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# SOME BASIC DATA FOR ANALYSING THE POLITICAL ECONOMY OF FOREIGN INVESTMENT IN KENYA

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SOME BASIC DATA FOR ANALYSING THE POLITICAL ECONOMY OF FOREIGN INVESTMENT IN K E N Y A

This paper presents the first results of a data gathering project on foreign investment in Kenya. The project when completed will provide a data bank of information on approximately 75 foreign investments made in Kenya from 1960 to 1970. Information will be included on the foreign parents as well as on the local subsidiaries, but the results reported now will deal only with the Kenya subsidiaries. The remaining information on the parent companies will be assembled in the United States using English and American sources.[1])

The data to be summarized in this paper deal with the sources of foreign investment in Kenya, their propensity to take local partners, both private and public, their use of local savings as via bank loans, and their size. The information is presented primarily in the form of averages and percentage distributions; i.e. no sophisticated statistical analyses are attempted.[2])

Nevertheless, rather than wait until the project is completed to share any of my results, it seemed appropriate at this point to make available what I have on 81 foreign investments made in Kenya over the past eleven years. My reason is primarily to try to generate comments within I.D.S. and without or what the data mean. There is a great deal of general discussion in the economics profession, in the press, and so on on what the role of foreign investors in Kenya should be. By presenting some empirical findings, it is hoped this paper will contribute to the discussion.

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1. I.D.S. will receive a copy of the complete data set.

2. Nor have any significance tests been run, for example on the differences between means in various cells of the tables to be presented below. There are a number of reasons for this. First, my aim has been to examine the total population of new foreign investments made in Kenya in the 1960's, not a sample of them. To the extent I have caught them all in my data search procedures, the averages reported are not sample statistics but population statistics (I believe I have caught most but perhaps not all). On the other hand, to the extent that foreign investment in Kenya is like foreign investment in the rest of the developing world, the data investigated here might be (loosely) viewed as a sample of these foreign investments, and, thus significance tests on these results could be appropriate. However, given serious personal time constraints, this did not seem an important enough exercise at this point; i.e. before the data on parent firms is even assembled.

The remainder of the paper describes how the data were collected, how variables were defined and then presents the summary tables. It is hoped that whoever looks at the tables also examines the procedures used in deriving the data they contain since the results are no stronger than the methodology used to derive them.

I. How the data were gathered

The first interesting fact about the data is that it has all been compiled from public information primarily from the documents and annual returns filed with the Registrar General as part of Kenya's Companies Act.[3] There is thus no problem with reluctance of companies to reveal information which might get into public view, a standard problem with direct surveys of companies. On the other hand, not all the information one might want to obtain is publicly filed; so, part of what one gains in ease of access he loses in incompleteness of data. Nevertheless, the information one can collect is a significant advance over what has been known about investor behavior.

A second interesting fact about the data is that it includes very small as well as very large investments, and investments from a wide variety of sources ranging from Europe to India and Hong Kong.

My object was to find every new foreign investment in manufacturing in Kenya from 1960 to 1970. This was done by a multi-staged search procedure. First, I used an Index to Manufacturers and Products published by the Ministry of Commerce and Industry in June, 1967 to get a list of firms and their products as of 1966. The list contains 558 firms and is the most complete list of this sort published.[4]

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3) I should here like to note my gratitude to Mr. O.M. Sameja and his staff at the Companies Registry for their considerable assistance and patience with my always being underfoot.

4) However, the list is neither wholly complete nor wholly accurate as I pointed out to me by Mr. A.N. Gakunga of the Ministry of Commerce and Industry. The major flaw however is in including as manufacturers firms which are really trading establishments, e.g. firms which paste labels on jars and call it manufacturing to avoid being classified as trading establishments. Mr. Gakunga also believed they missed a number of small manufacturing firms in their list, but believed that their coverage of bigger firms was good. Nevertheless, as can be seem from my tables below a substantial number of smaller firms were indeed picked up by this list.

For each firm on the list I found, at the Companies Registry, those which were limited liability companies and thus filing information under the Companies Act. Thus, armed with a list of manufacturing companies, I was able to search through the files at the Companies Registry to select out those with foreign ownership and finally, of those firms, which made "new investments" between 1960 and 1970.[5)]

New investments were defined to include any of the following:

(i) new firms being established in Kenya by new foreign investors;

(ii) existing firms with foreign ownership increasing their equity capital and/or debt by such a magnitude (and thereby increasing their assets by like amount) as to substantially change the firm (Thus, for example, Pfizer Corporation has been in Kenya as a private Kenya registered company since 1957, but it expanded its issued and paid up equity by ten times in 1966 to £50,000. Previously, it had rented premises and mainly acted as a sales outlet. Since 1966 it has owned its own plant for mixing and packaging its products. It seemed such an investment should be included in this study.

So also, it seemed, should substantial expansions be included. However, only those financed by new equity issues paid for in cash, in new machinery, etc.[6)] and/or

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5) Another minor point is that only companies which had not been struck off the Registry were included; i.e. only existing firms plus those in receivership and in the process of being wound up are included. This point is minor because judging from the names of the firms I could not locate, i.e. those firms struck off the Registry, I would guess very few, if any, were foreign manufacturing investments. Rather they seem to have been primarily small firms owned by East African Asians. The files for these companies can be obtained with some effort from the basement of the Registry, but given time constraints it did not seem worth it.

6) I.E., increases in equity from the issues of bonus shares to capitalize past profits are not considered as investments. We are interested here only in changes in financial structure of firms related to the creation of new assets.

by new debt have been included since only those show up in the reports and documents in the files of the Companies Registry. In other words, this study will have nothing to say about investments financed out of retained earnings or unsecured loans from parent companies on capital or current account, as there is no public information on these for private companies in Kenya);

(iii) existing local companies taking on new foreign partners who bring with them significant new capital as opposed to merely transferring ownership of existing assets. (Thus, for example, I have included the takeover by Del Monte in 1968 of the previously largely locally owned Kenya Canners Ltd. since Del Monte not only bought out most of the previous shareholders but also took a new allotment of shares in 1969 for £238,135 cash, which itself more than doubled the value of paid in capital. Further, they also extended loans to the company).

Another point of definition is how "foreign" a firm had to be to be included in the analysis. A candidate firm was taken to be foreign if:

(i) it had any direct non-East African ownership, either by individuals or companies;

(ii) it had any shareholders which were themselves Kenya registered companies but which were in turn majority owned by Kenya registered companies which were themselves majority owned by non-East African interests, etc.

(iii) it had any shareholders which were themselves Kenya registered companies which were in turn majority owned by non-East African interests, etc.

It will be seen that I have thus excluded from the collection of foreign investments all those made by companies or individuals from Tanzania or Uganda. The major effect of this is to exclude the Madhvani and Mehta industrial empires. These seem to me to be really indigenous capitalist organizations and of a different nature than firms coming into a foreign country to invest.

Also most foreign companies which do come to East Africa with the intention of setting up subsidiaries in more than one country seem to

come to Kenya first. Or, at least, I have not come across any Kenya manufacturing companies which were subsidiaries of Uganda or Tanzania registered companies which appeared to be themselves foreign investments. On the other hand, certainly Tanzania's brewing and cement industries, as two cases, were subsidiaries of Kenya companies which were themselves largely foreign controlled. For the most part, the investments in Kenya from Tanzania and Uganda are those made by the Asian communities, and are thus indigenous.

Thus, a list of foreign manufacturing investments through 1966 was systematically compiled. For investments made since then the search was necessarily more ad hoc and I fear, though have no way of knowing, that my coverage of the new investments has been less complete for the smaller sized firms, at least. The search procedure was as follows.

First, a new Index to Manufacturers and Products is being prepared jointly by the Ministry of Commerce and Industry and the Ministry of Finance and Economic Planning. The Index is scheduled to appear some time in August I was told and Mr. S.S. Heyer, Chief Statistician at the Ministry of Finance and Economic Planning was good enough to lend me a preliminary version of the Index. Unfortunately, this version was considerably preliminary, and incomplete especially for the latest years. Then again, I am interested not only in firms currently in production, but also firms for which investments have started but have not yet been completed. Nevertheless, I repeated the search at the Companies Registry using this new preliminary list.

For the most recent investments, my procedure was to skim through business periodicals and the Annual Economic Surveys published by the Ministry of Finance and Economic Planning. The latter discuss significant developments in each industry in Kenya, but only rarely mention individual companies by name. However, at least they mention where there is investment activity. The business periodicals usually do give company names and activities but there is no reason to expect them to be complete.[7] On the other hand, these magazines do not only discuss the big investments; e.g. mention was made of Brooke Bond's diversification into the fly tieing business which presumably means if the bottom falls out of the world tea

7/ My primary sources were East African Report on Trade and Industry, Kenya Export News (issued with the first), East African Trade and Industry (predecessor to the first), Barclays Overseas Review, all monthlies, and the daily papers since arriving in Kenya in February. I also perused the the National Christian Council of Kenya's Who Controls Industry in Kenya? (Nairobi: East African Publishing House, 1968) to check my data for 1968 and previous years.

market, they can make it selling fishing flies. Nevertheless, I was not happy about this search procedure, The major cost, however, is that it restricts our ability to draw confident time series conclusions from the assembled data, but does not seriously affect our ability to analyse the data by size of investment or by country of origin. That is, I am concerned about coverage for 1969 and 1970 only and I would doubt that any missing investments could overwhelm the results below by size or source of investment.[8)]

II. How the variables were defined

Given the collection of foreign investment, it was first necessary to define when the investment took place. The usual sequence for the legal "birth" of a firm in Kenya begins when the company is formed (registered) usually with two individuals (often Nairobi advocates) as the owners, each with one share. In many cases the original shareholders will be directors of the company but not always. Sometimes later, the length of time varies from days to many years, directors are appointed and the serious issuance of shares begins with share "allotments" sometimes spread over years until a plateau is reached. Thus, for new firms, although the company comes into existence when it is registered and in this sense represents a "decision" to invest the actual investment seems to take place when money changes hands, i.e. when the Kenya firm obtains the funds via share allotments and loans, with which to build a factory and commerce operations.

Perhaps, the date of company registration can be taken as the date of firmest intention to invest. The date of the first allotment will

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8) Perhaps, the best outcome from this paper could be to interest the Ministry of Finance and Economic Planning in redoing this phase of the study using their complete and confidential information on what companies operate in Kenya. For my own purposes, the need to extend my analysis to include information about parent firms might preclude my ability to maintain confidences about the identity of individual subsidiaries operating in Kenya. This is ironic since the final results being statistical in nature, probably will not reveal anything about specific individual firms.

Perhaps the second best outcome of this paper could be to interest someone inside IDS or out, to use the new Index of Manufacturers and Products when it is issued to see if there are missing companies and to then add them to the study. Regretably, I will have left Kenya by the time the new Index appears and so cannot do it myself unless I am able to return.

be taken as the date of investment itself. Similarly for expansion or diversification investments, the investment is dated from the appropriate issue of shares or debt. That this should be a reasonable definition of d date of investment may be illustrated by an example. Associated Battery Manufacturers (East Africa) Ltd, was registered in June 1963. The board of directors was not officially aapointed until April 1965 and the shares were first alloted the following month. It would appear from these dates that these British investors decided to wait with their investment until after Independence to see, perhaps, whether it would be too risky to invest in an independent Kenya. To take 1963 as the investment date would thus be misleading.

Closely associated with the problem of dating an investment is the problem of defining its size. Here, however, the problem is mainly practical as theoretically one should clearly take some measure of new assets as the size measure. The problem is that private companies do not have to file any information on assets, only on finance. Thus, we must approach a size of investment measure from a financial angle. Again, there is a problem of insufficient information filed for a complete and accurate measure.

The sources of finance for a new firm are equity, long- term debt, short-term debt (overdrafts at banks, suppliers' credits) and advances or loans from the parent company. Now, all private companies must file at the Companies Registry their equity (and whether paid for in cash, in machinery, plant and equipment, in management services, etc.) and the current amount of their registered debt (i.e. debentures and charges on their assets and mortgages proper). Most long term debt and most sizable overdrafts are registered as the bank, insurance company, finance company, etc. wants the guarantee registration entails. However, except in the odd case, loans and advances from parents to subsidiaries are not registered, which is undertandable, it all being in the same corporate "family". Neither are suppliers' credits registered, possibly because they are relatively short run.

In any event, one cannot get a confident, complete picture of the finance marshalled for any new investment from the public files. Even more, for expansion and diversification investments, which can be financed out of retained earnings, the data in the files are incomplete.[9] Thus, here one must compromise his principles before the difficulties of empirical

9) This is undertandable as the files were not constructed for economists but, it seems, for company creditors.

research and accepts an inadequate definition of size. The size measure used is the sum of equity and debt to the extent it is known (and always excluding suppliers credits), measured at the nearest available date after the series of equity issues and borrowings which finance the investment. Obviously, for expansion and diversification investments, it is the change in equity and debt that is used.

We thus know right away our measure underestimates the size of investments and until more information is gathered on the complete financial behavior of companies we will not know if there is any systematic relation between hidden internal and publicly knowable finance of foreign investments. However, I do believe the size measure adapted is sufficient for my purpose which is to roughly separate the investments by size categories; i.e., it is essentially to separate out small from big investments. Now, unless internal finance is a primary form of finance for small companies and a very secondary form of finance for large companies, or there is some similar systematic relationship between internal and external financing, then it does not seem my size classification should be systematically off. Thus, one might play Milton Friedman for a moment and say that since we know of no systematic reason why firms with a smaller sum of equity plus known debt should have a larger amount of internal financing, we may assume that no relation exists or a proportional relation exists, both of which assumptions allow us to maintain the size classification at hand. Of course, this is not satisfactory, but help is near, in fact at IDS. Nick Snowden is now working on a study of company savings behavior using data extracted from companies with the aid of the Ministry of Finance and Economic Planning If he is able to find a relation between uses of internal and external finance, and if this can be related to the financing of large investments, we may be able to derive a better financial measure of investment size.

With respect to all other variables to be used in this study, they are straight forward and defined as they are introduced in the following section. If the above discussion has been bleak and emphasized problems with the data it has been wholly intentional. Foreign investment is such an emotionally charged topic that it must be clear how much is and is not being said by the tables that follow.

III. What the data show

The results will be presented here in the form of a series of summary tables. First, is a summary by the country from which the foreign

investment originates.[10] It will be noted in table I and in subsequent tables, that the investments from Continental Europe are grouped together while those by the Aga Khan are separated out. Of course, the Aga Khan is not a commercial organization but his investments are made on a commercial

Table I. Size of Investments by Country Source

| Country Investing | Number of Investments | Year of first Investment | SIZE DISTRIBUTION % £100,000 | £100,001-£500,000 | £500,001-£1,000,000 | £1,000,000 | Average Amount of Equity Contributed by Investing Country Cash (£) | Non-cash (£) |
|---|---|---|---|---|---|---|---|---|
| U.K. | 34 | Pre-1960 | 76.5 | 14.7 | 2.9 | 5.9 | 71,155 | 255 |
| Continental Europe | 12 | Pre-1960 | 66.7 | 33.3 | - | - | 37,966 | - |
| Aga Khan | 6 | 1960 | 66.7 | 33.3 | - | - | 30,041 | - |
| U.S.A. | 10 | 1961 | 40.0 | 40.0 | 10.0 | 10.0 | 164,288 | 539 |
| Japan | 8 | 1963 | 37.5 | 50.0 | 12.5 | - | 63,231 | - |
| India | 4 | 1965 | 25.0 | 25.0 | - | 50.0 | 198,245 | 122,613 |
| Australia | 2 | 1965 | 100.0 | - | - | - | 50,675 | - |
| Hong Kong | 3 | 1966 | 100.0 | - | - | - | 11,697 | 4,637 |

basis and his investments seem to be an early example of the behavior of quasi-public investment companies and thus worthy of treating separately in the analysis.[11] The sample for Continental Europe contains four investments from Denmark (but Denmark also had earlier manufacturing investments in Kenya), one from Liechtenstein in 1963 (I suspect this is Italian), three from the Netherlands (first in 1964), two from Italy (first in 1966) and two from Germany (both in 1967). These investments were grouped together to form a ready comparison with Kenya's former colonial rulers, U.K. Further, only countries with two or more investments in Kenya were included in table I, thus excluding one small Rhodesian investment and a new Polish investment.

The first observation one can make from table I is that there seems to be three patterns with respect to size of investment. For one, the U.K., Continental Europe and the Aga Khan seem to put two-thirds to three-quarters of their investments into smaller firms with size measures of less than £100,000. Second, the U.S.A., Japan and India have a smaller percent of their investments in the smallest category; i.e. between 25 and

10) If an investment is made jointly by companies from more than one foreign country, the investment is attributed to the country contributing most of the foreign equity capital.

11) I have grouped together investments made by Industrial Promotion Services with those made directly by the Aga Khan, but the former predominate.

40 percent of their investments were "small". The last category, Hong Kong and Australia wholly favour these "small" investments. It can also be observed that this size breakdown exactly parallels the order in which foreign companies began investing in Kenya.

One can offer possible explanations for these patterns. First, it is not merely a statistical quirk; i.e. British investments were not smaller in early years and bigger in later years which would have made it the case that British investments were on the average smaller because they started earlier. In fact, all five of Britain's investments in 1969-1970 were in this "small" category.

Rather, I would speculate that investment in Kenya is a culturally more foreign proposition for the business communities of the U.S.A. and Japan and, so, small firms are less likely to come, hence fewer small investments from these countries compared to the U.K., Continental Europe and the Aga Khan. The U.K. and Europe are traditional colonial powers in Africa and the Aga Khan has his Ismaili Community here.

One might wonder why this does not apply to India, given the sizable Asian Community in East Africa. But then, one also wonders why in the world India is exporting capital in the first place. One possibility here is that perhaps Indian firms are dumping their used equipment here which they capitalize as share capital. This suspicion might be aroused by the last two columns of table I. If this were the case India would not be exporting capital so much as expertise compared to other investors.

However, another hypothesis, before having more information on the Indian companies themselves, is that the parent firms are large, view themselves, as now "international corporations", and try to follow the behaviors of that species of enterprise. In other words, investments from the U.S.A., Japan, and, perhaps, India may largely represent investments by the relatively new form of large, aggressive "international firms" that plan in terms of global markets. This would be compared to the predominance of older type, empire-associated foreign investments from the U.K. and Europe, very often being associated with settlers in the colonies.

With respect to the small investments from Hong Kong and Australia, I would guess that, first, because these are largely private capital importing areas with high internal capital demands, the supply of capital for export is small and thus their investments abroad are small. Second, I would guess the Australians behave as the U.K. while the Chinese are following the Indian model on a smaller scale, at least partly with respect to gaining equity through equipment sales. However, again more information on the parent companies is needed.

A very different grouping of investing countries appears when we look at the use of local partners in these investments in table II. Here we see the Aga Khan having the most local participation which was expected since indeed part of his reason for investing is to help local capital. We also see the Japanese and Indians getting about 40 percent of their equity capital locally but with the Indians tending to get relatively more

Table II. Use of local equity capital by foreign investors

| Investor | average share of local equity in investment (%) | average private holdings (%) | average public holdings (%) |
|---|---|---|---|
| Aga Khan | 56.7 | 40.0 | 16.7 |
| Japan | 42.8 | 32.0 | 10.8 |
| India | 39.7 | 20.5 | 19.2 |
| Continental Europe | 21.1 | 16.7 | 4.4 |
| Australia | 20.3 | 5.8 | 14.5 |
| U.K. | 17.6 | 12.2 | 3.3 |
| U.S.A. | 13.2 | 5.0 | 8.2 |
| Hong Kong | 8.8 | 8.8 | - |

of it from public sources, mainly the Development Finance Company of Kenya (DFCK) with some also from the Industrial and Commercial Development Corporation (ICDC). A third grouping seems to be Europe, Australia and the U.K. (Australia's big public partner was the Agricultural Development Corporation). Finally, the U.S.A. and Hong Kong seem to relatively shun local partnerships. With American firms at least, this seems to arise from the desire to maintain fairly complete control over their investments and, as one firm has expressed it to me (not in Kenya), they feel they do not need local partners to be able to deal with local governments. On the question of taking one's local partners from the private or public sectors, it appears that the U.K. and Europe seem to prefer private partners relative to the preferences of Japan and India. This may have something to do with Europe and the U.K.'s longer association through settlers here, especially the Europeans.[12] One hypothesis, additional to historical precedent as just suggested, is that in India and Japan the relation between business community and Government is closer

12) In fact, out of the four cases in which European firms took local partners, from 1960-1970 in only one were the partners non-Europeans. This was the Italian investment in Kenwool which has a majority Kenya African and Asian participation. Similarly, in this period, British firms formed partnerships in eleven cases, in nine of which the partners were British Kenyans and in only two of which the partners were from the Asian Community.

than in the West where idealogy stresses Government controlling business in the public interest rather than Government assisting business in developing the economy. Thus, firms from India and Japan might be more ready to form partnerships with public bodies in Kenya than would European or British investors.

On the other hand, one could suggest a purely statistical explanation to Britain and Europe's relative avoidance of local public partners; i.e. that they were investing before there was a DFCK, ICDC, etc. with which to go into partnership. However, 24 of Britains 34 investments were made in 1965 or after as were ten of Continental Europe's twelve.

Another statistical explanation might arise from the fact that, as illustrated in table I, Britain and Europe favor smaller investments in Kenya compared to the rest of the investing world. Thus, maybe a relation exists between size of investment and local participation. Table III shows that there does not seem to be a relation between size and overall local equity contribution, but there certainly seems to be some relation between size and public versus private partners. Perhaps public partners are even necessary to get foreign investors to join especially large ventures.

Table III. Local equity investment and size of investment

| Size Class (£) | Number of Investments | Local equity shares Overall (%) | Private (%) | Public (%) |
|---|---|---|---|---|
| ≤ 100.000 | 52 | 20.6 | 16.6 | 4.0 |
| 100,001- 500.000 | 21 | 23.6 | 15.3 | 8.2 |
| 500,001- 1,000,000 | 3 | 2.0 | - | 2.0 |
| > 1,000,000 | 5 | 25.0 | 2.1 | 22.9 |

Another interesting feature of foreign investment is the use by foreign firms of local savings in the form of debt. Table IV shows these results. The "use" measure is an ad hoc ratio of local borrowings (public and private) to private foreign equity. It attempts to indicate the relative extent to which foreign investors use local debt.[13)]

13) There were two cases of significant expansions in this study in which the only external finance was debt. These cases were excluded in calculating the "use" ratios since they would make the average use ratio infinitely large (these cases are indicated by "∞" in table IV.

Table IV. Use of local debt by investing country

| Country | average degree of "use" (%)* | average private debt (£) | average public debt (£) |
|---|---|---|---|
| U.K. | 442.8 | 41.172 | 46,651 |
| Aga Khan | 166.9+∞ 13/ | 18,257 | 8,333 |
| Japan | 162.1 | 49.477 | 19,719 |
| India | 151.2 | 98.763 | 567,286 |
| Continental Europe | 129.0+∞ 13/ | 23,154 | 24,333 |
| U.S.A. | 128.0 | 183,163 | 12,500 |
| Hong Kong | 109.6 | 8,968 | - |
| Australia | 108.8 | 5,586 | - |
| Rhodesia | 10.0 | 10 | - |

* Degree of "use" = (private + public local debt) ÷ private foreign equity.

The first result that stands out is the overwhelmingly greater use of local debt by British dominated firms, almost equally split between private and public (public debt being mainly from DFCK and ICDC). The British dominated firms borrow more than four times what they and their foreign partners put in on the average while for all the rest no more than 67 percent more local debt is incurred than foreign capital brought in. Actually, as will be recalled from table II, British investments are on the average only 17.6 percent locally controlled compared to much greater percents for firms from other areas. This implies the overall debt to equity ratio of British investments is itself much greater than for foreign investments from anywhere else.

The only possible statistical explanation that occurs to me is that Kenya banks and public financial institutions require debentures and mortgage instruments from British investors to a much greater extent than from foreign investors from anywhere else. This would mean my data search picked up a greater percent of British borrowing than of other foreign investor borrowings in Kenya which would show results such as in table IV. Now, although everyone knows the British Empire has crumbled, I do not imagine it gets expressed in this way. Rather, it seems the British are indeed borrowing a relatively great amount of local savings.

It might be further pointed out that the smallest amount of local debt use was by a Rhodesian neon sign manufacturing firm (since merged into a bigger Kenya outfit) who borrowed £.206/83 from Barclays D.C.O. in 1962. Perhaps anticipating U.D.I., Barclays had a debenture on this debt.

But why do the British borrow so much both relative to their own capital contribution and relative to everyone else? In table I we saw that British investments tend to be relatively smaller compared to other investors. However, the difference between British size preference and the size preference of Continental Europe and the Aga Khan are not nearly so great as is the difference in their preferences for local debt. More to the point, one might see that size may not be the causative factor by considering table V.

Table V. Use of local debt by size of firm

| Size class (£) | "use" measure (%) * | average private debt (£) | average public debt (£) |
|---|---|---|---|
| ≤ 100.00 | 311.5+∞ 13/ | 8.143 | 3.345 |
| 100,001-500,000 | 175.2+∞ 13/ | 85.899 | 19.095 |
| 500,001-1,000,000 | 313.3 | 331.231 | 33.333 |
| > 1,000,000 | 314.3 | 442.702 | 751.014 |

* See table IV.

Here, except for one size class, the use of debt is remarkably even across size classes. It is also larger than one might expect from table IV. However, it should be remembered the British themselves account for 34 of the 81 investments in the study which could raise the average use measure by size class to the observed levels.[14] One point that does appear from table V, however, supports a result from table III. That is, for very big projects finance from public sources becomes more prevalent, and perhaps even necessary.

Another potential explanation of British propensity to have Kenya savings pay for more of their investments than other foreign investors do might have to do with greater fear of devaluation by Englishmen than by other investors. That is, if the Kenya Pound is devalued, the foreign exchange value of one's Kenya assets and liabilities declines and hence incurring debt is a hedge against devaluation losses: if one's assets decline in value, so too, at least, does one's local debt. However, compared to the British Pound, the Kenya Pound is the Rock of Gibralter, and one would think Englishmen would in fact rather hold assets in Kenya as a hedge against British devaluation.

14) At this point I cannot explain the approximately 85 percentage point difference between investments in the £100,001-£500,000 range and the rest.

By this point I am sure at least every American-trained economist will be thinking, "what about Modigliani-Miller?" The M & M theory,[15] in fact would suggest that either the British are idiosyncratic as there is no good economic reason for their preferring all that debt, or there are strong British taxation advantages to heavy debt finance for British firms which are not paralleled by taxation policies in Continental Europe, the U.S.A, Japan or India.

However, a Tanzanian friend has suggested a reason which is so obvious it is probably true. In economists' jargon, the solution may lie on the supply side, not the demand side. More pointedly, Kenya's savings are mobilized primarily by British banks in Kenya who may just favor British companies in their lending policies. After all, are not these British companies best known to British banks, and therefore, for "sound business reasons" would not the credit of British investors be especially good on the average? Could it not be that due to the "cost of information", Britain still maintains an imperial preference in Kenya, at least as far as investment finance goes? Would this argument also apply to the public financial institutions of Kenya?

The final data summary table to be shown presents annual statistics. All the caveats mentioned in part II of this paper on the problems of data collection and classification should be recalled, especially with respect to the last two years' observations. This is all the more so since there is such a dramatic switch in 1969 from private local equity and debt to public local equity and debt.

However, it does seem one can see things in table VI. For one, there is the effect of the adverse "investment climate" as Independence approached and the subsequent rush of investments when it became clear that it was safe to invest in Kenya. In fact, one study of the investment climate in Kenya in 1964[16] quoted one businessman as saying:

> "Now that a better indication of the political condition in Kenya is known, our project has been revised and may be consummated".

The study does note concern over Kenya's future after Mzee dies, but approvingly notes his "curbing Communist influence." It also favorably notes the

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15) Merton Miller and Franco Modigliani, "Dividend Policy, Growth and the Valuation of Shares", Journal of Business, XXXIV, (October, 1961, 411-33; ———, "Some Estimates of the Cost of Capital to the Electric Utility Industry, 1954-57," American Economic Review (AER); LVI, No.3, (June, 1966), 333-91; France Modigliani and Merton Miller, "The Cost of Capital, Corporation Finance and the Theory of Investment," AER, XLVIII, No.3 (June, 1958), 261-97; ———"Corporate Income Taxes and the Cost of Capital: A Correction", AER, LIII, No.3, (June, 1963), 433-43.

Foreign Investment Protection Act of 1964 and Sessional Paper No.10 on African Socialism for eliminating uncertainty on Kenya's view towards foreign investors.

One other point suggested by the data of table VI is that there seems no relation between investments in Kenya and the operation or lack of operation of the East African Common Market. Note especially the years of a dormant common market, 1964-7.

On the other hand, if my data is fairly complete, there seems to be a decrease in activity to a lower level from 1967, but a drop especially in 1969. Further, I know of two substantial textile investments which were discussed in 1969, but which never came off, probably because there was already excess capacity in textiles, as for example Kisumu Cotton Mills complained in some of their less than impressive Annual Reports. They also complained about the effect of the East African transfer taxes. Similarly City Brewery claimed in its 1969 Annual Report that it was forced to give up all its own brewing business in 1969 because of difficulties in Tanzania and in February 1970 City Brewery, in fact, became a holding company having sold its brewing business to East African Breweries Ltd.[17)]

However, a further explanation to a decrease in investment activity in the late 1960's observed in table VI is suggested by another report on the investment climate in Kenya, this time for 1968.[18)] The report cites a "European /business/ association" who note

> "In future, foreign investors cannot to the same extent count on the partnership of experienced and businessminded Asians, as has so far been the case. Considering the lack of entrepreneur-minded Africans, this new situation has a negative effect on the investment climate".

However, a response from a Kenya "Government spokesman" was also included in the study: "Foreign investors should be in a better position in the future [illegible] future by having Kenyans as partners in business, because the latter have a sense of belonging to Kenya and hence constitute some form of security, the tendency of which is to reduce risk. An entrepreneurial class is rapidly

16) National Industrial Conference Board (NICB), Obstacles and Incentives to Private Foreign Investment, 1962-1964, Studies in Business Policy No.115, (New York: NICB, 1965), p.92.

17) From Annual Reports of City Breweries Ltd., and East African Breweries Ltd.

18) NICB, Obstacles and Incentives to Private Foreign Investment, 1967-1968. Vol.I, Obstacles, (New York: NICB, 1969), p.85.

emerging in Kenya and what would appear as a gap caused by emigration of the Asian business community will not take long to bridge".
Now again, if the data in table VI are reasonably complete, it took one year and the replacement was not African entreprenurs but public African organizations. In fact, in 1968 of the nine recorded foreign investments, five had local equity participation and of those, four involved Kenya Asians. I have no record of any Asian participation in new foreign investments in 1969 or 1970. In both years the major local equity participants are ICDC and DFCK with the East African Development Bank joining in the 1970. [illegible] conceded, though only softly, that if this is indeed the case, it would be consistent with an African socialism very quietly implemented.

Table VI. Time Series

| Year | No. Investments | LOCATION | | | | FINANCIAL SIZE MEASURE (£) | | | | | FOREIGN EQUITY | | | Total Domestic Equity (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Nairobi | Mombasa | Central Kenya | Western Kenya & Coast | ≤100,000 | 100,001-500,00 | 500,001-1,00,000 | > 1,000,000 | Average Size | Private Equity: Average cash(£) | Private Equity: Average non-cash(£) | Average Public Equity (£) | |
| 1960 | 6 | 5 | 1 | - | - | 4 | 1 | - | 1 | 396,225 | 372,350 | - | - | 0.4 |
| 1961 | 2 | 2 | - | - | - | 2 | - | - | - | 24,460 | 17,250 | - | - | 8.0 |
| 1962 | 2 | 2 | - | - | - | 2 | - | - | - | 32,555 | 22,800 | - | - | 15.0 |
| 1963 | 4 | 3 | - | 1 | - | 3 | 1 | - | - | 39,287 | 18,532 | 2695 | - | 38.9 |
| 1964 | 8 | 3 | 2 | 2 | 1 | 4 | 4 | - | - | 81,419 | 41,737 | - | - | 23.0 |
| 1965 | 13 | 8 | 1 | 1 | 3 | 9 | 2 | 1 | 1 | 180,344 | 66,634 | - | 2,115 | 18.4 |
| 1966 | 15 | 9 | 4 | 1 | 1 | 9 | 5 | - | 1 | 406,098 | 46,665 | 487 | 16,666 | 30.0 |
| 1967 | 10 | 4 | - | 3 | 3 | 6 | 3 | 1 | - | 205,009 | 61,299 | 9000 | - | 32.8 |
| 1968 | 9 | 5 | 1 | 2 | 1 | 5 | 3 | - | 1 | 288,013 | 66,891 | 800 | - | 24.1 |
| 1969 | 4 | 2 | 1 | 1 | - | 2 | 2 | - | - | 186,419 | 49,023 | 3478 | - | 12.5 |
| 1970 | 8 | 6 | 1 | - | 1 | 5 | 1 | 1 | 1 | 1,347,357 | 215,622 | 49156 | 140,179 | 24.9 |

| DOMESTIC EQUITY | | | | FOREIGN DEBT | | DOMESTIC DEBT | | Debt "Use" measure* (%) |
|---|---|---|---|---|---|---|---|---|
| Average private (£) | Private (%) | Average public (£) | Public (%) | Average private (£) | Average public (£) | Average private (£) | Average public (£) | |
| 542 | 0.4 | - | - | 23.333 | - | - | - | - |
| 250 | 8.0 | - | - | - | - | 10.341 | - | 35.1 |
| 9750 | 15.0 | - | - | - | - | 5 | - | 5.0 |
| 18060 | 38.9 | - | - | - | - | - | - | - |
| 5700 | 19.2 | 1125 | 3.8 | 6.875 | - | 22.649 | 7025 | 154.9 |
| 4149 | 14.0 | 8692 | 4.4 | 44.615 | - | 46.680 | 6923 | 78.6 |
| 9906 | 25.3 | 44666 | 4.7 | 192.617 | - | 71.365 | 100728 | 689.2+∞ 13/ |
| 8891 | 23.1 | 9.602 | 9.7 | 10.714 | - | 95.325 | 11375 | 187.1 |
| 8486 | 19.7 | 3555 | 4.4 | 2.222 | - | 182.793 | 13.888 | 705.4 |
| - | - | 25000 | 12.5 | - | - | 58.919 | 50.000 | 125.6 |
| 526 | 0.8 | 150196 | 24.1 | 26.625 | 472.321 | 8.750 | 285.518 | 73.7+∞ 13/ |

*See table IV.

Table VI. Time Series.