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INSTITUTE FOR DEVELOPMENT STUDIES

UNIVERSITY COLLEGE, NAIROBI

Discussion Paper No. 47

I. C. D. C.
(Industrial and Commercial Development Corporation)

ITS PURPOSE AND PERFORMANCE

N. O. Jorgensen

April, 1967

Discussion Papers are working papers that report on tentative or interim research results. They are distributed for discussion purposes only.
The purpose of this study, which forms part of a larger project on "The financing of small scale enterprises", is to analyse the role of the Industrial and Commercial Development Corporation of Kenya, in order to compare its performance with its purpose, thereby exposing the problems involved in this type of public lending to private small scale enterprises and to suggest solutions to such problems.

Many countries have experienced severe difficulties in administering public funds to development projects, especially where the projects are the smaller industrial and commercial ventures, which are so vitally important for both social and economic reasons. Cases in point would be Nigeria and Uganda, to mention just two. Both of these countries have experienced discouraging results to such an extent that in the case of Nigeria it led Sayre Schatz 1) to claim that there was not so much a shortage of capital, but much more so of viable projects. This he concluded after finding that "even after a liberal appraisal" of applications to the Federal Loan Board only 15% could be recommended for loans, and out of these only half of the enterprises proved successful. In the case of Uganda the performance of the Uganda Credit and Savings Bank and the public funds it administered was analysed by George Ross, 2) who finds default rates of magnitudes between 32% and 33% and adds "as a result the Funds were virtually exhausted and could no longer revolve". The result has been that the UCSB has turned into a regular commercial bank, lending at commercial rates and terms.

It is quite clear that the private and public financing present two widely different pictures, especially in the context of development. This is true not only in the case of fund allocation, but equally so, when it comes to raising funds for allocation. In both cases the public agencies, in contrast to private commercial ones, will have to make other considerations for their performance than strict economic ones, most often political decisions will guide and set the limit.

   (In a forthcoming article I have argued against his conclusion)
2) "Uganda Credit and Savings Bank, EDRP. No. 98. 29.4.1966."
for their operations, so there are good reasons why private and public financing must differ, but how much? If the performance of these public bodies defy their purpose, such as has been the case in some countries, then there must be something wrong with either the performance, the purpose or both.

The fundamental problems may therefore very well be: Should there be such public financing of small scale enterprises, or public financing of private enterprise at all? Is it not better left to the commercial banks and other private financial institutions? But as with such things, as Settlement Schemes, and even Africanisation, the facts are that they are with us, for better or worse, out of political necessity, and the interesting problems are therefore: How are their purposes best defined to make them workable and, how should their work be carried out in order best to serve their purpose. In other words, it is not the purpose of this paper to discuss whether an amount allocated to the ICDC by government could have been put to better use in road construction, - rather, it is to see that ICDC uses the money in the best possible way i.e. that way which best serves its purpose.

ICDC is the main public institution catering for development financing of small scale enterprises in Kenya, though it does also serve financing purposes in the medium and large scale sector, as we shall see. Legally and organisationwise it acts as an independent agency, but is still subject to the conditions governing the functions of other statutory boards.3) A brief historical background will suffice in describing how the purpose of ICDC was formulated. It was established by the Industrial Development Ordinance of 1954 "to facilitate the industrial and economic development of the colony by the initiation, assistance or expansion of industrial, commercial or other undertakings or enterprises in the colony or elsewhere" - which gives plenty of scope for operation! The name at that time was I.D.C. (Industrial Development Corporation) and at its initiation it took over the assets and liabilities of its predecessor "The East African Industrial Management Board", which had been established in 1944 to supply certain essential products during the war period.

3) After the latest legislative changes the Ministry of Commerce and Industry has de facto power over the board and thereby the lending policies of ICDC.
The new name of ICDC was adopted recently to comply with the actual operation of the agency, which was outlined more specifically in Session Paper No.10. The paper states that "among other objectives the ICDC will help African traders and industrialists to expand their operations in order to participate more fully in the development of this country." "ICDC should also," the paper goes on "assist in the construction of shopping centres and industrial estates." As far as the raising of funds is concerned, the paper has this to say: "Many businessmen in Kenya, in particular, have money that should be invested directly in their own enterprises or made available through loans to the government or to such agencies for development as the ICDC." This may just express wishful thinking, since no suggestion is offered for implementation or incentives. But later the same paper again stresses the necessity for domestic savings to be invested locally. In its annual report ICDC explicitly expresses the hope that "-- it will be one of those bodies that will assist in the promotion of local domestic savings to provide it (ICDC) with additional funds for investing locally in commercial and industrial enterprises."

It would be proper at this point to list what the latest annual report sets forth as guiding "principles and practices": ICDC gives assistance by way of direct investments and loans to African industrialists for establishing, developing, modernizing and improving the conditions of industrial concerns against adequate security. ICDC extends credit and guarantee facilities to African traders so that the African impact will be felt in the commercial sector of the economy of Kenya.

ICDC participates in joint ventures with foreign investors by subscribing for and holding shares with the aim of transferring them to Africans, whenever they have the necessary capital to acquire them, and also by provision of loan capital. ICDC will establish and develop the envisaged industrial estates in Kenya, by creating the necessary infrastructure and erecting factory buildings, to be leased to African industrialists and joint venture projects.

These objectives are still so vaguely formulated as to give wide scope for implementation, but also raise some doubts as to the conditions of the assistance to be given and the criteria for

5) ICDC Report and Accounts for the years 1963/64 and 1964/65.
6) ICDC Report and Accounts for the year 1965/66.
receiving such help. We shall return to that later. It is unfortunate, however, that nothing further has been said about the ways in which capital is to be mobilized for all these worthwhile objectives. That this latter problem is not a minor one is emphatically stated in the following, (which also in the annual report follows immediately after the above listed objectives.)

"These activities are at present at a virtual standstill due to lack of funds. The corporation has for long been conscious of the severe limit which the shortage of funds prescribes in regard to its activities. As the corporation wishes strongly to support the Government policies (it) expresses the hope that the Government will make good as soon as possible the deficiency in the corporation's funds by injection of more capital into the corporation." This clearly leaves the whole problem of fund raising with the government which may be justified from a development point of view, but does not correspond to the hope which, as mentioned above, was to engage also in fund-raising activity. The problem is so serious and the scope for solutions so big that it will be taken up separately later. Let us first take a look at the past performance of the ICDC. The original capital was a loan in 1955 to the then IDC from the Kenya Government, which has continued to provide funds for lending and investment. Up till June 30th 1966 an amount of £492.211 has been supplied from Government sources. Less than half of that (£201.811) is interest free and the rest (£290.400) bears an interest rate of 50/o. No terms have been set for the repayment of any of these funds.

The other major source of finance is a loan of £387.500 (now grown to £400.173 due to charges being debited) from a consortium of local commercial banks taken up as late as 1965 in connection with the formation of Development Finance Company of Kenya (DFCK, see later). This loan is guaranteed by the Kenya Government, but is on commercial terms.

The following abstract of ICDC's balance sheet as at June 30th 1966 will serve to illustrate the present position of the Main Fund:

<table>
<thead>
<tr>
<th>Liabilities:</th>
<th>Assets:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Government Loans</td>
<td>Assistance given</td>
</tr>
<tr>
<td>£466,061</td>
<td>£935,750</td>
</tr>
<tr>
<td>Loan from comm. banks</td>
<td>Deposits</td>
</tr>
<tr>
<td>£400,173</td>
<td>£119,034</td>
</tr>
<tr>
<td>Accumulated profits</td>
<td>Fixed Assets</td>
</tr>
<tr>
<td>(after prov. for losses)</td>
<td>£ 1,857</td>
</tr>
<tr>
<td>Creditors and charges</td>
<td></td>
</tr>
<tr>
<td>£ 2,893</td>
<td></td>
</tr>
<tr>
<td></td>
<td>£1056,651</td>
</tr>
</tbody>
</table>
Of the assistance given £516,000 or 66% were for shares in five companies: East African Industries (Unilever) £63,000, Block Hotels £40,000, DFCK £500,000, Kenya National Trading Corporation £10,000 and First E.A. Unit Trust Managers Ltd. £1,000. Other larger and medium-size projects 7) received assistance amounting to £203,050 or 22% (the major ones being Block Hotels £63,000, Kenya Canners Ltd. £55,000 and E.A. Packaging Industries Ltd. £60,000) all in the form of debentures or long term loans. Last year an advance of £89,145 or 9% were made out of profits to the Small Industries Revolving Loan Fund (Revolving Fund, see later). The remaining 30% are made up of "advances awaiting completion of arrangements".

This allocation of money shows that large-scale enterprises or "joint ventures with foreign investors" have received the major part of the assistance from this fund. Generally speaking these investments have been successful as can be seen from the following list of net revenue surpluses:

<table>
<thead>
<tr>
<th>Year</th>
<th>Investments</th>
<th>Profit</th>
<th>Profit in % of Inv.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>£345,900</td>
<td>£68,286</td>
<td>20</td>
</tr>
<tr>
<td>1964</td>
<td>£427,724</td>
<td>£75,707</td>
<td>18</td>
</tr>
<tr>
<td>1965</td>
<td>£467,447</td>
<td>£43,946</td>
<td>9</td>
</tr>
<tr>
<td>1966</td>
<td>£935,750</td>
<td>£33,439</td>
<td>4</td>
</tr>
</tbody>
</table>

but the return on the investments is rapidly decreasing. The reasons for this are to be found in:

a) a curtailment of dividends from the East African Industries, which is using them to provide funds for expansion.
b) a doubling in the running cost of the ICDC, which has increased its staff and operations considerably over the past two years.
c) initial charges (over £3000), on the loan from commercial banks to cover ICDC's share in DFCK (£500,000) a share, which has not yet paid any dividends.
d) interest payments on bank and Government loans, £12,673 and £13,304 respectively.

The main Loan fund itself is nevertheless still a significant source of income for the ICDC. Conceivably it could have been much more so, had the policy been clear from the beginning, namely to invest only in such enterprises which were already yielding a high return or in new ventures where the major part of the capital was provided by large expatriate firms who had proved their success in similar ventures elsewhere. This, however, though still within the wide limits of the purpose of the ICDC would

7) See list of firms in "ICDC Report and Accounts 1965/66 p.34."
hardly have been justifiable from a development point of view nor politically acceptable. Consequently several "salvage operations" have been undertaken to save ailing companies from collapse. This was in good accordance with the purpose, but not very profitable. In fact they are the ones accounting for the losses of £71,400 till now, with another £18,000 expected. The fund has been able to afford it so far but the question is whether these "salvage operations" are of a kind which comes under one of the five categories outlined in the Revised Development Plan\(^8\) as projects which may require public financial assistance:

1. Profitable but needing encouragement.
2. Profitable, but risky, where Government support is needed to reduce risk.
3. Marginally profitable by themselves, but involving external economies which make them highly desirable for the economy as a whole.
4. Too big for individual private domestic investors and entrepreneurs.
5. Projects in which a strong public interest exists and financial participation is desirable to establish public control, promote Africanization, prevent abuse of monopoly powers or generally ensure operation in accordance with public interest - the last two supposedly also only viable projects since they would otherwise not fulfill the objectives, unless they kept receiving public support which would make them a public service and not a project for a Development Corporation.

Another question arises in connection with the Main Loan Fund, namely why only £85,000 were transferred to the small scale sector when there are still £119,034 of accumulated profits in deposit accounts - and why they are kept there at the same time ICDC is borrowing £400,173 from the same banks? One answer would be that this money could soon be taken up if more of the "salvage operations" fail, or if DFCE is not paying dividends for another couple of years, which seems likely, and if ICDC's share in that company is to be increased by £250,000 as is planned.\(^9\)

Many questions of capital allocation and mobilization arise out of this, but apart from the always pressing problem of getting more money from Government, the more fundamental question facing ICDC, judging from its past performance, seems to be inherent in the double nature of its function as a development corporation,

\(^9\) Report and Accounts 1965/66 p.11.
namely: How much money should go into the small scale enterprises for "true" development (with all that it implies) and how much should be allocated to the larger ones for profit (and influence, if not control)? The distinction between them as development projects is quite clear, even when it comes to distinguishing "salvage operations" from other kinds of investment. But if both functions are carried out by the same body, and there are no clearly stated limits for how much money should go to either, the temptation of any such body would be to seek the latter, and only take on such highly risky involvements as they were pressured to do. There are clear indications that this has been the case, but one could hardly object to ICDC's policy in allocating capital from the Main Fund in view of the broadly formulated purpose, and the desire for excellent performance which any board or executive would want to pursue. But if this turns out to be contrary to Government's policy, because it makes smaller loans or very needy projects suffer, then the purpose has not been clearly enough formulated. The limits for what should be used for either purpose must be laid down in terms of money (or percentages) or else the two functions must be kept separate in two separate agencies where the formulation of their purposes would be much easier to spell out.

With the inception of the Development Finance Company of Kenya (DFCK) in which ICDC holds 33½% of the shares, this problem could be solved. DFCK was established in 1963 by agreement between the Governments of Britain, W. Germany and Kenya. It has an issued capital of £1.5m, which is fully paid up in equal proportions by the respective development corporations of the three countries. Its purpose is to invest in joint ventures with private enterprises for various reasons, the most important being influence, profit and encouragement of foreign and local investment. This should lead to allocation of funds in large-scale safe investments, and from the list of commitments so far, it looks as if this objective is adhered to.

To have more than one public body for this kind of development would hardly be justified, so much less in view of the fact that ICDC had to borrow from commercial banks in order to raise its share of the capital, and will have to use all of its accumulated profits to be able to repay even the first installment of this loan, namely £250,000 by December 1968. A case for separating ICDC from DFCK therefore seems to be urgent. As mentioned before, plans have already been finalised by the three shareholders of DFCK for the expansion of the company by equal subscriptions of a further £250,000 each. If the principle of short term borrowing for long term purposes is going to be applied, then the need for separation is not only urgent but desperate.
The way to bring such a separation about would be to let the Kenya Government subscribe the new share in DFCK directly, or alternatively make the money available to the ICDC for this specific purpose. The next step would be for the Government to take over also the initial investment in DFCK, or alternatively compensate ICDC for its outlay. The main idea in both cases being that whether government is directly involved in DFCK or has made the money available through the ICDC all profits from this venture should be channeled back into ICDC for what was earlier termed "true development" loans, or specifically, the Revolving Fund.

If a practical problem in this connection is for the Government to raise the necessary funds to compensate ICDC, there are good reasons for floating its shares in some of the larger successful enterprises which received support from either of these development agencies, so as to comply with the stated intention of both of them to "participate in joint ventures with foreign investors by subscribing for and holding shares with the aim of transferring them to Africans whenever they have the necessary capital to acquire them." The recent flotation of shares in local companies seems to indicate that the time is ripe for raising funds in that fashion.

From ICDC's point of view this would mean that some of their main revenue stock would be discharged of, which is perhaps regrettable but it must be remembered that not only is it the stated purpose, but ICDC is still operating with over £500,000 of Government funds, which it is a policy matter to withdraw. This I am not recommending. It should instead be decided - politically - how much money should be allocated to "development loans" each year for the next say five years (per year) and if this cannot be met from the profits of DFCK then Government must make the rest available out of its development budget. It must still, however, be the objective of the ICDC to sell to Africans shares from its portfolio in well run and profitable firms, the revenue from such sales should not in any way reduce the yearly allocation from Government. It also implies that whatever other funds can be raised locally or from abroad should be a net addition to funds for lending by the ICDC.

It should be clear from this that DFCK is then the body for large investments in joint ventures for profit whereas ICDC must concentrate on, not just small scale enterprises, but on African enterprises who are not able to get support from other

10) There are indications in the "Development Estimates" for 1966/67 that this has already been considered.

11) The term is ambiguous, but in this case it should be synonymous with Kenya citizens.
financial outlets. This will clearly involve a higher degree of risk taking than in DFCK, but this is the very reason why they should be separated. It does not mean that ICDC should disregard economic criteria for fund allocation, but more so that profit should not be the primary aim, and that if profits are made, more risks can be taken and, as mentioned above, if ICDC can raise money in the open market for its own kind of lending there is no reason why it should not do so and continue to grow to the direct benefit of those who are most in need of help. If, as in the past, Government was to supply practically all its funds, it will be a political decision how much of the development budget should go to this agency, thereby setting the limits for its activity.

Turning now to the problem of allocating funds in the small enterprise sector it is worth looking at the operation of the already mentioned Small Industries Revolving Loan Fund.

The original capital was given in 1961 as a loan from the U.S.A.I.D. totalling £50,000, but no terms have been set for its repayment. Its main purpose, however, was conditional and stated that it was to be used for "giving loans to Africans starting small industries." This discriminatory way of stating a purpose has fortunately been partly ignored. The list of around 220 enterprises having received these loans are within commerce as well as industry and services. Many of them were not starting but expanding their businesses. It is true, though, that loans so far have only been given to Africans.12) The spread to other sectors than industry is partly because an additional amount of £10,250 was transferred from the Government, which had allocated it to a Small Traders Loans Scheme. The latest addition to the Revolving Fund was the £25,149, which, as mentioned earlier, was transferred from the Main Fund last year. This makes a total of £145,399 available (as compared with the £1,053,758 of the Main Fund). So far £171,883 have been allocated to small scale enterprises (being a revolving fund, the amount lent can exceed the initial capital). The striking difference between the Main Fund and the Revolving Fund is explained by the fact that the former was started much earlier and with much more money. This is now decidedly being corrected, and the transfer of £35,000 was the first of subsequent ones being undertaken since June 30th 1966. These transfers will in effect help remove the appalling

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12) Here the term has been interpreted to mean "Kenya citizens of African origin" but whether for lack of suitable applications from this group or because of difficulty with an objective genetic criterion, it appears that at least one borrower is a mixture of African and Asian, and others are "local Arabs".
contrast, which existed between the "pure development funds" and
those for profit and control, - or one may say between purpose
and performance of the ICDC. This last statement needs
qualification to the extent that when the ICDC was originally
formed and received its first allocations of money (1954) it
was not specifically intended for small scale businesses, - quite
the contrary. It has taken since then to shift the emphasis and,
as could have been expected, it was not till after independence
the new purposes were formulated. In future there seems no
justification in keeping the two funds separate.

The average loan under the Revolving Loan Fund scheme is of
about Sh.12,000 bearing an interest rate of 80/o and it is to
be repaid over a period of 3-5 years. This must be considered
very nearly commercial terms, and it can be argued that at least
the repayment terms are too short. But being a revolving fund
with limited resources it would soon be exhausted if repayments
were drawn out further. The fact is also that not only was the
amount for loans approved during the last financial year 90o/o
up on those of the previous year, but the number of applications
under consideration and not approved because of lack of funds was
at the same time growing considerably, indicating that the terms
were acceptable. There has been no accumulation of profits,
because the provision for losses have been larger than the
revenues, - so far £13,175 which constitutes 80/o of the value
of loans granted has been set aside for this purpose. This
is not nearly as much as that of similar schemes elsewhere, but
for the moment we will suppress the discussion of whether a true
development fund ought to loose more or less than that, since it
appears that this loss was far from intentional on the part of
the ICDC. The list of reasons for the losses include, a) lack of
proper procedures for processing of earlier loans, b) staff
shortage for supervision and extension services, c) problems of
technical and management know how among borrowers, d) lack of
entrepreneurship spirit.

Interviews with borrowers have verified these shortcomings
but have added some more, such as a) even the present processing
procedure takes far too long, b) the loans are too small and too
short termed, and - since it is customary to give loans in kind
rather than in cash - another complaint was c) "the machine we
got was not what we wanted and we had to change it later, d) loan
repayments should not start till the machine is installed and

13) The provision for losses is said to be realistic, though - so
far only about £500 has been lost, - and some old defaulters
are now paying again.

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actually functioning. A couple of borrowers have obviously suffered from some very questionable dealings of a European advisor to the ICDC, but he is no longer there.

There will always be some irreconcilable aims between borrowers and lenders, but in the case of a public development corporation the issue is complicated by the absence of "price adjustment system" for loanable funds on a "take-it-or-leave-it" basis. From the ICDC's point of view the difficulty has clearly been a limited fund, which it was trying to make revolve with as small losses as possible. From the borrowers point of view the difficulty was one of obtaining financing altogether, since it is a fact that commercial banks have in the past been very reluctant to lend to African entrepreneurs. Once the ICDC was starting to fill this gap the difficulty was for them to find sufficient collateral and to convince the ICDC of the viability of their project; and, if successful in obtaining a loan, to cope with the repayments while struggling with all the other problems outlined above. The third party to this form of development is, of course, the Government. From its point of view the allocation of funds to the ICDC is a matter of the comparative advantage a small enterprise loan scheme would have, compared to the multitude of other ways in which development in this sector could be brought about, and although this is not the problem to be dealt with in this paper, it is hoped that the following will assist in pointing out some fundamental considerations for a formulation of policy in this respect. First let us look at the goals which have been set out for ICDC in the Revised Development Plan (1966-70). The new plan estimates that "of the £3m. required for investment in individual enterprises up to £1m. will have to be financed by ICDC directly." There is no mentioning of how this money will be provided. The budgetted amount of £50,000 for 1966/67 is in sharp contrast to a conservative estimate by ICDC which finds that £150,000 will be needed in addition to funds for approved applications pending as at June 30th 1966 viz. £80,000 making the total required for the financial year 1966/67 £230,000! If viable projects were not to be rejected in this situation it would mean that £180,000 were to be found. It is therefore tempting to suggest that accumulated profits from the Main Fund (£187,524) could be used for this purpose with more justification than to pay off bank loans for ICDC's share in DFCE. The transfer of accumulated profits from the Main Fund will only cover the immediate needs. It is true that repayments of loans will provide for loanable funds, but this has already been taken into consideration in the above amount, which otherwise is arrived at in the following manner: On the average the ICDC receives 10 applications for industrial and 40 for commercial loans every month. On the
basis that only one third of the applications will be approved, and that the average loan is of £750 the total comes to £150,000. But as ICDC becomes better known and the general state of economic development progresses the number of applications received and the viable part of them will increase, and it is therefore to be expected that the goal of £1m. - or £200,000 per year - of direct financing by the ICDC is easily within reach if funds were available.

Leaving Government policies aside for the time being, there must be other things ICDC could do in order to meet need for capital by the small scale African entrepreneurs. Again the problems to be solved are two kinds: How to raise more funds and how to use them more efficiently. It may be that Government has already changed its attitude towards channeling funds through the ICDC but a more fundamental question arises in this context: Since the excess demand is growing faster than the supply of funds, should the price not be raised, or, in other words, are the terms not too favourable? They are favourable from the point of view of the borrower by the very fact that they are available, but otherwise the terms are on the lines of commercial bank terms. It may still be argued that even commercial terms are too favourable then. It is difficult to find out what the elasticity of demand for this type of credit is at this point.

The possibility of making loan terms tighter at ICDC would hardly be justified from a development point of view since it is more likely to result in higher default rates than fewer. Another argument would be that if ICDC is already charging commercial rates and finding a surplus demand there must be a case for mobilizing local savings at current rates and either try to make a profit or increase the current rate for savings and thereby raise more capital. Alternatively the ICDC could refer the most promising projects to the commercial banks and promise guarantee. There may be other ways in which Government could create incentives, if not pressure, in order to make the commercial banks change their traditional attitude towards African customers. Another way of raising local capital would be to try and sell shares in profitable small ventures to the general public. This implies that the assistance given should not always be in the form of loans of short duration, but as investment in equity capital. (Then loans may be given for working capital in addition). This would be justified from the point of view that ICDC would then be able to make up for losses, in part, by more

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14) Recent statements by the President and other Govt. officials seem to indicate this.

than average return on the successful projects as well as having a more direct interest in and influence on the running of the enterprise. And from the point of view of the enterprise it would be well to have, this long-term capital and the more direct involvement by the ICDC.

To distinguish this kind of investment from the function of DECK it should be added that the criteria for assistance from such a scheme would be that any viable enterprise owned and operated by Kenyan citizens, who were not likely to obtain local or foreign capital from commercial institutions at the time of application should be eligible. This would also serve to eliminate the arbitrary limits of sectors and size, which could only result in injustices.

Having already moved on to the problems of fund allocation, it is appropriate now to deal with the selection of viable projects and the choice of assistance. If ICDC is to depend almost entirely on government funds, and that a certain amount is to be made available for this kind of development purpose every year, then the risks to be taken can be determined.

If ICDC is to rely mostly on raising its funds commercially then the problems of fund allocations are very closely related to those of fund mobilization, as risks and consequently losses must be reduced as much as possible. This would not necessarily be true if government funds were provided, in which case losses of up to 50% have been advocated as a reasonable price to pay for development in the small scale enterprise sector. This percentage would have to be qualified since it probably covers not only direct assistance in loans and investments but also money spent on extension services, project evaluations and various kinds of training schemes. To lose 50% on loans at commercial terms would be a strong indication of a need to lower the rates and ease the terms (unless the 50% is claimed as the opportunity cost for such sub-commercial lending).

Given that the loss rate is fixed then the criteria for viability, which is too complex to deal with in detail here, is given, because if more than say 10% of the money invested is lost then scrutiny needs to be more close, if it is below 10%, then more risks can be taken. The alternative to the rejection of marginal projects would be to increase the extension services. If separate funds are used for this purpose then there is not much to be done in the way of alternation, but if such a choice exists, as it does for government planners, then more experimentation must be done than has been the case so far.
The above attitude implies that security at a value over and above the item itself for which the loan was given, should be requested. This is often done in the present practice, usually in the form of a title deed to land or buildings. Sometimes, however, such title deeds are not available and apart from the viability of the project the subtle consideration of the people recommending the borrower by signing his application comes into the picture. Typically these "sponsors" are persons such as a government official, an M.P. or a well known man in the area. Whereas these people assume responsibility in case a borrower defaults, they are in a position to exert an influence (on borrower as well as lender) which is highly undesirable. In the case a title deed is not available and more security is wanted, then well-established people could be asked to sign as guarantors for the loan. This would not remove the danger of influence, but then it may not only be in a negative sense.

The whole question of analyses of enterprises before application is approved and of "follow-up" afterwards is very much a staff problem. The minimum requirements must be to have a trade officer or an officer of the ICDC visit the applicant once before the application is considered by the board, and that the investigating officer gathers the relevant outside information about the borrower from the D.C. and other people of informed opinion in the community. As for extension services and follow-ups the average now is two visits a year, but to improve on the system one may suggest that successful borrowers were visited less often, unless they request specific help, and that the defaulters or otherwise "troubled" borrowers were visited more often.

Many borrowers have pointed out that their main trouble has been lack of book-keeping and general managerial ability. Therefore trade officers should be persons who are qualified in this field, even to the point where they can conduct evening courses for small entrepreneurs in the area, and it should be seen to it that they do! An important contribution to this aspect of development is the newly established Management Training and Advisory Centre in Nairobi which runs courses as well as a "Business Doctor Service" at very nominal rates and with highly qualified people. For technical advice and training Kenya Industrial Training Institute in Nakuru seems an obvious place for running short courses for those already in business along with the present long courses for those intending to start in business for themselves. For both of these institutes it is important that they retain a high degree of autonomy in selecting students, in choice of programme and in allocating the money of...
their total budget, but is just as important that they work in
close cooperation with the ICDC as regards recommendation of
students for loans.

Formerly the ICDC had funds especially designated for trade
but these have now been amalgamated into the Revolving Loan Fund,
which is more efficient because the need for and ability to repay
loans in this sector was higher than in the industrial sector
relative to the funds available. It is now also decided that an
amount of £16,653 advanced by Government some years back for some-
thing called "Industrialists Loan Fund" will also be taken up by
the Revolving Fund. The only other difference between commercial
and industrial loans apart from the repayment terms is that a
limit of £1000 has been imposed on loans to traders except for
outstanding ones; and that a lower limit of £500 is set by the
fact that loans under this amount is the responsibility of the
District Joint Loan Boards.

Considering the very limited losses which have been incurred
so far there is hardly a case for tightening viability and security
requirements other than what the proportion of available funds to
incoming applications would warrant. There may, however, be a
case for reconsidering some of the projects still in the planning.

One of these is the establishing of industrial estates, which
is already under way in its implementation. The first estate will
be located in the Nairobi area, later other major cities will
have their own industrial estates. An estimated £800,000 will be
needed in construction cost plus direct support or credit guarantees
for each of the five centres planned. This means a total of £4m.
before all of them are operating. Only for the first phase of
the Nairobi estate has financing been provided, namely as a loan
from the W. German Government (£450,000) and from the Kenya
Government (£50,000) the terms of which have not been disclosed.
But this will cover only half of the cost of the completion of the
Nairobi estate (1st and 2nd phase with 25 and 35 enterprises
respectively) since, being the first, it is estimated that the
entire cost will be £1m. The running cost which includes a
manager and a diversified service staff of about 25, a service
workshop, canteen etc. is supposed to be covered partly by the
rent and partly by separate charges for the use of the services.

Industrial estates are well known in many countries where
there is a tradition of several generations of small artisans
(fundis) and where the small enterprises can be run more efficiently
when they are concentrated in one place, where electricity, trans-
portation, service and markets are available. In Kenya there
is not such a tradition of fundis among the Africans, and in Nairobi all of the facilities are available anyway. There is also a clear indication that among African entrepreneurs the most pressing problem is not for better suited premises but simply for credit. 16) This same fact also has shown itself in that it has, until now, been very difficult to attract suitable African projects, and the traditional fundis (Asians) may have to be invited to make the estate viable. This was clearly not the intention. One could also compare the number of enterprises in an estate (60) and the cost of nearly £9,000 per enterprise in construction alone plus £5,000 in expected loan requirements for fixed capital per enterprise with the 79 small enterprises having so far been assisted by the Revolving Fund using £83,944 or only £1,100 per enterprise. Even when it is considered that the 60 entrepreneurs would have received loans anyway, it only reduces the difference in cost to the public with the average figure of £1,100 per enterprise, since it is expected that the entrepreneur will still have to provide the normal amount of selffinance. Thus, this kind of support to small scale enterprise will be 15 times as expensive as the traditional and very successful one, for which viable projects are turned down due to lack of funds! The running cost of the estate is also bound to be considerably higher if only to pay for the interest and depreciation of the initial investment alone. The services received from the service centre are to be paid for separately, as mentioned, but it may be that the cost of these in the long run will be relatively cheaper than the same services rendered elsewhere.

Similarly with the Shopping Centres, which are intended to improve the general appearance of shops of African traders by creating new physical facilities for them. Compared to the present Municipal markets and the so-called "open-air market," which presumably the Shopping Centres are supposed to replace, the difference in cost would be so high as to increase the price of goods with from 25% to 50% respectively. 17) The question is whether - if left with a choice - the African traders would think themselves competitive at such prices compared with those trading near by in identical goods, same credit facilities and same service and with the same customers of the lowest and lower middle income groups. Their only advantage of being in a shopping Centre would be the more attractive facilities, and even that is a subjective factor, which could turn out to be negative. This does not imply that nothing should be done to support the traders.

16) A survey of small African Industrialists shows that credit is their most pressing problem. 17) Percentages based on calculations for moving from open-air market to Municipal market at Westlands, Nairobi.
The present loan and guarantee arrangements have worked very satisfactorily with fewer repayment difficulties than the industrialists and with four times as many applications being received than from the industrial sector. Credit guarantees are a recent development by the ICDC - started only last year, but with apparent success. It seems that this service could almost replace direct loans to traders with time and spread to other sectors as well, not only vis-a-vis suppliers but also at banks, as mentioned earlier. A common complaint among retail traders is the Asian monopoly in the field of wholesaling and all that it implies. More support for establishing or established African wholesalers is called for. The National Trading Corporation is not the only answer to that problem, far from it. If it came to improved physical facilities which the individual trader would not normally think of or know how to implement, the present open-air markets could be made far more attractive than the Municipal markets and at one tenth of the cost. If the intention of development in the commercial sector is to make a break-through for African traders in the City centres, then perhaps ICDC should simply invest (or assist in investing) in a shop on say Government Road which would be provided with a first class African manager and staff.

Summarising the conclusions and recommendations it could be said that the public financing of private enterprises in Kenya has been faring very well, and that when it comes to small scale African enterprises the results are far better than could have been expected. In fact it is a question whether more risks should not be taken or, as it implies, less security required. This would also speed up the processing of loan applications, which is to be desired. Still in the small scale sector other forms of support should be further developed such as guarantees and direct investments. Extension services and training should be increased.

When a separation of large and small scale investments has taken place, so that DFCK is the body responsible for the larger ones made for profit, influence and to attract foreign capital, then ICDC can concentrate on supporting the smaller and medium ones, which cannot obtain financing in the capital market. Being the Government's shareholder in DFCK, ICDC would receive the profits for development purposes. Apart from such funds ICDC should seek to raise additional funds locally and abroad by entering the field of local savings, engaging the local banks and

18) A wholly owned ICDC subsidiary.
19) Based on calculations for moving from open-air markets to Municipal market at Westlands, Nairobi.
approaching, with Government support, local and foreign institutions for special grants or the sale of interests in successful enterprises.

Some experimentation should be allowed in order to find the entrepreneurs, who have the potential for undertaking large ventures.

The plans for Industrial Estates and Shopping Centres should be reconsidered after a close investigation of what the cost is compared to other alternatives of assistance. Some experimentation should be allowed and more research carried out in order to find ways of allocating funds more efficiently and to mobilize more funds locally for allocation.

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