through proven entrepreneurs; people create a need for their goods and ideas and develop their own markets. This assumes of course that, initially, we will produce for the home market and a limited tourist industry before we are able to compete with urban areas and with the outside international market.

The prices of domestically produced raw materials such as fibre, wood, charcoal, produce, etc., tend to decline relatively, with more efficient production methods made possible through increased technology transfer to small farms. Increased adoption of technology occurs under conditions of favourable farm input prices and favourable markets for farm produce. All these processes illustrate the interaction of developing agriculture and developing rural industry.

As the dominant sector, agriculture ought to generate the largest share of capital for development and recurrent expenditures for a rural development programme. The investment could either be through the public sector (taxation, levies, tolls) or through private investment. Programmes which complement

rural industrialization such as road and infrastructural development, power installation, water programmes, could be substantially financed through a developing agriculture.

AGRICULTURAL FACTORS INFLUENCING THE GROWTH OF  
NON FARM RURAL ACTIVITIES

Interaction Between Customary Land Tenure Practices, Population Increase, and Economic Changes.

The majority of Kenya's rural population holds land under traditional land tenure norms or under a modified system of land consolidation and registration. Variation in degrees of control of land associated with land tenure practices might explain why rural residents seek occupations to supplement farm income. Landlessness, arising from the dominant land ownership practices under trust lands tenure laws is an important factor affecting land control problems and the development of a non-land owning rural class which would be drawn directly into an industrialization programme.

Customary land tenure is defined as the right of any Kenyan citizen, to use or occupy land in accordance with the customs or law of the area, "which are not repugnant to any written law". All land rights under customary land tenure systems are by the Kenya Constitution, vested in the County Councils, under a freehold title registered in the name of the county council. (CAP 208).

Customary land rights vary greatly from one region to the other, basically on ethnic lines. Thus the rights of land use, land allocation, disposal of land or reversion to blood lines are controlled in varying degrees by the household, the lineage, the clan, the tribe or the non-kinship territorial unit. Thus generally in Central and Eastern Kenya and Coastal Hinterlands, the rights tend to be exercised by the clan whereas among pastoral and nomadic tribes of the Rift Valley and Northern Kenya including Lamu, the rights tend to be territorially defined, so that, for example the Kaputiei Masai (from Kaputiei region) have rights to a given grazing territory, certain water holes, salt licks, livestock routes and have definite seasonally defined migratory patterns.

The tribe traditionally is responsible (now through the County Councils) to allocate and generally protect land for the interest of the people included within its "boundaries". The County Council maintains land tribunals and encourages locally based tribunals of elders to control and arbitrate land issues within its jurisdiction. The County Council can also appoint a land allocating committee with approval of the District Commissioner.

Customary law recognizes 4 different rights in land (Lawrence Report 1966)

- a. Right of use i.e., grow crops, graze, use wood and timber, build upon, limited excavation etc.
- b. Right to allocate land and make parcelling binding.
- c. Right to dispose, sell, alienate land.
- d. Right to determine inheritance and succession.

These four "rights" represent a scale of control; the tribe controls all and under its general control the clan, the lineage, the family and the individual hold rights in decreasing order of "ownership". In fact, in most Kenyan tribal areas, individuals simply hold rights to the use of land although, within a clan network, these rights are inalienable.

Here we must also mention that depending on land use patterns, rights of use could be made permanent and lead cumulatively to (b); (c) and (d) within the tribal system. Increasing individualization of land tenure still occurs with a segmented political system where tribal consciousness is fanned, often on other political grounds, but leads to an awareness of tribal "ownership" of land.

#### Factors Favouring or Leading to Individualization of Land Tenure

1. Decline in community control over allocation because due to increased settlement, there is no more land to allocate. This is caused by population increase.
2. Decline or complete breakdown of lineage, family or clan control over individuals and their activities in lending, loaning, or selling land to outsiders.
3. Enclosure of land that was previously open to communal

grazing e.g., Kipsigis, Elgeyo, Mberere, Ngong etc.

4. Breakdown in tribal norms, leaving individuals free of social control or sanctions and thus able to use or hold land continuously and to apply for title without a higher traditional authority to dispute the claim.
5. Introduction of valuable cash crops and more expensive forms of investment in land leading, in turn, to a consolidation of claims of individual ownership of a piece of land.
6. Land consolidation and registration of title to land within the Trust lands.

"Individualization" of Land Tenure within the Household.

Amongst many people in East Africa, the wife or wives each have fields assigned for their use, an assignment which once made, is often irrevocable and is one of the rights a wife expects within wedlock. Failure to assign land to a wife, especially after children are born, often constitutes grounds for divorce. In some subcultures, it is the custom for sons to be allocated land, and plots for independent use when they marry although the sons will not acquire rights to dispose of these plots until their father's death. The household head who is usually thought of as the 'owner' of a holding, may in fact have effective control over the use of only a small part of the land he "owns". His rights are limited by the rights of use held by other members of his household.

Excessive individualization of rights of use within the family may create inter-family strains, disputes, jealousy. Older brothers and uncles often take the lion's share of the good land, invest in permanent tree crops, or conservation structures and establish an unchallengeable hold over such lands. Younger brothers often acquire poor stretches or very little. This establishes the basis for future land disputes, poor security in tenure, and search for alternative non-farm occupation.

Generally only sons, not daughters, inherit land which is normally held in trust by their mothers, in case of polygamous households.

Landlessness and Non-Farm Economic Activities

Under present, customary inheritance laws, factors which increase the degree of individualization of land tenure are the same factors which lead to landlessness and search for non-farm occupations. In this connection we note that in general women do not inherit land and even the unmarried ones must release land to their male siblings when and if there is any demand for the land they may be using. Women employment rate in the modern industrial sector is very low and the trend is for women to move into farming, mainly through marriage, by acquiring their husbands' land rights as a marital right. With continued low levels of enrollment for girls in secondary schools and University, female participation in formal employment will continue to be low. This fact, coupled with the historical trend for men to migrate more to urban centres, means that more women are taking over rural-male activities, within the farm household.

Women who divorce their husbands, or fail to marry, automatically become landless even though some might acquire temporary rights of use on a portion of their fathers' land. These women tend to take up land as squatters or start non-farm businesses such as petty food trade, pottery, weaving etc. Table 4 shows the most common forms of non-farm occupation, under normal farming conditions for Eastern Kenya. The figures show that a

TABLE 4  
NON-FARM OCCUPATIONS

<u>Job Type</u>	<u>% Household Members</u>	
	<u>Female</u>	<u>Male</u>
1. Shopkeeping (general store, butchery, eating house, bar etc.)	0	30
2. Beer brewing (often illegal)	29	5
3. Casual labour	25	14
4. Petty trade; sale of snuff tobacco, grain, food items, drugs, vegetables etc.	23	6
5. Bicycle repair, shoe-repair, tailoring, masonry and carpentry	0	30
6. Lorry and bus transport	0	10
7. Weaving, rope making, ornament making (e.g. beads stringing) mat making ect.	10	2
8. Carving, beehive making, arrows-bows making, dance drums making, arrow poison brewing	0	8

<u>Job Type</u>	<u>% Household Members</u>	
	<u>Female</u>	<u>Male</u>
9. Livestock trade	0	4
10. Carting of water	0	3
11. Medicine men, anti-witchcraft, healing	6	3
12. Pottery	2	0
13. Part-time teaching, preaching etc.	2	3
14. Other	10	9
	107	127*
Total householders accounted for	163	51**

higher proportion of women than men hold non-farm jobs. Also, the nature of non-farm jobs and their distribution shows a strong sexual bias. Men keep shops, perform repair jobs, carpentry and masonry, keep bees, make arrows, engage in livestock trade etc. Women specialize more in beer brewing, casual labour, petty trade, weaving, pottery and witchcraft healing.

But this table, which represents non-farm job occupations under normal conditions does not highlight the unique role women play in the desperate bid for survival under famine/crisis situations and the more stable aspects of non-farm activity. This aspect will be discussed below.

In Kenya, customary inheritance laws vary from one ethnic group to the other but are rarely written. There is no system of wills or sworn statements indicating how much land each son should have. Inheritance is based on occupancy and establishment of individual rights. It is often the case that younger brothers pick up useless left-overs, exhausted, land, steep hillsides etc. These also form a large portion of the potential squatters, jobseekers, and rural odd-job men. They present themselves for every recruitment for such programmes as village polytechnics, village craft centres, etc. Traditionally, each tribal unit was

\* In some cases household members held more than one non-farm job.

\*\* Note that 65% of the Adult males and 6% of the adult women were away on employment outside the study areas and were not included in the sample.



able to absorb hard-working, landless individuals through the system called in Kikuyu "Ahoi" and in Kikamba "Atuwa" -- those who are accommodated temporarily. When land consolidation is carried through in any region, these people normally lose their rights as they cannot be included in the register for title deeds and have no legal rights in land.

Land consolidation therefore displaces the landless relatives and friends and creates a population of landless individuals, who again either migrate to urban centres, become rural or urban squatters, petty traders, or odd-job men in the rural areas. Research in Tetu Division of Nyeri District, by Roling and Ascroft (1972) shows that the increased need for cash among small peasant farmers has led to the growth of a land market where progressive, richer farmers are buying out smaller farmers. Further research work by the authors shows that during food shortage crises (one in every three years) in the marginal agricultural districts, progressive shopkeepers encourage small farmers to mortgage their land for food, cash and supplies. This practice adds to the crop of landless people to be absorbed in non-farm occupations or as paid farm workers.

When land is registered it is legally expected that only one son shall inherit title deed and that land shall not be subdivided. Areas which have been consolidated and farmers given titles should be more ready for development of alternative occupations to farming.

#### Agricultural Crisis

Studies on farmers' adjustment to environmental hazards are complex and specific to each economic system. Among the most common responses to crises are

- (a) diversion to traditional crafts such as weaving, carving, and pottery, (b) search for wage labor, and (c) shift to agricultural practices to modify the cause.<sup>1</sup>

---

1.c.f. Jerry Kaltenharser: "Global Summary of Human Response to Natural Hazards: Drought. 22nd International Geographers Congress; Commission on Man and Environment. Calgary, Canada July 1972, Heijnen Joop and Kates R.W.: "Drought in North East Tanzania". Calgary, Canada 1972.

In our studies in Eastern Province, Kenya, we found that during the 1961 and 1965 floods, and during the 1970-71 droughts, over 60% of the farmers sought non-farm employment. Data for the 1961 and 1965 food shortage periods shows that the most frequent alternative activities during the 1961/65 famines were: beer brewing 30% women 12% males, search for casual labour; excavation for stones and sand, poaching and unauthorized hunting, petty food trade.

TABLE 5

ALTERNATIVE, NON-FARM ACTIVITIES DURING 1965 FAMINE  
CRISIS

<u>Job Type</u>	<u>% Household Members</u>	
	<u>Female</u>	<u>Male</u>
Beer brewing (often illegal)	30	12
Casual labour	25	20
Middlemen in food trade and rural petty trade	10	5
Selling crushed stones and heaped sand	15	5
Selling firewood, charcoal	10	8
Rope making, basket making,	16	0
Poaching	0	10
Other (often unemployed or pursuing usual activities)	4	57
	<hr/> 110	<hr/> 117
	163	51

Table 5 also shows quite clearly that in the famine crises, the women tended to adapt more and occupy leading roles as bread-winners.<sup>3</sup> The women were found to be most active in illegal beer brewing and as middlemen in food trade. They would buy grain from one market place and sell it in small quantities in another.

3. The prominent role played by women in self help activities in this area also supports the argument that women need training for farm and rural development as much as men. Women's role in small-scale rural industries deserves careful study.

They were thus useful fences for black marketeers. These women would also buy creamed milk from the neighbouring cattle ranches, ferment it, and sell it at market places. They would buy raw bananas from distant market places, ripen them under earthen incubators and sell them. They would sell cooked porridge, snuff tobacco, peddle wild herbs and drugs, sell dry firewood and some have been known to sell their favours to men in prison and work camps such as Maradi, Karaba, Machakos, Athi River, Thika, Nairobi etc. In this struggle to obtain food for one's family, a lot of the social norms are relaxed, families are broken and/or whole families migrate to colonize new lands. In 1965 emigration to Shim'a Hills, Darajani, Mivukoni, Karaba and Meru from the 4 sub-locations studied significantly reduced the settled population. Members of an extended family commonly travel to new, marginal areas to open up new 'colonies' and grow crops to send back to the parent household.

It should however be noted that the study of non-farm occupations through interviews of existing farm-household heads logically leads one to under-estimate the innovative potential of the people who currently live in these areas. It is possible that successful adaptation to the harsh environmental conditions leads the less hardy to abandon farming altogether to migrate to rural or urban centres, or start a full-time non-farm occupation.

#### Nature of Rural Labour

It is becoming increasingly clear that a significant proportion of rural unemployment results from the "choosiness of rural job seekers". This choosiness might stem from many factors but education or exposure to the educated generates aspirations which are inconsistent with the demands of rural labour. Toiling in exposed conditions (in rain, under the sun) against apparently insurmountable odds such as fast growing weeds, hard-pan of lateritic soils, race against onset of rains is the typically considered "drudgery" by the enlightened. Routine jobs such as weeding rows of coffee trees, harvesting cotton or finger millet or herding livestock are boring. One may be forced to work 24 hours a day to rescue ripened crop from wet weather or a young delicate crop from weeds. Since peak labour demands often coincide with periods of low farm food supply, especially during planting and weeding seasons when stored family food reserves are often depleted or very low, it is common in such cases to be expected to work with an empty belly for hours on end.

Such toil, in the open, and with an empty belly, often leads to low resistance to diseases, chronic illness and low life-expectation. These factors are often enough to create a negative orientation to farm work and increased family friction. The end result is migration from the home environment.

Content analysis of folk songs show that such factors generate our local "hoteli" boy, the rural bar maid, the "kibarua" job seeker and the rural-urban migrant. As the National Youth Service Director commented to one of the authors; "My recruitment teams are used to handling 2,000 youth in any one rural recruitment centre when we only want 5 recruits!"

One suspects that most "apprentices" to craftsmen, such as the swarm of 'mechanics' one collects on driving a faulty car into Grogan Road, Nairobi, are recruited from such rural backgrounds. Even a loosely planned rural industrialization programme will probably catch its share of such youth.

#### Labour Troughs:

Periods of slack farm labour demand often lead people to seek alternate activities or, alternatively, to diversify the farm economy to increase its income generation capacity.

Under bimodal rainfall regimes the slack, dry seasons are very clear cut. In the Eastern plateau for example, the long dry season from July to October is a period for beehive making, house making and repairs, carving, weaving, initiation ceremonies etc. Such periods generate more capacity for involvement in non-farm activities than any other period in the farm calendar.

#### Level of Farm Development

Mbithi's study established that the development of non-farm occupations was related to the level of farm development and to some extent to the agricultural potential of the region. Thus in areas with a low technological base and few viable alternative farm enterprises, non-farm activities become integrated into the farm enterprises.

This is of course self-defeating in an economic system where the non-farm sector is dependent on linkages for its development. Hence, one finds that the development of Somali-Borani Crafts was closely related to the establishment of livestock trade links through Galla-Kamba countries to the coast, and through Gaba Tula and Isiolo to the South West.

#### SUMMARY

We have noted that rural industrialization is intricately linked to agriculture and offers a basis for a potentially powerful strategy in a balanced or integrated rural development programme. Over 75% of the rural non-farm businesses are owned or run by persons who also have farming as the principal or primary second or third occupation. Most rural businesses are directly linked, for their viability, to agriculture such as posho mills, food retail, tobacco retail, leather-works, fibre-works, and most repair works including bicycle repairs, utensils repairs, etc. We have also argued that the industrialization programme is heavily dependent on agriculture for infrastructural and institutional development, creation of absorptive capacity of rural areas and the establishment of viable external linkages. The search for viable agricultural enterprises must be treated as part and parcel of a rural industrialization programme and vice versa. A developing agriculture absorbs unskilled masses of rural labour and creates a more relaxed environment for developing industrial training and apprenticeship policies.

Agricultural crises, price slumps and income drains on farmers are important determinants of the quest of non farm pursuits. Due to female/male disparities in employment in the formal sector and discriminatory land tenure laws, the problem of women participation in rural industries must be treated as a special high priority issue. The welfare problems facing a landless, unemployed mother are more critical than those facing a landless, unemployed man.

We have indicated that a rural industrialization programme will likely attract poorly qualified manpower attract innovative individuals who can create a sustained demand for their goods. Such ill - qualified may include school leavers

and drop-outs with pre-maturely developed white-collar mentality, or social outcasts who have left or been evicted from agricultural communities; or even failures in non-farm business.

#### RECOMMENDATIONS.

In planning a rural industrialization programme, the assumption that there are certain rural people who will be attracted to an industrial centre for long training periods ignores the reality of rural economic structure. It is possible that the best material for an industrial programme are those with some supportive farm activity with which to subsidize the development of an industrial occupation. Such people will control some capital whereas the unemployed, rootless individual will tend to be a heavy liability. His training costs will tend to be high and will necessarily reduce the scheme's total scope and impact to the patronage of a few lucky individuals. Such an approach does not seem to have a strong employment impact and will likely perpetuate income inequalities. We therefore recommend the extension approach to rural industrialization; a programme carefully evaluated in terms of scope, initial impact, equity issues, employment potential, and degree of integration into other rural development strategies.

We recommend that the participation of women in the programme be reviewed very carefully with the view to including as many independent women as possible.

To stabilize the relationships between agriculture and small-scale rural industry, we recommend that clearer land inheritance policies be developed, increasing our capacity to predict the number of people who cannot enter farming and, hence, would be candidates for alternative programmes such as small-scale rural industries.

The programme should establish peak activity seasons which coincide with periods of employment troughs in agriculture so as to reduce competitiveness in labour demands, especially among entrepreneurs who may still maintain both occupations.

An area-based rural industrial programme should be capable of diverting certain resources to support complementary agricultural activities such as livestock projects and marketing arrangements to support a local leather factory, or a local hybrid maize programme to sustain posho milling etc.

REFERENCES.

- Ascroft J.R. et. al. "The Tetu Experiment" paper presented to  
to the Workshop on Strategies for the Improvement  
of Rural Welfare. University of Nairobi June 1971.
- Government Printer: The Constitution of Kenya, Nairobi 1963.
- Inukai I. J.Okello: Rural Enterprises Survey in Nyeri District,  
Kenya: A report of the Consultants to Danida 1971.
- Heijnen, Joop, & Kates: Drought in North East Tanzania.  
Calgary, Canada, 1972.
- Kaltenhauser Jerry: "Global Summary of human responses to Natural  
hazards: Drought: 22nd International Geographic  
Congress. Commission of Man and Environment.  
Calgary, Canada July, 1972.
- Lawrence  
Mbithi P.M. Non Farm Occupation and Farm Innovations in Marginal,  
Medium and High potential Regions of Eastern Kenya  
and Buganda. I.D.S. Working Paper No. 114, 1971.
- Mbithi P.M. & Wisner B. Farmine and Drought in Kenya. I.D.S.  
Discussion Paper No. 144 1972.
- Mbithi P.M. & Joppa Anthony: The Absorptive Capacity of Rural  
Areas for Diversified Rural Activities. Paper  
prepared for ILO & UNDP Mission on Unemployment in  
Kenya, APRIL, 1972.
- Ministry of Finance and Planning: Survey of Non Agricultural  
Enterprises in rural areas, 1969. Unpublished.
- Ministry of Finance and Planning: Survey of Non-Agric. enterprises  
in Rural areas 1967 - 1969 (Unpublished).
- Schultz Theodore W. Transforming Traditional Agriculture.  
Yale University Press, 1964.
- Tax, Sol. "Penny Capitalism" Institute of Social Anthropology.  
Smithsonian Institute No. 16 Washington D.C.
- Rodney, Walter: How Europe Underdeveloped Africa,  
Tanzania Publishing House 1972.

EDUCATION AND TRAINING FOR SMALL BUSINESS

E.M. Godfrey

Institute for Development Studies

University of Nairobi

In spite of the title, little will be said in this paper about education as opposed to training. Expansion of the educational system has presumably raised the average educational level of Kenyan businessmen. Marris and Somerset<sup>1</sup> suggest, however, this in itself is unlikely to make them better businessmen than their less educated predecessors. Basic literacy is obviously important to a businessman but, beyond that, in a society where education is "the principle system of allocating status and chances in life"<sup>2</sup> denial of education may be a stronger spur to enterprise than further years of schooling. Thus both primary school-leavers who fail to get into secondary school and secondary school-leavers who cannot obtain formal-sector jobs can be expected to try self-employment in the informal sector - with perhaps the competitive advantage to the primary school leaver who entered the market place four years earlier.

The organisation of the paper is as follows. In section A the existing provision of training for small business is described. In section B the recommendations relating to training of the Working Party on Small Business Development<sup>3</sup> are briefly summarised. In Section C questions for discussion, arising from the first two sections, are presented.

A. THE EXISTING PROVISION.

Broadly, two types of training are provided for small businessmen in Kenya: short (up to a fortnight) courses and

---

1. Marris, P. & Somerset, H.A., African Businessmen. London, Routledge & Kegan Paul, 1971.

2. Ibid. p20 }.

3. Working Party on Small Business Development. Report. Nairobi, 1972. (Mimeo).



seminars for existing businessmen and longer (one or two years) courses intended mainly for potential entrepreneurs. In addition there is the extension approach, exemplified in Kenya by the Partnership for Productivity.

1. Short Courses and Seminars.

Ministry of Commerce and Industry, Trade Division. The Trade Division of the Ministry of Commerce and Industry provides the most widespread network of training for small businessmen. All Provincial Trade Officers and all District Trade Officers are expected to organise courses and advice for local businessmen.<sup>4</sup> During 1972 fourteen such courses were held in Central Province alone. Of these eleven were one-week courses, open to all, with an average attendance of 44; three were more advanced province-level courses, lasting two weeks and with an average attendance of 56, intended for established businessmen who may have already attended the more elementary course. The courses are usually held in Farmer Training Centres or District Training Centres. Some assistance has been received from the Management Training and Advisory Centre. Follow-up is difficult, if not impossible, because of shortage of transport. No fees are charged (at any rate in Central Province). The total budget of the Trade Division in 1970/1 was 1.4m shs.<sup>5</sup>

Management Training and Advisory Centre. The Management Training and Advisory Centre, established in 1966, has recently shifted emphasis toward training for small businessmen. In

---

4. The full list of duties of a trade officer is imposing. Apart from conducting short courses for businessmen (at least twelve per year) and arranging follow-up to such courses, a trade officer is expected to: keep the Ministry informed of local trade trends and patterns; stimulate the formation of cooperatives and other joint enterprises; advise applicants for loans and those who have received them; advise ICDC etc. on the suitability of applicants for loans; disseminate information of interest to traders; implement the trade licensing act; keep an eye on the prices of goods and report breaches of price controls, etc. etc.

5. Estimates of expenditure unless otherwise are stated, are taken from Thomas, Dorothy, Who Pays for Nairobi. Board of Adult Education,

1972 it conducted nine courses with an average attendance of 27 in Nairobi, Mombasa, Kisumu, Nakuru and Nyeri (where attendance was as high as 74) and other places. During 1973 it plans to increase the number of courses to 28 and to widen its coverage to virtually every important trading centre in Kenya. Courses last for two weeks in the larger towns, one week in the smaller towns. No follow-up has yet been possible because of shortage of staff but an extension service is proposed in the new programme. A fee of 50/- per week is charged. During 1970/1 (when 69 courses of all kinds were held) the Centre cost the government 654,340 shs; the ILO/UNDP provided seven advisors. The Centre has come under the Ministry of Labour but the nature of its activities has drawn it increasingly into cooperation with the Ministry of Commerce and Industry and it is being transferred to that Ministry within which it will become responsible for all training.

University of Nairobi, Institute of Adult Studies. Apart from the occasional course for trade officers at the Adult Studies Centre, Kikuyu, the activities of the Institute stem from the enthusiasm of one man. Since taking his post as Resident Extra-Mural Tutor, Nyeri and Mount Kenya Area, in July 1971 Mr. Mwema Maina has organised nineteen traders' courses attended by over 1,200 people; attendance ranged from 22 to 200, with an average of 63. Most of the 3-5 days courses were held in Central Province, but others were held in Meru, Nanyuki, Isiolo and Marsabit. Some courses combined traders and farmers. A few of the courses were organised jointly with the provincial trade office. No fees were charged. The cost to the Institute of courses is low since the use of the 'free' services of government officers, university lecturers, etc. transfers part of the cost to other agencies.

The Kenya National Chamber of Commerce. The Kenya National Chamber of Commerce has only recently begun training activities, with two two-to-three-day seminars for businessmen, but it is expected to become more active in this field in future.

The short courses so far described have several features in common.<sup>6</sup> One is their content: simple book-keeping and management techniques plus information about the role of various public officers and agencies.<sup>7</sup> The participant students are predominantly traders (although with a few butchers, shoemakers, tailors etc.), literate but with little formal education. Thirdly, attendance at such courses entitles a businessman to the award of a certificate of attendance which is thought to be useful in obtaining a loan.<sup>8</sup> Fourthly, very little follow-up has so far been possible, because of shortage of staff and/or transport.

Other short training courses include that of the National Construction Company for small-scale contractors. Training covers office administration, accounting, tender and contract procedure, site organisation and job planning, and the reading and understanding of drawings and specifications. Contractors are also offered supervisory and advisory services. Some private firms offer training courses for distributors or buyers of their products! Bata shoe company gives a short course on stock-keeping and accounting to its distributors and the Singer sewing machine company offers a training course to purchasers of its products. Such private firms are perhaps the only organisations which offer effective follow-up.

---

6. Maina, Mwema, Paper on Seminars for Farmers and Traders in Nyeri and Mt. Kenya Area. Nyeri, 1972, (Mimeo).

7. See Appendix for some sample programmes.

8. Inukai, Ichirou. Rural Industrialisation - a Country Study: Kenya. Nairobi, 1972. (mimeo). Inukai suggests that attendance at some courses dropped off when it was found that such certificates did not guarantee success in obtaining loans. (p52).

The Industrial and Commercial Development Corporation has a Management Services Division which offers advice on basic accounting on request, and its loans officers are supposed to act as industrial advisers. Understaffing prevents it from being effective in this function, however.

## 2. Longer Courses

To review all of Kenya's longer, pre-career business courses would be impossible. The University of Nairobi, Kenya Polytechnic, Mombasa Polytechnic, Strathmore College School of Accountancy, the training schools of industry and the private commercial and correspondence colleges, all offer courses in business and commercial subjects. In addition there are numerous institutions offering technical training for potential businessmen. Of more interest to us, however, are those institutions which cater particularly for students who intend to establish their own businesses. The most important of these are the Kenya Industrial Training Institute and the Village Polytechnics.

The Kenya Industrial Training Institute. KITI, a part of the Ministry of Commerce and Industry, offers a one-year course in Nakuru for actual or potential self-employed businessmen. A student can specialise in one of eight technical subjects: assembly and repair of machinery, assembly and repair of motor vehicles, millwright, foundry, electrical components and machines, furniture making and joinery, leather working, tailoring and dressmaking. All students take management subjects, including human relations, general management, marketing, salesmanship, book-keeping and accounts, commercial law and industrial management. Capacity of the Institute is eighty students, ten to each technical specialisation.

To be admitted to KITI the applicant must be able to speak and write in English, must be between 20 and 45 years old, must possess a grade III trade test certificate or its equivalent, and must give evidence of the ability to raise at least 2,000/- to invest in his business after completing the course. A tuition fee of 3000/- and caution money of 60/- are charged. KITI is residential.

Applicants are informed that the Industrial and Commercial Development Corporation will consider applications from students with reasonable loan security after successful completion of the course; it is hardly surprising that over 2,000 applicants seek the eighty places. Follow-up guidance is promised to graduates but so far it has not been possible in a systematic way.

Available information on the present occupation of KITI trainees is summarised below:

Table I: Occupation as at 1971 of KITI Trainees from First Six Courses. (1965/6 - 1970/1)

	<u>Own business</u>	<u>Employee</u>	<u>Other</u>	<u>Total</u>
Machinery and Motor Vehicle	9	43	6	58
Millwright	11	26	5	42
Electricity	7	38	7	52
Woodwork	21	29	5	55
Leatherwork	30	14	3	47
Tailoring	35	17	4	56
Total	113	167	30	310

As can be seen 36 per cent of KITI trainees set up in their own business but a disappointing small proportion were in the more 'technical' specialisations of machinery and motor vehicle millwright and electricity.

In trade tests administered at the end of the course, 160 out of the 310 trainees failed to improve over their entering grade III certificate, 25 earned a grade II and 17 achieved grade I. A further 58 obtained 'no grade'.

In 1970/1, when total enrollment was 64 students, current expenditure on KITI by the Kenyan government amounted to 730,000/-. Posts of eight staff members were financed by the Japanese government.

Village Polytechnics. "A Village Polytechnic is a low-cost training centre in a rural area. It aims at giving primary school leavers from that area skills, understanding and values which will make them able to look for money-making opportunities where they live, and to contribute to rural development by building up the economic strength of their own community"<sup>9</sup>

Initiated by the National Christian Council of Kenya, the programme has attracted significant government support. By December 1972 the Ministry of Cooperatives and Social Services was assisting financially about sixty projects within the V.P. programme. There is no 'typical' V.P. As Court<sup>10</sup> has recently pointed out there are at least five distinct types. But perhaps the type which is most influential is the "low-level vocational training centre". Such a centre might have a capacity of about sixty students and offer two-year courses in masonry, carpentry, domestic science, leathercraft and commerce. An interesting special case is that of Keveye, where emphasis upon "the utility of commercial subjects... has been elevated to become a major principle of polytechnic instruction ... Courses ... provide intensive doses of the entrepreneurial ethic and accompanying skills in accounting and finances".<sup>11</sup>

Most V.P.s are non-residential and charge fees between 40/- and 200/- per year. In cases where boarding facilities are provided additional boarding charges range from 50/- to 270/- per year.

A 1971 survey of 489 V.P. leavers has shown<sup>12</sup> that about 17 per cent were self-employed most of them in rural areas. This, however, included those who interspersed regular farming work with intermittent use of their acquired skill. In a more recent case-study of Maseno V.P. leavers by Court<sup>13</sup>

---

9. Ministry of Cooperatives and Social Services, How to Start a village Polytechnic. Nairobi, 1971. p4.

10. Court, David, 'Dilemmas of Development: the Village Polytechnic Movement as a Shadow System of Education in Kenya'. I.D.S. Discussion Paper No. 156. Nairobi, 1972. p 15.

11. Ibid. p 16.

12. Ibid. p 16.

13. Court, David, 'Village Polytechnic Leavers: the Maseno Story.' I.D.S. Working Paper No. 72. Nairobi, 1972.

he found that about 15 per cent were in relatively full-time self-employment - a relatively small group "in relation to the original notion that the major contribution of the V.P.s. would be to stimulate self-employment. This fact draws attention to the important point that individual self-employment, which involves the identification of existing needs and the creation of new ones, is an extraordinarily difficult role requiring exceptional qualities of imagination, initiative and energy."<sup>14</sup>

Operating costs are not high. Inukai<sup>15</sup> quotes an estimate of total costs for Maseno in 1970/1 of 30,000/-, or 500/- per student. The dropout rate is quite high, however; a third to a half of the entrants fail to complete the two-year course.

### 3. Partnership for Productivity.

Partnership for Productivity, a Quaker-sponsored project in Kakamega, offers advice and loans to entrepreneurs of proven ability. Advice is given partly on personal visits to firms, partly in regular "businessmen's clinics" and partly in informal seminars. As at March 1972,<sup>16</sup> P.P. had eight professional staff members and was spending about \$29,000 (203,000 shs.) p.a. in Kenya. Its loan fund amounted to 147,000 shs and the largest single loan made was 30,000 shs. The programme started in October 1970 and is still at an experimental stage, but it has clearly had an important effect on official thinking about training.<sup>17</sup>

### B. THE FUTURE - THE WORKING PARTY'S RECOMMENDATIONS.

Our description of training for small-business may soon be obsolete. Training, like other aspects of, small business development, is expected to undergo a fairly radical change in the near future. The details of this reshaping are not yet complete but we can discern its outline

---

14. Ibid. p3.

15. Inukai. op. cit. p102.

16. Information is from Partnership for Productivity, Progress Report No.5. Annandale, Virginia, 1972.

17. See Section B.

from the recommendations of the Working Party on Small Business Development.

The working party divides the training problem into (1) the training of the number and type of trainers required; (2) the training of the businessman himself.<sup>18</sup> On (1) it recommends that a Small Business Advisory Centre in every district employ and train a large number of Business Analysts who will, apparently, play an extension role. At the same time reasonably simple and uniform management systems of wide-spread applicability will have to be developed for use by business analysts. On (2) the working party feels that "classroom lectures, seminars, etc. are not very useful training techniques." It envisages training at three possible levels: (a) the extension service manned by the business analysts. "Their knowledge and personal contact with an individual's business problems may be the only level of service required."<sup>19</sup> However, (b) it may be necessary to offer local level training in a Small Business Development Centre e.g., Rural Industrial Development Centre or Village Polytechnic. And (c) courses of the kind offered by KITI, combining skill-upgrading with more advanced business techniques, might also be desirable. In summary the working party has committed itself strongly to an extension approach on Partnership for Productivity lines and de-emphasis of all other types of training. At the same time it recommends the coordination of credit, training, research and extension programs within a Small Business Development Agency which, apart from these functions, will administer the Kenya Industrial Estates and Small Business Development Centres.

C. QUESTION FOR DISCUSSION.

The future of education and training for Kenyan entrepreneurs is clouded obscure and it is impossible to do more, in introducing a discussion, than to ask a series of questions. Most of these questions arise from the review of

---

18. See Working Party Report. op. cit. p23

19. Ibid. para 6,9,7. Our emphasis.



current activities and future possibilities set out in the first two sections.

1. The Working Party, in suggesting that the proposed extension service might be the only type of training that is necessary, seems to be questioning the whole concept of training entrepreneurs in a classroom or institution. In this they receive qualified support from Marris and Somerset<sup>20</sup> who suggest that the vital quality of "entrepreneurial creativeness probably cannot be taught, at least to adults whose habits of mind are formed." The corollary of this is to allow the emergence of entrepreneurial talent to take care of itself and merely to provide advice on specific problems to existing entrepreneurs. Before raising the question of whether we agree with this point of view perhaps we should look more carefully at the types of training implicitly downgraded by it.

2. The short courses and seminars of the Trade Division, the Management Training and Advisory Centre and the University's Extramural Division, are singled out by the Working Party as "not very useful teaching techniques". It is not entirely clear whether such courses are rejected as a matter of principle or because, as so far organised, their content is considered unsuitable. If rejected in principle this raises serious questions about the role of the M.T.A.C., an expensive institution.

If it is merely a question of content then we need to examine carefully the course programmes. Samples of three such programmes are shown in the Appendix; they represent 'typical' courses offered by the Trade Division, the Extramural Division and the M.T.A.C. respectively. The first two, although differing in length, are similar in approach.

---

20. Marris & Somerset. op. cit. p221.

Lectures about the role of cooperatives, banks, KNTC etc., are interspersed with instruction in simple bookkeeping and business techniques. The M.T.A.C. course, on the other hand, concentrates almost entirely on the latter using modern teaching techniques such as programmed learning. But is this the type of instruction that a small businessman needs? Marris and Somerset<sup>21</sup> "doubt whether courses in book-keeping provide the kind of experience these businessmen most needed, because a man who recognises the importance of accounting will have already worked out a system adequate for his purpose". Such courses, they feel, are more useful to employees than to the entrepreneur himself. They recommend training in relationships rather than techniques - courses at which "bankers, accountants, import agents, staff of international companies, commercial attaches, civil servants... join discussions and explain their interests".<sup>22</sup> The courses offered by the Trade Division and the Extra-Mural Division are closer to the Marris/Somerset ideal than the more expensive M.T.A.C. courses, but the enrollment in all such courses is far too large to permit useful contacts between student and speaker. Attendance is no doubt swelled by the universal practice of awarding certificates at the end of a course, certificates which are thought to help in obtaining a loan. Since courses would be much more effective if they were smaller, perhaps this practice should be terminated or, at least, wide publicity should be given to the fact that no one has ever obtained a loan purely on the strength of such a certificate.

---

21. Ibid. p 220.

22. They also recommend that staff be trained alongside entrepreneurs.

3. Village Polytechnics and the Small Business Development Centres have a possible supporting role in the view of the Working Party. V.Ps. can hardly be criticised on grounds of money cost; it would be difficult to find cheaper training institutions. For discussion we must look on the benefit side. Court's useful tracer studies<sup>23</sup> show what has happened to V.P. trainees but, of course, do not tell us what happens to primary school leavers who do not go to V.Ps. It would be interesting to know what would have happened to primary school leavers in a given area if there had been no V.P. or what would have happened if the money spent on a V.P. had been spent on assisting existing businessmen and promoting a local apprentice system? Court<sup>24</sup> shows that about 30 per cent of V.P. trainees end up working in towns, away from their home areas. Would they have gone to town if they had not had a V.P. training? Does this exodus represent an impoverishment of the rural community, a syphoning off of potential entrepreneurial talent, contrary to the ideals of the V.P. movement? Or does it represent a success, a sign that V.Ps. are imparting marketable skills to their trainees? Is there a limit, set by local purchasing-power, to the number of new money-making opportunities for young V.P. trainees? If so, what happens when this limit is reached? Alternatively is the limit set by the scarcity of people who can identify such opportunities for others, people with a rare blend of entrepreneurial flair and altruism? In short we have to decide whether village polytechnics have a useful role to play in training young people as rural entrepreneurs or whether they should be seen primarily in socio-political terms, a consolation prize for primary school-leavers who have failed to get into secondary school.

---

23. Court. op.cit.

24. Court. 'Dilemmas of Development'. op.cit p6.

4. The Working Party concedes a place for courses such as those offered by the Kenya Industrial Training Institute, combining skill upgrading with more advanced business techniques. KITI also receives a favourable mention in the Wamalwa report<sup>25</sup>. "We were most impressed with the training being undertaken by the KITI at Nakuru . . . . This type of training could, in our opinion, have a real impact on the unemployment problem, while at the same time it could facilitate the implementation of the Government's Kenyanisation and rural development programmes. We consider, therefore, that more training institutes similar to the Nakuru project should be established as soon as practicable."

The problem here is one of results achieved in relation to cost. KITI is very expensive. Although it is supposed to be a skill-upgrading institution over half of its trainees achieve no more at the end of the course than a Grade III trade test, the supposed entry qualification.<sup>26</sup> Yet cost per graduate (even excluding the cost of the eight Japanese-financed posts) is as high as 11,400 shs. Working with a lower-calibre intake the Christian Industrial Training Centres achieve comparable results at less than a third of the cost; on-the-job training may be the cheapest of all. Of course, KITI is more than a technical training institution. It is intended, also, to train entrepreneurs. Further research is needed to assess its effectiveness in this role but, on the face of it, 36 per cent in self-employment seems no more than might be expected from the graduates of any technical training institution, particularly

---

25. Report of the Training Review Committee (Wamalwa Report). Nairobi, Government Printer, 1972. para 102.

26. Dr. Inukai has suggested to me that this may be due to the type of machinery (modern, expensive and sophisticated) on which students are trained.

since a significant proportion of KITI trainees were running their own business before starting the course.<sup>27</sup>

Two questions are suggested by all this. Are the problems faced by KITI inherent in skill-upgrading-plus-business courses of this kind? If so, we may doubt the Working Party's suggestion that such courses might be useful. Or are the problems specific to KITI? If so we need further research into causes and possible cures. In either case the Wamalwa recommendation that more training institutions of this kind be set up needs to be viewed with caution.

5. It may, in any case, be superfluous to recommend the setting up of more technical training institutions in view of the current campaign to establish harambee institutes of technology. Many of these will prepare their students for self-employment, and will include business courses in the curriculum. The numbers involved may be so large in relation to wage-earning job opportunities that a large proportion of their graduates, prepared or not, may face the alternatives of self-employment or unemployment. Thus competition for markets is likely to intensify, increasing the need for a widespread and efficient extension service.

6. Two suggestions of the ILO mission ought also to be recorded here lest they be lost in the controversy over the Working Party's proposals. One is to compensate non-citizen traders (a training subsidy, a more favourable price for their business or an extension of the winding-up deadline) for training citizens who take over their businesses. The second suggestion is to subsidise firms in the formal sector for training of small-scale entrepreneurs to whom they would subcontract labour-intensive processes, particularly transport, construction, repair and marketing.<sup>29</sup>

---

27. 16 per cent of the 57 trainees on the 1969/70 course.

28. International Labour Office, Employment, Incomes and Equality - a Strategy for Increasing Productive Employment in Kenya. Geneva, 1972. p 207.

29. Ibid. p230.

7. With the Working Party's recommendation of "coordination" there can be no quarrel, even if all are not happy with the particular structure that is proposed. One can hardly oppose coordination of credit, training, research and extension programs; there seems to be a need for coordination within training. Some areas of the country appear, for instance, to be saturated with traders' courses and seminars, while others have few, the chance result of particular individuals having been posted to particular places. Coordination with other kinds of education (particularly literacy classes) is also needed.

8. We return, finally, to the question asked at the beginning of this section: is there any point in trying to train entrepreneurs at all? We have found that there are, indeed, several doubts about existing methods of training. Doubts are hardly enough to justify immediate termination of training. Moreover, the weaknesses and problems of existing methods are likely to emerge in an extension approach as well. At what level, for instance, would the Business Analysts be recruited? If, as the ILO Report <sup>30</sup> suggests, they have university degrees, an extension of service may be prohibitively expensive? On the other hand, would 500/- a-month advisers of the kind that Harper <sup>31</sup> suggests be able to cope with such a demanding task? The Working Party's enthusiasm for a radical change in approach is understandable but many of the issues involved need to be further explored.

---

30. Ibid. p421.

31. Harper, Malcolm, 'The Discovery and Satisfaction of the Perceived and Actual Needs of Rural Shopkeepers in Kenya.' I.D.S. Working Paper No. 16. Nairobi, 1972.

APPENDIX : A SAMPLE OF COURSE PROGRAMMES

MINISTRY OF COMMERCE & INDUSTRY.

District Trade Development Office,  
P.O. Box 273,  
Meru.

TRADERS COURSE-TIME TABLE

9th to 20th November 1970

9/11/70	8.30 a.m. - 10.00 a.m.	Registration of Traders
	10.00 a.m. - 10.30 a.m.	Break
	10.30 a.m. - 12.30 p.m.	Opening of the course by Provincial Trade Dev. Officer.
	12.30 p.m. - 2.00 p.m.	Lunch
	2.00 p.m. - 3.00 p.m. 3.00 p.m. - 4.00 p.m.	Cash Book (single entry) Functions of A.F.C. (by the Loans Officer -A.F.C.)
10/11/70	8.30 a.m. - 10.00 a.m.	Purchases Day Book
	10.00 a.m. - 10.30 a.m.	Break
	10.30 a.m. - 12.30 p.m.	Salesmanship.
	12.30 p.m. - 2.00 p.m.	Lunch
	2.00 p.m. - 3.00 p.m.	Functions of Chamber of Commerce & Industry by representative from the Chamber - Meru.
3.00 p.m. - 4.00 p.m.	Sales Day Book	
11/11/70	8.30 a.m. - 10.00 a.m.	Trade Licensing Act 1967
	10.00 a.m. - 10.30 a.m.	Break
	10.30 a.m. - 12.30 p.m.	Importance of Adult Education by Adult Education Officer.
	12.30 p.m. - 2.00 p.m.	Lunch
	2.00 p.m. - 3.00 p.m. 3.00 p.m. - 4.00 p.m.	Cash Book (double column) The benefits of Insurance to a trader by Manager of Jubilee Ins. Co.

12/11/70	8.30 a.m. - 10.00 a.m.	Trade Development Joint Board
	10.00a.m. - 10.30 a.m.	Break
	10.30a.m. - 12.30 p.m.	Stock List
	12.30p.m. - 2.00 p.m.	Lunch
	2.00 p.m. - 3.00 p.m.	Statement of Affairs
	3.00 p.m. - 4.00 p.m.	Purchases Day Book
13/11/70	8.30 a.m. - 10.00 a.m.	Simple ledger transactions
	10.00 a.m. - 10.30 a.m.	Break
	10.30a.m. - 12.30 p.m.	Urbanisation and Industry by the Town Superintendent.
	12.30a.m. - 2.00 p.m.	Lunch
	2.00 p.m. - 3.00 p.m.	Employment/Registration by E/R/C
	3.00 p.m. - 4.00 p.m.	Weights and Measures by the Superintendent of Weights and Measures.
14/11/70	8.30 a.m. - 10.00 a.m.	Communicable diseases and general cleanliness by Health Inspector.
	10.00a.m. - 10.30 a.m.	Break
	10.30a.m. - 12.30 p.m.	Simple Agriculture by the D.A.O.
	12.30p.m. - 2.00 p.m.	Lunch
	2.00p.m. - 3.00 p.m.	Types of business organisa- tions.
	3.00p.m. - 4.00 p.m.	Business by Mr. Malcolm Harper of University College Nairobi.
16/11/70	8.30a.m. - 10.00a.m.	Cash Book (third column).
	10.00a.m. - 10.30a.m.	Break
	10.30a.m. - 12.30p.m.	Functions of K.N.T.C. by a representative from the Corp.
	12.30p.m. - 2.00 p.m.	Lunch
	2.00p.m. - 3.00 p.m.	Inward and Outward Day Books.
	3.00p.m. - 4.00 p.m.	Importance of Co-operative Societies by D.C.O.



17/11/70	8.30 a.m. - 10.00a.m.	Trading and Profits and Loss A/C
	10.00a.m. - 10.30a.m.	Break
	10.30a.m. - 12.30p.m.	Balance Sheet and Trial Balance.
	12.30p.m. - 2.00p.m.	Lunch
	2.00p.m. - 4.00p.m.	Family Planning by Director of Family Planning (please arrange for the film in the evening after your speech.)
18/11/70	8.30a.m. - 10.00a.m.	Bye-Laws of the County Council by County Council Clerk.
	10.00a.m. - 10.30a.m.	Break
	10.30a.m. - 12.30p.m.	Law and Order by Police Inspector.
	12.30p.m. - 2.00 p.m.	Lunch
	2.00p.m. - 3.00 p.m.	The functions of Standard Bank to a businessman by the Manager of the Standard Bank.
19/11/70	8.30a.m. - 10.00a.m.	Cash Book (Revision).
	10.00 a.m. - 10.30 a.m.	Break
	10.30 a.m. - 12.30 p.m.	Business Premises, Rent and Tribunal by representative from the department.
	12.30p.m. - 2.00p.m.	Lunch
	2.00 a.m. - 4.00p.m.	The functions of Barclays Bank to a businessman by the Manager of the Barclays Bank.
20/11/70	8.30 a.m. - 10.00a.m.	Closing of the course and issuing of the certificates by the District Commissioner - Meru.

U N I V E R S I T Y O F N A I R O B I

Institute of Adult Studies

EXTRA-MURAL DIVISION

NYERI & MT. KENYA AREA

Tel. 2446

N Y E R I

P.O. Box 598.

COURSE FOR TRADERS

AT

FORT HALL PRIMARY SCHOOL

P R O G R A M M E

Tuesday, 29th August, 1972

- |                     |   |
|---------------------|---|
| 10.00-10.30 a.m.    | A Talk by the Resident Tutor, University of Nairobi.  |
| 10.30-11.30 a.m.    | A Speech by the District Trade Officer, Murang'a.   |
| 11.30-12.45 p.m.    | Official Opening by the District Commissioner, Murang'a.  |
| 12.45p.m.-2.00 p.m. | Lunch   |
| 2.00p.m. -3.30 p.m. | "Loans from Industrial & Commercial Development Corporation" Provincial I.C.D.C. Officer, Central Province. |
| 3.30p.m.- 4.45p.m.  | "Purchasing, Pricing, Display of Stock and Control of Stock" Officer from District Trade Office, Fort Hall. |

Wednesday, 30th August, 1972.

- |                      |   |
|----------------------|---|
| 9.30 - 10.45 a.m.    | "The Work of K.N.T.C., Licences and Rents" Officer from District Trade Office, Fort Hall. |
| 10.45-10.50 a.m.     | Break   |
| 10.50 - 11.50 a.m.   | "Trade Regulations of Murang'a County Council.  |
| 11.50a.m. - 1.00p.m. | "Loans and Other Bank Facilities" Officer from Kenya Commercial Bank, Fort Hall.          |
| 1.00-2.00p.m.        | Lunch   |
| 2.00p.m. - 3.00p.m.  | "Insurance" Officer from British-American Insurance Co.                                   |

Wed, 30th August, 1972 cont'd

3.00p.m. - 4.00 p.m. "Co-operative Societies"  
Officer from Co-operatives  
Department, Fort Hall.

4.00p.m.-5.15p.m. Public Lecture "The Importance  
of Self-Help Projects in  
Murang'a District" District  
Community Development Officer,  
Murang'a.

Thursday, 31st August, 1972

9.00 a.m. - 10.00 a.m. "The Police and the Traders"  
Police Officer from Fort Hall.

10.30a.m. - 11.30 a.m. "Accounts & Book-keeping"  
Accountant from District Co-  
operatives Office, Fort Hall.

11.30 a.m. - 11.35 a.m. Break

11.35a.m. - 12.50p.m. "Business Management" Lecturer,  
University of Nairobi.

12.50p.m. - 2.00 p.m. Lunch

2.00p.m. - 3.15p.m. "Credits and Credit Control"  
Lecturer, University of Nairobi.

4.30p.m. - 5.00p.m. Closing Talk and Giving of  
Certificates.

5.00 p.m. End of the Course.

Mwema Maina  
Resident Tutor  
Nyeri & Mt. Kenya Area.

PROGRAMME FOR COURSE IN SMALL BUSINESS MANAGEMENT

AT THE MANAGEMENT TRAINING AND ADVISORY CENTRE

NAIROBI - 19 - 23 FEBRUARY, 1973

DAY/HOUR	SUBJECTS - FIRST DAY	SESSION LEADER
<u>MONDAY</u> 0830-0930	COURSE OPENING AND INTRODUCTIONS	COURSE LEADER
0930-1030	ROLE OF SMALL BUSINESS IN THE ECONOMY OF KENYA	GUEST SPEAKER
1030-1045	BREAK	
1045-1130	HOW TO START A SMALL BUSINESS	N.O.MELIN - MTAC
1130-1230	HOW TO IDENTIFY DEMAND AND SELECT: RIGHT PRODUCT, RIGHT QUALITY, RIGHT PRICE AND RIGHT SERVICE	S.K. GITAU - MTAC
1230-1400	BREAK	
1400-1500	FINANCIAL PLANNING OF A SMALL BUSINESS OR INDUSTRY	P. GWADA - MTAC
1500-1515	BREAK	
1515-1630	BASIC BUSINESS ACCOUNTING	P. GWADA - MTAC

\*\*\*\*\*

DAY/HOUR	SUBJECTS - SECOND DAY	SESSION LEADER
<u>TUESDAY</u> 0830-0930	WHAT ACCOUNTING BOOKS TO KEEP	P. GWADA - MTAC
0930-1030	HOW TO GET A LOAN - TO FINANCE A SMALL BUSINESS	GUEST SPEAKER
1030-1045	BREAK	
1045-1130	CASH BOOK EXERCISE I	P. GWADA - MTAC
1130-1230	CASH BOOK EXERCISE II	P. GWADA - MTAC
1230-1400	BREAK	
1400-1500	BASIC BUSINESS MANAGEMENT	S.K. GITAU - MTAC
1500-1515	BREAK	
1515-1630	HOW TO WIN AND KEEP CUSTOMERS	N.O. MELIN - MTAC

DAY/HOUR	SUBJECTS - THIRD DAY	SESSION LEADER
<u>WEDNESDAY</u> 0830-0930	SELLING - DISTRIBUTION - COMMUNICATION - AND PROMOTION	S.K. GITAU -MTAC
0930-1030	SALESMANSHIP IN SMALL BUSINESS AND INDUSTRY	N.O. MELIN -MTAC
1030-1045	BREAK	
1045-1130	BASIC COMMERCIAL BANKING PROCEDURE	GUEST SPEAKER
1130-1230	STOCK TAKING AND STOCK CONTROL	P.GWADA -MTAC
1230-1400	BREAK	
1400-1500	HOW TO START A SMALL BUSINESS	S. DEMBICKI - MTAC
1500-1515	BREAK	
1515-1630	TRAINING AND SUPERVISING EMPLOY- EES "ON THE JOB"	J. CHEGE - MTAC

\*\*\*\*\*

DAY/HOUR	SUBJECTS - FOURTH DAY	SESSION LEADER
<u>THURSDAY</u> 0830-0930	HOW TO INVEST MONEY - STOCK EXCHANGE, ETC.	GUEST SPEAKER
0930-1030	HOW TO GIVE CREDIT - PROGRAMMED LEARNING SESSION	N.O. MELIN - MTAC
1030-1045	BREAK	
1045-1130	THE TRADE OFFICER'S JOB	GUEST SPEAKER
1130-1230	"A BUSINESS SURVEY OF YOUR OWN"	N.O.MELIN - MTAC
1230-1400	BREAK	

DAY/HOUR	SUBJECTS - FIFTH DAY	SESSION LEADER
1400-1500	HOW TO PRICE GOODS - PROGRAMMED LEARNING SESSION	S.K. GITAU - MTAC
1500-1515	BREAK	
1515-1630	SHOP PLANNING AND DISPLAY	N.O.MELIN - MTAC
<u>FRIDAY</u> 0830-1030	HOW TO COMMUNICATE - IN SMALL BUSINESS OR INDUSTRY	P.M.G.OUMA -MTAC
1030-1045	BREAK	
1045-1130	BUSINESS TRADING LICENSING ACT	QUEST SPEAKER
1130-1230	HOW TO START AN IMPORT OR EXPORT BUSINESS	S.K. GITAU -MTAC
1230-1400	BREAK	
1400-1500	COURSE REVIEW AND DISCUSSION	S.K. GITAU -)MTAC N.O. MELIN -)
1500-1515	BREAK	
1515-1630	COURSE EVALUATION - PRESENTATION OF CERT- IFICATES CLOSING OF THE COURSE	COURSE LEADER

THE ROLE OF CREDIT

Jasper A. Okelo

Institute for Development Studies  
University of Nairobi

BACKGROUND

For the last decade or so, most African countries have been preoccupied with the problem of Africanising their modern economic life. The legacy of colonialism has complicated the process. The colonialist, in search of primary products, established an exploitative, capitalistic economic enclave within a traditional economic structure. Even after political independence, the dualistic economy remained, making it especially difficult to wage an effective war for economic independence.

Europeans and Asians dominated the industrial, wholesale, retail and commercial farming sectors in Kenya. In a sense they controlled the Kenyan Economy; the African supplied cheap labour. The pressure for economic independence increased after 'Uhuru'. For political independence to make sense, the African had to control his own economy. Africans want to be masters in their own economic house, to control and manage for themselves the means of production and distribution.

During the political struggle, the populace was promised that it would take over the capitalists' businesses. To sacrifice as he did, he had to be promised the fruits of 'Uhuru'. This meant that the foreign capitalists had to give way for the indigenous capitalists. However, lack of entrepreneurial experience, lack of technical skills and managerial capacity, and lack of capital have limited the Africans' ability to step into the foreigners' shoes. Because of these shortcomings, the Kenyans have only managed to take over the very small trading shops, and are now acquiring small-scale industrial units in the rural areas, units which produce primarily for local markets. Large-scale industries, wholesale, import/export trade, are still predominantly owned by foreigners.

The Kenya Government has determined to control and direct the Kenyan economy in a fashion which will enable indigenous people to participate actively and meaningfully in the economic life of

the country. The mixed-economy is the answer for Kenya, at least for the time being and at this level of economic development.<sup>1</sup> The Kenya Government also believes that the development of African private enterprise can mobilize savings and generate more employment. The productivity of the new African entrepreneur will be raised not only by additional capital formation. To this end the Government must develop a cadre of local entrepreneurs to manage private enterprises.

Kenya Government's policy relies upon promotion of indigenous private enterprise to bring about more widely-based, dynamic development. They believe that small and medium-scale local enterprises can play an important role in exploiting available raw materials and in providing goods and services for the local as distinct from national markets.<sup>2</sup>

TABLE 1

INDUSTRIAL DEVELOPMENT EXPENDITURE  
DURING 1970 - 1974 (K£,000)

Industrial Survey and Planning	83
Kenya Industrial Training Institute	60
Rural Industrial Development Programme	284
Miscellaneous Industrial Loans	922
Industrial & Commercial Development Corporation	4,296
Consisting of:	
Investment in Major Projects	1,187
Kenya Industrial Estates	2,207
Small Scale & Cottage Industries	52
ICDC Investment Company	300
Grants for small industrial loans revolving funds	550
Development Finance Co. of Kenya	500
<b>GRAND TOTAL</b>	<b>6,145</b>

Source: The Development Plan 1970-74, Govt. of Kenya, 1969, p.326

1. Sessional Paper No. 10: African Socialism and its Application to Planning in Kenya, Government Printer, Kenya. Under African Socialism, the power to control resource use resides with the State.

2. This is consistent with the views of Professor Hoselitz in "The Entrepreneurial Element in Economic Development", a paper presented to the U.N. Conference on the Application of Science and Technology for the Benefit of the Less Developed Areas, 1962.



The Government's commitment to small-scale industrial development, can best be judged by reference to its allocation of financial resources. The government's development expenditure for industry in the 1970 - 74 Development Plan is shown in Table 1. The Kenya Government has provided K£284,000 for Rural Industrial Development Centres during the 1970-74 development plan period, and K£52,000 and more for small-scale cottage industry loans issued through ICDC from the Small Industrial Loans Fund. These expenditures on rural industries represent about 5% of the total government expenditure on industrial development during the plan period. It also should be noted that the rural industrial development programme received only about 13% as much as the sum allocated to the industrial estates programme. Most of the expenditures ear-marked for rural industrial development programmes would probably be used for buildings and equipment costs of the Rural Industrial Development Centres. If this is so, then small ICDC loans would be the major financial source for the rural businessmen.

#### FINANCING AFRICAN BUSINESSMEN:

African businesses have not developed enough to gain access to financial institutions. Commercial Banks have been reluctant to finance African businessmen. Even government or partly government-owned development banks have, in many cases, hesitated to finance African enterprise outside agriculture and real estate. Financial institutions have concentrated primarily on lending to foreign or mixed enterprises because they allegedly were assured of efficient management.

Realising the need to promote the Africans' participation in their economy and the inaccessibility of financial institutions to African businessmen, special funds and institutions were created to finance African enterprise.

The two principal instrumentalities for financing indigenous enterprise have been the District Joint Loan Boards (DJLB) and the Industrial and Commercial Development Corporation, (ICDC). The former were established before independence. Originally they were financed by contributions from both the County Councils and the Central Government but their resources now are supplied entirely by the latter. The DJLB can make loans up to a maximum of 10,000/-. The lending operations of ICDC have far exceeded those

of the boards. The ICDC was established as a statutory body in 1954 under the Industrial Development Act to facilitate industrial and commercial development. Its resources consist of grants or loans from the Kenya Government, a consortium of commercial banks, the East African Development Bank, the West German government and the Eldoret Municipal Council. As of mid-1970 accumulated grants totalled K£2,123,000 and loans, K£2,045,000. Normally its commitments exceed the resources on hand to meet them, and it relies on annual government grants and loan repayments to keep abreast of disbursement requirements.

Until 1961/62 the ICDC was mainly concerned with the promotion and development of medium and large-scale industry which had a reasonably good management. Beginning in 1961/62, and more so after independence, it began to concentrate more heavily on the development of small-scale indigenous enterprises. It has continued, however, in its original field and by mid-1970 its investments in the form of equity and loans, in medium and large companies amounted to K£1,842,760.

ICDC leaves smaller loans to the DJLB and makes loans only to businesses with a minimum monthly turnover of K£500.

#### ICDC and DJLB, CREDIT SOURCES FOR INDIGENOUS ENTERPRISES

##### (i) District Joint Loan Board Loans

The major function of these loans is to provide small businessmen (traders in particular) with working capital to acquire stocks. Disbursements are, for the most part, against supplier invoices. The payment period normally extends over 2-3 years. Initially no security was demanded, but now loans are made only against the security of a land title or, in the absence of this, on the certification by the County Council that the borrower has some security. These Boards rely principally on the recommendation of District Trade Officers in granting loans.

8,144 loans were issued between 1965 - 1971; 5,644 were still outstanding at the end of 1971. Also, 2,652 loans amounting to 3,862,434/- were in default at the end 1970. (Default is here defined as two or more installments overdue). This probably explains why the DJLB officials have become security conscious.

##### (ii) The ICDC Loans

The major services of ICDC to the African enterprises are

TOTAL ANNUAL GOVERNMENT GRANTS TO DJLB/TOTAL ANNUAL ADVANCES BY THE DJLB 1965-1971

	1965	1966	1967	1968	1969	1970	1971	1965-71
TOTAL GOVT. GRANTS	283,205	1,060,197	1,277,595	1,250,000	2,310,090	1,700,000	1,840,000	9,720,987
TOTAL ADVANCES	609,287	1,671,194	2,396,233	1,785,593	3,057,352	4,014,156	4,097,792	17,631,607
CAPITAL REPAYMENTS	633,682	755,810	1,102,225	1,253,680	1,361,744	2,108,075	2,201,395	9,416,611
NET ISSUES *	-24,395	915,384	1,294,008	531,913	1,695,608	1,906,081	1,896,397	8,214,991

(\* NET ISSUES = ADVANCES - CAPITAL REPAYMENT)

Source: Data compiled by Mrs. Burke Dillon, Research Associate at I.D.S., 1971-1972.

industrial and commercial loans or loans for the acquisition of commercial properties. In its drive to promote African businessmen, it has established several subsidiaries to carry on specialized activities. Kenya National Trading Corporation, (KNTC), established in March 1965, has exclusive responsibility to promote African wholesale business. To handle specified imported and/or locally produced articles, KNTC established about 20 depots and designated numerous African businessmen as its wholesale distributors. The relative inexperience of its distributors and their lack of creditworthiness created many problems for KNTC at its inception. Initially KNTC provided credit facilities to its distributors, but after running up about K£1,000,000 of bad debts it stopped granting credits and now sells only for cash. It is estimated that 10% of the appointed distributors have never functioned, and another 10-20% have virtually failed.<sup>3</sup>

Kenya National Properties Ltd., another ICDC subsidiary created in April 1967, is responsible for a rather ambitious programme for development of commercial centres in various towns where premises will be let to African businessmen at "reasonable" rentals.

Kenya Industrial Estates, set up in 1966, is charged with the development of industrial estates in Nairobi, Nakuru, Mombasa, Kisumu and Eldoret. The Nairobi estate is functioning, Nakuru is nearing completion, the rest have not been started.

In making its loans, the ICDC relies on its District Loan Officers to determine the reputation of the potential borrower and to verify the existence of the property he offers as security, and on the District Trade Officers to confirm the applicant's business qualifications and to verify his accounts. Opinions on the creditworthiness of the potential borrower are also sought from Commercial banks. Commercial loans are extended for a maximum of three years at an interest rate of 8½%. Repayments must start three months after the approval of the loan. Industrial and equipment loans are made at 8½% for 5-10 years, with a grace period of six months to one year. The term of property purchase loans can go up to a maximum of 10 years, at 9% without a period of grace.

---

3. Author's discussion with an official of KNTC.

TABLE 3

ICDC COMMERCIAL LOAN (IN KSHS.MILLION)

	1966	1967	1968	1969	1970	1971	66-71
Amount Applied for (1)	-	-	21	32	67	79	199
No. of Applicants (1)	411	400	324	539	836	1162	3672
Amount Approved (1)	2	4	5	11	19	19	60
No. of Approved Applicants(1)	137	174	165	341	540	749	2106
Amount claimed (2)	-	.149	.231	.392	.773	.934	2.479
No. of claimants (2)	-	150	222	213	500	651	1836

ICDC INDUSTRIAL LOAN (IN KSHS.M)

	1966	1967	1968	1969	1970	1971	66-71
Amount Applied for (1)	-	-	7	17	11	16	51
No. of Applicants (1)	68	94	93	95	110	163	623
Amount Approved (1)	1	1	3	5	4	6	20
No. Approved Applicants	28	44	43	51	76	117	359
Amount Claimed (2)	-	.068	.104	.102	.291	.311	.876
No. of claimants (2)	-	36	41	31	81	80	269

ICDC PROPERTY LOAN (IN KSHS.M)

	1966	1967	1968	1969	1970	1971	66-71
Amount Applied for (1)	-	.08	20	34	40	51	145.08
No. of Applicants (1)	-	26	212	250	313	275	1076
Amount Approved (1)	-	.9	6	14	14	25	59.9
No. of Approved Applicants(1)	-	16	93	144	186	209	648
Amount Claimed (2)	-	-	.136	.595	.668	1.308	2.707
No. of Claimants (2)	-	-	.40	120	151	227	538
Machinery (Value) (2)	-	-	.046	.068	.013	.029	.156

Source: (1) These figures were compiled by the author from the ICDC books.  
 Note that the figures for 1966 - 1967 were not complete. The amounts applied for those years was not recorded.  
 (2) The Amount of loan claimed, number of claimants, and machinery value obtained from Mrs. B. Dillon's data at I.D.S.

Table 3 shows the rapid increase of ICDC loans requested from 1966 to 1971. Requests for commercial loans have been most numerous; industrial loans the fewest. 30% of the requested commercial loans were approved; 40% of industrial and property loan requests were approved. However, these figures are less than the amounts actually loaned. The extent to which the approved loans are released depends on whether the successful applicants have, and show at the loans office, the security documents as requested in the application forms. Quite a number of these fail to bring them. The pattern of industrial and commercial loan increases over the past five years demonstrates a bias against the industrial development -- particularly small-scale industrial development. The increase in property loans reflects only the process of Kenyanisation in acquiring properties from departing non-citizens. For the sake of industrial development and especially small-scale rural industrial development, the distribution of loans must be changed in favour of industrial development. Similar data on the pattern of loans outstanding, by categories, as derived from balance sheets of the ICDC is shown on Table 4.

TABLE 4

ICDC SMALL LOANS (K£)

Amount Outstanding in	mid-1966	mid-1967	mid-1968	mid-1969	mid-1970
Small Industrial Loans	64,000	87,000	118,000	186,000	344,258
Equipment Loans for Tenants of Nairobi Industrial Estate	-	-	-	88,000	128,534
Small Commercial Loans	77,000	128,000	233,000	485,000	882,356
Small Property Loans	-	-	6,000	217,000	686,434
TOTAL	141,000	215,000	357,000	976,000	2,041,582
Increase in Amount Outstanding During Preceding Year:					
Small Industrial Loans	-	23,000	31,000	68,000	158,258
Equipment Loans for Tenant of Nairobi Industrial Estate	-	-	-	88,000	40,534
Small Commercial Loans	-	51,000	105,000	252,000	397,356
Small Property Loans	-	-	6,000	211,000	469,434
TOTAL	-	74,000	142,000	619,000	1,065,582

From Table 4 it can be seen that the volume of lending has increased persistently. The amount of loans outstanding more than doubled in 1968/69 and doubled again in 1969/70. About 80% of the increase during these two years was for the Commercial Sector (in the categories of commercial and property purchase loans). This indicates that ICDC's predominant role in the promotion of African enterprise has been to facilitate not so much an expansion of production as a transfer of assets from alien to African hands. Although loans for industry and equipment have also risen, they accounted in mid-1970, for only about 23% of the total amount of loans outstanding. Since mid-1970, the increase in total lending to African enterprises has continued to accelerate; new loan approvals in the first quarter of 1970/71 totalled about K£569,500 as compared with an amount of K£1,809,490 approved during the entire year 1969/70. This trend is in keeping with the demands placed on the emerging African entrepreneurs since the initial periods of the Trade Licensing Act of 1967. Many non-citizen businesses have been transferred to citizen hands - mainly Africans. The financial demands of the new businessmen reflects the well-known African businessmen's credit hunger.<sup>4</sup>

In the great majority of cases African businessmen consider financing their principal problem. By increasing credit facilities, it would be possible to increase opportunities in a variety of activities for larger numbers of businesses.

For the inexperienced businessmen, financing alone tends to be ineffective. Financing difficulties often reflect more basic problems of inadequate managerial and technical skills or insufficient justification of projects submitted for financing. Experience in Kenya, especially with ICDC and DJLB loan defaulters has amply demonstrated that the provision of financing can be wasteful unless it is accompanied by measures (1) to assess the capacity of the entrepreneur, (2) to provide necessary assistance in management and production techniques and (3) to resolve marketing difficulties. To the end of 1970, 2,652 DJLB loans of 3,862,434/-

4. See I. Inukai & J.A. Okelo, "Rural Enterprise Survey in Nyeri District, Kenya" A report of the Consultants to DANIDA, 25th February 1972. The author, in another survey in Kakamega District, found lack of working capital the most common (62%) problem faced by businessmen.

were in default; 738 cases were being prosecuted.<sup>5</sup> The problem is not just that Africans default on their loans or that Africans cannot qualify for loans, but rather that financial institutions lack the capacity to identify Africans with demonstrated entrepreneurial potential and have failed to provide extension services to improve the borrowers' earning capacity.

ICDC credits to African businessmen are, at times, ineffective because they are not integrated with extension services (i.e. training and technical and managerial consultancy). The Management Service division of ICDC is understaffed and lacks the variety of technical/managerial experts to provide the kind of services and close attention which small businessmen require. From the author's observation some substantial ICDC loans go to African businessmen who probably have access to the power structure that can authorize or guarantee the loans but who may lack experience; some go to the few businessmen who are better educated and who possess the largest businesses, and could qualify for commercial bank loans. Accessibility to funds, by itself, does not make any business man succeed. Money alone does not guarantee the development of entrepreneurial talent. This circumstance limits the role ICDC and DJLB can play. Increased extension services to the businessmen will, however, enhance the effectiveness of the financial institutions.

The continued use of ICDC as the principal instrument for financing African businesses has some implicit disadvantages. It leaves insufficient scope for development of relations between African businessmen and regular commercial banks. The African businessman still operates in an economy which reflects its racially segregated past - large- medium- and small-scale industries and the majority of Commercial Banks are still owned by the Europeans and Asians. Business transactions are still conducted in an atmosphere of estrangement.<sup>6</sup>

---

5. These figures were worked out by Mrs. Burke Dillon, Research Associate of the Institute for Development Studies in 1971/72.

Defaulting has been said to continue, even among ICDC borrowers. The solution is not prosecution, however, but more training and extension service.

6. Peter Marris, "African Businessman in a Dual Economy", Journal of Industrial Economics XIX (3) July 1971 pp.231-245.



It is desirable to bring African entrepreneurs into closer relations with the normal banking institutions. The African businessmen should be accustomed to keep regular bank accounts and to channel their receipts and expenditure through such accounts. This should enable them to look to the commercial banks as sources for at least working capital. Working in a politically independent country, these foreign banks have no alternative!

Even though they have increased their willingness to finance African businessmen in the recent years, they claim to be handicapped by their inability to acquire an adequate knowledge of such businessmen and by a reluctance to jeopardize profits by taking abnormal risks. Peter Marris is convinced that government policy in Kenya tends to perpetuate this separation. Creating special loan agencies such as I.C.D.C. and DJLB, tacitly endorses the notion that lending to Africans is risky and less profitable than the lending to which banks are accustomed. Loan schemes, industrial estates, marketing boards all interpose government agencies between the African entrepreneur and other economic institutions. According to Marris, the African therefore remains "isolated and unsophisticated, and dependent on the government to mediate for him".<sup>7</sup>

To overcome some of the obstacles cited by the banks, the Government should establish an autonomous business promotion and advisory service that would identify potentially viable businessmen. In addition the obstacles could be eased by the adoption of a scheme for insuring banks against part of the lending risks. This scheme's administration, entrusted to, say, I.C.D.C. would permit the development of closer working relations between ICDC and the banks. ICDC could then confine itself primarily to longer-term financing and the commercial banks could concentrate on the extension of working capital and short-term loans. A crucial advantage of this relationship would be the closer contact between African businessmen and banking branches in the country. In Kenya today, there is a considerable number of African businessme

7. Peter Marris op.cit.

whose performance would justify financing but who have no access to institutional finance. These are the entrepreneurs that financial institutions should develop. However, for these kinds of promotional activities, one needs to be careful of government controls, regulations and fiscal measures which can inhibit as well as promote the development of African business enterprise. Bureaucratic red tape and paper work can kill initiative.

#### CONCLUDING COMMENTS

The role of ICDC and DJLB to date has been primarily that of providing the successful African loan applicants with money to buy out the businesses of the non-citizens, to provide them with the working capital and to provide funds for purchase of property in the commercial areas of urban centres. There has been very little activity on the extension service side to enhance the probability of entrepreneurial success. This is one reason for the high rate of loan default and business failure. For these businessmen, who start out with a handicap, an extension service combined with credit facilities would improve the success rate.

Institutional rigidities tend to prevent financial assistance from flowing to the people who need help. Businessmen interviewed in Nyeri District<sup>8</sup> revealed that most of them are in a state of despair. DJLB, being the nearest source of loans for "Wananchi" in the rural Kenya, demands proof of the ownership of property as a condition of loan provision. However, the majority of rural traders and artisans/manufacturers do not own their premises. For a small industrial loan, ICDC requires upto 30% security in land and building and the rest in a chattel mortgage. For a commercial loan, ICDC requires 100% security. In addition, the applicant must have been in business for at least a year. When a new trader wishes to buy-out a going shop, ICDC will assist if he can provide 30% of the cost. All these loans carry an interest rate of 8½%. It is virtually impossible for the enterprisers in the rural areas to meet these security requirements. In fact, they

---

8. I. Inukai & J.A. Okelo op.cit.

rightly argue that stringent security requirements imposed by the local financial institutions only succeed in making the rich and politically influential people richer, and the poor helpless. It is imperative to establish effective ways of financing small-scale rural entrepreneurs in such a way as to enhance equitable distribution of opportunities.

The Working Party on Small Business Development rightly feels that because of the labour absorptive capacity of the "informal" sector, an increase of governmental expenditure towards the development of the petty capitalist is justified.<sup>9</sup>

This will mean, according to the Party's recommendations,

"more credit, more technical and managerial training, more research done on the needs and problems of the small businessmen, and more extension services of on-going nature must be provided".

"...it is necessary for these services to be closely co-ordinated and tailored to the needs of individual entrepreneur. Each small businessman needs credit, training and advice in proportions which are unique to his enterprise. There is an element of complementarity that must not be lost sight of. Credit without training can be relatively ineffective; training without some market or business feasibility information may be wasteful."

A multifaceted small business financing programme as outlined above will avoid the problems of:

- (i) lack of understanding of the technology involved and/or the market being served;
- (ii) a complete disregard and lack of knowledge of basic accounting and managerial principles;
- (iii) not knowing where or how to apply for financial and other assistance;
- (iv) credit either being received at the wrong time or being misused when received, and
- (v) inadequate capital, particularly working capital.<sup>10</sup>

---

9. Report, Working Party on Small Business Development, June 1972.

10. Ibid.

REFERENCES

- Bosa, George R. The Financing of Small-scale Enterprises in Uganda, Occasional Paper 3, Makerere Institute of Social Research, Oxford University Press, 1969.
- "African Business Financing Schemes in Uganda", paper presented at the Universities Social Science Conference, 1966.
- Development Plan 1970-74, Government Printer, Nairobi 1969.
- Geiger, Theodore and Armstrong, Winifred, The Development of African Private Enterprise, National Planning Association, Washington D.C. 1964.
- Inukai, I. & Okelo, J.A. "Rural Enterprise Survey in Nyeri District", Danish International Development Agency, Copenhagen, 1972.
- Marris, Peter "African Businessmen in a Dual Economy", Journal of Industrial Economies, XIX (3) July 1971.
- Marris & Somerset, A. African Businessmen East African Publishing House, Nairobi, 1971.
- Report, Working Party on Small Business Development, June 1972.
- Sessional Paper No. 10: African Socialism and its Application to Planning in Kenya, Government Printer, Nairobi, 1965.
- Nyhart, J.D. "The Uganda Development Corporation and the Promotion of Entrepreneurship", East African Institute of Social Research paper, 1959.
- Inukai, Ichirou "Rural Industrialisation: A Country Study Kenya". 1972.

THE LEGAL FRAMEWORK FOR SMALL-SCALE ENTERPRISE DEVELOPMENT  
WITH SPECIAL REFERENCE TO THE LICENSING SYSTEM

Ichirou Inukai

Institute for Development Studies  
University of Nairobi

Kenya currently employs two different licensing systems. One, the Trade Licensing Act of 1967, empowers the Ministry of Commerce and Industry to control and regulate business activities; another the Local Government Regulations Act of 1963 (hereafter LGRA), empowers County and Urban Councils, to prohibit, control or regulate trades and occupations in the areas of such local authorities. The licensing systems were inherited from the former colonial government, which raises some doubts about the effectiveness of the system in promoting trades and industries in independent Kenya. Since Independence almost a decade has passed, and it now seems appropriate to inquire whether the present licensing systems are conducive or inhibiting for the development of small-scale industries and trade among the mass of citizens.

In this inquiry, I postulate three basic assumptions: namely,

1. The economic system of Kenya is in principle based on a free market economy, constrained by government exercise of considerable power in controlling and regulating economic activities of business enterprises;
2. The supply of experienced entrepreneurial manpower is still grossly insufficient, particularly among African citizens, and this is a serious bottleneck for rapid economic development of the country;
3. Thus, the growth of distinctive entrepreneurial manpower as a driving-force for economic development is a matter of urgency, and yet, in a free market economy, this requires an arduous process of self-training of citizens in the free market mechanism.

Regulation 163 of the L.G.R.A. says that every Municipal, Urban and County Council has power to prohibit or control peddling, hawking and street trading, hairdressing and barbers, second-hand goods dealers, rag and flock manufacture, noxious industries,

offensive trades and other occupations.

Regulation 165 of the same law provides the local authority with power to refuse to grant or renew a licence and to cancel licences. The Regulation 165-a-1, for example, states that a local authority can refuse or cancel a licence if premises in or at which the applicant intends to carry on his trade, business or occupation do not conform to the requirements of any by-laws in force in the area of such local authority.

Regulation 148 of the L.G.R.A. empowers a local authority to impose fees for licences or permits issued. All fees or charges imposed by a local authority shall be regulated by local by-laws, or if not regulated by such by-laws, may be imposed by resolution of the local authority with the consent of the Minister for Local Government.

Finally, every Municipal Council and County Council may, subject to any other law relating thereto, prohibit and control the development and use of land and buildings in the interest of the proper and ordinary development of its areas (Regulation 163 of L.G.R.A.) This regulation enables the local authority, in conjunction with planning, to define industrial and commercial zones distinctive from residential zones.

The trades and occupations which the local authority can control and regulate were defined in greater detail in the Legal Notice No. 69 of 1969, "Trade Occupation and Premises for the purpose of Regulation 163 of the L.G.R.A." According to this legal notice:

Local Government shall have power to prohibit, control and regulate .....basket makers, betel leaf traders, wood carvers and dealers in native arts, crafts and curious, charcoal dealers, decorators, dealers in dhows and canoes, firewood dealers, fishmongers, fuel depots and filling stations, miraa traders, street news-vendors, itinerant painters, pottery makers, pit sawyers, plumbers, repairers of bicycles and other vehicles, shoes and sandal makers, snuff dealers, sugar-cane crushers, sign writers, scrap metal dealers, travelling wholesale dealers, timber merchants, traders in roasted, boiled, fried or cooked foods, verandah and street shoe cleaners, weavers and spinners, water vendors, watch repairers, work-shops including carpenters and metal crafts dealers, trade premises.

The Trade Licensing Act of 1967 defines general business areas, regulated trades, and specified goods. The most important part of the Trade Licensing Act of 1967 may be:

After the appointed day, no person who is not a citizen of Kenya shall conduct a business --

- (a) in any place which is not a general business area; or
- (b) in any specified goods, unless his license specifically authorizes him to do so.

(Part II, Section 5-2)

Regulated trade means wholesale or retail trade, catering laundering or dry-cleaning, hairdressing, beauty culture, shoe repairing, motor vehicle repairing, cinematographic film exhibition or advertising. The Trade Licensing (Specified Goods) Order of 1968 declares 21 items including charcoal, biscuits, second-hand clothes, soap, matches, sweets, salt, cement, grey cloth, corrugated iron sheet, barbed wire and nails, cigarettes and kerosene. The Trade Licensing (Specified Goods) Order of 1969 added another 29 items among which were bicycle and bicycle spare parts, hinges of all sizes, screws (wood), metal beds, shovels and spades, jembes, hoes and forks, axes, pangas, padlocks, lanterns, torches and shoes of all types. Both the 1968 and 1969 Orders also defined essential food goods as specified goods.

The fees imposed on the trade licences varies according to type of business and occupation as well as location of their activities. For example the annual fee for regulated trades, except wholesale and catering, is shs.100/- in a general business area, shs.60/- elsewhere in a city, municipality or township and shs.40/- elsewhere. The purpose of licensing is to control trades and occupations of Kenyan citizens in conformity with the public interest toward development of the areas concerned. In this regard, the Trade Licensing Act of 1967 aims at an orderly transfer of gainful activities from non-citizens. Applicants must be clear from legal conviction and have no record of bankruptcy. They must also satisfy the licensing offer that they have complied or will comply with laws applicable to the business and the premises.

It is not certain, however, what comprise "laws applicable to the business and the premises". Let us take an example in workshops, including carpentry and metal crafts. The Factories Ordinance of 1962 defines that any workplace in which two or more wage

employees carry on any work of making of any article or part of any article, or repairing and finishing any article, shall be deemed to be a factory for the purpose of the Ordinance (Section 5). If this definition is applied to manufacturing and repairing trades and occupations, most small industries will be covered by the Factories Ordinance, and will be bound to comply with specified standards of health and hygiene, as well as safety regulations.

Another example is the regulation of employment conditions. The Regulations of Wages Order (Wholesale and Retail Distributive Trades), Legal Notice 22/64, set basic minimum wages, housing allowance, hours of work, overtime rates of pay, annual leave, sick leave, and safari allowance. Any applicant for a license in wholesale or retail trade should comply with laws applicable to his trade. In addition, many by-laws of local government set regulations regarding types of buildings and zonings of industrial areas.

It is not certain how strictly the laws and by-laws are enforced by licensing officers when they examine applications. Many manufacturers and repairers we interviewed said that it is not difficult to obtain trade licenses once a health inspector approves conditions of the premises on which the applicant will conduct his occupation or trade. However there is a significant difference between treatment of an applicant with and an applicant without permanent premises.

In Othaya Rural Center, there are 44 manufacturers and repairers of which 14 obtained their licences from the Trade Development Officer, paying fees of shs.40/- per year. The rest are mainly "verandah" tailors, shoe-maker/repairers and tinsmiths. In the Homa Bay township there is a market/slum area where a number of carpenters, blacksmiths, tinsmiths and shoe-repairers are engaged in their stalls. None of them has obtained a licence from the Trade Development Officer in charge of the area.

Unlike the Trade Licensing Act of 1967 which aims at Kenyanization of gainful activities, the impact of the licensing power of local authorities is likely to fall directly on traders, manufacturers and repairers. Let us take as an example, the hostility and discrimination on the part of local authorities toward hawkers.

It is well documented that hawkers of woodcarvings and curios stimulated the Wakamba woodcarving industry in the early years after the Second World War. A ban on hawking was introduced by the then government in view of the Emergency situation with the eventual result that woodcarving and curio trades became concentrated in the hands of non-citizens.<sup>1</sup>

Hostility toward the hawkers continued after Independence. In the Report of the Working Party on Rent Control of 1965, the Government of Kenya, drew attention to the small traders' complaints against hawkers.

Throughout the inquiry our attention was drawn to other problems concerning small traders, but which did not fall strictly within our terms of reference. They were as follows:

- 1) Hawkers are seriously damaging established businesses in some sectors of the towns particularly in Nairobi and an attempt should be made to control this unfair competition. From the evidence received this was a major factor in the falling off of businesses especially amongst the small trader.

(Stress added. p.2 of the Report).

Recently it was reported that Masaku County Council has banned all hawkers in the district: "Noting that a good number of established businesses in the District get loans from either I.C.D.C. or the District Trade Joint Development Board, the chairman of the Council said, such traders must be protected from hawkers who made it difficult for them to repay their loans within the scheduled time."<sup>2</sup>

For this reason, the County Council resolved that no hawker licences will be issued in 1973, and appealed to the Eastern Provincial Commissioner, the District Commissioner for Machakos, and the police to assist in the enforcement of the resolution. The Chairman then advised all affected hawkers either to rent or build shops in which to carry out their businesses

---

1. W. Elkan, "The East African Trade and Woodcarvings", Africa Vol. XXVIII, No.4, October 1958, Oxford University Press.

2. East African Standard, 11th January, 1973.

3. Ibid.



Few days later (18 January, 1973) the East African Standard published a news article entitled, "Townsmen Rush to Buy Rural Plots". According to the news, an advertisement for sale of seven plots at Githumu Market in Murang'a brought about 200 applications - from university lecturers, doctors, engineers, businessmen and other highly-placed people in the public and private sectors with origins in the area. The Murang'a County Council has acquired, as one officer in the Council said, "one of the big headaches."

Under these circumstances, with this competition, there appears to be little chance for hawkers to rent plots. Nor are hawkers likely to be able to build premises with their own resources. Thus they will be effectively eliminated from the free market mechanism, not by competition, but by operation of laws administered by local authority.

Another interesting case was found during our interviews with the Treasurer of the Homa Bay County Council. According to him the actual cost of obtaining a permit for a gainful occupation is higher among the people with a semi-permanent structure than for those people with a permanent structure. In Homa Bay Township a group of market stalls (kiosks) served as a weekly market. Then people built additional stalls to trade fish, maize, maize-flour, bananas and other food stuffs. Soon the traders came to the marketplace every day of the week and it became a daily market. After independence, structures were built not only for trade but for housing of the tradesmen and a number of artisans moved to the area in order to engage in their occupation. As the businesses thrived, people moved with their families to the area which became a slum, their occupation being trade or artisan.

The stall owners were permitted to engage in their business activities by paying shs 30/- a month or shs 1/- a day to the County Council as the market fee. As the Treasurer noted, it is more costly to pay a daily or monthly fee than to have a trade licence. When we asked why the stall owners cannot get trade licences, we were told that, because the place was defined as a market, market fees must be collected and because the stalls are not permanent structures they do not fit into local regulations.

Finally, let us quote again from a newspaper, Daily Nation (3rd January 1973). An article, "Traders Hit at Busia Council Over Licences" reports that, "Trading licence fees have jumped from shs 50/- per year to shs 200/-, which small scale traders have described as fantastic". Fees and charges consist of an important part of the revenues of local authority. The County Council revenue derived from local taxes, such as licensing fees, cesses and rates, increased tremendously during the last five years from £726,000 in 1967 to £1,312,000 in 1971.<sup>4</sup>

How then are rates of fees and charges determined? It appears that there is a significant irregularity in fees and charges by County Councils. For example, for a bakery, Murang'a County Council sets the rate at shs 45/- per year in the township and at shs 20/- per year elsewhere in the area. In Kiambu however, the fee was set at shs 20/- a year, while the Pokot and Nzoia County Councils set the rate at shs 60/- a year. Kilifi County Council sets its rate at shs 100/- per year. The fee for bicycle repairers is shs 15/- in Murang'a, shs 10/- in Kiambu, shs 30/- in Pokot and Nzoia, and shs 50/- in Kilifi.

The number of occupations and trades for which the County Councils sets fees and charges also varies from county to county. Murang'a County Council sets fees and charges for 25 occupations and trades, while Pokot and Nzoia County Councils select about 15 trades and occupations. In the case of Kilifi County Council it is 64.

Finally, a County Council can set different rates of fees according to scale and location of business. For example:

- a) shs 375/- for a trading licence for each shop with liberty to store in, and deliver out of public and other godowns and warehouses,
- b) shs 112/- for each shop when the value of goods on hand during the year for which the licence is required exceeds shs 2,000/- but does not exceed shs 6,000/- during the period of validity of the licence,

---

4. Economic Survey, Ministry of Finance and Planning, 1972, p.167.

c) shs 45/- for each shop when the value of the goods on hand during the year for which the licence is required, does not exceed shs 2,000/- at any one time during the period of the licence, and the shop allocated in township.

d) shs 15/- for the category of (c) located outside the township.

In fact, traders are paying licence fees twice: one to the Trade Development Officer who is in charge of collecting licence fees under the Trade Licence Act of 1967, and again to the Treasurer of the local authority under Local Government Regulations 1963. When we interviewed small manufacturers and repairers and traders in Kisii, Homa Bay, Othaya, and Machakos, they showed us two receipts: one from the Trade Development Officer and another from the local authority.

Let us turn now to the question of how citizens engaged in gainful occupations perceive the effect of licensing systems. We quote:

A carpenter in Kisii: "I did not experience any difficulty in getting the licence. It is easy to get a licence once you know your work and you have got premises. Having licence gives a businessmen the chance of doing his work. But having a licence does not mean you will get big profits, It gives you security and police will not arrest you."

A blacksmith in Kisii: "It is good to have a licence because it offers you security in the business against theft, damages and government confiscation."

A tailor in Homa Bay: "A licence gives you a chance to start a work. But the problem is that the verandah workers suffer very much from this system. I pay shs 60/- to the Trade Officer, and Shs 30/- to the Area Council and shs 30/- to the owner of the house. I cannot get my own place because it is not cheap."

A tinsmith in Machakos: "The license does not help me. Until I get a plot, I work here. The officer said I cannot get it because I work here. But I pay to the County Council and I am safe from the harrasment of police."

It should be emphasized that discriminatory operation of the law concerning trades and occupations is not confined only to hawkers. The hawker's case in the Machakos District was just one of the most vivid examples of discrimination. Petty traders and artisans in the market areas are also victims of the way in which the laws are enforced.

Those laws and regulations effective in Independent Kenya are "colonial" in origin. During the pre-independence years there was an enclave of the "modern" sector among the Wananchi whose occupation was confined to peasant farming. Most of laws and regulations were extended from the metropolitan areas and enforced throughout Kenya without considering the discriminatory impact on the Wananchi. We believe that it is a tragedy for an independent Kenya, as it strives to attain modernity, to maintain laws and regulations designed to protect the colonial enclave.

It is appropriate to mention another category of licence based on the Traffic Act. "The structure of the licensing system and licensing fees clearly penalises the operators who use cheaper modes of transport: for example, the license fee for cheaper diesel-run vehicles is twice the amount of the fee for petrol-driven vehicles of the same tare weight. In addition, there is a heavier fuel tax on diesel oil."<sup>5</sup>

The application of laws and regulations also have an impact on "informal" on-the-job training of young people. Recently, the Ministry of Labour found that there is a widespread practice of employing people as learners in the tailoring industry. A senior labour officer said, "The procedure whereby such people are classified as learners could lead to exploitation by employers and must cease forthwith. No employer under labour laws, is authorised to employ "learners", unless expressly so authorised."<sup>6</sup>

A relevant labour law defines "learners", which means "an employee wholly or mainly engaged in any of the processes of straight sewing by hand/or machine of hems and joins, button-holes, clips, fasteners and tapes; pressing or knife-cutting".<sup>7</sup>

---

5. I.L.O., Employment, Incomes and Equality, A strategy for increasing productive employment in Kenya, Geneva, 1972, p.210.

6. Daily Nation February 16, 1973.

7. The Regulation of Wages and Conditions of Employment Act, 1967 p.78.

The same law set the minimum wages for learners: shs 141/- for the first year, shs 156/- for the second year, shs 207/- for the third year, shs 230/- for the fourth year, and shs 286/- thereafter. (excluding housing allowances.)<sup>8</sup> It appears in the law that a higher wage will be offered when an employee gets a Trade Certificate.

Granted that the practice of employment of learners may well lead to exploitation by the employers, we must ask what is the cost of alternative training opportunities open to potential tailors. How many tailoring training opportunities actually exist in Kenya? Considering the tremendous number of tailors, both in urban and rural areas, it would be expected that existing tailors offer on-the-job, informal training to potential tailors. If the law were strictly applied it also may well restrict training opportunities for the Wananchi.

"Small men" or "voiceless men" are important sources of entrepreneurial talent in developing countries. In their struggle for success in trade and industry, the mechanism of a free market economy will provide training and discipline, a tempering process for developing entrepreneurship. If they must also engage in an unequal contest with stronger and more influential men whose economic position is protected by laws and regulation, their chance of success is sharply reduced and the "tempering" effect of the market is negated.

It may be useful to point out the fact that many entrepreneurs in Japan emerged from artisan and peasant groups. The president of Honda Motor Corporation was a bicycle repairer; the founder of the Toyota Automobile Company Limited was a peasant's son who was interested in improving his mother's weaving machine; the president of the Mastushita Electric Engineering Company, famous for its NATIONAL radios and TVs, was a repairman of torch lamps. In their origin it appears that there is little difference between them and village polytechnic leavers or artisan in the markets. A striking difference between Japan and Kenya is that in Japan few discriminatory measures were taken against emergent entrepreneurs, while in Kenya laws and regulations tend to set artificial barriers against their growth.

---

8. Ibid. p.71

One may question this kind of legal enforcement on the following ground: first, in the long-run, it will inhibit entrepreneurship in the country. The competition of hawkers with established traders is nothing new, but is a problem long appreciated by the latter. The "small" traders or "a good number of established businesses" referred to earlier should have considered the existence of their competition when they applied for loans from either I.C.D.C. or District Development Joint Board. When they received the loans they agreed to repay their loans within the scheduled time, and yet, when they failed to fulfill their obligation, they put the blame on the hawkers who have little "say" in the meeting of a County Council. This is socially unfair and creates an attitude of reliance on the hothouse of legal protection. Real entrepreneurship cannot be created or cultivated by such practices.

Secondly, competitiveness of hawkers and artisans may well reflect price differentials of the same good sold by them and by "established businesses". Repair services rendered by market artisans may be inferior to those available at the established workshops. But they are services which poor consumers can afford. Hawkers move around market centers in rural areas as well as in densely populated areas of urban centers. Consumers of goods sold by hawkers benefit not only by lower prices offered and also can save a trip to the shopping centers. In view of low levels of incomes of peasant farmers as well as of the urban poor, hawkers and craft-based trade should be welcomed by the consumers. Their banning will increase the economic burden on the poorer section of the people in the areas concerned.

Third, it is a frequently observed fact that those who can obtain either I.C.D.C. loans or D.D.J.B. loans are relatively affluent people who can put security against the loans. On the other hand hawkers and market artisans represent the poor people of a society. Quite often, their activities represent one possible way of supplementing their income from farming or wage labor. Banning of hawking and penalizing "informal" business implies substantial loss of income opportunities among the poorer parts of the people of the society. To an equal extent, discriminate enforcement of laws and regulations on artisans creates monopoly profits for licence holders, and differential accesses to credit opportunities.

The following passages from a Colonial Research Study written in 1955 have a remarkable relevance for present-day Kenya:

The system of discriminating regulation and control of trading.... by favouring the preservation by Africans of an effective monopoly of shop-keeping on the smallest scale, also favours the retention by non-Africans of their present virtual monopoly of large scale shop-keeping. The maintenance of the present system of unequal opportunities to trade may smooth the way of the African in short run; but it does not appear to be conducive to the ultimate emergence .....of a class of trader, produced by the forces of competition, who would be as capable as those whom Africans wish to emulate. The easy road to commercial success is not usually the shortest.

9. (East Africa Royal Commission 1953-55 Report.p.71)

SMALL INDUSTRY DEVELOPMENT -  
THE ROLE OF EXTENSION SERVICE

A.M. Shikhule

Kenya Industrial Estates Ltd.,

In business and more so in industrial development, the entrepreneur is generally referred to as the hero on the stage. It is on him that the success or failure of the enterprise will ultimately depend. But his activity is to a large extent affected by the economic environment in which he operates. Chief among the factors affecting his role as an entrepreneur is the availability and extent of extension services available to him.

In this discussion I would like to make some general observations in regard to the role of extension service to small-scale industry development; and then outline briefly the current position of such service in Kenya today with special reference to the Industrial Estate and Rural Industrial Development Programmes.

In this context small-scale industry should be understood to refer to those industrial establishments whose capital investment in machinery and equipment is not more than KShs. 1.5 million. This should include not only those industries in the modern formal sector but also in the informal sector and handicrafts.

WHAT CONSTITUTES EXTENSION SERVICE:

In general terms extension service may be any activity internal or external to an enterprise which is capable of contributing directly or indirectly to its efficient performance. However as we are discussing mainly small-scale industry, the scope of extension service should be narrowed down to certain common needs of the entrepreneur. These include:-



a) Financial Services

For the small entrepreneurs, lack of adequate financial resources is critical. Because of their smallness, usually they do not qualify for bank credit; and when they do, the terms of such credit are usually very unfavourable. Whereas the large scale entrepreneur is more often than not able to obtain credit by mere telephone conversation, the small producer will go from bank to bank in search of credit without success. The situation is even worse in the newly emergent economies where banking is still foreign-owned and controlled and the indigenous entrepreneurs have yet to build credit-worthiness.

b) Managerial Extension Service

In our type of economy, it is rare to combine financial resources with managerial ability. Most small-scale producers are not very receptive to changes. The entrepreneur is usually the manager, book-keeper, cashier, typist, office messenger, etc. Consequently, there is very little attention paid to the usual industrial management details. Accounts are poorly kept (if they are kept at all) and in most cases the entrepreneur cannot tell where and why he is making profits or losses. In fact this is a contributory factor to their being uncreditworthy. The enterprises are usually sick without the owner being aware of the sickness until the productive system grinds itself to a gradual stop.

The role of managerial extension service is thus obvious; but little is done by those of us concerned, to give the needed assistance. The small industrialist needs a continuous, cheap (or even free) management extension service. Such a service should be an 'aggressive' one; it should not wait to be consulted but should, in my opinion, go out and look for problems on a continuing basis.

c) Technical Extension Service

This includes machinery selection, factory layout, machinery installation, servicing, repair, production system design and control, product development and quality control, die setting and

a host of other technical problems.

In large industrial establishments, there are built-in departments, sections or laboratories to handle these technical problems. Small enterprises cannot afford such built-in services. They have to rely on someone else to provide them. In our own economy, the small producer is from time to time forced to approach the large-scale producer for some of these technical services although the latter might be a competitor. The rates charged must be exorbitant. A small nail-manufacturer finds it necessary to obtain the nail wire from a bigger nail manufacturer. A small dress-maker has to purchase the cloth from a large scale clothing factory. Many similar examples may be quoted for electroplating, tool or die tempering or hardening, etc.

Lack of a suitable technical extension service to provide these vital services at reasonable rates usually renders the product of the small-scale industrial sector uncompetitive in many ways, and the small manufacturer is forced to remain small indefinitely.

d) Industrial Training

Lack of effective industrial training, particularly in Kenya, is a negative factor for which I can only blame the political history of the country. It is not normally realized that such training is as important as capital in industrial development. Public authorities in the young economies know about an extension service but, at this time, they are prepared to do little to help. In Kenya's experience, the set-up for technical education is known. But the extent to which such education has been of practical application to the industrial sector is questionable. It is in this context that the proposed compulsory apprenticeship scheme among factories is welcome.

We have in this country a large class of self- or formally - trained craftsmen. Most of these are found in the informal sector of our economy and include bicycle repairers, welders, carpenters, blacksmith technicians, traditional carvers and other craftsmen. But many of the entrepreneurs in the formal industrial sector know little about the technical side of their business. They are people who go into industry because

they happen to have had some savings and needed to invest them profitably. They have no industrial training of any form. Their industries may succeed provided they get well trained industrial workers. For them short-term industrial training may be worthwhile. Needless to add that a programme of industrial training as part of extension service to industry should be geared towards the needs of the country.

e) Sales Promotion and Marketing

This may include joint invoicing and debt collection. For a small entrepreneur, sales promotion is an expensive affair. Usually there is a time lag between production and sales of the products. Of necessity the small producer finds that his meagre working capital is tied up in manufactured stocks or in bills of exchange. Apart from the financial extension service in the form of credit, there is great need for the industrialist to be helped in marketing of the products. As part of the management extension service, the entrepreneur should be assisted in invoicing and debt follow-up for which a nominal fee may be charged.

f) Other Extension Services

They include:-

- i) Procurement of raw materials
- ii) Transport services whether provided by a private organization or a public authority.

INDUSTRIAL EXTENSION SERVICE IN KENYA TODAY

Over the years various agencies have tried to provide extension service in an uncoordinated manner. In addition there have been private organizations that have provided some of these services especially in management including accounting. In such cases the fees have been too high for the small entrepreneur, and as a result, the services have tended to go to the big industrialists leaving out the small ones who needed them most.

Credit

Apart from commercial banks whose role has already been outlined above, the Industrial and Commercial Development Corporation has since 1955 been the main supplier of industrial credit. Although the terms are softer than those of commercial banks, there have been complaints of delay in disbursement. The ICDC has tried and is still trying to minimize this delay. For if credit cannot be made available to the small entrepreneur at the time he needs it, then its usefulness is diminished accordingly.

Kenya Industrial Estates

The concept of industrial estates was applied to Kenya four years ago in an effort to solve, in a coordinated manner, all the problems of extension service for small and medium scale industry. The idea is to bring together in one location a number of industrial units and thereby reduce the individual infrastructural costs, and, perhaps, create an internal market between the units. The I.C.D.C. still provides the credit for fixed capital but the entrepreneur must provide his own working capital.

Working Capital

The inadequacy of the entrepreneur's own contribution has remained a major problem. Efforts to get the commercial banks to soften their attitude regarding the creditability of these small producers have not been very fruitful. Contacts have been made with foreign Confirming Houses but the results have not been encouraging. Recently the KIE arranged with a commercial bank for a Raw Materials Bulk Purchase scheme which is intended to alleviate, to a certain extent, the entrepreneur's requirements of liquid cash.

Technical Services

The KIE run a fairly well equipped tool room (Technical Service Center) from which technical extension service is rendered to the industrialists within the industrial estate. The service starts with unloading of machinery for individual units, preparing factory layouts, getting the machines installed, tested and run in, repairs and maintenance, and ensuring that all the machinery on the estate are run according to the manufacturers' specifications.

In addition the T.S.C. is a production unit in itself geared to the needs of the entrepreneurs for dies, jigs and fixtures required from time to time. Thus should a given part get broken in a machine, the KIE staff will design a prototype and, using similar raw material as in the original part, will manufacture a replacement. The T.S.C. is the life-blood of the industrial estate programme.

As mentioned earlier, there are other technical services on the market, for example the Railway Workshops, Kenya Polytechnic, Metal Box, E.A. Airways, Kenya Engineering Industries etc. but they are not for the needs of the small producer. They are basically meant to provide services for themselves and probably for the large scale industrialist who can afford the high charges. It is in this respect that the role of the T.S.C. within the industrial estate programme is unique.

#### Management Services

As pointed out earlier, for a long time the small industrialist has had to rely on private management services and, for obvious reasons, such services have never been satisfactory. When the industrial estate was launched it was expected that the Management Advisory and Training Centre would fill the gap and work with the entrepreneurs. Indeed the centre tried but for various reasons, their efforts did not go far enough.

Consequently the ICDC established a Management Services Department for the same purpose. The department has to a large extent helped the small entrepreneur both on the estate and outside (within Nairobi) in his accounting problems. Yet due to the usual suspicion on the part of the entrepreneur, such services have been accepted hesitatingly. It may be added that the Management Services Department has mainly concentrated on accounting, leaving the general management problems.

It needs no emphasis that a built-in management extension service (in broad terms) is required somewhere along the line.

#### Feasibility Studies

A unique feature of the KIE are the industrial project feasibility studies which they carry out on a continuous basis. This is a service that is vital to all entrepreneurs both in the formal and informal sector. In a young economy-

as Kenya's where there is lack of centralised industrial statistics, to leave the small industrialist to carry out his own feasibility study is to expect just too much of him. It is high time that consideration be given to the establishment of a country-wide Industrial Information Service and perhaps agencies such as the Institute for Development Studies may play a vital role. Until then, the KIE remains a very important contributor to this service.

#### Marketing

This is a field in which the KIE has done little to assist entrepreneurs. Quite rightly the initial concern was production, and it was hoped that extension service in marketing would be obtained from elsewhere. Added to this was the dilemma that faced the KIE in regard to the extent to which it could go in extension services without being accused of spoon-feeding. However, it is now wholly accepted that this service is very necessary and should be provided to the small entrepreneur if he is to succeed.

#### RURAL INDUSTRIAL DEVELOPMENT PROGRAMME

Most of the extension services that are available today are confined to the urban areas and to the formal sector of the business community in Kenya. The rural area and especially the informal sector is entirely forgotten. It has been a major criticism of credit institutions in the past that their role ended with provision of the money; they did not follow up the borrower to advise and assist him in spending the credit profitably.

Realizing that the informal sector of business, especially in industry, has a dominant role to play in this country's economy as it employs more people than any other part from agriculture, the Government has lately turned its attention to it.

A Rural Industrial Development Programme has been launched under the auspices of the KIE. Pilot Rural Industrial Development Centres have been established in Embu, Machakos, Nyeri and Kakamega. It is intended that these centres should be bases from which extension services on the lines outlined above shall be rendered to the business community as a whole. The centres hope to go down to the grass-roots, especially of our industry, and try to solve

the various extension service problems at that level.

CONCLUSION

Although the entrepreneur is the hero on the stage in the industrial drama, he cannot act completely alone without assistance from other actors. Extension service in all its forms is the central part of industrial production at all levels. The newly emergent economies are faced with a host of industrial problems ranging from lack of adequate credit to very scarce industrial skill. A long-term solution to these problems lies in deliberate action on the part of the public authorities to alleviate them. The capital investment in such services may be prohibitive especially if the short-term results are to be measured in terms of cost-benefit analysis. But the long-term benefits will evidently be rewarding.

AN APPROACH TO THE PROBLEM OF STAFFING A SMALL  
BUSINESS EXTENSION SERVICE

Malcolm Harper

Department of Business Administration  
University of Nairobi

Authorities on economic development are generally agreed that small businesses, particularly in rural areas, should be encouraged and promoted by Government action. It is probably not necessary to justify this concern, although it should also be pointed out that small business promotion of any sort should be subject to the same analysis of costs and benefits as any other measure. In the present climate of opinion there is probably a greater risk of an excessive proliferation of attempts to promote small business than there is of the small business sector being neglected.

There is also fairly general agreement as to the methods that should be employed in order to promote the development of small business. Capital and business skills are seen as the major constraints, and most promotion agencies are trying to provide markets by the appropriate direction of Government purchases, and other peripheral methods. Since small businesses, particularly in rural areas, do not usually supply the kinds of things whose sources Government is in a position to dictate, this is a very limited form of assistance.

Small businessmen themselves, not unnaturally, are unanimous in their belief that capital is their major constraint; this appears to be the case in Ghana (Garlick, 1959, p.87), in Egypt (Boyd, Sherbini and Sherif, 1961, p.30), Nigeria (Schatz, 1965, passim) Tanzania (Hawkins, 1965, pp 153-4) and in Kenya (Marris and Somerset, 1971, p. 179). Even at the other extreme of development, namely the United States, the conclusion is the same (Parris, 1968, p.56). Nobody is likely to admit that his own lack of skill is a major obstacle to his success. In addition the average small-scale businessman is at least as shrewd as most people, and will therefore



mention the problem to which he believes the enquirer might have some solution.

If this belief in the critical role of finance is taken at its face value, the provision of loans is seen as the only thing that has to be done to allow small business to develop. It fairly soon becomes evident, however, that providing a loan to a small-scale businessman who does not have the necessary technical or business skills to make good use of it is in fact doing him a considerable disservice. Lack of skill leads to inability to repay, so that land or other securities which have been pledged are forfeited and the businessman is far worse off than if he had never received the loan in the first place. It becomes evident that loans on their own are likely to be dysfunctional, and in addition ruinously expensive, because of the high default rate. Training is seen as a necessary adjunct to loans. Although this may start informally as part of the effort to salvage loans which should never have been made, it is soon formalised and may even become a precondition of consideration for a loan. (Staley and Morse, 1968, p.358, Hawkins, 1965, p.164, Lewis, 1953, p.50, Davenport, 1967 p.89). This close association of training with loans, and perception of training as a means to the end of receiving a loan, has led to severe problems in deciding upon a "neutral" institutional "home" for any small business education service. These will be discussed later when the details of the extension service that is being proposed have been outlined.

The two major constraints are not always present in any given business. The proprietor may possess all the necessary skills and need only capital to allow him to make good use of his own ability, although such cases are rare since business ability probably includes skill in the solicitation of finance. There is some evidence that the opposite case, namely the existence of adequate capital resources but the absence of the skills necessary to exploit them, is far more common than is generally believed. (Staley and Morse 1968, p.359, Edokpayi, 1960, p.117, Lewis, 1953, p.13) Research carried out in Kenya indicated that virtually all small-scale shopkeepers, at any rate,

believed that lack of capital was their major problem. At the same time it was discovered that some 70% of them had very significant uneconomically employed resources already in their businesses. These resources could usually be released and the sums of money involved were often as great as the loans which were sought. (Harper, 1972, passim). Better management would enable these businessmen to avoid having to borrow money at all; it is important that training of any sort is not perceived solely as an avenue to a loan.

If training is necessary, the form which it is to take must then be determined. The obvious and easiest solution is to provide classroom sessions to impart to the small-scale businessmen the skills that they lack. Long-term full-time courses are clearly impossible for people who are already in business, since they find it difficult to absent themselves from their work even for a few days. In fact, one of the major faults of many Kenya entrepreneurs is their belief that a business can manage itself in the owner's absence. It is possible at K.I.T.I. or similar institutions, to give a proportion of the future small-scale businessmen some full-time training in management as well as technical skills after they leave school, but it is very difficult to identify the true potential entrepreneurs. In any case most small businesses are not started by school leavers but by mature individuals who believe they have accumulated the knowledge and capital necessary to initiate an enterprise.

Full-time training of this sort fails to offer anything but a very long-term solution to the problems of small business, because it does not touch the businesses already in existence. It is therefore necessary to offer classroom training on the basis of very short courses. Many such short courses have been offered to businessmen in Kenya, but it is difficult to evaluate this method of training as such because of the doubtful quality of much that has been provided. It is unfair to condemn short courses as a method of training small-scale businessmen just because most of the courses have achieved very little. The syllabus typically includes a number of unrelated topics, given by various lecturers who have no opportunity to coordinate the content in advance. One not inconsiderable achievement which can

probably be ascribed to these courses is the widespread custom among small traders of keeping some simple records of cash flow in their business. It is unfortunate that they very rarely learn anything about how such simple records can be used, so that keeping them is often a waste of time. Such records can, however, provide information necessary for the effective operation of an advisory service, so that the effort is not totally in vain. Even if the courses are not organised by District Trade Officers, who are perceived primarily as a source of loans, the participants are selected and invited by them so that the courses suffer from the problem of association with loan giving.

Short courses, however well structured and taught, and even when not "tainted" by association with loans, normally cannot, on their own, provide the necessary sort of training. The participants have usually had a minimum of formal schooling, and that many years before, so that it takes them some time to become adjusted to the classroom situation. Their problems vary and experience has shown that even though they may grasp the principles being taught, they very rarely manage to apply them to their own situations, even when extensive use has been made of case studies and group discussion aimed at bringing out individual problems.

Extension services, whether provided in conjunction with classroom sessions or on their own, are a most effective way of training small-scale businessmen. (I.B.R.D. Summary, p.2, I.L.O. 1972, p.207, Working Party, 1972, item 5.13) While most authorities agree on the importance of such a service, they offer few concrete proposals for implementation. The major stumbling-block, which is sometimes explicitly recognized (I.B.R.D. 1972, p. 20, Heyer and Ireri, 1971, p.59, Stepanek, 1960, p.65, Davenport, 1967, p.85) and sometimes implied (Working Party 1972, item 6.9.3.) is the shortage of qualified staff. It is agreed that they should have had experience in business and academic qualifications up to degree level are mentioned. A recent advertisement in the Kenya press offered £K 2500 and more per year to men with five years business experience and B. Comm. degrees, and it is certain that salaries of this order would have to be offered. However optimistic our view of the results of an extension service for small business, it is difficult to imagine that benefits could equal the costs if

salaries of this level had to be paid. Quite apart from the salary requirement, employment of sufficient staff of this calibre to cover the estimated thirty thousand small businesses in Kenya would be a major misuse of one of the country's scarcest resources. It is also unlikely that men of this level would be willing or able to work effectively in the small-scale rural business environment which, to most of them, represents the world they have successfully left behind. We must consider whether staff of lower qualifications, more easily and cheaply recruited, can be employed as extension officers for small business.

The more qualified and experienced advisor can, presumably, provide a useful service because he knows problems to look for, symptoms to expect, and appropriate questions to ask. Also he can probably propose useful solutions and thus develop the businessman's ability to solve his own future problems. If certain problems, their symptoms and appropriate solutions were common to a large number of small businesses, one might even develop a programmed system whereby answers to a few standard questions could indicate the problem area and suggest practical solutions. To discover whether it was in fact possible to categorise the symptoms, problems and solutions in this way, a considerable number of small rural businesses in the Machakos and Nyeri areas were visited on a routine basis over a period of several months. (Occasional Paper No. 4, 1971, p.322). This valuable consultancy service led to new employment opportunities and greatly improved performance in a number of different types of business. It also revealed that a standard question and answer approach was most suitable even for a qualified and experienced consultant. The simplest and most appropriate format for eliciting the necessary information was the traditional accountants' presentation of the balance sheet and the profit and loss account. It was usually possible to approximate the necessary figures, since the main interest was in relationships rather than precision. If the figures, or any idea of them, were totally lacking, this led to obvious recommendation that some records should be kept, and to instruction and demonstration as to how this should be done. If the advice was followed, the balance sheet and profit and loss account could be completed on a subsequent visit, and useful advice

could be given. The reward for keeping accounts was therefore immediate and obvious so that it was likely that they would continue to be kept and, more importantly, used in the future.

After a standardised procedure had been devised in this way, it was tested by a group of four undergraduates from the Faculty of Commerce. Two were from the first year and two from second; they were of average academic performance and had absolutely no business experience. Although the initial stage of the project, where the basic approach was devised, had involved all types of business and the results were successful, we limited the test to shopkeepers, rather than taking in carpenters, pombe bars, metalworkers, bakeries and all the other typical small rural enterprises. The second stage was confined to shops for a number of reasons. First of all, financial limitations prevented the "consultants" from operating outside their home areas and the additional knowledge that was needed for different types of enterprise would only be likely to be applicable to one or two of any type other than shopkeepers. Secondly, analysis and evaluation of the results depended upon a reasonable number of similar "clients" in the sample. The residence problem mentioned above made it impossible to gather a large number of any type other than shops. Thirdly, a great deal of emphasis has been put on to the development of rural industry as opposed to traders. This has meant that the few rural "industrialists" tend to be sceptical of yet another visiting researcher, even if he does come to offer advice and not just to elicit information. It seemed appropriate to try to offer some help to shopkeepers who are by far the most numerous (Working Party, 1972, item 2.5) and the most neglected of small businessmen.

The four students each spent four separate weeks calling on shopkeepers in their home areas at approximately six weekly intervals. Each student collected about twenty "clients", and called on the majority of them four times. Because of changes of ownership, temporary or permanent closure, or continuing absence of the owner or responsible manager, it was not possible to call on every client four times. A number of clients were

contacted for the first time only on the second, third or fourth circuit so that they received proportionately fewer calls. The students' records were examined and discussed between each circuit but no attempt was made to prescribe exactly the advice to be given to each "client" based on the information that had been collected. Such close supervision was not considered to be replicable on a large scale project. The students' initial training was restricted to about a day and a half of informal instruction and two visits to shops in the Nairobi area for guided introduction to the procedure.

The results of this exercise were monitored after four circuits had been completed. Each client was visited and asked what advice he had been given by the student, and what he had actually done as a result. They were also asked what they felt about the idea of such an extension service if it could be provided on a long term basis. Not unnaturally, the vast majority said that they thought it was a wonderful service and they wanted more of it, but this was probably prompted by good manners rather than sincere evaluation of the service. The answers to specific questions about the advice and action taken were more useful;

- 10% of the clients had remembered and followed all the advice given, and this could be substantiated by checking on stock figures and other objective data. The benefit to their businesses had been substantial.
- 60% of the clients had followed a large proportion of the advice given, which could be objectively verified, and had experienced some benefit.
- 30% of the clients had remembered and done nothing.

The advice that was given, covered a number of areas. The financial data and consultancy progress record forms which were used are appended to this paper. A number of basic control mechanisms were included: cash and debtor records, resource re-allocation measures such as jobbing off dead stock, opening a bank account or the purchase of a certain new item, simple good housekeeping and proper arrangement of stock to facilitate correct re-ordering, and advertising and promotional techniques. The students were advised to limit the number of points of advice that were given in order to make sure that they were followed, and

the record sheet was used to remind the "consultant" what advice had been given and to record whether it had been followed.

The results of this exercise justify further experiment on a more replicable basis, particularly in relation to the calibre of staff employed. Although the undergraduates were totally inexperienced in business, and although the academic work they had done up to the time of carrying out this work was of little direct relevance to it, they nonetheless represent a group with far above average intelligence. Having chosen the Faculty of Commerce they were presumably more interested in business than the typical secondary school leaver. It is therefore proposed to recruit Ordinary or Advanced Level Secondary School leavers, and to test the developed procedure using this calibre of staff. There is no question that school leavers can easily be recruited, and a salary of around six hundred shillings a month seems to be adequate. Two have already been selected and their training has started, in preparation for five or six months of full-time advisory work in markets around their home areas. Even if they manage a rather lower rate of calling than the University students, they should be able to cover about fifty "clients", calling on each once a month. We hope to recruit four more consultants of similar qualifications so that the procedure can be tested with a total of six men advising about three hundred shopkeepers. In selecting the consultants, preference is given to outstanding Ordinary Level leavers; they are not likely to disappear to the University in July and they are in more plentiful supply than Advanced Level leavers (Economic Survey, 1972, pp.173 and 183) Initial experience indicates that they will be able to apply the procedure and give useful advice after about one month of training. A large proportion of the training will be "on the job", working in shops and learning from their experience what are the most pressing problems and what solutions can be devised to them. Partly because of supervisory time constraints, the training will in fact consist largely of this form of "longitudinal case study", with the active participation of the students themselves, and a minimum of formal classes or prescribed reading and exercises.

The basic concept of this form of extension and much of the detail of the methods employed arises from the very well develop-

ed systems of agricultural extension that operate in Kenya. Many of the staff employed in these services at the moment have not gone beyond Primary School. While diagnosis and recommendations are probably more self evident on a farm than in a shop, the success of some extension services would indicate that a small business extension service using staff as suggested is not too ambitious a project. The most successful agricultural service is generally agreed to be that of the Kenya Tea Development Authority, and much of its success is ascribed to close supervision and the use of a system of preprinted visit records similar, though far simpler, to that suggested for the small business consultants. There are, however, problems in advising businesses, which do not arise in farms, and their significance is for the moment somewhat difficult to assess. If one farmer succeeds in growing better tea than his neighbour this will in no way injure his neighbour, and there is likely to be a considerable benefit from the voluntary sharing of information by the more progressive "early adopters" (Occasional Paper No. 4 1971 p.52). If one shop succeeds in offering a better service to its customers than another in the same market, the less successful business may well suffer or even fail altogether. Success may create some increased unemployment, which certainly complicates the problem of evaluation. This is particularly likely in markets where, as is usually the case, there are far more shops than necessary to serve customers properly because the proprietors are willing to remain in business for very little reward. Even if the less progressive shops are not forced out of business they may become even less successful and profitable, so that the improved use of capital in the progressive shop is matched by deterioration in the use of capital by the laggard. This is not an argument for not trying to help shopkeepers at all, but it should be considered, since the effect on the primary demand of a given market area of some shops becoming markedly more efficient is very small indeed.

Evaluation is not only difficult because of the problems arising from competition. It is easy to see whether a farmer has adopted a certain innovation, and even to measure his inputs, and his output. Genuinely accurate accounts will not be available for every client shop as a result of the advice given, and even if



they were, it would not be possible to compare them with figures that described the situation before the advice was given. There were probably no figures at all available at that time. Other factors apart from the advisory service are obviously important in determining the success of a given business, but it is hoped that a control group of non-recipients of the service can be selected and their performance related in some way to that of the recipients. The difficulty here is that in a given market there may, in spite of the problems of competition, be some sharing of the advice and a control group from another market may be affected by quite different external factors. A pilot attempt has however been made to assess the economics of the venture by valuing the capital released from dead stocks, excess credit and other uneconomic applications of funds, and comparing it with the cost of providing the service. In addition there are many other benefits: improved use of capital that is already being employed relatively profitably, greater use of capital which may be put into the business in the future, and even the creation of employment opportunities and some redress of the flow of resources into the towns because shopping becomes more attractive nearer home.

The problem of an institutional "home" for the service, if it is to be implemented on a nation-wide scale, has been mentioned earlier. While it is important to avoid association with loan sources, since the training will then be seen merely as a precondition of getting a loan, it is also desirable to avoid creating yet another institution with new overhead costs and new coordination problems. It is perhaps symbolic of the disarray that presently exists in the organisation of small business promotion services that one could appropriately recommend that the described extension service be administered (1) by Kenya Industrial Estates through the Rural Industrial Development Centres, (2) by the Management Training and Advisory Centre, (3) by the Ministry of Commerce and Industry through District Trade Development Officers, or even (4) by the Industrial and Commercial Development Corporation as part of its advisory services. The recommendations of the Working Party on Small Business Development in fact point to the creation of a separate coordinating agency within the I.C.D.C. (Working Party 1972 Item 6.8.3). While there is a desperate need for more coordination in this field, as in so many aspects of development assistance, it is important to inform small business with utmost clarity that loans are only one of the services which Government may provide, and that loans are not

to be regarded as the "raison d'etre" of all the other services. Once the institutional framework is clarified, the consultants such as proposed in this paper will probably need further guidelines to enable them to recognise when the services of other components of the promotion package are required.

Important services can be provided by the private sector. These include commercial banks (Working Party, 1972, item 6.14.1.) and also the suppliers of the goods which are distributed through rural shops. Many of these suppliers have a near monopoly of the supply of their products, and one of the most effective ways to increase sales is to improve the efficiency of their channels of distribution. Many suppliers are aware of this, and provide a package of credit, training and continuing individual advice which might well be a useful model for a more comprehensive Government service.

Whatever institutional basis is selected, it can only be as good as the various services which it controls. It is to be hoped that the present very necessary concern with selecting the correct coordinating body is not allowed to detract from efforts to develop the best possible package of services. This paper describes an attempt to remove the main obstacle blocking development of one of the numerous services required for effective small business promotion service.

#### REFERENCES

- Garlick, P.C. - African Traders in Kumasi. University College of Ghana 1959.
- H.W. Boyd  
A.A. El Sherbini - Channels of Distribution for Consumer  
A.F. Sherif Goods in Egypt. Journal of Marketing, 1961.
- S.P. Schatz - The Capital Shortage Illusion, Government Lending in Nigeria. Oxford Economic Papers, No. 2, 1965.
- H.C.G. Hawkins - Wholesale and Retail Trade in Tanganyika, a Study of Distribution in East Africa. E.I.U. New York 1965.
- P. Marris and  
A. Somerset - African Businessmen. E.A.P.H. Nairobi, 1971.
- A.W. Parris - The Small Business Administration. New York, 1968.
- Staley and Morse - Modern Small Industry for Developing Countries. McGraw Hill, New York, 1968.

- W.A. Lewis - Report on the Industrialisation of Gold Coast. Accra, 1953.
- R.W. Davenport - Financing the Small Manufacturer in Developing Countries. New York, 1967.
- S.I. Edokpayi - Some Problems in the Development of Indigenous Private Business Enterprises in Nigeria. Nigerian Institute of Social and Economic Research, Conference Proceedings, 1960.
- M.H. Harper - The Discovery and Satisfaction of the Perceived and Actual Needs of Rural Shopkeepers in Kenya. I.D.S. Working Paper No. 16. Nairobi 1972.
- I.B.R.D. - Economic Progress and Prospects in Kenya, Vol. 2. Annex A. Nairobi 1972.
- I.L.O. - Employment, Incomes and Equality. Geneva, 1972.
- Working Party - Report of the Working Party on Small Business Development. Nairobi 1972.
- J. Heyer, D.Ireri, and J. Moris - Rural Development in Kenya. E.A.P.H., Nairobi, 1971.
- J.E. Stepanek - Small Business Advisory Services, an International Study. Free Press of Glencoe, New York, 1967.
- Occasional Paper - Strategies for Improving Rural Welfare. Occasional Paper No. 4, I.D.S. Nairobi, 1971.
- Economic Survey - Kenya. Economic Survey, 1972. Nairobi, 1972.

THE ROLE OF THE KENYA GOVERNMENT IN THE  
DEVELOPMENT OF SMALL-SCALE INDUSTRIES:  
ORGANIZATION AND POLICY

F.M. Mwihia

Ministry of Commerce and Industry,  
Nairobi, Kenya

As a functionary in the Ministry of Commerce and Industry, I was requested to provide this conference with a background paper to explain the existing and prospective governmental policies and programmes aimed at the development of small scale industries. Accordingly, I shall proceed to explain how the role of the Government has been determined in the past, what forms it has taken and how this role is likely to be played in the future.

EXISTING INSTITUTIONS

When Kenya attained political independence, the new KANU Government was aware of the need to promote the growth of industrial activity and to assist Africans to participate actively in the running of industrial enterprises. At that time, however, the needs of the small industrial entrepreneur were not yet fully understood. In fact, it appears that their needs have been identified piecemeal. As the significance of a particular need was identified, however, the Government proceeded to create an institutional mechanism appropriate to handle the problem at hand. This observation will, hopefully, be borne out in the following discussion of the institutions which the Government has established for the purpose of assisting small-scale industrial entrepreneurs.

The Industrial and Commercial Development Corporation  
(I.C.D.C.) and The Provision of Credit

The I.C.D.C. was established as a statutory body in 1954. Until Independence, the corporation's financial activities were mainly concerned with large- and medium-scale industries, either privately owned or joint ventures between private entrepreneurs and the Government. Soon after independence, the Government recognized that the development of indigenous commercial and industrial

enterprises was handicapped by the lack of credit facilities from conventional sources such as the foreign-owned commercial banks. Therefore the mandate of the I.C.D.C. was widened to include provision of small loans to African entrepreneurs. However, the lending authority of the I.C.D.C. was restricted to loans of not less than £500. This restriction was intended to prevent overlap of the jurisdiction of the I.C.D.C. and the District Joint Loans Boards which had been the main source of financial assistance to African traders and industrialists during the colonial period.

#### Kenya Industrial Training Institute (K.I.T.I.)

As the name suggests, the K.I.T.I. was established to train small-scale African entrepreneurs. Its creation, with Japanese technical assistance, was based on the conviction that Africans lacked the technical and managerial skills needed to establish small-scale industries. Without such skills potential African industrialists could neither participate significantly in the operation of industrial undertakings nor make full use of the credit facilities available through the I.C.D.C.

The course provided by K.I.T.I. lasts one year. The students admitted to the institute are required to have basic technical qualifications in such fields as metal-work, wood-work, machine assembly and repair, leather work, electrical engineering and tailoring. Since inception in 1965, the Institute has turned out more than 400 graduates of whom about 100 have established their own enterprises, utilizing credit facilities available from the I.C.D.C.

#### The Role of The Industrial Estates

It is interesting to note that in spite of formal training and the availability of credit only about one quarter of K.I.T.I.'s graduates have actually become employed in their own industrial enterprises. Furthermore, the demand for small loans from the I.C.D.C. has been largely confined to the commercial sector. Bearing these facts in mind, the Government decided in 1967 to launch an industrial estates programme to provide more services to the African entrepreneur and to accelerate overall industrial development and the degree of African participation in the industrial sector of the economy.

The industrial estates programme is operated by the

Kenya Industrial Estates Limited, a wholly-owned subsidiary of the I.C.D.C. The first phase of the Nairobi Industrial Estate consists of 25 factory units and was completed in the middle of 1968 at a cost of £460,000. The second phase of the Nairobi Industrial Estate consists of 27 factory units; it is now partly operational. It was estimated to cost around £530,000. A further £1½ million will soon be invested in the construction of industrial estates in Nakuru (now under construction), Kisumu, Mombasa and Eldoret.

The approach adopted by the Government in recruiting potential industrial entrepreneurs for the industrial estates is as follows:-

- (a) The staff of the Kenya Industrial Estates (K.I.E.) identify potentially profitable industrial investment opportunities which they suggest to potential entrepreneurs. Alternatively, the potential industrialist comes forward with his own proposal which is then evaluated by the appropriate K.I.E. project officers.
- (b) K.I.E.'s project officers carry out detailed feasibility studies to determine the economic viability of a particular industrial project as well as the technical and financial requirements of the project in question.
- (c) The K.I.E. provides 100% machinery loans and subsidized factory accommodation to the candidate who is capable of providing the stipulated working capital and who otherwise qualifies best in terms of experience or potential to run a particular industry.
- (d) The K.I.E. provides a technical/advisory centre which supervises and guides the potential entrepreneur during all the phases of bringing a particular industry into successful operation. The K.I.E. staff, in fact, is in a position to provide continuous advice (extension service), whereas the technical centre helps the industrialists to solve their technical problems, including the acquisition of tools and spare parts.

The current industrial estates programme is likely to be completed in 1975. Upon completion, this programme will account for at least 100 industrial products, 2,000 industrial jobs and a contribution of at least £4 million to the gross domestic product. However, the most significant feature of the industrial estates programme is that it makes possible the creation of a corps of successful African industrialists through provision of a comprehensive integrated package of services, determined in accordance with the needs of specific enterprises.

#### Rural Industrial Development Programme

The K.I.E. programme gives primary emphasis to establishment of industries at a particular location (or estate) in the relatively large urban centres. In fact, the small size of the other towns in Kenya was one of the main reasons why they were excluded from the current industrial estates programme. Yet, it may be recalled that the strategy of the National Development Plan for 1970-74 gives considerable emphasis to the promotion of rural development.

Having learnt some useful lessons from the work of K.I.E., the Ministry of Commerce and Industry decided that it could effectively support the strategy of rural development by introducing the Rural Industrial Development Programme. The programme was inaugurated in June 1971. It provides for the construction of 14 Rural Industrial Development Centres (R.I.D.C.s) scattered all over the country. Those at Nyeri, Embu, Machakos and Kakamega are already completed at a cost of nearly £200,000, including buildings, machinery and equipment. Another three centres (Malindi, Kisii and Garissa) are expected to be operational by 1975.

The R.I.D.C.s are intended to assist the small industrialists located in small urban centres and the surrounding rural areas to operate efficient industrial enterprises. In the interests of economic viability, these enterprises will be based mainly on local demand and availability of local raw materials. The R.I.D.C. personnel are expected to identify small industrial enterprises which need to be introduced or improved, to develop products and processes suitable to a given local area, to train budding industrialists and their employees in technical and managerial skills, and to assist deserving rural industrialists to obtain necessary credit facilities.

In providing technical and managerial services, the R.I.D.C.s are not supposed to concentrate on enterprises situated at specific locations. On the contrary, each R.I.D.C. is supposed to extend its services to active and potential industrial entrepreneurs scattered throughout the rural area (or district) falling within the jurisdiction of a particular R.I.D.C. It is this difference in approach which basically distinguishes the R.I.D.C.s from the urban industrial estates of the type previously discussed.

#### PROSPECTIVE POLICY AND INSTITUTIONAL CHANGES

##### Implications of "Ignorance" About The Future

An attempt to outline the policies and institutional mechanisms which the Government is likely to introduce in the future in connection with the development of small-scale industries must be largely speculative. This is particularly so at this point in time, when a number of reports are being evaluated by the Government and the Third National Development Plan is still at an early stage of preparation. The best that one can do is outline some of the major policy issues and suggest possible solutions.

The I.C.D.C., an agency of the Ministry of Commerce and Industry, has been the main instrument of the Government to handle the development of small-scale industries. Over time, the role of I.C.D.C. (and its subsidiary bodies) has been expanding fairly rapidly. Today the Government recognizes that small-scale industrial operations can and should play a much more significant role in the development of industrial activities throughout the country, especially in rural areas. It is, therefore, important for one to pause for a moment and ask whether or not current institutions and policies are adequate to facilitate the growth of small-scale industries at an acceptable rate and in accordance with other policy objectives.

##### The Need For A Small Business Development Agency

Recently, the Government set up an inter-ministerial committee, named "The Working Party on Small Business Development", and charged the committee (Working Party) with the task of evaluating the adequacy of existing institutions for the development of small businesses. The Working Party's report, submitted in mid-1972, made the following important recommendations:-



- (a) The responsibility for small business development should be vested entirely in the Ministry of Commerce and Industry.
- (b) The Government should establish a small-business development agency under the direct control of the I.C.D.C. The proposed agency would be responsible for co-ordinating provision of an integrated package of the services required by small businessmen.
- (c) The best approach in providing assistance to small businessmen is to provide advisory services on the basis of a proper analysis of individual needs.
- (d) The needs of small businessmen are so similar that there is no need to establish separate field advisory services for small traders and industrialists.
- (e) The R.I.D.C.s as presently conceived are supposed to cater for the needs of rural industrialists alone. This specialization is undesirable. Accordingly, the R.I.D.C.s should be transformed into small business advisory centres, geared to serve the needs of both traders and industrialists in the rural areas. Eventually, there should be at least one small business development centre in each of Kenya's administrative districts.
- (f) The proposed Small Business Development Agency should assume responsibility for controlling the Kenya Industrial Estates and the proposed Small Business Development Centres.
- (g) The Government should guarantee loans made by commercial banks to candidates (businessmen) approved by the proposed Small Business Development Agency.
- (h) The Kenya Industrial Training Institute (K.I.T.I.) should be brought under the control of the proposed Small Business Development Agency. It will become the technical training arm of the agency.

- (i) The Management Training and Advisory Centre (M.T.A.C.) should be brought under the auspices of the Small Business Development Agency, particularly if the M.T.A.C. begins to concentrate on the training and development of small businesses. It may be noted in passing that the M.T.A.C. has already begun to give emphasis to the training needs of small businessmen and that it is expected to come under the control of the Ministry of Commerce and Industry in the near future.

Alternatives and Additions to Recommendations of The Working Party

Subsequent to the completion of the Report of the Working Party on Small-Business Development, at least two foreign teams and one international team have submitted their own views about how the problem of developing small-scale industries should be approached in the future. The report submitted by the UNDP/ILO Mission on Employment is quite consistent with the recommendations of the Working Party. However, the reports submitted by the two foreign missions seem to question one of the fundamental conclusions reached by the Working Party.

According to the "foreign-missions" reports, the needs of small-scale industrialists differ significantly from those relating to other businessmen. Consequently, it is necessary to establish two independent extension services, one for small industrialists and another one for businessmen. Alternatively, the assistance programmes for the two categories of businessmen could be placed under two separate divisions, under the overall control of the Small Business Development Agency. The reports of both foreign missions strongly support the idea of providing an integrated package of services, provided it is specifically tailored for small-scale industrialists.

The suggestion of the Working Party to the effect that field teams should be recruited to deal with small-scale industries in every district is strongly supported by one of the foreign missions. This mission's proposal would involve deploying not less than 200 professional officers (i.e. economists and technicians) to cover all the districts. This number of professional

officers would possibly concentrate on industrial problems even if the Government were to accept the integration of extension services for all businessmen as recommended by the Working Party, and proceed to employ the 500-strong team of extension workers, as recommended by the UNDP/ILO Mission on Employment.

Assuming that the Government does emphasise the role of small-scale industries in the development process one important problem will have to be solved: the degree to which decision-making will be centralized or decentralized. It seems quite obvious, for instance, that overall efficiency could be enhanced if the selection of local industrial projects and the provision of small industrial loans were matters left to the discretion of local committees with the support of the professional field staff. On the other hand, it would appear that there should be a central facility for the development of tools, processes and products necessary for the promotion of small-scale industries. Perhaps the K.I.E. could assume responsibility for providing such a facility, if it were provided with the necessary resources. In that case it may be necessary for K.I.E. to slow the expansion of the conventional industrial estates and give more support to rural industrial development.

As already indicated, no one can be sure about the specific nature of the policies and institutions which the Government will employ in the future. However, it is almost certain that the various proposals discussed above will be given careful consideration. In addition, the Government will have to consider general incentives for the development of small-scale industries. In this connection, it would seem quite important for the Government to decide on the wisdom of reserving certain industrial sectors for small-scale industries. Furthermore, it would be very desirable for the Third Development Plan to define in detail the mode of operation and the volume of resources which will be employed to facilitate a much more rapid growth (more than the 9% rate expected during the present plan-period) of small-scale industries, particularly in the rural areas. Since the present Workshop on Small-Scale Industrialization is meeting before the Third National Development Plan, I hope that the Seminar will generate ideas which can assist the Government to reach sound conclusions about policies and institutions for the future development of small-scale industries in Kenya.

NON-FARM ECONOMIC ACTIVITIES IN RURAL AREAS

Leopold P. Mureithi  
Institute for Development Studies  
University of Nairobi

INTRODUCTION

In Kenya, public policy accords top priority to rural development. The Development Plan states:

"The key strategy of this Plan is to direct an increasing share of the total resources available to the nation towards the rural areas. The Government believes that it is only through an accelerated development of the rural areas that balanced economic development can be achieved, that the necessary growth of employment opportunities can be generated and the people as a whole can participate in the development process."<sup>1</sup>

Since about 90% of Kenya's population lives in rural areas, rural development is tantamount to taking economic benefits to the majority of the people. Plans for the rural areas would naturally emphasize agricultural productivity but should also include improved roads, water supply, rural electrification, improvement in the quality of housing, education and health services. Within this framework, the development of rural industries is a necessary component of a balanced and integrated "Opportunity Set".

Although all rural industries are not small, in this paper, we shall restrict our discussion to small-scale rural enterprises, defined as establishments with less than 10 workers, employing less than K£1,000 worth of capital, and located in a settlement of no more than 2,000 persons.

---

1. Republic of Kenya, Development Plan (1970-1974), p 2.  
See also Chapter 6, pp 166-178.

THE ROLE OF NON-FARM ACTIVITIES

One might argue that rural development, like that in any other area, is per se a good thing. In addition, considerations of economic democracy suggest that these areas be developed because many people live there and for regional balance. Finally, it might be argued, intensified rural development will arrest and possibly reverse the current trend of migration from rural to urban areas.

The latter point has provoked some controversy. The 1971 edition of Barclays Overseas Survey says of Kenya,

"The Industrial and Commercial Development Corporation will invest an estimated K£5 million in a country-wide programme to industrialise the rural areas to relieve unemployment in those areas and create new sources of income to curb the immigration into the big towns."<sup>2</sup>

The Minister for Commerce and Industry, the Hon. Mr. James Osogo, has said,

"...the keynote for future development in the /industrial/ sector will be an emphasis on rural industrialisation. This will mean creation of employment and, more important from the standpoint of social engineering, will provide increased impetus for agricultural development providing disincentives for urban drift."<sup>3</sup>

In contrast, the Hon. Mr. Mwai Kibaki, Minister of Finance and Economic Planning, has asserted,

"Even if we develop rural areas the migration to towns will not stop. The old theory is wrong that if you develop rural areas you will slow down migration into towns."<sup>4</sup>

- 
2. Barclays Overseas Survey, 1971, p68.
  3. Drum (East African Edition), December, 1972.
  4. Sunday Nation (December 31, 1972), p16.

Again,

"Improvement of rural welfare will not itself reduce the numbers going to the towns.... One must look at rural welfare as an objective in itself and not raise the false hopes that it will be solving the terrible problem of rapid urbanisation"<sup>5</sup>

Historically in developing societies the proportion of urban population goes up while the number of people engaged in purely agricultural activities declines. If rural industrialisation is an integral part of development, and if the relevant programmes are implemented, agglomerations of people, industries and services will result. People will move from the peripheral rural area to the "market centers" and some rural areas will ipso facto become urban. Some migration will be inevitable.

The important question is not whether we can reduce migration from rural to urban areas, but whether we can keep the rate moderate. No doubt one reason why people migrate is the uneven distribution of economic opportunities. If the generator of economic growth is located in rural areas, we can reduce (but not eliminate) migration from rural areas to major cities and towns. At the same time, with the progressive introduction of improved methods of cultivation, more and more people will be rendered surplus to the requirements of the land. The problem of unemployment and rural-to-urban drift which are already severe will be accentuated by this process unless the country has a program of rural industrialisation.

#### SPECIAL PLAN FOR SMALL RURAL INDUSTRIES

A characteristic of rural dwellers is occupational pluralism. Surveys indicate that many have more than one job.

---

5. Closing ceremony speech by the Hon. Mwai Kibaki at a Workshop on Strategies for Improving Rural Welfare, IDS (Nairobi) Occasional Paper No.4 (June, 1971), pp 558 & 559. Accent in the original.

For example, the 1969 Survey of Non-agricultural Enterprises in Rural Areas enumerated 10,402 out of 67,951 - 15% self-employed persons holding another job besides his usual occupation.<sup>6</sup> Inukai and Okelo, in their study of Nyeri District, inquired about secondary occupations. Table 1, reproduced from their study,<sup>7</sup> shows a substantial number of businessmen engaged in at least one additional economic activity, farming or an additional business, trade or craft. These diverse interests may be motivated by a desire to spread risks among different investment opportunities.

Over one third of the respondents had some connection with farming. This raises the possibility of intersectoral resource transference; earnings from a non-farm activity could be used to, say, hire labour to work on a farm, and vice versa. Earnings in some non-agricultural pursuit can be used to meet family expenditures like school fees, releasing farm income for further land development. These are some of the complementary features of agricultural and non-agricultural activities. They could, of course, be competitive. The economic resolution of such a problem is equalise net returns over the spectrum of choice, the Principle of Equi-marginal Returns.

There are other complementary relationships in the rural economy. First, agriculture is seasonal; between peak seasons of land preparation, planting, cultivation and harvesting there are periods of slack. Artisan activities provide something remunerative to do during slack agricultural periods. Secondly, just as non-farm occupations contribute towards fuller employment of labour, they can and do contribute towards mobilisation of investible funds. In rural areas savings may be localised and highly specific - not easily tapped on an institutional basis. Hence, non-agricultural

---

6. Ministry of Finance and Economic Planning, unpublished Survey of Non-agricultural Enterprises in Rural Areas, 1969.

7. See Ichirou Inukai and Jasper Okelo, "Rural Enterprise Survey in Nyeri District, Kenya". A report presented to DANIDA dated 25th February 1972.

Table 1

RESPONDENTS' SECONDARY OCCUPATION (%)

Present Secondary Occupation	Retail & Wholesale	Catering	Manufacturing & Repairing	TOTAL
Craftsman	0.6	2.1	4.4	2.7
Business/Trader	4.2	7.3	5.3	5.3
Farmer	44.3	30.2	30.1	35.0
Labourer	0	0	0.4	0.2
Professional/Teacher	0	2.1	0.4	0.6
Officer/Manager/Supervisor	0.6	0	0.4	0.4
Caterer/Cook	0.6	3.1	0.9	1.2
Other	49.7	55.2	58.0	54.6
Number of Respondents.	167	96	226	489

Source: Inukai and Okelo, *op.cit.*, p3 and p 37.

activities offer outlets for resources which would otherwise be employed less productively. Thirdly, non-agricultural activities serve as a hedging mechanism, more or less in line with an earlier reference to a motivation to spread risks. For example, Mbithi and Wisner<sup>8</sup> cited cases during the 1965

8. P.M. Mbithi and B. Wisner, "Drought and Famine in Kenya: Magnitude and Attempted Solutions", IDS (Nairobi), Discussion Paper No. 144, pp 27-28.



famine crisis, of people shifting to non-farm activities not directly affected by the vagaries of weather.

The aim to diversify sources of income and to provide alternative employment must be related to the appearance of kiosks (general retail shops) located on farms with good access roads seen in many places of the Eastern and Central Provinces. While some rural activities are secondary -- something to fall back on when things get bad -- some of them are full-time going concerns.

#### SCOPE FOR EMPLOYMENT

One can be self-employed or can be an employee, regular or casual. According to the findings of a recent ILO Employment Mission to Kenya, "the average rural unit is a self-employed man with perhaps two working family members and one wage employee outside the family. The size tends to be larger in small towns, where many manufacturing and repairing workshops have five to ten wage employees".<sup>9</sup> The relative magnitude of self-employment and employees is given in Table 2. Small-scale rural enterprises may not be motivated by profit only. They generally employ family members and therefore, may emphasize output and employment as much as profit.

In addition, small-scale rural establishments may generate more employment per unit of capital invested because they are more labour-intensive than their large scale, urban counterparts. "Capital" is here used to mean both "physical" capital (skilled man-power).

TABLE 2  
PERSONS ENGAGED IN NON-FARM ACTIVITIES

	1967		1969	
	Number	%	Number	%
Self-employment	71,328	43.1	67,954	36.2
Employees	94,220	56.9	119,705	63.8
TOTAL	165,548	100.0	187,659	100.0

SOURCE: Unpublished data in Survey of Rural  
Non-agricultural Enterprises, 1967 & 1969.

9. International Labour Office, Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya. Geneva, 1972 p.192.

In the context of an economy which is short of both physical and human capital, this is important. Recent research in other developing countries reveals that low capital-intensity in small-scale industrialization may be the more efficient and therefore provide a better pattern of development. For example in Colombia, studies show that "cottage shop" establishments (defined as having less than 5 workers and less than 24,000 pesos output) are far more statically efficient than large firms.<sup>10</sup>

The employment performance of rural non-agricultural activities in Kenya is very impressive. According to the Economic Survey of 1971 and 1972, rural non-agricultural employment rose from 81,700 to 90,000, 10.1%, between 1969 and 1970. Over the same period "modern" sector employment, i.e. urban establishments, large-scale farms, large enterprises and the public sector, absorbed only 2.8% additional labour. Non-farm activities are playing a vital part in the generation of much needed employment opportunities.

If rural small scale enterprises are more labour-intensive than others, favouring them means that more people will be employed with a given amount of capital and skilled manpower. This would be associated with a more equal distribution of whatever income is produced. Both the labour absorption and income distribution considerations favour rural industrialisation.

---

10. See John Todd, "Size of Firm and Efficiency in Colombian Manufacturing", Williams College Center for Development Economics, Research Memorandum No. 41 (October, 1971). Also, R. Albert Berry, "The Relevance and Prospects of Small Scale Industry in Colombia", Yale University Economic Growth Center, Discussion Paper No. 142 (April, 1972) John Todd shows that "...in Colombian manufacturing, small and medium size establishments generate more output per unit of scarce resources than large establishments" and that "the labour-capital ratio is also higher in the small and medium size firms" (p1).

PATTERNS OF REGIONAL DEVELOPMENT

The pattern of distribution of manufacturing and repairs establishments is shown in Table 3 below:

Table 3

GEOGRAPHICAL DISTRIBUTION OF ENTERPRISES, 1967

	Number of Workers	%	Gross Product K£'000	%
Nairobi & Mombasa	42,507	66.21	32,697.9	78.22
Nakuru, Thika, Eldoret & Kisumu	9,094	14.16	4,050.4	9.68
Other areas	12,596	19.62	5,053.7	12.08
TOTAL	64,197	99.99	41,802.0	99.98

SOURCE: Census of Industrial Production, 1967.  
Compiled from Table 3, p4.

It will be noticed that the six large towns account for over 80% persons employed and about 88% of gross product in manufacturing. All these towns are located along the railway line and form what can be termed "Poles of Development." But "the Government aims to achieve a wider geographical dispersal of the benefits of industrialization".<sup>11</sup>

Such an aim could be achieved by deepening or widening the nuclei. The former pushes industrial development outward by expanding the islands which have already been created until they coalesce. Widening, on the other hand, creates more and more islands of development until they ultimately link up with each other. The latter alternative is a better strategy because it provides jobs where they are needed and so minimizes the

11. Development Plan. p305.

necessity to migrate in search of greener pastures. Dispersal, multiplication and duplication would call for small size enterprises because they more readily lend themselves to a wide geographical dispersion. In any case, localised sub-markets create a setting for small-scale and mainly rural enterprises. These enterprises lead to familiarisation with industrial life without sudden major disruptions and break with people's traditional or previous way of life. "An emphasis on small-scale and rural industries will also have the effect of spreading the benefits of industrialisation more widely."<sup>12</sup> Hence small firms would be ideal instruments for regional balance.

#### TYPES OF RURAL INDUSTRIES

The kinds of industries prevalent in rural areas include:

1. Agricultural tools: wheelbarrows, ox- and donkey-carts, ploughs, hoes, rakes;
2. Forestry and fishing equipment: boats, sails, fishnets, axes;
3. Building materials: sawn timber, bricks, doors, windows, roofing tiles;
4. Farm and Household Utensils: harnesses, water buckets, pots, pans, furniture, pottery, leather goods.

The list above includes both producer and consumer goods. Many enterprises produce high bulk, low value goods (e.g. wood furniture) for which high transportation costs provide some natural protection. Others cater to low volume or special local needs (e.g. local brew). Others utilize unique local materials (e.g. moulds from Kisii stoneware). Others deal in perishable commodities (e.g. banana and fruit stalls). Others provide repair services (e.g. shoe cobblers and bicycle repair shops). Others manufacture special articles to order (e.g. window frames, doors, etc). Some of these industries are Re-use Industries in that they utilize old tyres and tubes for sandals and bed straps, tins for oil lamps, wooden crates for material

---

12. ILO, op.cit., p179

used in building and furniture, and so forth. The major characteristic is that production is organised in small-scale units close to raw material sources and markets. The fact that they are small size puts them within the technical competence and business management of many Kenyans. Personal forms of organisation, e.g. family businesses, are more easily arranged and the possibility of articulation due to red tape, etc., is minimized.

#### CONCLUDING REMARKS

All this is not meant to suggest that there is no place for large enterprises in the industrial development process. They certainly have an important place such as acting as "poles of growth". But a few large industries located in big towns will remain the superficial crust of the industrialisation process unless complemented by a healthy undergrowth of medium and small industries. In our discussion of regional development rural small industry was visualised as playing the role of filling interstices between growth poles. By a combination of small and large industrial units, well chosen on the basis of economic efficiency, the country will achieve the most productive industrial structure.

That small-scale enterprises are found to play important roles (e.g. employment) better than their larger counterparts should not tempt us to institute policies that would impair firms' incentive to grow. Small firms, after they have fulfilled short run functions, offer ideal spring boards for larger-scale enterprises. Learning-by-doing would foster evolution from small-scale through medium-scale to large-scale forms of organisation, adapting to capital availability and market expansion as the economy grows.

The crucial question is: can we retain the advantages of small size and yet reap the benefits of economies of scale? For instance, can a firm expand using the same technique as it exhibited when small, i.e. retain the same capital/labour ratio? This depends on whether an economy succeeds in evolving an appropriate technology, i.e. a technology geared to the economy's factor endowment. In the case of Kenya, this means

reducing the labour-saving elements while maintaining or improving quality and efficiency. This task confronts those involved in the Research and Development Program.

Rural non-agricultural enterprises do exist. They perform useful functions and fill in gaps in the industrial matrix. Their continued performance and their long term viability will depend critically on the overall growth of the economy and the policies directed towards them; for example, whether or not they are aided in the development of production and management skills, whether or not the technological shelf contains appropriate and usable modes of production. Being closely integrated with the agricultural sector, rural enterprises are likely to be the vehicle for gradually moving the economy's center of gravity from the agricultural to the industrial sector.

THE AFRICAN ENTREPRENEUR

Jasper A. Okelo

Institute for Development Studies  
University of Nairobi

Authorities<sup>1</sup> in the field of entrepreneurial development have discussed, extensively, diverse definitions of entrepreneurship. In this paper the following elements of entrepreneurship will be used as the basis of discussion:

- (a) An entrepreneur must have an imaginative and alert mind to identify specific opportunities of a particular place and time, to perceive unfulfilled demand for goods and services, and also be able to assemble and reassemble the available factors of production in different combinations for production of the new good or service.
- (b) An entrepreneur should be able to launch an enterprise, and also sustain the momentum by a continuous flow of fresh ideas and by a constant readiness to adapt to new or unforeseen contingencies. He must be able to co-ordinate at every stage (inception, maintenance, expansion) the productive activity. He must be aware of the latest techniques/innovations in the field, the labour requirements, and the financial resources available for such an enterprise.

In a nutshell, the entrepreneur is the fountainhead of policy and growth; the keystone on which the business depends for its very survival.

---

1. IBRD. de Wilde, John C. The Development of African Private Enterprise Vol. 1, 1971. Arthur H. Cole Business Enterprise in Its Social Setting Cambridge, Massachusetts: Harvard University Press, 1959 p. 7-9. Frederick Barth The Role of the Entrepreneur in Social Change in Northern Norway. Arbok for Universitete: Bergen, Humanistisk Serie, 1963 pp. 9-18. J.D. Nyhard, "The Uganda Development Corporation and the Proportion of Entrepreneurship" EAISR Conference 1959. Peter Marris "The Social Barriers to African Entrepreneurship". IDS Discussion Paper No.61, 1968.

Using these qualities of entrepreneurship, it is helpful to divide our discussion of the African entrepreneur into two broad periods with the Trade Licensing Act 1967 as the dividing line.

AFRICAN ENTREPRENEURS PRIOR TO THE TRADE LICENSING ACT 1967:

These were mostly petty retail traders, manufacturers/repairers, caterers and transporters on a very small-scale. Retail trading was primarily in locally-demanded consumer goods - provisions, clothes and some basic hardware items. In the production sector they made mostly furniture, clothes, charcoal-burners (jikos) charcoal, shoes, hoes, and all other locally demanded goods produced specifically for the very unsophisticated local market. Repair enterprises serviced the same items: shoes, "jikos", furniture etc. These businesses were located mostly in the rural market centres and, in the case of towns in segregated African residential areas.

Using Inukai and Okelo survey data,<sup>2</sup> one can obtain a general idea of these businessmen. In this survey, we interviewed those who actually controlled operation of the businesses, who make the day-to-day policy decisions. The 489 entrepreneurial respondents were:

Owners	314	(64%)
Partners	80	(16%)
Managers	57	(12%)
Co-operative Managers	11	} 38 (8%)
Directors	8	
Relatives	14	
Unspecified	5	

The majority (80%) of these businesses are run by those who are owners or partners.

Of the 489 respondents, 6% had no formal education, over 50% had attained a primary school education, 5.5% remained in school through form four, and 0.6% had reached form six or university level; 3% had some kind of technical training, and 2.5%, professional training. Eight out of every ten could read and write.

---

2. Inukai and Okelo, "Rural Enterprise Survey in Nyeri District" Danish International Development Agency, Copenhagen 1972. (Tables 2 and 6).



Among the 393 retailers/wholesalers and manufacturers/repairers, about 40% had some kind of technical training in craftsmanship, business management, farming, professional and administrative courses.<sup>3</sup> The value of the Managers' training to the enterprise varied with the duration of these courses.

60 out of the 167 retail/wholesale traders provided information of the duration of training they undertook. 30 of these (50%) reported that they took courses at a Farmer Training Centre and that, on the whole they lasted less than one month. 93 out of 226 manufacturing/repairing businessmen provided the information on duration of their training; 20 (about 22%) took courses of less than a month, and 47 (about 51%) were trained for more than nine months. Of these, 17 were graduates from government technical schools, 1 from K.I.T.I., 1 from NIVTC, 10 from Youth Centres and Village polytechnics and 18 were trained on-the-job.

In terms of previous business experience and occupational mobility we found the following:<sup>4</sup>

<u>Present Occupation</u>	<u>Previous Occupation ( % )</u>					
-Retail/Wholesale Trade 125 persons	<u>Craftsmen</u> 15.2	<u>Traders</u> 13.6	<u>Farmers</u> 23.4	<u>Labourers</u> 14.4	<u>Other</u> 33.4	<u>Total</u> 100
-Manufacturing/Repair 158 persons	34.7	10.8	20.4	21.5	12.6	100

Among the tradesmen, accumulated experience in a related occupation was very little compared to that of the manufacturing/repairing businessmen.

We also found that all categories of businessmen exhibited geographical immobility, implying inability to gain experience through travel, meeting people, and discussing common problems, innovations and/or techniques.

Given all these characteristics of the first category of African entrepreneurs, to what extent do they fulfill the previously listed entrepreneurial functions? They are certainly able to identify the two distinct markets in a dualistic economy such as ours.

3. Ibid. Tables 8, 10.

4. Ibid. Tables 13, 14, 15.

To be able to perceive opportunities in such a system and rally resources to the fulfillment of these opportunities - produce the goods and provide the services that the identified market demands and can afford - is definitely entrepreneurial.

With respect to the second set of entrepreneurial qualities described earlier, the African entrepreneurs we interviewed are not quite in a position to "sustain the momentum by a continuous flow of fresh ideas and by a constant readiness to adapt to new or unforeseen contingencies." They cannot do so because of their limited education, experience and technical know-how. However, they have been able to supply the same market with the same type of goods and services as they have done before. The competitive element in these stereotyped goods and services tends to reduce their profitability. At times, encroachment on these local markets by experienced citizen/non-citizen businessmen tends to drive the local businessmen out of business and to swell the numbers of unemployed (from the rural areas into the towns).

This is the sector where the Rural Industrial Development Centres (RIDC) direct their efforts, the area of low-level technical/managerial training coupled with follow-up services designed to suit the idiosyncracies of individual enterprisers. With the development of the quality of entrepreneurship at the grass-root level, Kenya's industrial development drive will have been established on sounder base.

#### AFRICAN ENTREPRENEURS AFTER THE TRADE LICENSING ACT 1967.

This "era" saw and is still seeing the entry of African businessmen into more sophisticated business circles; the Act has made it possible for those who anticipated the circumstances to acquire the on-going, non-citizen concerns. These businesses have invariably been small- medium- and large-scale retail/wholesale, manufacturing, catering or transport firms. The difference in this group is that they are, by the nature of the businesses, expected to meet the demands of both foreign and domestic markets and also the demands of the local and foreign enclaves in the domestic market. These enterprises have always been in the rural-urban and urban centres of the Republic.

From the author's survey, findings as yet unpublished, there are three groups or types of owners of enterprises. The first category of this group of businessmen are still employees either of the government or of other firms in the private sector. They are part-time managers. Because of their positions, because they are influential people in social, business and government circles, they managed to gain access to the financing institutions, enabling them to acquire the going concerns.

Most of these people are educated. Almost all of them have no time to run their businesses on a full-time basis. They leave the concern to the management of a shop-assistant or a relative, only visiting the shop in the evenings to collect the days's receipts. The actual business management invariably falls to inexperienced, uneducated or untrained shop assistants or relatives.

The second group of owners are full-time retired/former employees. These people have no experience, yet their retirement allowance, savings, or ability to obtain finance enables them to acquire the non-citizen business concerns. These often judge their own business performance in terms of their increased volume of stock rather than in terms of increased earnings or profit-making capacity. This group will survive and entrench itself so long as financial institutions favour them. As soon as their financial sources dry up, they will become bankrupt or go out of business. In other words their access to finance is not an effective substitute for entrepreneurial acumen.

The third group, a minority in the urban areas, are 'graduates' from rural businesses. They are sensible enough to acquire business enterprises small enough to fall within their managerial capacity; they manage them in the same way they formerly managed their rural shops. They try to stick to familiar lines, activities requiring small amounts of capital, and they work at it full-time. Whereas these people are full of determination, their performance is limited by lack of experience in urban markets with urban demands. The enterprise stagnates. The entrepreneur faces shortage of supplies - not because the products and services are not in the market, but because he is a new face in the town and has not accumulated enough capital for security for the loan financing necessary to increase

his stock. In addition to that, he probably knows no alternative source of supplies to that used by the Asian he has replaced!

In all these cases, the African businessman is not responding to unforeseen opportunities; he is certainly not beginning a new enterprise; rather he is acquiring an on-going concern. In this going concern, he probably sees himself earning the kind of profit enjoyed by the former owner. With this at the back of his mind, he may risk all his savings and a bank or I.C.D.C. loan, in order to gain higher profits. The conditions favourable to this type of transfer of ownership have not naturally evolved, but rather they have been forced on the environment by socio-political circumstances. With the known socio-economic background of the African businessman, to assume that he is able to step profitably into the shoes of the experienced, outgoing, non-citizen businessman, is not only optimistic but risky. However, considering his employment position and taking into account his probable influence, he is definitely in a position to acquire the resources necessary for production and distribution. The Act with its preferential provisions favours him; he can get loans from the ICDC to acquire and to expand the business.

In addition to capitalising on the circumstances surrounding the enterprise, the entrepreneur ought to maintain and expand productive activity. To do so he must be aware of new techniques and innovations in the field, the labour requirements, and possible financial resources available for such an enterprise. That is, he should be the fountain head of policy and growth of business.

One can say that the businessmen of the Post-Trade Licensing Act of 1967 at least maintain the status quo. The majority of them are unable to expand their businesses either because they give the business less than their full-time attention or because their experience is so limited that they fail to keep up with the requirements of modern business. Although in a position to know new techniques and other factor requirements, they are not quite on top of things in their own businesses. If the shop assistant is in charge, he has such limited experience that expecting him to expand the business would be like crying for the sun.

It must be pointed out that there are prospects for growth and development. These people have just acquired long-established enterprises. For some time there may be no growth because it takes a little time to get used to running the business. Perhaps after the initial acquisition phase, the new businessmen will learn business conditions and then settle down. It is after this period that some elements of growth or expansion would be realized.

There is potential and actual entrepreneurial talent among African businessmen. To develop this potential and actual talent further, one cannot prescribe a single, standard form of treatment. Just as there are different types of African entrepreneurs, each with his respective shortcomings, the treatment must differ according to the entrepreneurial category. For the more educated, more experienced urban businessman, Kenya Industrial Estates, the Management Training and Advisory Centre or Kenya Industrial Training Institute may be in a position to assist. For the very small-scale rural businessmen, Rural Industrial Development Centres coupled with on-the-job training and intensive extension service may be the right kind of treatment. For these to be effective, some degree of decentralization of decisionmaking is necessary. The development agents should be in a position to act as and when the problems arise. Facilities should be available to them to correct certain anomalies without having to wait for the centre to authorise the action.

DISCUSSION AND POLICY CONCLUSIONS

David G. Davies  
Ministry of Finance and Planning

INTRODUCTION

The Conference provided an opportunity for academics and public officials to share information and insights about the role of small-scale enterprise in developing countries.

The conference revealed substantial, though not complete consensus among the participants. It is hoped that a report on the points of agreement will assist the Government of Kenya in its evaluation of current programmes for assistance to small-scale enterprise and in the design of new, more coordinated and more intensive efforts in this field.

The conference was especially timely, and provided a forum where research results and official concern were articulated in time to be of value to the Kenyan Government in its formulation of the next development plan. (1974-78).

The conference discussions were at least as substantive and as important as the papers themselves. This brief summary is a distillation of the proceedings and the elements of consensus found in the midst of sometimes animated and provocative discussions. No attempt is made here to summarize the papers.

THE IMPORTANCE OF SMALL-SCALE ENTERPRISES

Kenyanization of commerce and industry, a high priority public policy since Independence, has presented a host of problems because, among other things, there is no well-developed, indigenous trading tradition. Development of African entrepreneurship, a capacity to identify profitable opportunities and an ability to manage resources, is important to extend the country's independence of non-citizens.

The recent I.L.O. Report on employment in Kenya (Employment, Incomes and Equality, Geneva, 1972) focused attention on the importance of small-scale enterprises as employers, as training grounds for developing entrepreneurial and managerial talents, as suppliers of goods and services to low income groups, and as a source of

economic growth. The report recommended the promotion of small-scale enterprise to reduce problems of unemployment and for achieving a more equitable distribution of income.

In this context, the conference was particularly concerned with the crucial role of rural small-scale enterprise in the country's employment and income distribution strategies. Promotion of rural enterprise was regarded as essential to help remove the more painful manifestations of rural poverty, to modernize the rural economy, and to provide the country's youth with a viable alternative to rural-urban migration.

#### THE RURAL ENTERPRISE

The conference participants stressed the interdependence of rural business enterprise and agriculture. Rural enterprises are often established and operated by farmers, using capital and labour drawn from agriculture to process or trade agricultural products. On the other hand, rural enterprises provide rural markets with consumer goods, repair services and manufactured implements. Increased productivity in agriculture benefits the rural enterprises by lowering costs and increasing the availability of capital and other inputs, and also by increasing the incomes of farmers who demand their products.

Traditional social and economic institutions can have a profound effect on rural enterprise. For example, a substantial portion of the labour supply of rural, non-agricultural enterprise is female because of the relationship between land tenure institutions and marriage traditions; the relationship is such that women can be and are dispossessed of the land which is essential to performance of their traditional productive roles. Employment of women as wage labourers in rural areas requires changed attitudes as well as changed social behaviour. On the other hand, small-scale fabricating firms and repair services offer employment for an increasing number of young men from rural areas whose educational attainments and aspirations impel them to leave traditional agriculture.

#### AN APPROACH TO ASSISTANCE IN RURAL AREAS

In its examination of means, the conference reviewed the elements of the so-called Special Rural Development Programme (SRDP) approach to new activities in rural areas. The basic, commonsensical

elements of this approach are:

(a) Experimentation. At the outset, efforts should be limited and directed toward testing of operational hypotheses. Failures are acceptable because the purpose of the project at this stage is to gain fundamental knowledge.

(b) Replicability. A project should be designed, even at the experimental stage, so that it can be reproduced elsewhere. The experimental project should reflect constraints which will be operative when the project is replicated. The most obvious such constraint is finance. If finance is not sufficient for replication, the experiment might be interesting but not too useful.

(c) Use of Existing Resources. To maximize local impact and ensure long-term viability, the SRDP approach seeks to discover and use locally available resources.

(d) Research and Evaluation. This component should be built into every project. All activities should provide a learning experience which can be evaluated and a corrective feedback for the project of which it is a part.

#### CONSTRAINTS ON DEVELOPMENT OF THE SMALL-SCALE ENTERPRISE SECTOR

Most of the conference was devoted to identification and discussion of the constraints in the small enterprise sector and the actions to remove them.

(a) Structural, Social and Political Constraints. The total small-scale sector in Kenya may employ as many as half a million people, more than half of total non-agricultural employment in the small-scale enterprises in urban Kenya - small-scale manufacturing, heavy repair services, wholesale and retail trade - remain in the hands of non-citizens. The Kenyanization of these businesses has attracted a great deal of public attention; it has also proven difficult to accomplish because of the shortage of African businessmen with sufficient resources to acquire the firms and the skills necessary for successful operations.

The focus upon these businesses has diverted attention from the more than 40,000 small-scale African businesses now operating in rural areas. It would be ironic if pre-occupation with Kenyani-



zation, by diverting attention toward this politically sensitive and essential issue, led to neglect of the incipient development of purely indigenous enterprise.

Another institutional constraint is the disparate and uncoordinated public programs for small business development. Governmental and parastatal institutions to promote small-scale enterprise were reviewed at some length and it was noted that responsibility is divided among a number of ministries and organizations, with little coordination of complementary programmes.

(b) The Legal Environment. The most important institutional constraint is imposed by the legal environment. Most small-scale enterprises in Kenya are not officially registered or recognized and many do not meet legal obligations with respect to minimum wage legislation, health standards, zoning or licensing. The extra-legal status of a large portion of the small-scale enterprises does not stem from any innate fault of small enterprise but rather from the laws themselves. To a large extent these were formulated in the pre-independence social and political environment and were designed to create monopolies or to enforce aesthetic "standards" for the European elite in large towns.

The conference noted that laws and regulations formulated for these purposes are not consistent with currently more important objectives such as job creation or a better distribution of income. It was also observed that the present legal structure affecting small enterprise destroys opportunities, creates privilege, and provides a framework for corruption.

Enforcement of the law in this respects could be self-defeating. Enforcement created insecurity for marginal businessmen who consequently undercapitalize their activities. The conference regarded this insecurity and undercapitalization as one of the root causes of low performance standards.

(c) Credit. The conference did not devote much time to a discussion of credit to small-scale enterprise, primarily because most participants felt that credit was unimportant in comparison to the problems of management: purchasing, production, marketing. There was a consensus that credit, by itself, should seldom be

advanced to small-scale enterprise. Rather, provision of credit should be coordinated, but not combined, with provision of technical assistance. This being said, it was generally acknowledged that small-scale firms have insufficient access to credit, partly because of lack of familiarity and contact with banking institutions and partly because of the low creditworthiness of new, inexperienced operators of very-small firms.

(d) Marketing. The majority of small-scale enterprises in the country serve low-income markets and their growth is dependent upon improvement in the income level of their customers.

The question of identifying, assessing and exploiting markets for particular products or services was discussed and the complexity of the issues confronting small businessmen was recognized. Some participants stressed the potential for marketing production or design assistance from large firms which supply small enterprise or purchase inputs from them. Other participants suggested that there was some scope for import substitution but the conference generally recognized the long-term dangers of economic inefficiency and resource misallocation inherent in this approach to industrialization. The general consensus was that protection should be used with extreme care, was appropriate only in special cases, and should be used in a carefully discriminating way.

(e) Technical and Design Constraints. Small-scale industries are typically confronted with technical problems of production and design. Since they usually cannot afford to employ technical personnel to cope with these problems, the capability must be provided by sources external to the firm. The conference again turned to the possibility of exploiting the facilities of larger enterprise on both the supply and demand side and regarded these sources of expertise as preferable and more abundant than those provided by government or parastatal bodies. Although governmental initiatives may generate high pay-off in many cases, there was still preference for relying on large-scale enterprise for a combination of reasons: the self-correcting nature of normal commercial relationships and the scarcity of resources available to official organizations.

(f) Entrepreneurship. Entrepreneurship is the ability to recognize profitable opportunities and the skill to marshal and manage resources to exploit them. Entrepreneurship is in short supply everywhere; it is critically scarce in developing countries. It is nevertheless crucial for the establishment and long-term survival of any enterprise.

The conference gave brief consideration to the problem of developing entrepreneurship, noting that African businessmen seemed to have little difficulty recognizing profitable opportunities; the problem seemed to be that of insufficient managerial skill. The latter problem is compounded by the fact that the vast majority of small African businessmen have had little schooling. While increasing numbers of educated people are embarking on small business careers, for the foreseeable future, the vast majority will have less than a Standard VII education.

Conference participants agreed that programmes of management training for small businessmen must take this educational constraint into account and, in the interest of efficiency, such programmes should be coordinated with other forms of business assistance such as extension services or credit facilities.

(g) Training. The conference did not consider the subject of training in proportion to the comparatively large sums the government currently spends on management training. Several important training issues are identified in the Godfrey paper and we mention them in this summary because they bear upon recommendations being considered by the Government. First, Godfrey questions the programme offered by the Kenya Industrial Training Institute largely because of its very high cost. Secondly, he suggests that training programmes should be co-ordinated, some areas are saturated with courses while others have few. Further, other kinds of education, particularly literacy and arithmetic courses, might be coordinated with business training.

Finally, Godfrey identifies a crucial issue, one which bears upon a proposal in a working party report on small business development now being considered by the Government, the issue of the education requirements of those recruited for the small business

extension service. If university level education is to be required, staffing costs will preclude very wide coverage of the small business sector. On the other hand, it may not be feasible to use people with less education. As a consequence, the conference endorsed the experiment being conducted by Harper (see paper above) to train and use people with an "A" level education in a small business extension role.

Definitions. The conference participants recognized that extreme differences exist among small enterprises, differences which make it difficult to define precisely what is meant by small-scale enterprise in an African context. The firms operating the Kenya Industrial Estates bear little resemblance to the great majority of small enterprises in the rural areas, in terms of technology, managerial sophistication, markets served, or organization. They also differ from the older, more established firms operating in metropolitan areas, firms which might be considered small-scale by the standards of a highly developed economy but which were fairly large in a Kenyan context. In general, small-scale enterprise was identified as a family business with very few employees, a small share of any particular market, and with minimal capitalization. By these criteria, the differences among small enterprises are so great as to constitute difference in kind but more precise definition was not possible and probably not too useful.

#### CONCLUSIONS AND RECOMMENDATIONS

1. While the conference regarded the promotion of all small African enterprises as important, there was a consensus that employment and income distribution objectives gave priority to those enterprises, both commercial and industrial, which are located in rural areas. The problems of such enterprises and the constraints which they face dominated discussion at the conference. The following points emerged:

- a. Rural non-agricultural enterprises cannot be considered separately from the agricultural enterprises which they usually depend upon for inputs and markets.
- b. The implication of these observations is that organizations and people concerned with the promotion of rural enterprise

must have a general knowledge of agriculture and the relationships between agricultural and non-agricultural activities.

2. The conference endorsed the recommendations of the Report of the Working Party on Small Business Development that an extension service be created for small business development. However, this endorsement was qualified by a recognition that:

- a. The most effective extension services would be provided by larger enterprises in the course of normal commercial relationships with small-scale enterprises. The effectiveness of such an extension service is constantly being tested against results in the marketplace.
- b. The minimum necessary educational qualifications of extension workers was yet to be determined. To elect to recruit university level extension workers was to opt for a small but perhaps more versatile extension service. On the other hand, there is some indication that extension workers educated to "A" level or "O" level could perform very valuable services and could be used in a much larger extension service reaching far more businesses. One problem posed by lower education requirements would be the introduction of a staff development programme or training programme for the extension workers if they are to be effective dealing with businessmen some of whom are reasonably experienced and sophisticated.
- c. The results of Mr. Harper's experiment with "A" level extension workers would provide an important input into the process of planning and designing an extension service.

3. The conference generally endorsed the recommendations in the I.L.O. Report on Employment and in the Inukai paper with respect to constraints posed by the legal environment. In general, conference participants agreed that:

- a. The entire legal and regulatory structure affecting small businesses should be examined and reformed.
- b. Reform should create a legal environment conducive to

rapid expansion in the number and size of small enterprises, in employment in small enterprises and in the capacity of the small enterprise sector to redistribute income in favour of the poor.

- c. Reform should involve the elimination or automatic issue of licences except for non-citizens; the licence to be withdrawable only after the commission of an offence.
- d. Reform should establish standards of housing, sanitation, repair and service which are consistent with the country's employment and incomes policy objectives and not with the aesthetic sensitivities of the departed colonial regime.

4. The conference unanimously endorsed the view that greater co-ordination is required among the various government programmes of assistance to small businessmen although it did not necessarily endorse the specific recommendations in the Working Party Report on Small Business Development. Specifically, there was consensus that:

- a. An extension service was the most crucial form of assistance and the key to co-ordinating other assistance to small enterprises.
- b. Inputs to be co-ordinated by the extension worker include credit, technical services, training, managerial advice, and market information.
- c. Credit is probably the least important of these inputs.
- d. If extension of credit is necessary, it should be provided by a financial institution distinct and separate from the extension service.
- e. Small businesses should be given a high research priority.

5. Such consensus as emerged from the conference with respect to training may be summarized as follows:

- a. Small businessmen and their businesses vary. Too little is known about the development of entrepreneurship to commit the country fully to a single form of training or a single approach to assistance.

- b. There is a capacity for training within the small business sector itself. Ways should be found to tap these resources either through outright subsidies or through tax relief. The I.L.O. Report on Employment in Kenya contains proposals on this subject which should be implemented.
  - c. The entire subject of training for the development of small enterprises should command a high research priority.
6. The subjects of "appropriate technologies", of labour-intensive or capital-saving activities, featured prominently in a number of discussions.
- a. While small-scale enterprises are usually more labour intensive than others, there was no necessary reason for them to be so. Kenya should search for product designs and production methods appropriate to its capital-scarce, labor-abundant economy.
  - b. Fostering of labour-intensive activities and small-scale enterprises is, to a large extent, a problem of "getting prices right" for productive factors. Subsidies for capital inputs or artificially high wage rates will waste scarce capital and reduce employment of abundant labor.
  - c. Programmes to redistribute income in favour of the poor would be among the more important policies which the Government could adopt to promote small business development and to increase employment.

LIST OF PARTICIPANTS

Per Aasmundrudd Industrial Survey & Promotion Centre, Ministry  
of Commerce and Industry

H.M. Adolwa Industrial and Commercial Development Corporation  
D.A. Anderson Ford Foundation  
L. Anderson Swedish International Development Agency  
B.I.O. Ayoro Kenya Industrial Estates  
F. Chege Institute for Development Studies, University  
of Nairobi  
F.C. Child Institute for Development Studies, University  
of Nairobi

David Davies Ministry of Finance & Planning  
Adeka Edebe Rural Industrial Development Centre, Machakos  
A.K. Ekesa Industrial and Commercial Development Corporation  
W. Elkan Institute for Development Studies, University  
of Nairobi

M.R. Gachago Ministry of Finance and Planning  
M. Gachuhi Institute for Development Studies, University  
of Nairobi

K. Geels Rural Industrial Development Centre, Machakos  
D. Ghai Institute for Development Studies, University  
of Nairobi

M. Godfrey Institute for Development Studies, University  
of Nairobi

M. Harper Faculty of Commerce, University of Nairobi  
F. Hay Institute for Development Studies, University  
of Nairobi

J. Heyer Department of Economics, University of Nairobi  
S.S. Heyer Director, Statistics Division, Ministry of  
Finance and Planning

L.N. Hinga Industrial and Commercial Development Corporation  
A. Hojbak Rural Industrial Development Centre, Nyeri  
J. Indetie Ministry of Commerce and Industry, Embu  
I. Inukai Department of Economics, University of Nairobi  
P. Johst Kenya Industrial Estates  
D.N. Kaniaru Ministry of Finance and Planning, Nyeri  
C.M. Khisa Ministry of Commerce and Industry  
J.H.O. Kidenda Ministry of Finance and Planning, Kakamega  
L.R. Kimondo Industrial and Commercial Development Corporation,  
Embu

Per Kongstad Institute for Development Research, Denmark  
E. Kotut Industrial Survey and Promotion Centre, Ministry  
of Commerce and Industry

H. Kristensen Rural Industrial Development Centre, Machakos  
D.C. Kungu Ministry of Finance and Planning  
J.P. Larsen Rural Industrial Development Centre, Embu  
J.W. Leach Ministry of Finance and Planning  
N.M. Lihemo Rural Industrial Development Centre, Kakamega  
H.M. Magalasia Ministry of Commerce and Industry, Mombasa  
Wolfgang Mwai National Christian Council of Kenya  
G. Maina Industrial and Commercial Development Corporation,  
Nyeri

J. Makumi Rural Industrial Development Centre, Embu  
Y.F.O. Masakhalia Ministry of Finance and Planning  
G.M. Matheka Permanent Secretary, Ministry of Commerce and  
Industry

A.M. Mathu Chamber of Commerce  
J. Mbaru National Christian Council of Kenya



D.G. Mbatia	Ministry of Finance and Planning
P.M. Mbithi	Institute for Development Studies, University of Nairobi
G.W. Meroge	Industrial and Commercial Development Corporation
A.Y. Mohammed	Industrial and Commercial Development Corporation
H. Mule	Deputy Permanent Secretary, Ministry of Finance and Planning
J. Muller	Institute for Development Research, Denmark
J.D. Muir	Nairobi
L.P. Mureithi	Institute for Development Studies, University of Nairobi
D.W. Murray	USAID
N.G. Mwai	Ministry of Commerce and Industry
J.L. Mwangale	Industrial and Commercial Development Corporation Kisumu
Mwema Maina	Institute for Adult Studies, Nyeri
F.M. Mwiha	Ministry of Commerce and Industry
E.K. Ng'ang'a	Ministry of Commerce and Industry, Nakuru
K. Arap Ng'eny	Kenya Industrial Estates
G.K. Njage	Ministry of Commerce and Industry, Garissa
P.A. Njoroge	Ministry of Commerce and Industry
J. Nzau	Ministry of Commerce and Industry, Nyeri
S. Obondi	Ministry of Commerce and Industry, Kakamega
S.L. Ojuka	Kenya Industrial Training Institute, Nakuru
J. Okelo	Institute for Development Studies, University of Nairobi
T. Okelo-Odongo	Institute for Adult Studies, University of Nairobi
J.N. Oluoch	Permanent Secretary, Ministry of Co-operatives and Social Services
B.E. Omburo	Management Training and Advisory Centre
J.A. Omungo	Ministry of Finance and Planning, Garissa
G. Ongaya	Statistics Division, Ministry of Finance and Planning
John C.A. Ongondi	Industrial and Commercial Development Corporation Kakamega
J.M. Onsando	Industrial and Commercial Development Corporation
B. Ostberg	Swedish International Development Agency
J.I. Othieno	Permanent Secretary, Ministry of Labour
E.F. Poetter	Management Training and Advisory Centre
R. Porter	Institute for Development Studies, University of Nairobi
A. Poulsen	Ministry of Labour
R. Rasmusson	Swedish International Development Agency
G. Rurua	Rural Industrial Development Centre, Nyeri
A. Schytt	Rural Industrial Development Centre, Kakamega
A.M. Shikhule	Kenya Industrial Estates
R.B. Stedman	United Nations Development Program
Clement C. Wekullo	Ministry of Finance and Planning, Embu
F.B.K. Were	Ministry of Finance and Planning, Kisumu
J. Tobin	Institute for Development Studies, University of Nairobi
V. Winnai	Institute for Development Studies, University of Nairobi