1

1935. Kenya.

No. 38221/6

SUBJECT CO533/461

Agricultural Indebtedness.

Previous

FILE C.

(1711) Wt.[illegible] 5/44 H.P.Co. [illegible]

C.S. Agriculture   1. Govr. Deputy. Wade No 531 — 10th Oct. 35   2
Reports appt. of Cttee. to explore the possibilities of lightening the burden of Agricultural Indebtedness. Asks to be supplied by air mail (if possible) with any relevant info.

Mr. Freeston,

1a

I annex herewith a list of legislation relating to Agricultural Indebtedness in the Dominions etc. together with copies of the laws mentioned. You will notice that there is a good deal of duplication e.g. the Mortgagors' and Purchasers' Relief Acts of the Canadian Provinces, but I thought if I collected as much of this type of legislation as I could find, you could make a selection for the use of the government of Kenya.

There are only a few reports available but I attach them for what they are worth -

Report of Committee on Rural Credits in Australia.

[illegible]al Situation in the Seychelles - [illegible] of page 79 et seq.

[illegible] Economic Position of the [illegible]try of Southern [illegible]ia.

[illegible] on Agricultural [illegible]tedness [illegible]bar.

Report on the Ind[illegible] of the [illegible] Classes [illegible]nzibar)

The Report of the Commission on Agricultural Indebtedness in Zanzibar shows that legislation is contemplated. No such legislation has yet been received in the Library. I imagine however, that Kenya already has the Zanzibar reports.

J. H. Thompson
4. 10. 35

We are much indebted to Mr. Thompson. Send all the legislation, and the Reports except the two from Z'bar, to Govr. [illegible] LF ref. 1.

Copy of the typed list,

[illegible]
24

By air mail 24/10/35

2 To Kenya 875 (w/encl. as per list) & c list. A/1 26 OCT 1935

1 answd

3 Extract from Kenya Gazette No. 48 of 1.10.35

Attached in acc. with mins. on 38040/35 (No 4)

? Put by.

C. A. Grossmith

29.11.35

C. Bruce 29 Nov

C.9 Nominal

C.9 nominal

4 Coffee Board of Kenya (S.O.) 9.11.35

Ivs. memo. on Agricultural Indebtedness for comments & return.

5 To H. C. H. Bull (w/encl. in 4 in orig.) cons 13.12.35

(4 encl.)

6 Extract from "The Mombasa Times" d. 5.11.35

Attached in acc. with mins. on 38051/35

No 6. Registered for record.

It has been seen by Mr. Clauson & Sir C. Bottomley on 38051/35

Put by

C. A. Grossmith at once

23/12/35

7 Coffee Board of Kenya - S.O. 16.12.35

Comments further regarding the financial policy & hopes to be able to send a copy of the memo in (4). Indicates a solution whereby the price of coffee can be controlled.

KSC

~~to note change fm.~~

The difference between the U.K. & Kenya is that the U.K is a large rich country which can afford to carry trifling industries like herrings & tramp steamers without noticing it; but Kenya for practical purposes is coffee; if coffee cannot carry itself, the rest of Kenya, mines, maize (!), pyrethrum, essential oils, butter etc. cannot carry it, or perhaps those.

The great bulk of coffee cannot carry the rest half, as is proposed here.

However we need not pursue the discussion further here. The point of the spread between retail & wholesale prices of coffee is being taken by the Coffee Section. B.E.P.O. in their application for increased pref^ce.

? put by

G. L. M. Clauson

1/1/36

They won't realize either that the British taxpayer will see Kenya very far south of the Equator before he'll put his hand in his pocket to help the coffee or other farmers in Kenya just because they are Kenyans. Mr Bull is not thinking of Kenya subsidizing the local coffee, that as he knows it can't, but of a grant from here. "If a Lowestoft herring catcher gets help why not a Kenya coffee grower?"

J. E. W. Flood

1.1.36.

and why not (more immediately) the lower of coal?

Put by W. S. 2.1.36

aro

8 ~~Coffee Board of Kenya (Dr Bull) S/S Personal 18.1.36~~

~~Tmts, with comments, copy of letter from R.S. Wollen (Coffee Board of Kenya) together with memo on Agric. Indebtedness, for confidential use.~~

6/Govt Byrne - No. 11 — 10.1.36

Requests that reports on the working of the New Zealand Mortgagors' & Tenants' Relief Act, 1933, may be forwarded by Air Mail, for the use of the Agric. Indebtedness Ctee.

Last October, at the request of the Governor, we sent to Kenya copies of legislation in force in the Dominions & Colonies designed to afford relief to Agriculturists. He far now asks for copies of reports on the working of the New Zealand Mortgagors' & Tenants' Relief Act 1933.

Have any reports been received in Library please? If so, will you please annex copies.

C. A. Grossmith 22/1/36.

Mr Grossmith

Reports have not been received in Library.

[illegible] 22/1/36.

Dominions Office

Kenya. Can you help please?

C. A. Grossmith 24/1/36

Colonial Office

We have nothing on record in our files. I do spoke to the Office of the H.Cr. for N.Z.

who also were unaware of any such reports. The material at their disposal consists of the Acts mentioned (with other similar Acts e.g. the Rural Mortgage Corporation Act of 1935) and various disjointed extracts from N.Z. Parliamentary Debates. For further details on this, they suggested reference to the Prime Minister at Wellington. If you think this will meet the case, we are ready to concur.

W.B.Bottomley. 22.1.

As they have asked for this information by air mail the most expeditious course, if D.O. agree, would be to ask N.Z. to send direct to Kenya such information as may be available.

Spr. concur.

J.J. Dawe
23/1.

Mr Amery

Since my minute above, several [illegible] pp. (attached below) have been reconnected, and there are various refs. to Mortgage Problems esp. in the Dairy Commission Report and in 9643/2. Mr Parkin has seen these. Since Kenya appears to be interested in the general question of rural finance, I think the best course would still be to write to N.Z. as in this draft, where the P.M.'s Dept. could produce a co-ordinated summary of the whole situation which has fluctuated somewhat.

W.B.Bottomley. 31.1.

Mr Syers tells me that the procedure suggested in para 2. of [illegible] N.Z. is suitable.

[illegible]

By air mail 14/2/36 9. To Kenya 62 (8/2 answered) 4.2

10. To Gov. Genl. New Zealand 3. 4.2.

DESTROYED UNDER STATUTE

Or. 9643/4

(Asking for information to be sent direct to Kenya)

~~12 Further copies of Report in [illegible] 8.2.36 [illegible]~~

11. Coffee Board of Kenya (Mr Bull) do. 18 Jan. 36

Trans. with comments copy of letter from [illegible] (Coffee Board of Kenya) together with memo. on Agric. Indebtedness, for confidential use.

Mr Clauson

No 11. This has been held up for the main 1936 pp about the Agric. Indebtedness ~~[illegible]~~ arrangements. We have written to Mr Bridges (Treasury) informally & asked him to come & discuss the scheme & our proposed despatch to the Governor.

It is rather late to acknowledge No 11 now & a copy of the Coffee Board's memorandum of 25/11/35 was included in the Governor's despatch on the main 1936 pp. No 11 may be put by.

A. Fosseth
12/2/36.

R50 - 11

I ackd. verbally.
G.L.M. Clauson
13/2

6

THE COFFEE BOARD OF KENYA

H.C.H. BULL. A.C.A. London Representative

TELEPHONE:
WHitehall 5703
CABLES:
Cofboard, London.

GRAND BUILDINGS,
TRAFALGAR SQUARE,
LONDON. W.C.2

Ref F.4

Date: Monday,
13th January,
1936.

PERSONAL.

My dear Clauson,

(5) You will remember you wrote to me privately on the 13th December, commenting on the Board's memorandum on Agricultural Indebtedness. I sent a copy of your letter to Wollen privately as I wanted him to know of your views. He has now written me privately replying to some of your comments and I enclose his letter as I am particularly anxious that you should be kept "au fait" with the Kenya point of view.

I am sending you herewith a copy of the Memorandum for your confidential files.

I support Wollen's view as expressed in the last paragraph of his letter and I trust that having read his general review of the situation you will also support this view.

Recent prices at auction are much more encouraging and it only needs a little extra weight in the balance to tip the scale in favour of the Industry. Cheaper money and an increased preference will I feel sure put the Industry again on its feet.

Yours sincerely,

H.C.H. Bull

G.L.M.Clauson,Esq.,C.M;G.,O.B.E.,
Colonial Office,
Downing Street,
S.W.1.

HCHB/W.

AIR MAIL of 2.1.36

COPY

THE COFFEE BOARD OF KENYA

Post Box No.1011,

NAIROBI, Kenya Colony.

2nd January, 1936.

H.C.H.Bull,Esq.,
The Coffee Board of Kenya,
LONDON.

My dear Bull,

Very many thanks for sending me the personal letter which you received from Clauson, expressing his private views upon the Board's memorandum on Agricultural Indebtedness.

It is unfortunate that he regards the proposals for the future policy with some feeling of doubt, particularly as I am confident that these feelings of doubt would not exist has he been ever able to visit Kenya and study the Coffee Industry on the spot.

The first of the doubtful hypotheses which he challenges is that the climate is going to behave itself in the future. It is not the intention to suggest in the Board's memorandum that the Kenya climate can be expected to be regularly and for ever ideally suited to the production of maximum crops year after year. No one with a long experience of Kenya could possibly hope for this, but on the other hand, anyone with experience and with knowledge of the country will be prepared to state that three consecutive years of severe drought are completely abnormal, and that there are no grounds whatever for expecting the indefinite continuance of such conditions. On the contrary, there is every reason to expect a return to more normal conditions.

That this expectation is being realised already may be of some reassurance. The October/November short rains this year gave over 12" of rain to the main coffee growing areas, and we have had since Christmas eve a further 7".

The average performance of the crop will never average 100% of what it might be, but during the past three years in the drought affected areas, it has averaged very considerably less than 66% of the possible, and in the large areas of Thika and Ruiru in particular, we are probably safe in stating that for three years only about 20% of the potential crop has been reaped. If as an industry we can return to an average of 66% of the possible, we shall be very well on the road to recovery.

As one concrete instance only of what a bad year can do, I would instance the estate which I manage. The estate

-experienced-

experienced a normal bad year in 1932. 1933 and 1934 were drought years and crop was low in quality and in quantity, with the result that we started 1935 with an accumulated deficit of £5,000. 1935 has, in this area, been an ordinary good normal season, with adequate rainfall. The estate has produced a large crop with a resultant lowering in costs of production; our entire deficit will be wiped out and we start 1936 with a surplus and renewed hope. This is only one isolated instance, but the same can be expected to occur in all the drought affected areas of the Colony, as soon as they get a return to reasonable rainfall.

The second hypothesis which Clauson regards as doubtful is that we can expect in the future better prices than we have received in these years of drought. This expectation is not based upon any rise in the level of world prices for coffee, but is based upon a far more solid expectation that, given reasonable weather conditions, the coffee crop of Kenya will not consist so largely of the very inferior qualities which have been in such heavy proportion during the drought years.

London for these past years has complained bitterly about our quality, but London has never seen the thousands of tons of shrivelled beans which we have produced and sold under the name of coffee in our local market. It has been no uncommon feature for estates to produce less than one bag of "A" grade in a ten ton consignment, a full 90% of which has had to be graded out at "T".

A return to more normal proportions cannot fail to affect the average price of the Colony's crop. Grade for grade, it is possible that prices will stay as they are today, but the point is that the coffee produced will most certainly be higher in grade and that the proportions of low grades will decrease to the normal of the twelve years which preceded the serious droughts. The Kenya crop on present plantings cannot fail to go up to and over 20,000 tons.

Clauson makes a further point of the fact that the preferential Empire markets are not yet secure as a whole for the Empire, but a point which he has possibly failed to realise is that Kenya, with its very small present production, finds it more difficult to make the same headway in these markets, Canada in particular, as would be the case if it had more to offer. I do not think it is news to you to repeat that as long ago as 1932, one exporting firm in Nairobi received from one roaster in Canada an order for over 12,000 tons of one type. This order, of course, could not be fulfilled, but it is a fact to state that if we had more coffee available, we should find it more easy to satisfy the demands of the really large roasters who are now interested in our coffees.

The present or the potential production of Kenya coffee is not, in our opinion, sufficient or likely to be sufficient to force down prices in good crop years. We do not hope or wish to

-rise-

9

rise to the mammoth production of Brazil, and our production will always remain comparatively small and of comparatively high quality.

In suggesting that Government should put up finance, the Board has hoped that the Colonial Office and Government will be in a position to take a rather broader view of the value of the potential value of the industry, as a whole, than can merchant financiers when viewing the prospects of individuals. This is particularly the case when you realise that today's shortage of finance is largely the result of the re[illegible] of [illegible] Co. to continue to interest themselves to [illegible] hitherto in their African business. You w[illegible] with Dalgety's when I was at home [illegible] believe that their Directors [illegible] restrict [illegible]can business irrespective of it[illegible] prospects.

I am [illegible] that Clauson [illegible] sooner kill the up-coun[illegible] which are below the [illegible] unit than put up money [illegible]. As small [illegible]mic units they are l[illegible] valid[illegible] chance to expand, th[illegible] no reason [illegible] add their quota to [illegible] C[illegible]y's wealth.

[illegible] be the first [illegible] there are areas in Kenya [illegible] coffee [illegible] they are up-rooted, will [illegible] to the [illegible] to themselves, but this does not [illegible] those areas [illegible] of fine quality [illegible]able and economic [illegible].

[illegible] is no doubt at all but that, [illegible] try, we are faced with a struggle for survival in comp[illegible] with other coffee [illegible] countries of the world. Given a little assistance over our [illegible], I am convinced that in Kenya we can [illegible] cheaper cost of production than is possible in any [illegible] growing country. If we are given the chance to [illegible] will continue to support the Colony and to add [illegible] the Empire.

[illegible] appear to me that, to some extent at least, the Government [illegible] be prepared to [illegible] small financial risk in order to [illegible] Kenya and coffee [illegible] present mire of de[illegible] stage cannot fail to [illegible].

Yours [illegible]cerely,

(Sgd.) R.S.WOLLE[illegible]

THE COFFEE BOARD OF KENYA.

AGRICULTURAL INDEBTEDNESS.

This memorandum is divided into four main sections :-

Section I - The indebtedness of the coffee industry.
Section II - The causes of the present state of indebtedness.
Section III - The prospects of recovery.
Section IV - Suggestions for the alleviation of the present position and for assisting towards recovery.

SECTION I. THE INDEBTEDNESS OF THE COFFEE INDUSTRY.

In its Report for the year ended 30th June, 1935, the
Coffee Board published a Summary of Analysis of returns from
coffee estates producing 87.8% of the total Kenya crop (Appendix
"G" of the Annual Report of the Coffee Board for the year ending
30th June, 1935, p. 89 et seq.)

The Board has since prepared for the information of
the Agricultural Indebtedness Committee an analysis of the
mortgage position of the industry. This Mortgage Summary Statement
is attached hereto.

A complete analysis, which gives details (under code
numbers) of all individual returns, has been forwarded for the
information of the Chairman and of the Secretary of the Agricul-
tural Indebtedness Committee, but as individual returns (even
under code numbers) to the Coffee Board questionnaire are confi-
dential, these detailed analyses cannot be made available to all
members of the Committee.

Apart from ordinary trade creditors, the coffee industry
is committed in the following three distinct classes of indebt-
edness :-

1. Mortgages.
2. Shortfalls owing to merchant firms.
3. Seasonal finance.

(1) Mortgages.

Under the main heading Mortgages, there are again
three sub-divisions :-

(a) Mortgages proper with which are included debentures.

(b) Bank Overdrafts secured upon title deeds or upon security other than crop or chattels mortgage.

(c) Loans from merchant firms secured upon title deeds or upon security other than crop or chattels mortgage.

The total indebtedness under this head as at 30/6/34
was £1,212,110. The annual interest charge amounted to £82,043.
In arriving at this total the actual amount of interest paid was
obtained in respect of sub-division (a). Mortgages upon which
moratoriums existed are included in the capital sum, but no
interest is included in cases where none is paid. In respect
of sub-divisions (b) and (c), interest has been calculated at the
rate of 6%.

(2) Shortfalls owing to Merchant Firms.

Generally speaking, these shortfalls are the result of crop failing to reach either estimated tonnage or estimated value. It is possible that in a few cases they have been deliberately incurred with a view to completing development.

The total indebtedness under this head amounted at 30/6/34 to £95,230, but crop to the value of £23,427 was held unsold by merchants on behalf of planters with shortfalls. The actual total shortfall is therefore reduced to £71,803. Calculating interest at 6% per annum, it is seen that the annual interest charge amounts to £4,308.

(3) Seasonal Indebtedness.

At 30/6/34 Banks and merchants had advanced a total of £193,205 upon the security of crop or chattels mortgage. Of this total, shortfalls as above shown amounted to £71,803. Agents and Banks also held unsold crop of the previous season to the value of £60,804. It is therefore to be seen that against the 1934/35 crop a sum of £60,598 had been advanced as at 30/6/34.

It was estimated by planters that further drawings in anticipation of crop between 30/6/34 and 31/12/34 would amount to a total of £113,314.

The total sum estimated to be advanced against 87.8% of the season's crop therefore amounted to £174,118.

In a number of cases the amount which planters estimated they would draw appeared to be greatly in excess of the possible value of their estimated crop, but the Board has no means of knowing to what extent the estimated drawings were actually advanced by agents.

Estimating that these advances bear interest at an average rate of 5½% and that they average six months' duration, it is to be seen that under this heading the industry carries an interest charge amounting to £9,576.

Calculating interest on advances against unsold crop on the same basis, a further £3,344 is added to the interest charge. The total annual interest charge on seasonal indebtedness therefore amounts to £12,920.

The total interest charges met by the industry each year can thus be summarised as follows :-

On Mortgages etc.	£82,043
On Shortfalls	4,308
On Seasonal Finance	12,920
TOTAL INTEREST CHARGE	£99,271

As this charge has to be met practically entirely by classes 2, 3, 4 and 5 who have an annual average production of 7,366 tons, it is seen that it represents a charge of £13.5 per ton of coffee produced.

The figures and facts revealed in the various statements and analyses above mentioned serve to present a general picture of the indebtedness of the industry, but the figures given are largely averages and it must be realised that they are far removed from the actualities of a great number of individual cases. The sheep are mixed with the goats, and those who appear to be hopelessly indebted are mixed with those who, if given a breathing spell, have every reasonable chance of pulling through and of continuing in the future to add, as they have done in the past, to the wealth of the Colony.

These statistics serve as a guide only and decision as to whether it is possible to alleviate the position can only be made by individual consideration of individual cases.

An examination of the Crop Summary Statement and of the Financial and Mortgage Summary Statements reveals the following general position.

Class 1 (171 Estates) producing an average annual crop of 3,009 tons was at the 30th June, 1934, free of all commitments, but certain small drawings against crop were then becoming necessary.

That season's crop was below the 30th June estimate, and it appears probable that the need of that class for crop finance will increase, unless better seasons or better prices intervene. Any reduction in the cost of crop finance will assist this free and important class of the industry to maintain its independence.

Class 2 (179 Estates) at 30/6/34 was free of crop commitments, but the majority of estates are mortgaged and the present interest charges represent a definitely heavy addition to the per ton costs of production. This class produces an average annual crop of 2,725 tons and was also beginning to require advances against crop.

Assistance to this class can be afforded by reduction in mortgage interest and by reduction in cost of crop finance.

These two classes with a total average production of 5,734 tons per annum have 12,514 acres of coffee which have not yet reached the full bearing stage, out of a total acreage of 42,054 acres under coffee. The potential future crops of estates in these classes are therefore considerably in excess of the average for the years 1931/34.

Classes 3, 4 and 5 (200 Estates) are all, to a greater or lesser extent, mortgaged, owing shortfalls and in need of seasonal finance, and if the problem of their indebtedness is to be solved, estates in these classes need relief under all three heads. These classes have a total of 33,485 acres under coffee, but 11,523 acres had at 30/6/34 not reached the full bearing stage.

The average production of these classes as at 30/6/34 was 4,641 tons and it may reasonably be expected that by 1939 the production will have increased by approximately 50% on account of extra development alone, and will have reached 6,960 tons per annum. This increase in the average annual production, even at present prices, will very greatly reduce the per ton costs of present interest charges.

The foregoing facts and figures relate only to 87.8% of the industry's production and to 73.89% of its total acreage. Replies to questionnaires were not received from the remaining 12.2% of production.

SECTION II. THE CAUSES OF THE PRESENT STATE OF INDEBTEDNESS.

In the years 1924 to 1929, coffee fetched a highly remunerative price and any price less than £100 per ton nett on the estate was extremely disappointing to the planter. At these prices the value of coffee land and of developed coffee land in particular was very high. Money was easy to obtain on mortgage and the various merchant firms interested in coffee competed with one another in the financing of crops in their efforts to secure business.

In 1926 the industry had a total of 68,950 acres planted under coffee, but of this acreage 22,888 acres were still under three years old and a further 22,309 acres were still under six years old. Thus the industry was in that year still paying for the development of 45,197 acres (65.5%) out of its total planting. By 1930, the total acreage had increased to 96,042 acres and of this only 46,267 acres (49%) were over six years old, and the industry was therefore still paying for the development of 51% of its total acreage.

In these years production costs and general expenditure were admittedly high, but as the above figures show, profits were put back into estates in the form of increased development of the land, and profits were also returned to the estates in the erection of permanent factories and in the building of permanent houses to replace the grass "banda" in which many planters started.

Reserves were not accumulated and the whole energy of the industry was concentrated upon increased development. This development was encouraged on all sides and planters who made insufficient profits to permit the carrying out of development programme found money easy to raise.

In view of the value of coffee at that time, the cost of the money appeared to be reasonable, and the then value of land made reasonable mortgages which today appear fantastic. All parties - planter, mortgagee, and merchant - appear to have been equally optimistic and appear equally blameworthy for their present respective positions.

Early in 1930, there came a sudden and, apparently, completely unexpected drop in prices. Large consignments of coffee of the 1929/30 crop, against which money had been advanced at the rate of £100 per ton in Nairobi, failed to realise more than £70 per ton in London. Planters with 50 tons of unsold crop, against which they had borrowed to the hilt, found themselves faced with unexpected shortfalls of £2,000 or more, and it is from this season that the serious shortfall position began to develop.

Here again, it may be said that both parties were equally to blame - the planter responsible for the production of the crop, for borrowing ; and the merchant responsible for the marketing of the crop, for landing.

The industry therefore found itself in 1930 faced with the need to meet mortgage interest charges and the continued development of over 50% of its plantings on a crop reduced in value by some 30% to 40%. It was also faced with the repayment of shortfalls which it had suddenly accumulated.

The merchants were also in an unenviable position in financing a crop which had an uncertain and unsteady market. Planters began to bring down the costs of their production and to cease increasing the development of their holdings, but they had to continue to carry the cost of development of young areas.

Advances were still made and continued to err on the optimistic side and it was not really until 1933 that merchants began to take due care in the finance of estates.

By the year 1934, the industry had increased its plantings to 102,238 acres, showing an increase of 6,196 acres in four years as against an increase of 27,092 acres in the previous five years. The proportion of coffee over six years old had increased to 64% of the total, but 36% of the total planting was still in process of development and was still a charge against production.

In the years 1930 to 1935, there has been a steady fall in prices, production costs have been reduced, but there has been an inevitable lag between cost reduction and price fall. Planters and merchants have both made sacrifices to meet the interest charges of the mortgagees. Both planters and merchants in their borrowings and lendings appear to have erred on the side of optimism in advances made per ton of coffee, but it has to be remembered that, in addition to producing his crop, the planter has been and still is faced with the necessity of carrying on the development of growing areas and that he has been enabled to do this by the merchant advances.

A further aspect of the case, and certainly one of the main reasons for the present troubles of the industry, is the drought seasons which have had to be faced. Apart from the general incidence of drought which has affected both quantity and quality of crop produced throughout the Colony, the main producing areas have had the unprecedented experience of three consecutive years of drought.

A brief survey of the crops, climate and farming since the season 1929/30 will assist to a clearer view of the whole position.

The 1929/30 crop was the largest that had then been recorded and amounted to a little short of 11,000 tons, but as has been previously explained, development was continuing apace, money was on offer on all sides and borrowings against crop were heavy, and as a result of price fall, planters were actually worse off than would have been the case with a smaller crop. Trees and estates were in excellent condition after this crop, and in the following season 1930/31 a bumper crop of 12,500 tons matured. Borrowings and lendings continued on optimistic scale, but it may be said that this season did to a considerable extent enable planters to meet the commitments of the previous year and to continue to pay adequate attention to their estates and to the continued proper maintenance of semi-developed areas, which still amounted to nearly 30% of the total acreage.

Climatic conditions at the end of 1930 and in the early part of 1931 left estates in poor condition, with the result that the following (1931/32) season's crop was reduced in quantity by some 4,000 tons to a total of 8,[illegible] tons only, and difficulties again resulted.

The season 1932/33, however, afforded evidence of the recuperative powers of the coffee industry and saw yet another record crop which amounted to over 15,000 tons, and which despite still falling markets did a great deal to rehabilitate planters.

It should be noted that the four seasons 1929/30 to 1932/33 saw an increase in production from a record crop of 10,855 tons to a new record of 15,199 tons. This increase was accounted for largely by the coming into bearing of young areas, but very great strides had also been taken in these years to improve farming methods and to increase yields. Fertilisers and manures were being used lavishly and to greater benefit than ever before, and in every possible way planters were doing their utmost to meet lower prices by increased yields. Among other things, the great benefits of Bordeaux spraying in normal seasons had been made apparent and very extensive use was being made of this method of preventing bi-ennial bearing.

The result of this improvement in farming promised to show fitting result in the season 1933/34 ; crop prospects in

March 1933 made possible an estimated harvest of 20,000 tons, but the failure of the long rains in that year resulted in a disastrous crop failure and instead of 20,000 tons of fine coffee, less than 12,000 tons was actually harvested, and a very large proportion of this was of the poorest quality which had ever been produced in Kenya.

The failure of rains at a time when planters had every reason to expect rain had a far worse effect upon the industry than any ordinary shortage. The season 1934/35 yielded a total crop of some 11,500 tons.

The effect of these consecutive seasons of drought has been felt throughout the coffee districts of the Colony, and there is no doubt whatever but that the poor quality of much of the coffee in these seasons has been the result of drought and the loss of moisture reserves in the soil.

Amongst the areas which have suffered most severely from drought are the two large districts of Thika and Ruiru. The area under coffee in these districts is 25,643 acres, or 25.4% of the Colony's total. Of this acreage 8,096 acres, nearly one-third of the total, is still in process of development. The 1933/34 production, which was reduced 50% by drought, amounted to 3,130 tons, or 27.2% of the total production of the Colony.

The importance of these districts as indicated by the above figures warrants their special mention in this memorandum as an example of what has happened in those parts of the Colony which have experienced the most serious drought conditions. The effect of drought in the Thika and Ruiru districts has been utterly disastrous and planters are burdened with interest charges which in more normal seasons might amount to less than £5 per ton, but which, as a result of low production, have actually amounted to £20 and £30 per ton.

The failure of the long rains in 1933 had its most serious effect upon plantations in these districts which in March of that year were in excellent condition. Crops in that year were early and the coffee on the trees was within a month or two of being ready to harvest. A complete failure of long rains had never previously been experienced, but delayed or late rains had been met with. Planters, therefore, instead of stripping their trees immediately they started to wilt, waited for rain which their experience told them could not be long delayed. They waited for this rain from day to day and week to week and by the time that crops were actually stripped off the trees had suffered to an extent which precluded the possibility of recovery in time to yield a crop in the following season (1934/35).

The money invested in extensive Bordeaux spraying, which, in a normal season, would have produced excellent result, actually occasioned increased loss. Leaves stayed on the trees instead of falling and the resulting transpiration and loss of moisture did a great deal to add to the damage of the drought.

The failure of the rains therefore resulted not only in the loss of a bumper crop in the season 1933/34, but also in the ruination of crop prospects in the following season 1934/35.

After the loss of two successive crops, the season 1935/36 opened full of promise ; exceptional flowerings around November, 1934, promised a very fine early crop, further heavy flowerings occurred in January, 1935, but the previous November rains had been below normal and as a result of three consecutive seasons of drought, the soil held no moisture reserves and trees began to suffer by the end of January. Occasional falls of rain gave occasional spells of hope, but a great deal of crop had already had to be stripped by the end of March. Rains in April

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and further extensive flowerings gave renewed hope that much might be saved from the wreck, but the long rains again proved entirely inadequate and by July it became obvious that once again in these two districts crops could be counted as a failure and that such crop as might be reaped would be of very inferior quality.

One further trouble with which these districts have had to contend since 1924 has been mealy-bug, and tremendous crop losses have in the past been caused by this pest, more particularly in these districts than in any other parts of the country. This pest reduced crops in the days of high prices, but means of control now exist which enable crop losses to be avoided [illegible] expenses of this control are heavy, but throughout [illegible] control has to date been adequately maintained [illegible] normal seasons are experienced, production [illegible] previous averages as a result of this control.

These districts, and others for [illegible] example, are heavily indebted today [illegible] production is very great. Given [illegible] reasonable respite from the burden [illegible] there is no doubt whatsoever but [illegible] areas can recuperate and that the [illegible] speedily.

The general causes and [illegible] for the [illegible] ness of the industry as a whole may now be summarised [illegible]

1. An optimism in years of high prices which led to :-

   (a) The raising of extensive mortgages bearing high rates of interest.

   (b) The start of a new form of [illegible] - shortfalls - caused initially by a sudden and [illegible] fall in prices.

2. The stage of development [illegible] fully developed in the [illegible] Estates not but put their profits back [illegible] no reserves, beginning of the slump had [illegible] and at the semi-developed. Development [illegible] their acreage which it was impossible to [illegible] expenditure [illegible] of the total acreage of coffee required [illegible] maintenance for many years before returns [illegible] expected.

3. A gradual fall in average [illegible] early 1930, until in 19[illegible] an unprecedented low price level.

4. Pests and diseases which, in past [illegible] adequately controlled and therefore [illegible]

5. Drought seasons which have not only reduced [illegible] of crop, but which have also seriously affected [illegible]

SECTION III. THE PROSPECTS OF RECOVERY.

In viewing the prospects of the recovery of the industry, there are six main factors which have to be taken into consideration.

(1) <u>The stage of development of the industry.</u> In 1930, of the total planted area of 90,205 acres only 40,722 acres (48%) were fully developed. By 1934 the fully developed area had been

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increased to 65,643 acres (64%) and 36,595 acres only were still in process of development.

Of these semi-developed areas 22,549 acres will be fully productive by 1937. The balance of the semi-developed areas, 14,046 acres (13%) will not be fully productive until 1939, but this is a comparatively small percentage and will not represent such a strain as has been carried in completing the development over the past five years.

This increase in fully productive areas and in semi-productive areas makes it possible to anticipate for the future considerably larger crops than have ever been harvested in the past.

The release from the expenditure upon development will also place farmers on a sounder footing and will reduce the [illegible] costs of production on semi-developed estates.

[illegible] Climatic Conditions. As has already been shown, the [illegible] as a whole, and certain large coffee producing districts in particular, have suffered since 1933 from seasons of unprecedented drought. There would appear to be no reason to expect seasons of drought to continue indefinitely, but it has to be remembered that during these three years of drought the coffee trees have gone through all the pains of bearing, even though crop [illegible] actually been lost, and that they cannot be expected [illegible] one season. Viewing the industry as a whole, it [illegible] that two normal seasons are necessary before a com- [illegible]ry from the effects of drought can be expected.

A further consideration in relation to drought is the very amazing way in which coffee trees in drought affected areas [illegible] acclimatised themselves to dryer conditions, and it can be [illegible]bly hoped that climatic conditions, which some years ago [illegible] found to present difficulties, will in the future be found [illegible] less ill effect upon production.

A crop of 20,000 tons was estimated in the season 1933/34 [illegible] 0,169 acres of fully bearing and from 23,943 acres of semi- [illegible]tive coffee. It is estimated that the fully bearing [illegible] is now 70,000 acres, and that there are some 20,000 acres of [illegible]-productive coffee; it is therefore to be expected that [illegible] years, in the near future, crops of over 20,000 tons will [illegible] harvested and that even on average, given normal climatic [illegible], crops should yield five to six thousand tons in [illegible] of the harvests of the past two years.

[illegible] Value of Coffee. Whilst there appears to be no reason to expect any rise in the level of world prices for coffee for some years to come, it is at least possible to state that prices cannot be expected to fall in the future to the same extent and in the same proportion as has been the case since 1929.

The fact that no rise in world price levels can be expected does not, however, preclude consideration of the possibility of a rise in the average prices realised for Kenya Coffees.

For the past three seasons a very great proportion of the crop has consisted of immature, shrunken, and drought affected beans which have perforce been sold at prices which bear no relation to the price level of fully developed crop which has been grown under normal conditions.

Estates in areas which have been badly affected by drought have this season sold a great part of their crop at prices which have yielded an average in the region of £30 per ton and lower. A return to normal conditions will not only increase the quantities of these crops, but should also increase the values to an economic level.

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The quality of the coffee produced by the industry as a whole, apart from the exceptionally poor quality crops produced in badly drought stricken areas, has also in the past few seasons been far below the normal. There is every reason to expect that quality will improve with a return to normal climatic conditions and that a greater proportion of fine liquoring coffees, suitable for the Home trade requirements, will be produced in the future than has been produced during the past drought years.

Although the premium paid for fine coffees as opposed to common coffee is lower than ever previously recorded, a premium does still exist and is paid by the United Kingdom Home Trade. The production of a greater proportion of coffee suited to that trade can only result in higher average realisation for the Colony's crop.

It may therefore be expected, even though there be no rise in world price levels, that the coffee crop of Kenya can realise a higher average price than has been realised during the current season, and it is possible to estimate that this increase in value will amount to at least £10 per ton.

(4) Pests and Diseases. Two major pests, Antestia and Mealy-bug, which have caused serious crop loss in the past can and are being controlled today, and are no longer occasioning loss of crop. The expense of control is still heavy, but there appears to be reason to hope that in the case of Mealy-bug, new methods of control may be introduced which will substantially reduce cost.

Of the major diseases of coffee, Coffee Berry Disease alone is still uncontrolled and still causing serious crop loss. The Department of Agriculture are of opinion that the ravages of this disease can only be alleviated by the expensive process of complete replanting of estates with resistant types of coffee.

(5) The Coffee Planter. The majority of planters came to Kenya without previous agricultural experience. In general, these men are now experienced and efficient and can be counted upon to give highly skilled care to the preparation of their crops and to the cultivation of their estates.

(6) Costs of Production. The costs of production of coffee have been steadily reduced year by year, but there still remain possibilities of further reductions both on the estate and in transport and marketing costs.

Reductions in costs on the estate may not be immediate possibilities, but the possibility of the biological control of Mealy-bug bears mention in this memorandum, as it is a subject which is now being actively pursued by the Department of Agriculture. If success is achieved in this direction, the annual saving to the industry is estimated to amount to £20,000 per annum.

The possibility of reducing transport costs has recently been evidenced by the reductions in railway rates and the industry is now actively pursuing the possibility of securing reductions in freight rates from the shipping companies.

Plantations can be expected to yield larger crops in the future than in the past, on account of fuller development, in expectation of more normal rainfall, on account of control of disease and finally on account of the better farming practices and the greater experience of the planters themselves. Larger crops and better yields per acre will bring about a very considerable reduction in the costs of production.

To summarise, the prospects of the recovery of the industry lie in the potential production of increased crops, the consequent reduction in costs of production and in the well founded expectation that the average price realised for the industry's crop will be higher as a result of the production of better quality coffees.

These prospects are not remote, the more badly an area has been affected by drought, the greater will be the measure of the recovery, and the Coffee Board finds itself completely justified in putting forward proposals which will enable planters who are now heavily indebted to benefit by the recovery which can so confidently be expected.

SECTION IV. **SUGGESTIONS FOR THE ALLEVIATION OF THE PRESENT POSITION AND FOR ASSISTING TOWARDS RECOVERY.**

The value of an economically sound coffee industry to the Colony is sufficiently apparent to require no elaboration.

The present indebtedness of the industry is forcing estates to unwise economies and unless relief is afforded quickly, estates, which otherwise could recover, will through lack of adequate cultivation lose their potential value to the detriment of all interests.

The four great needs of the industry are as follows :-

1. A financial respite in which to recover from the combined effects of price falls and droughts.
2. The provision of short-term finance on a sound basis.
3. Assistance to complete the development of estates which are not yet economic units.
4. Land Rent revision in certain areas.

It is believed that in all four directions, assistance can be afforded without undue risk to Government and without upsetting the credit of the industry.

(1) A Conciliation Board.

It appears that there exists at least one definite possibility of providing, without any delay, a measure of assistance to a number of planters who are at present [illegible] or in a position of insecurity.

It is suggested that there should be established immediately a Conciliation Board for the purpose of arranging composition, either temporary or permanent, between debtors and creditors.

Upon application by either party, the Conciliation Board should meet debtor and creditors and attempt to arrive, by agreement between parties, at a reasonable composition.

It must be made possible to prevent, possibly by stay order, any action being taken by creditors prior to an examination of the case and an attempt at composition by the Conciliation Board. This Board would obtain and would be able to present to creditors and to debtor a completely fair and unbiassed opinion and there would seem to be little doubt but that it would achieve at least a percentage of success in arriving at amicable settlements.

In the interests of secured creditors themselves, it would appear desirable to effect some composition as between the various classes of creditors 'inter se' for the inequitable position has been reached today when unsecured creditors are obtaining priority for payment of their debts by reason of their ability to have recourse to the Courts at the expense of the secured creditors, who are unable to enforce their right without considerable cost to themselves or damage to their security.

A large number of creditors, secured and unsecured, are today being extremely lenient with their debtors, but such leniency is too often a matter of day to day arrangement. The planter has no security of tenure, and although he may be leniently treated by creditors, his urge is to sacrifice the proper cultivation of his estate rather than to run the risk of failing to meet his commitments. A composition arranged for a definite period of time would give an assurance of continued tenure and would thus enable the planter to devote all energies to the proper maintenance of his estate.

Such proper maintenance is vital in the interest of creditors as well as of debtors.

It is believed that the Conciliation Board could arrange compositions equitable to all parties, could constitute itself as trustee of the estate during an agreed period and thus provide for the debtor the certainty of being able to continue his farming operations for a specified period, and provide for the creditors the certainty of a fair and just share in any profits resulting from such farming operations.

The management and the finance of estates, the subject of composition, should be supervised by the Trustee or an approved agent.

The position of coffee planters is such that immediate relief is of vital importance, and unless relief in some shape or form is provided, estates are likely to deteriorate to the ultimate detriment of all creditors. A Conciliation Board, constituted on the lines above indicated, might not be able to find ways of relieving all planters, but that should not preclude an attempt being made, without delay, to remedy the position of others.

The acceptance of this suggestion by the Agricultural Indebtedness Committee does not necessarily involve dropping the consideration of other and wider forms of assistance, but it does provide the opportunity of assisting and giving immediate relief to a number of planters. The adoption of this suggestion further provides the opportunity of obtaining accurate and detailed information as to the indebtedness of agriculture in the Colony. It is suggested that the information so obtained is likely to be far more accurate and far more valuable than any that is likely to be secured by the hearing of evidence or by any other means, and even in its failures, it is considered that a Conciliation Board such as has been outlined would be gaining valuable information which will lead to a far clearer view of the position and which would be of assistance to the Agricultural Indebtedness Committee.

If it is found that the Conciliation Board fails to effect reasonable compositions, the detailed information which it will gain, even in its failures, will form invaluable evidence upon which the Committee on Agricultural Indebtedness can base its final conclusions.

The Conciliation Board, if formed, should bear in mind that, as far as the coffee industry is concerned, the main need is a breathing space in which to adjust itself to changed conditions, in which to recover from drought seasons and in which to complete its development.

Compositions could be varied to meet individual cases. Hard and fast rules or principles should be reduced to a minimum, as it is believed that experience alone will enable the Board to discover what types of composition will remedy the position of debtors and at the same time prove acceptable to creditors.

The Coffee Board urges the Committee on Agricultural Indebtedness to give this suggestion, which formed part of the evidence given by the Chairman of the Coffee Board on the [illegible] October, the most serious and speedy consideration. In a great number of cases arrangements for the financing of estates for the next year are pending, and it is certain that, if composition between creditors and debtors can be achieved, the possibilities of arranging seasonal finance in these cases will be more hopeful.

(2) <u>Short-Term Finance.</u>

This memorandum has already shown that a very large proportion of the industry is dependent upon and cannot continue to exist without seasonal finance.

Until the years 1923 or 1924 the borrowing of seasonal credits was not made unduly easy, but from 1925 onwards planters were encouraged by merchants and by banks to borrow to the limit of their credit, and far too many planters took advantage of the easy money which was available, borrowed to the limit on every ton of coffee produced and had only too frequently spent their profits before their crops were actually sold.

Until about 1924, planters very seldom required any finance before the actual harvest of their crop ; finance against actual crop may have been common, but finance in anticipation of crop was uncommon.

The easy money and the urge to complete development combined from 1925 onwards to induce planters to spend the entire proceeds of a season's crop without putting by any reserves for the following season, and, as a result, the system of anticipatory advances grew until a large proportion of the industry was regularly drawing upon merchant houses for the finance of estates several months prior to harvest.

Merchants were repaid their advances and planters' crops were sold, competition as between merchants increased and, for some reason which can probably never be explained, the calendar year 1st January to 31st December became the financial year. It would be extremely difficult to find a period more unsuited to the coffee industry in Kenya.

It became common practice for planters to borrow and for merchants to lend in January and from January onwards in anticipation of crop to be harvested in the following November. The ordinary and proper order of things was completely reversed, and planters were encouraged by business men to adopt practices which no sound business would ever have contemplated in its own finance. Once the cycle had been started it became almost impossible to stop. The state of affairs as between merchant and planter became truly chaotic, but this state of affairs was so general and the practice so widespread, that to planters who were not business men this wild and unsound method of finance appeared entirely normal and a very great number of the planters in Kenya today have never known any saner practice.

The merchants, having permitted the cycle to start, found themselves powerless to put an end to it without causing hardship to their planter clients and without involving themselves in losses.

Even sound estates are thus being financed on the following lines :- Merchants in January begin the finance of an estate, usually upon an agreed scale which supplies the planter with his own estimated requirements and upon a scale which frequently bears little relation to any crop estimate ; advances continue through the year and it is not until May or June, after five or six months of financing, that any reasonable or accurate estimate of crop can be made. Crop may start harvesting in May or June, and possibly a month later sales of early pickings are effected which start the repayment of January advances, but in general the bulk of the crop is not picked until November and is not sold until some time later in the following year. Therefore, at the end of any year planter and merchant are in the following respective positions :-

The planter is owing to the merchant the cost of a year's running of his estate. The merchant is holding the crop, the result of that year's working. The greater proportion of the crop is still unsold and it is therefore necessary to estimate the selling value of the crop, in order to estimate the position of the two parties. Taking the case of a sound estate, it may be assumed that on estimate the accounts are level or show a balance in favour of the planter - a balance, however, which is only estimated and cannot be converted into cash until coffee is sold, possibly several months later.

After estimating the value of coffee prior to sale, and thereby estimating the position of the two parties, arrangements for the following season's finance have to be made. The planter estimates the quantity and quality of a crop which is to be harvested many months ahead, and in many cases before the main flowering has taken place, harvested provided only that rains are adequate, and that pest, disease or climate do not affect the position. The merchant estimates the value of an estimated crop which will be sold in from twelve to eighteen months' time.

Upon this basis arrangements for the next season's finance are arrived at, and it is suggested by the Coffee Board that a less satisfactory basis for all parties concerned would be extremely difficult to evolve.

Had merchants and planters combined to make the crop year the financial year, it is confidently believed that the position of both parties would today be infinitely better. Crop years might have to vary from district to district, but the main part of the coffee growing areas of the Colony would find satisfactory a year commencing the 1st June.

At this time it is possible to make reasonable estimates of crop, the most important rainy season of the year is over, early crop is ready or nearly ready for harvest, main crop is on the trees in the form of immature cherry and from every point of view the principal dangers of crop loss are past.

Advances made in June and from June to November can be expected to be repaid, in part at least, by the proceeds of sale of early crop and at the end of December the position of planter and merchant is that the planter owes a proportion only of the cost of six months' running of the estate and that the merchant holds the main crop for sale. Finance as between January and June is therefore possible against actual proceeds of sale or by means of advances against crop which is in the process of being marketed. The only estimates necessary are estimated values of crop which is on or about to be put on the market.

By the end of May the exact position of both parties in respect to the year's working is known, and further, it is again possible to gauge with accuracy the prospects of the following season.

It requires no further elaboration to show that satisfactory financing of estates is far more possible if the crop year and the financial year are the same.

The main difficulty that today confronts the industry in relation to its seasonal finance is therefore to find a way of bridging the gap which exists between the time at which advances are accustomed to start and the time at which they should start. This gap is the key to the whole position and crop finance will never be on a sound basis until it has been bridged.

A return to more normal seasons with the resultant increased production will enable the more fortunate planters in the course of time to place their finance upon a sounder footing without assistance, but in the majority of cases, if finance continues on the present basis, the position will be unchanged by January 1937 and neither planters or financiers will be any better off.

The industry as a whole would benefit tremendously if this gap could be bridged immediately, and the effect would be to place the seasonal finance of coffee on a sounder basis than has been the case for very many years.

It is therefore suggested, as meriting the most serious consideration, that arrangements be made by Government to provide finance for this five month period, and that wherever possible, such loans should be on a long term basis.

The amounts of such loans to individuals would be comparatively small, and by arrangement and agreement with mortgagees it should be possible for adequate security to be provided without prejudice to other interests.

The following figures will serve as a rough guide as to the total finance required and as to the loans likely to be required by individual estates.

It has been shown in Section I of this memorandum that in the season 1934/35 a sum of £60,598 had been advanced between 1st January and 30th June, 1934, against 87.8% of the crop. In other words, this means that advances had been made at the rate of approximately £10,000 per month for the first six months of the year.

The number of planters to whom such advances had been made in 1934 totalled 194. Of these, 108 were small producers whose average annual crop was under twelve tons and whose drawings had in the main been correspondingly small. The remaining 76 planters were producers of average annual crops of over 25 tons, and with a total average annual production of some 3,800 tons.

These 76 planters on 30th June, 1934, owed to their agents or bankers a total sum of £145,108, but of this sum £11[illegible] was accounted for by shortfalls carried forward from the previous season and by crop of the previous season which was then still unsold. It is therefore to be seen that to these planters the sums actually advanced against 1934/35 crop totalled only £33,470. An average figure of about £440 per planter and of less than £9 per ton of the average total production.

On the same basis, the total drawn by the 108 small producers was £27,1[illegible]. The average amount drawn by each of the smaller producers amounted to approximately £250, but the total average annual production was only some 800 tons and the average amount advanced per ton was over £33. These estates, however, generally speaking are only in the early stages of production.

and the crop for their next season (1934/35) was estimated at over 1,150 tons.

Detailed figures showing the position of each individual planter are in the hands of the Chairman and Secretary of the Agricultural Indebtedness Committee, but it will not be amiss again to draw attention to the fact that these average figures do no more than present a general picture.

It is however shown that in the year 1934 a total sum of [illegible] advanced during the first six months [illegible] of the total production, and it [illegible] with reasonable accuracy that to [illegible] five months of 1935 in respect [illegible] will require approximately the same sum.

If this finance can be made available and if loans in respect of the first five months of the year can be secured on a [illegible] basis, a most important step will have been taken towards the establishment of a sound system of coffee crop finance. Loans made during this period should be restricted to the absolute minimum necessary for proper cultivation and maintenance of estates, and the body responsible for the administration of the loans, should arrange for competent supervision both as to farming and accounts over all estates to which loans are made.

It appears possible that, in a number of cases, some composition with creditors will be necessary before loans such as are suggested can be made ; if this proves to be the case it is obvious that Conciliation Board and the Executive Board should endeavour to work in close co-operation, in order to avoid any duplication of supervision.

At the end of May, 1936, it should be possible to estimate with reasonable accuracy the prospects of each estate for the coming season. The finance of crop from that time on should present little difficulty, but in view of the necessity which will still exist for supervision of management and finance, it is believed that it would be advantageous to the Executive Board, as lender of the early season loans, and to the Conciliation Board responsible to creditors and to debtors, if it could be arranged for the Executive Board to continue to provide any finance required in anticipation of crop, and at the same time to continue to provide or to arrange for the necessary supervision.

If this suggestion can be adopted, it should assist to reduce the general costs of administration and will certainly reduce the costs to the planter of the necessary supervision.

This brings the argument to the point where mention should be made of the scheme for short-term crop finance, which has been under consideration and investigation by the Coffee Board, and in this connection reference should be made to the Annual Report of the Coffee Board - 1935 (pages 30 to 34 and pages 143 to 158). The position with this scheme may briefly be summarised as follows :-

The Coffee Conference of 1935 instructed the Coffee Board to continue negotiations for the provision of seasonal finance, owing to the dangers which exist of curtailment of existing finance, through reasons connected neither with the coffee industry nor with the Colony of Kenya, and also owing to the desire for an alternative source of finance entirely unconnected with the marketing of the crop.

The scheme as presented to Conference was not intended as in any way a solution to the problem of Agricultural Indebtedness, and simply outlined a sound method of crop finance, which however involved the assumption of a joint and several liability on the part of all coffee planters, in that a liability would exist to contribute to an export tax to secure Government in the event of any default.

The assumption of such liability by planters could only be contemplated under the greatest possible safeguards and for this reason the Board's suggestion was that the maximum limit in the case of anticipatory advances should be 30% of the conservatively estimated value of [illegible] crop. Such crop estimates would have to be carefully investigated by a reputable and competent Visiting Agent and it was further contemplated by the Board that, to safeguard the interests of those planters who assume a liability, regular supervision would be necessary.

It had always been the hope of the Coffee Board that funds obtained under this scheme would be administered by the Land Bank.

The Coffee Conference requested that the Coffee Board should prepare a fully detailed scheme and submit the same to planters by referendum. As the Board made it very clear at Conference that finance offered under its proposals would only be available at the beginning of the crop year - "when the blossom has set and the bean has swelled sufficiently to make a reliable estimate possible", no such referendum has yet been issued, and the Coffee Board has been exploring means whereby the assumption of a joint and several liability by planters who make no use of the finance can be avoided. The formation of the Agricultural Indebtedness Committee has also given rise to the hope that the gap period between January and the beginning of the crop year may be bridged.

A further difficulty which also appeared necessary to overcome is the objection by merchants, who are today financing a part of the crop. These merchants, whilst making no objections to the provision of alternative finance in anticipation of crop, do object strongly to the provision by the Coffee Board of finance against harvested crop, as they contend that such finance is an essential and legitimate part of their business. This merchant attitude is understandable and, possibly, has some justification, but from the point of view of the Coffee Board it has objections in that a division of finance as between merchants and the Board must obviously increase the cost of the administration of the Board's finance. The percentage costs of the administration of any such finance scheme must vary in inverse ratio to the total amount of money loaned, and the larger the total sum handled, the lower will be the percentage cost of administration.

In connection with supervisory visits to coffee estates, it will be as well to note at this stage that the costs of supervision are considerably increased if special visits and consequent travelling expenses are incurred in each case and that the costs can be considerably reduced by arranging for groups of estates in the same district to be visited during the same tour. The Executive Board and Conciliation Board in joint control of such supervision should be able to make economic arrangements with a minimum of difficulty.

For these reasons the Coffee Board would be prepared to withdraw its own proposals for the provision of alternative seasonal finance, if it can be assured that the provision of such finance is under serious consideration by Government.

This section of the memorandum has now dealt with the general aspects of seasonal credits, but it is still necessary rise to the mammoth production of Brazil, and our production will always remain comparatively small and of comparatively high quality.

In suggesting that Government should put up finance, the Board has hoped that the Colonial Office and Government will be in a position to take a rather broader view of the value of the potential value of the industry, as a whole, than can merchant financiers when viewing the prospects of individuals. This is particularly the case when you realise that today's shortage of finance is largely the result of the reluctance of Dalgety & Co. to continue to interest themselves to the same extent as hitherto in their African business. You will recollect our conversations with Dalgety's when I was at home. These definitely led us to believe that their Directors were anxious to restrict their African business irrespective of its future prospects.

I am sorry to note also that Clauson would sooner kill the up-country estates which are below the economic unit than put up money to help them to expand. As small and economic units they are likely to be permanent invalids, but given the chance to expand, there is no reason at all why they should not add their quota to the Colony's wealth.

I should be the first to agree that there are areas in Kenya now planted under coffee which, until they are up-rooted, will always be a curse to the Colony and to themselves, but this does not apply to those areas which can produce coffee of fine quality in reasonable and economic quantities.

There is no doubt at all but that, as an industry, we are faced with a struggle for survival in competition with other coffee growing countries of the world. Given a little assistance over our present troubles, I am convinced that in Kenya we can grow a fine quality coffee at a cheaper cost of production than is possible in any foreign coffee growing country. If we are given the chance to do this, the industry will continue to support the Colony and to add its wealth to the Empire.

It does appear to me that, to some extent at least, the Government must be prepared to run a small financial risk in order to ensure its own future prosperity. Kenya and coffee in particular is gradually escaping from its present mire of depression and a helping hand at this critical stage cannot fail to speed this escape.

Yours sincerely,

(Sgd.) R.S.WOLLEN.

THE COFFEE BOARD OF KENYA.

AGRICULTURAL INDEBTEDNESS.

This memorandum is divided into four main sections :-

Section I - The indebtedness of the coffee industry.
Section II - The causes of the present state of indebtedness.
Section III - The prospects of recovery.
Section IV - Suggestions for the alleviation of the present position and for assisting towards recovery.

SECTION I. THE INDEBTEDNESS OF THE COFFEE INDUSTRY.

In its Report for the year ended 30th June, 1935, the Coffee Board published a Summary of Analysis of returns from coffee estates producing 87.8% of the total Kenya crop (Appendix "G" of the Annual Report of the Coffee Board for the year ending 30th June, 1935, p. 89 et seq.)

The Board has since prepared for the information of the Agricultural Indebtedness Committee an analysis of the mortgage position of the industry. This Mortgage Summary Statement is attached hereto.

A complete analysis, which gives details (under code numbers) of all individual returns, has been forwarded for the information of the Chairman and of the Secretary of the Agricultural Indebtedness Committee, but as individual returns (even under code numbers) to the Coffee Board questionnaire are confidential, these detailed analyses cannot be made available to all members of the Committee.

Apart from ordinary trade creditors, the coffee industry is committed in the following three distinct classes of indebtedness :-

1. Mortgages.
2. Shortfalls owing to merchant firms.
3. Seasonal finance.

(1) Mortgages.

Under the main heading Mortgages, there are again three sub-divisions :-

(a) Mortgages proper with which are included debentures.

(b) Bank Overdrafts secured upon title deeds or upon security other than crop or chattels mortgage.

(c) Loans from merchant firms secured upon title deeds or upon security other than crop or chattels mortgage.

The total indebtedness under this head as at 30/6/34 was £1,212,110. The annual interest charge amounted to £82,043. In arriving at this total the actual amount of interest paid was obtained in respect of sub-division (a). Mortgages upon which moratoriums existed are included in the capital sum, but no interest is included in cases where none is paid. In respect of sub-divisions (b) and (c), interest has been calculated at the rate of 6%.

(2) Shortfalls owing to Merchant Firms.

Generally speaking, these shortfalls are the result of crop failing to reach either estimated tonnage or estimated value. It is possible that in a few cases they have been deliberately incurred with a view to completing development.

The total indebtedness under this head amounted at 30/6/34 to £95,230, but crop to the value of £23,427 was held unsold by merchants on behalf of planters with shortfalls. The actual total shortfall is therefore reduced to £71,803. Calculating interest at 6% per annum, it is seen that the annual interest charge amounts to £4,308.

(3) Seasonal Indebtedness.

At 30/6/34 Banks and merchants had advanced a total of £193,205 upon the security of crop or chattels mortgage. Of this total, shortfalls as above shown amounted to £71,803. Agents and Banks also held unsold crop of the previous season to the value of £60,804. It is therefore to be seen that against the 1934/35 crop a sum of £60,598 had been advanced as at 30/6/34.

It was estimated by planters that further drawings in anticipation of crop between 30/6/34 and 31/12/34 would amount to a total of £113,314.

The total sum estimated to be advanced against 87.8% of the season's crop therefore amounted to £174,118.

In a number of cases the amount which planters estimated they would draw appeared to be greatly in excess of the possible value of their estimated crop, but the Board has no means of knowing to what extent the estimated drawings were actually advanced by agents.

Estimating that these advances bear interest at an average rate of 5½% and that they average six months' duration, it is to be seen that under this heading the industry carries an interest charge amounting to £9,576.

Calculating interest on advances against unsold crop on the same basis, a further £3,344 is added to the interest charge. The total annual interest charge on seasonal indebtedness therefore amounts to £12,920.

The total interest charges met by the industry each year can thus be summarised as follows:-

On Mortgages etc.	£82,043
On Shortfalls	4,308
On Seasonal Finance	12,920
TOTAL INTEREST CHARGE	£99,271

As this charge has to be met practically entirely by classes 2, 3, 4 and 5 who have an annual average production of 7,366 tons, it is seen that it represents a charge of £13.5 per ton of coffee produced.

The figures and facts revealed in the various statements and analyses above mentioned serve to present a general picture of the indebtedness of the industry, but the figures given are largely averages and it must be realised that they are far removed from the actualities of a great number of individual cases. The sheep are mixed with the goats, and those who appear to be hopelessly indebted are mixed with those who, if given a breathing spell, have every reasonable chance of pulling through and of continuing in the future to add, as they have done in the past, to the wealth of the Colony.

These statistics serve as a guide only and decision as to whether it is possible to alleviate the position can only be made by individual consideration of individual cases.

An examination of the Crop Summary Statement and of the Financial and Mortgage Summary Statements reveals the following general position.

Class 1 (171 Estates) producing an average annual crop of 3,009 tons was at the 30th June, 1934, free of all commitments, but certain small drawings against crop were then becoming necessary.

That season's crop was below the 30th June estimate, and it appears probable that the need of that class for crop finance will increase, unless better seasons or better prices intervene. Any reduction in the cost of crop finance will assist this free and important class of the industry to maintain its independence.

Class 2 (179 Estates) at 30/6/34 was free of crop commitments, but the majority of estates are mortgaged and the present interest charges represent a definitely heavy addition to the per ton costs of production. This class produces an average annual crop of 2,725 tons and was also beginning to require advances against crop.

Assistance to this class can be afforded by reduction in mortgage interest and by reduction in cost of crop finance.

These two classes with a total average production of 5,734 tons per annum have 12,514 acres of coffee which have not yet reached the full bearing stage, out of a total acreage of 42,054 acres under coffee. The potential future crops of estates in these classes are therefore considerably in excess of the average for the years 1931/34.

Classes 3, 4 and 5 (200 Estates) are all, to a greater or lesser extent, mortgaged, owing shortfalls and in need of seasonal finance, and if the problem of their indebtedness is to be solved, estates in these classes need relief under all three heads. These classes have a total of 53,485 acres under coffee, but 11,523 acres had at 30/6/34 not reached the full bearing stage.

The average production of these classes as at 30/6/34 was 4,641 tons and it may reasonably be expected that by 1939 the production will have increased by approximately 50% on account of extra development alone, and will have reached 6,960 tons per annum. This increase in the average annual production, even at present prices, will very greatly reduce the per ton costs of present interest charges.

The foregoing facts and figures relate only to 87.8% of the industry's production and to 73.89% of its total acreage. Replies to questionnaires were not received from the remaining 12.2% of production.

SECTION II. THE CAUSES OF THE PRESENT STATE OF INDEBTEDNESS.

In the years 1924 to 1929, coffee fetched a highly remunerative price and any price less than £100 per ton nett on the estate was extremely disappointing to the planter. At these prices the value of coffee land and of developed coffee land in particular was very high. Money was easy to obtain on mortgage and the various merchant firms interested in coffee competed with one another in the financing of crops in their efforts to secure business.

In 1926 the industry had a total of 68,950 acres planted under coffee, but of this acreage 22,888 acres were still under three years old and a further 22,309 acres were still under six years old. Thus the industry was in that year still paying for the development of 45,197 acres (65.5%) out of its total planting. By 1930, the total acreage had increased to 96,042 acres and of this only 46,267 acres (49%) were over six years old, and the industry was therefore still paying for the development of 51% of its total acreage.

In these years production costs and general expenditure were admittedly high, but as the above figures show, profits were put back into estates in the form of increased development of the land, and profits were also returned to the estates in the erection of permanent factories and in the building of permanent houses to replace the grass "banda" in which many planters started.

Reserves were not accumulated and the whole energy of the industry was concentrated upon increased development. This development was encouraged on all sides and planters who made insufficient profits to permit the carrying out of development programme found money easy to raise.

In view of the value of coffee at that time, the cost of the money appeared to be reasonable, and the then value of land made reasonable mortgages which today appear fantastic. All parties - planter, mortgagee, and merchant - appear to have been equally optimistic and appear equally blameworthy for their present respective positions.

Early in 1930, there came a sudden and, apparently, completely unexpected drop in prices. Large consignments of coffee of the 1929/30 crop, against which money had been advanced at the rate of £100 per ton in Nairobi, failed to realise more than £70 per ton in London. Planters with 50 tons of unsold crop, against which they had borrowed to the hilt, found themselves faced with unexpected shortfalls of £2,000 or more, and it is from this season that the serious shortfall position began to develop.

Here again, it may be said that both parties were equally to blame - the planter responsible for the production of the crop, for borrowing ; and the merchant responsible for the marketing of the crop, for lending.

The industry therefore found itself in 1930 faced with the need to meet mortgage interest charges and the continued development of over 50% of its plantings on a crop reduced in value by some 30% to 40%. It was also faced with the repayment of shortfalls which it had suddenly accumulated.

The merchants were also in an unenviable position in financing a crop which had an uncertain and unsteady market. Planters began to bring down the costs of their production and to cease increasing the development of their holdings, but they had to continue to carry the cost of development of young areas.

Advances were still made and continued to err on the optimistic side and it was not really until 1933 that merchants began to take due care in the finance of estates.

By the year 1934, the industry had increased its plantings to 102,238 acres, showing an increase of 6,196 acres in four years as against an increase of 27,092 acres in the previous five years. The proportion of coffee over six years old had increased to 64% of the total, but 36% of the total planting was still in process of development and was still a charge against production.

In the years 1930 to 1935, there has been a steady fall in prices, production costs have been reduced, but there has been an inevitable lag between cost reduction and price fall. Planters and merchants have both made sacrifices to meet the interest charges of the mortgagees. Both planters and merchants in their borrowings and lendings appear to have erred on the side of optimism in advances made per ton of coffee, but it has to be remembered that, in addition to producing his crop, the planter has been and still is faced with the necessity of carrying on the development of growing areas and that he has been enabled to do this by the merchant advances.

A further aspect of the case, and certainly one of the main reasons for the present troubles of the industry, is the drought seasons which have had to be faced. Apart from the general incidence of drought which has affected both quantity and quality of crop produced throughout the Colony, the main producing areas have had the unprecedented experience of three consecutive years of drought.

A brief survey of the crops, climate and farming since the season 1929/30 will assist to a clearer view of the whole position.

The 1929/30 crop was the largest that had then been recorded and amounted to a little short of 11,000 tons, but as has been previously explained, development was continuing apace, money was on offer on all sides and borrowings against crop were heavy, and as a result of price fall, planters were actually worse off than would have been the case with a smaller crop. Trees and estates were in excellent condition after this crop, and in the following season 1930/31 a bumper crop of 12,500 tons matured. Borrowings and lendings continued on optimistic scale, but it may be said that this season did to a considerable extent enable planters to meet the commitments of the previous year and to continue to pay adequate attention to their estates and to the continued proper maintenance of semi-developed areas, which still amounted to nearly 50% of the total acreage.

Climatic conditions at the end of 1930 and in the early part of 1931 left estates in poor condition, with the result that the following (1931/32) season's crop was reduced in quantity by some 4,000 tons to a total of 8,500 tons only, and difficulties again resulted.

The season 1932/33, however, afforded evidence of the recuperative powers of the coffee industry and saw yet another record crop which amounted to over 15,000 tons, and which despite still falling markets did a great deal to rehabilitate planters.

It should be noted that the four seasons 1929/30 to 1932/33 saw an increase in production from a record crop of 10,855 tons to a new record of 15,199 tons. This increase was accounted for largely by the coming into bearing of young areas, but very great strides had also been taken in these years to improve farming methods and to increase yields. Fertilisers and manures were being used lavishly and to greater benefit than ever before, and in every possible way planters were doing their utmost to meet lower prices by increased yields. Among other things, the great benefits of Bordeaux spraying in normal seasons had been made apparent and very extensive use was being made of this method of preventing bi-ennial bearing.

The result of this improvement in farming promised to show fitting result in the season 1933/34 ; crop prospects in

March 1933 made possible an estimated harvest of 20,000 tons, but the failure of the long rains in that year resulted in a disastrous crop failure and instead of 20,000 tons of fine coffee, less than 12,000 tons was actually harvested, and a very large proportion of this was of the poorest quality which had ever been produced in Kenya.

The failure of rains at a time when planters had every reason to expect rain had a far worse effect upon the industry than any ordinary shortage. The season 1934/35 yielded a total crop of some 11,500 tons.

The effect of these consecutive seasons of drought has been felt throughout the coffee districts of the Colony, and there is no doubt whatever but that the poor quality of much of the coffee in these seasons has been the result of drought and the loss of moisture reserves in the soil.

Amongst the areas which have suffered most severely from drought are the two large districts of Thika and Ruiru. The area under coffee in these districts is 25,643 acres, or 25.4% of the Colony's total. Of this acreage 8,096 acres, nearly one-third of the total, is still in process of development. The 1933/34 production, which was reduced 50% by drought, amounted to 3,130 tons, or 27.2% of the total production of the Colony.

The importance of these districts as indicated by the above figures warrants their special mention in this memorandum as an example of what has happened in those parts of the Colony which have experienced the most serious drought conditions. The effect of drought in the Thika and Ruiru districts has been utterly disastrous and planters are burdened with interest charges which in more normal seasons might amount to less than £5 per ton, but which, as a result of low production, have actually amounted to £20 and £30 per ton.

The failure of the long rains in 1933 had its most serious effect upon plantations in these districts which in March of that year were in excellent condition. Crops in that year were early and the coffee on the trees was within a month or two of being ready to harvest. A complete failure of long rains had never previously been experienced, but delayed or late rains had been met with. Planters, therefore, instead of stripping their trees immediately they started to wilt, waited for the rain which their experience told them could not be long delayed. They waited for this rain from day to day and week to week, and by the time that crops were actually stripped, the trees had suffered to an extent which precluded the possibility of recovery in time to yield a crop in the following season (1934/35).

The money invested in extensive Bordeaux spraying, which, in a normal season, would have produced excellent result, actually occasioned increased loss. Leaves stayed on the trees instead of falling and the resulting transpiration and loss of moisture did a great deal to add to the damage of the drought.

The failure of the rains therefore resulted, not only in the loss of a bumper crop in the season 1933/34, but also in the ruination of crop prospects in the following season 1934/35.

After the loss of two successive crops, the season 1935/36 opened full of promise ; exceptional flowerings around November, 1934, promised a very fine early crop, further heavy flowerings occurred in January, 1935, but the previous November rains had been below normal and as a result of three consecutive seasons of drought, the soil held no moisture reserves and trees began to suffer by the end of January. Occasional falls of rain gave occasional spells of hope, but a great deal of crop had already had to be stripped by the end of March. Rains in April and further extensive flowerings gave renewed hope that much might be saved from the wreck, but the long rains again proved entirely inadequate and by July it became obvious that once again in these two districts crops could be counted as a failure and that such crop as might be reaped would be of very inferior quality.

One further trouble with which these districts have had to contend since 1924 has been mealy-bug, and tremendous crop losses have in the past been caused by this pest, more particularly in these districts than in any other parts of the country. This pest reduced crops in the days of high prices, but measures of control now exist which enable crop losses to be avoided. The expenses of this control are heavy, but throughout these districts control has to date been adequately maintained, and as soon as normal seasons are experienced, production will increase above previous averages as a result of this control.

These districts, and others for which they serve as an example, are heavily indebted today, but their future potential production is very great. Given a return to normal seasons and reasonable respite from the burden of their present indebtedness, there is no doubt whatsoever but that the plantations in these areas can recuperate and that the recuperation can be accomplished speedily.

The general causes and reasons for the present indebtedness of the industry as a whole may now be summarised as follows :-

1. An optimism in years of high prices which led to :-

   (a) The raising of extensive mortgages bearing high rates of interest.

   (b) The start of a new form of indebtedness - shortfalls - caused initially by a sudden and heavy fall in prices.

2. The stage of development of the industry. Estates not fully developed in the good years created no reserves, but put their profits back into [illegible] land and at the beginning of the slump had over [illegible] of their acreage semi-developed. Development had reached a stage at which it was impossible to cease expenditure and half of the total acreage of coffee required an expensive maintenance for many years before returns could be expected.

3. A gradual fall in average price realised starting in early 1930, until in 1935 Kenya coffee had fallen to an unprecedented low price level.

4. Pests and diseases which, in past years, could not be adequately controlled and therefore caused crop losses.

5. Drought seasons which have not only reduced quantity of crop, but which have also seriously affected quality.

SECTION III. THE PROSPECTS OF RECOVERY.

In viewing the prospects of the recovery of the industry, there are six main factors which have to be taken into comsideration.

(1) The stage of development of the industry. In 1930, of the total planted area of 90,205 acres only 40,722 acres (48%) were fully developed. By 1934 the fully developed area had been

increased to 65,643 acres (64%) and 36,595 acres only were still in process of development.

Of these semi-developed areas 22,549 acres will be fully productive by 1937. The balance of the semi-developed areas, 14,046 acres (13%) will not be fully productive until 1939, but this is a comparatively small percentage and will not represent such a strain as has been carried in completing the development over the past five years.

This increase in fully productive areas and in semi-productive areas makes it possible to anticipate for the future considerably larger crops than have ever been harvested in the past.

The release from the expenditure upon development will also place farmers on a sounder footing and will reduce the present costs of production on semi-developed estates.

(4) Climatic Conditions. As has already been shown, the industry as a whole, and certain large coffee producing districts in particular, have suffered since 1933 from seasons of unprecedented drought. There would appear to be no reason to expect seasons of drought to continue indefinitely, but it has to be remembered that during these three years of drought the coffee trees have gone through all the pains of bearing, even though crop has eventually been lost, and that they cannot be expected to recover in one season. Viewing the industry as a whole, it is probable that two normal seasons are necessary before a complete recovery from the effects of drought can be expected.

A further consideration in relation to drought is the very amazing way in which coffee trees in drought affected areas have acclimatised themselves to dryer conditions, and it can be reasonably hoped that climatic conditions, which some years ago were found to present difficulties, will in the future be found to have less ill effect upon production.

A crop of 20,000 tons was estimated in the season 1933/34 from 60,169 acres of fully bearing and from 23,943 acres of semi-productive coffee. It is estimated that the fully bearing acreage is now 70,000 acres, and that there are some 20,000 acres of semi-productive coffee ; it is therefore to be expected that in good years, in the near future, crops of over 20,000 tons will be harvested and that even on average, given normal climatic conditions, crops should yield five to six thousand tons in excess of the harvests of the past two years.

(5) Value of Coffee. Whilst there appears to be no reason to expect any rise in the level of world prices for coffee for some years to come, it is at least possible to state that prices cannot be expected to fall in the future to the same extent and in the same proportion as has been the case since 1929.

The fact that no rise in world price levels can be expected does not, however, preclude consideration of the possibility of a rise in the average prices realised for Kenya Coffees.

For the past three seasons a very great proportion of the crop has consisted of immature, shrunken, and drought affected beans which have per force been sold at prices which bear no relation to the price level of fully developed crop which has been grown under normal conditions.

Estates in areas which have been badly affected by drought have this season sold a great part of their crop at prices which have yielded an average in the region of £30 per ton and lower. A return to normal conditions will not only increase the quantities of these crops, but should also increase the values to an economic level.

The quality of the coffee produced by the industry as a whole, apart from the exceptionally poor quality crops produced in badly drought stricken areas, has also in the past few seasons been far below the normal. There is every reason to expect that quality will improve with a return to normal climatic conditions and that a greater proportion of fine liquoring coffees, suitable for the Home trade requirements, will be produced in the future than has been produced during the past drought years.

Although the premium paid for fine coffees as opposed to common coffee is lower than ever previously recorded, a premium does still exist and is paid by the United Kingdom Home Trade. The production of a greater proportion of coffee suited to that trade can only result in higher average realisation for the Colony's crop.

It may therefore be expected, even though there be no rise in world price levels, that the coffee crop of Kenya can realise a higher average price than has been realised during the current season, and it is possible to estimate that this increase in value will amount to at least £10 per ton.

(4) Pests and Diseases. Two major pests, Antestia and Mealy-bug, which have caused serious crop loss in the past can and are being controlled today, and are no longer occasioning loss of crop. The expense of control is still heavy, but there appears to be reason to hope that in the case of Mealy-bug, new methods of control may be introduced which will substantially reduce cost.

Of the major diseases of coffee, Coffee Berry Disease alone is still uncontrolled and still causing serious crop loss. The Department of Agriculture are of opinion that the ravages of this disease can only be alleviated by the expensive process of complete replanting of estates with resistant types of coffee.

(5) The Coffee Planter. The majority of planters came to Kenya without previous agricultural experience. In general, these men are now experienced and efficient and can be counted upon to give highly skilled care to the preparation of their crops and to the cultivation of their estates.

(6) Costs of Production. The costs of production of coffee have been steadily reduced year by year, but there still remain possibilities of further reductions both on the estate and in transport and marketing costs.

Reductions in costs on the estate may not be immediate possibilities, but the possibility of the biological control of Mealy-bug bears mention in this memorandum, as it is a subject which is now being actively pursued by the Department of Agriculture. If success is achieved in this direction, the annual saving to the industry is estimated to amount to £20,000 per annum.

The possibility of reducing transport costs has recently been evidenced by the reductions in railway rates and the industry is now actively pursuing the possibility of securing reductions in freight rates from the shipping companies.

Plantations can be expected to yield larger crops in the future than in the past, on account of fuller development, in expectation of more normal rainfall, on account of control of disease and finally on account of the better farming practices and the greater experience of the planters themselves. Larger crops and better yields per acre will bring about a very considerable reduction in the costs of production.

To summarise, the prospects of the recovery of the industry lie in the potential production of increased crops, the consequent reduction in costs of production and in the well founded expectation that the average price realised for the industry's crop will be higher as a result of the production of better quality coffees.

These prospects are not remote, the more badly an area has been affected by drought, the greater will be the measure of the recovery, and the Coffee Board finds itself completely justified in putting forward proposals which will enable planters who are now heavily indebted to benefit by the recovery which can so confidently be expected.

SECTION IV. SUGGESTIONS FOR THE ALLEVIATION OF THE PRESENT POSITION AND FOR ASSISTING TOWARDS RECOVERY.

The value of an economically sound coffee industry to the Colony is sufficiently apparent to require no elaboration.

The present indebtedness of the industry is forcing estates to unwise economies and unless relief is afforded quickly, estates, which otherwise could recover, will through lack of adequate cultivation lose their potential value to the detriment of all interests.

The four great needs of the industry are as follows :-

1. A financial respite in which to recover from the combined effects of price falls and droughts.
2. The provision of short-term finance on a sound basis.
3. Assistance to complete the development of estates which are not yet economic units.
4. Land Rent revision in certain areas.

It is believed that in all four directions, assistance can be afforded without undue risk to Government and without upsetting the credit of the industry.

(1) <u>A Conciliation Board.</u>

It appears that there exists at least one definite possibility of providing, without any delay, a measure of assistance to a number of planters who are at present in difficulties or in a position of insecurity.

It is suggested that there should be established immediately a Conciliation Board for the purpose of arranging composition, either temporary or permanent, between debtors and creditors.

Upon application by either party, the Conciliation Board should meet debtor and creditors and attempt to arrive, by agreement between parties, at a reasonable composition.

It must be made possible to prevent, possibly by stay order, any action being taken by creditors prior to an examination of the case and an attempt at composition by the Conciliation Board. This Board would obtain and would be able to present to creditors and to debtor a completely fair and unbiassed opinion and there would seem to be little doubt but that it would achieve at least a percentage of success in arriving at amicable settlements.

In the interests of secured creditors themselves, it would appear desirable to effect some composition as between the various classes of creditors 'inter se' for the inequitable position has been reached today when unsecured creditors are obtaining priority for payment of their debts by reason of their ability to have recourse to the Courts at the expense of the secured creditors, who are unable to enforce their right without considerable cost to themselves or damage to their security.

A large number of creditors, secured and unsecured, are today being extremely lenient with their debtors, but such leniency is too often a matter of day to day arrangement. The planter has no security of tenure, and although he may be leniently treated by creditors, his urge is to sacrifice the proper cultivation of his estate rather than to run the risk of failing to meet his commitments. A composition arranged for a definite period of time would give an assurance of continued tenure and would thus enable the planter to devote all energies to the proper maintenance of his estate.

Such proper maintenance is vital in the interest of creditors as well as of debtors.

It is believed that the Conciliation Board could arrange compositions equitable to all parties, could constitute itself as trustee of the estate during an agreed period and thus provide for the debtor the certainty of being able to continue his farming operations for a specified period, and provide for the creditors the certainty of a fair and just share in any profits resulting from such farming operations.

The management and the finance of estates, the subject of composition, should be supervised by the Trustee or an approved agent.

The position of coffee planters is such that immediate relief is of vital importance, and unless relief in some shape or form is provided, estates are likely to deteriorate to the ultimate detriment of all creditors. A Conciliation Board, constituted on the lines above indicated, might not be able to find ways of relieving all planters, but that should not preclude an attempt being made, without delay, to remedy the position of others.

The acceptance of this suggestion by the Agricultural Indebtedness Committee does not necessarily involve dropping the consideration of other and wider forms of assistance, but it does provide the opportunity of assisting and giving immediate relief to a number of planters. The adoption of this suggestion further provides the opportunity of obtaining accurate and detailed information as to the indebtedness of agriculture in the Colony. It is suggested that the information so obtained is likely to be far more accurate and far more valuable than any that is likely to be secured by the hearing of evidence or by any other means, and even in its failures, it is considered that a Conciliation Board such as has been outlined would be gaining valuable information which will lead to a far clearer view of the position and which would be of assistance to the Agricultural Indebtedness Committee.

If it is found that the Conciliation Board fails to effect reasonable compositions, the detailed information which it will gain, even in its failures, will form invaluable evidence upon which the Committee on Agricultural Indebtedness can base its final conclusions.

The Conciliation Board, if formed, should bear in mind that, as far as the coffee industry is concerned, the main need is a breathing space in which to adjust itself to changed conditions, in which to recover from drought seasons and in which to complete its development.

Compositions could be varied to meet individual cases. Hard and fast rules or principles should be reduced to a minimum, as it is believed that experience alone will enable the Board to discover what types of composition will remedy the position of debtors and at the same time prove acceptable to creditors.

The Coffee Board urges the Committee on Agricultural Indebtedness to give this suggestion, which formed part of the evidence given by the Chairman of the Coffee Board on the 23rd October, the most serious and speedy consideration. In a great number of cases arrangements for the financing of estates for the next year are pending, and it is certain that, if composition between creditors and debtors can be achieved, the possibilities of arranging seasonal finance in these cases will be more hopeful.

(2) <u>Short-Term Finance.</u>

This memorandum has already shown that a very large proportion of the industry is dependent upon and cannot continue to exist without seasonal finance.

Until the years 1923 or 1924 the borrowing of seasonal credits was not made unduly easy, but from 1925 onwards planters were encouraged by merchants and by banks to borrow to the limit of their credit, and far too many planters took advantage of the easy money which was available, borrowed to the limit on every ton of coffee produced and had only too frequently spent their profits before their crops were actually sold.

Until about 1924, planters very seldom required any finance before the actual harvest of their crop ; finance against actual crop may have been common, but finance in anticipation of crop was uncommon.

The easy money and the urge to complete development combined from 1925 onwards to induce planters to spend the entire proceeds of a season's crop without putting by any reserves for the following season, and, as a result, the system of anticipatory advances grew until a large proportion of the industry was regularly drawing upon merchant houses for the finance of estates several months prior to harvest.

Merchants were repaid their advances and planters' crops were sold, competition as between merchants increased and, for some reason which can probably never be explained, the calendar year 1st January to 31st December became the financial year. It would be extremely difficult to find a period more unsuited to the coffee industry in Kenya.

It became common practice for planters to borrow and for merchants to lend in January and from January onwards in anticipation of crop to be harvested in the following November. The ordinary and proper order of things was completely reversed, and planters were encouraged by business men to adopt practices which no sound business would ever have contemplated in its own finance. Once the cycle had been started it became almost impossible to stop. The state of affairs as between merchant and planter became truly chaotic, but this state of affairs was so generaland the practice so widespread, that to planters who were not business men this wild and unsound method of finance appeared entirely normal and a very great number of the planters in Kenya today have never known any saner practice.

The merchants, having permitted the cycle to start, found themselves powerless to put an end to it without causing hardship to their planter clients and without involving themselves in losses.

Even sound estates are thus being financed on the following lines :- Merchants in January begin the finance of an estate, usually upon an agreed scale which supplies the planter with his own estimated requirements and upon a scale which frequently bears little relation to any crop estimate ; advances continue through the year and it is not until May or June, after five or six months of financing, that any reasonable or accurate estimate of crop can be made. Crop may start harvesting in May or June, and possibly a month later sales of early pickings are effected which start the repayment of January advances, but in general the bulk of the crop is not picked until November and is not sold until some time later in the following year. Therefore, at the end of any year planter and merchant are in the following respective positions :-

The planter is owing to the merchant the cost of a year's running of his estate. The merchant is holding the crop, the result of that year's working. The greater proportion of the crop is still unsold and it is therefore necessary to estimate the selling value of the crop, in order to estimate the position of the two parties. Taking the case of a sound estate, it may be assumed that on estimate the accounts are level or show a balance in favour of the planter - a balance, however, which is only estimated and cannot be converted into cash until coffee is sold, possibly several months later.

After estimating the value of coffee prior to sale, and thereby estimating the position of the two parties, arrangements for the following season's finance have to be made. The planter estimates the quantity and quality of a crop which is to be harvested many months ahead, and in many cases before the main flowering has taken place, harvested provided only that rains are adequate, and that pest, disease or climate do not affect the position. The merchant estimates the value of an estimated crop which will be sold in from twelve to eighteen months' time.

Upon this basis arrangements for the next season's finance are arrived at, and it is suggested by the Coffee Board that a less satisfactory basis for all parties concerned would be extremely difficult to evolve.

Had merchants and planters combined to make the crop year the financial year, it is confidently believed that the position of both parties would today be infinitely better. Crop years might have to vary from district to district, but the main part of the coffee growing areas of the Colony would find satisfactory a year commencing the 1st June.

At this time it is possible to make reasonable estimates of crop, the most important rainy season of the year is over, early crop is ready or nearly ready for harvest, main crop is on the trees in the form of immature cherry and from every point of view the principal dangers of crop loss are past.

Advances made in June and from June to November can be expected to be repaid, in part at least, by the proceeds of sale of early crop and at the end of December the position of planter and merchant is that the planter owes a proportion only of the costs of six months' running of the estate and that the merchant holds the main crop for sale. Finance as between January and June is therefore possible against actual proceeds of sale or by means of advances against crop which is in the process of being marketed. The only estimates necessary are estimated values of crop which is on or about to be put on the market.

By the end of May the exact position of both parties in respect to the year's working is known, and further, it is again possible to gauge with accuracy the prospects of the following season.

It requires no further elaboration to show that satisfactory financing of estates is far more possible if the crop year and the financial year are the same.

The main difficulty that today confronts the industry in relation to its seasonal finance is therefore to find a way of bridging the gap which exists between the time at which advances are accustomed to start and the time at which they should start. This gap is the key to the whole position and crop finance will never be on a sound basis until it has been bridged.

A return to more normal seasons with the resultant increased production will enable the more fortunate planters in the course of time to place their finance upon a sounder footing without assistance, but in the majority of cases, if finance continues on the present basis, the position will be unchanged by January 1937 and neither planters or financiers will be any better off.

The industry as a whole would benefit tremendously if this gap could be bridged immediately, and the effect would be to place the seasonal finance of coffee on a sounder basis than has been the case for very many years.

It is therefore suggested, as meriting the most serious consideration, that arrangements be made by Government to provide finance for this five month period, and that wherever possible, such loans should be on a long term basis.

The amounts of such loans to individuals would be comparatively small, and by arrangement and agreement with mortgagees it should be possible for adequate security to be provided without prejudice to other interests.

The following figures will serve as a rough guide as to the total finance required and as to the loans likely to be required by individual estates.

It has been shown in Section I of this memorandum that in the season 1934/35 a sum of £60,598 had been advanced between 1st January and 30th June, 1934, against 87.8% of the crop. In other words, this means that advances had been made at the rate of approximately £10,000 per month for the first six months of the year.

The number of planters to whom such advances had been made in 1934 totalled 194. Of these, 108 were small producers whose average annual crop was under twelve tons and whose drawings had in the main been correspondingly small. The remaining 76 planters were producers of average annual crops of over 25 tons, and with a total average annual production of some 3,800 tons.

These 76 planters on 30th June, 1934, owed to their agents or bankers a total sum of £145,108, but of this sum £112,578 was accounted for by shortfalls carried forward from the previous season and by crop of the previous season which was then still unsold. It is therefore to be seen that to these planters the sums actually advanced against 1934/35 crop totalled only £33,470. An average figure of about £440 per planter and of less than £9 per ton of the average total production.

On the same basis, the total drawn by the 108 small producers was £27,129. The average amount drawn by each of the smaller producers amounted to approximately £250, but the total average annual production was only some 800 tons and the average amount advanced per ton was over £33. These estates, however, generally speaking are only in the early stages of production and the crop for their next season (1934/35) was estimated at over 1,150 tons.

Detailed figures showing the position of each individual planter are in the hands of the Chairman and Secretary of the Agricultural Indebtedness Committee, but it will not be amiss again to draw attention to the fact that these average figures do no more than present a general picture.

It is however shown that in the year 1934 a total sum of approximately £60,000 was advanced during the first six months of the year in respect of 87.8% of the total production, and it may therefore be estimated with reasonable accuracy that to bridge the gap during the first five months of 1936 in respect of the total production will require approximately the same sum.

If this finance can be made available and if loans in respect of the first five months of the year can be secured on a long term basis, a most important step will have been taken towards the establishment of a sound system of coffee crop finance. Loans made during this period should be restricted to the absolute minimum necessary for proper cultivation and maintenance of estates, and the body responsible for the administration of the loans, should arrange for competent supervision both as to farming and accounts over all estates to which loans are made.

It appears possible that, in a number of cases, some composition with creditors will be necessary before loans such as are suggested can be made ; if this proves to be the case, it is obvious that Conciliation Board and the Executive Board should endeavour to work in close co-operation, in order to avoid any duplication of supervision.

At the end of May, 1936, it should be possible to estimate with reasonable accuracy the prospects of each estate for the coming season. The finance of crop from that time on should present little difficulty, but in view of the necessity which will still exist for supervision of management and finance, it is believed that it would be advantageous to the Executive Board, as lender of the early season loans, and to the Conciliation Board responsible to creditors and to debtors, if it could be arranged for the Executive Board to continue to provide any finance required in anticipation of crop, and at the same time to continue to provide or to arrange for the necessary supervision.

If this suggestion can be adopted, it should assist to reduce the general costs of administration and will certainly reduce the costs to the planter of the necessary supervision.

This brings the argument to the point where mention should be made of the scheme for short-term crop finance, which has been under consideration and investigation by the Coffee Board, and in this connection reference should be made to the Annual Report of the Coffee Board - 1935 (pages 30 to 34 and pages 143 to 158). The position with this scheme may briefly be summarised as follows :-

The Coffee Conference of 1935 instructed the Coffee Board to continue negotiations for the provision of seasonal finance, owing to the dangers which exist of curtailment of existing finance, through reasons connected neither with the coffee industry nor with the Colony of Kenya, and also owing to the desire for an alternative source of finance entirely unconnected with the marketing of the crop.

The scheme as presented to Conference was not intended as in any way a solution to the problem of Agricultural Indebtedness, and simply outlined a sound method of crop finance, which however involved the assumption of a joint and several liability on the part of all coffee planters, in that a liability would exist to contribute to an export tax to secure Government in the event of any default.

The assumption of such liability by planters could only be contemplated under the greatest possible safeguards, and for this reason the Board's suggestion was that the maximum limit in the case of anticipatory advances should be 30% of the conservatively estimated value of estimated crop. Such crop estimates would have to be carefully investigated by a reputable and competent Visiting Agent and it was further contemplated by the Board that, to safeguard the interests of those planters who assume a liability, regular supervision would be necessary.

It had always been the hope of the Coffee Board that funds obtained under this scheme would be administered by the Land Bank.

The Coffee Conference requested that the Coffee Board should prepare a fully detailed scheme and submit the same to planters by referendum. As the Board made it very clear at Conference that finance offered under its proposals would only be available at the beginning of the crop year - "when the blossom has set and the bean has swelled sufficiently to make a reliable estimate possible", no such referendum has yet been issued, and the Coffee Board has been exploring means whereby the assumption of a joint and several liability by planters who make no use of the finance can be avoided. The formation of the Agricultural Indebtedness Committee has also given rise to the hope that the gap period between January and the beginning of the crop year may be bridged.

A further difficulty which also appeared necessary to overcome is the objection by merchants, who are today financing a part of the crop. These merchants, whilst making no objections to the provision of alternative finance in anticipation of crop, do object strongly to the provision by the Coffee Board of finance against harvested crop, as they contend that such finance is an essential and legitimate part of their business. This merchant attitude is understandable and, possibly, has some justification, but from the point of view of the Coffee Board it has objections in that a division of finance as between merchants and the Board must obviously increase the cost of the administration of the Board's finance. The percentage costs of the administration of any such finance scheme must vary in inverse ratio to the total amount of money loaned, and the larger the total sum handled, the lower will be the percentage cost of administration.

In connection with supervisory visits to coffee estates, it will be as well to note at this stage that the costs of supervision are considerably increased if special visits and consequent travelling expenses are incurred in each case and that the costs can be considerably reduced by arranging for groups of estates in the same district to be visited during the same tour. The Executive Board and Conciliation Board in joint control of such supervision should be able to make economic arrangements with a minimum of difficulty.

For these reasons the Coffee Board would be prepared to withdraw its own proposals for the provision of alternative seasonal finance, if it can be assured that the provision of such finance is under serious consideration by Government.

This section of the memorandum has now dealt with the general aspects of seasonal credits, but it is still necessary to deal with the position of a number of planters who are likely to find themselves without means of financing their estates in January next. The necessity for finding a solution to this problem is vital and immediate.

Merchant firms who have hitherto encouraged premature financing have at last realised the unsoundness of this procedure and the impossibility of continuing on the present basis. A number of planters have already been notified by the merchants that no finance will be forthcoming in January, 1936. These planters, in most cases, will, in June 1936, with their 1936/37 crop in sight, be a sound proposition for finance, but it is quite impossible to advance on the 1936/37 crop in January, 1936. If these planters can secure money to carry them over the gap from January to June, there is every reason to hope that in June 1936 it will be possible to make the necessary advances on the 1936/37 crop.

The estates which are being dropped by the merchant firms are not necessarily hopelessly involved, but it can only be discovered by an examination of individual cases to what extent these estates are worth assisting in the bridging of the gap between January and June, but it may be assumed that some will be worthy of assistance over this gap. Once June, 1936, is reached each estate becomes a matter for consideration in the light of actual crop in sight for the 1936/37 season.

If it is agreed that suitable estates should be assisted over the gap from January to June and if it is found impossible to arrange for the provision of security for loans on a long term basis, it is suggested that in these special cases it will be advisable to continue finance on the basis of crop and chattels mortgage security. It is not believed that more than some 25 estates will find themselves without finance, and assuming that all are worthy of assistance, it is to be seen from the figures above given that the total sum involved would amount only to an average of some £400 per estate at the maximum, or a total sum in respect of 25 estates of £10,000 for the five month period.

(3) <u>Assistance to complete the Development of Estates which are not yet economic units.</u>

The returns to the Coffee Board questionnaire of June, 1934, reveal the following figures in relation to estates in categories E, F, and G :-

Category.	No.of Estates	Total Area under Coffee.	Avge.Area of Coffee per farm.	Avge.Production per farm Tons	Total Additional area suited to Coffee per category
E	134	14,067	105	11	22,316
F	68	5,245	77	5	9,980
G	135	5,949	44	2	16,254
TOTAL	337	25,261	75	6	48,550

These figures are in themselves sufficient to show that the majority of estates in these categories are not yet developed to a stage which will enable them to face the future as economic units.

A number of estates in the above categories are situated in up-country districts and coffee planting in some cases is only one of several farming activities. The remarks to follow do not concern themselves with these cases, but only with those estates which are suited for the planting of coffee alone.

The Coffee Board is of opinion that a coffee estate requires from 150 to 200 acres under coffee before it can be considered as a truly economic unit. The acreage required to achieve economic maintenance and cultivation varies from district to district and it is difficult to lay down any hard or fast acreage, but the opinion is expressed that small estates of 100 acres or less can only be economic if they are most favourably situated in the most favoured of coffee growing districts.

There appear to be two possible means by which these small estates can become self supporting :-

(a) By an amalgamation of neighbouring estates to give a larger area of coffee under one central management. The main difficulty apparent in this solution to the problem is that of the several owners of the individual estates prior to amalgamation, one only can receive the appointment as central manager, and the others would perforce have to find some other means of earning their livelihood.

An amalgamation does however appear to be the only possible solution in the case of a number of estates which are so heavily committed as to preclude the raising of any further funds to continue development.

(b) By the provision of further capital to the Land Bank which will enable that body to make loans for the purpose of assisting the completion of development to an economic acreage in suitable areas. It is possible that a number of the 337 estates in these categories will be found to be too heavily involved already to permit of further loans being made, but as at 30th June, 1934, there were 108 of these estates entirely free of all commitments.

These 108 estates had 7,165 acres of planted coffee, produced an average crop of 571 tons per annum and estimated that in the next season they would produce a crop of 705 tons. In addition to their planted areas, they estimated that they had a further 11,188 acres suitable for coffee. It is thus to be seen that loans assisting the further development of these estates alone would be of the greatest benefit and would to a largemeasure ensure that these estates continue solvent.

Land Bank loans in this connection would, of course, only be made in the case of estates which have additional acreage suitable for coffee in proved coffee growing areas.

The Coffee Board urges that every possible endeavour should be made to expedite the provision of further funds for the Land and Agricultural Bank of Kenya.

(4) Land Rent Revision. /

(4) Land Rent Revision.

A measure of assistance peculiar to estates situated in districts where the proportion of arable land to total acreage is small would be a revision of Land Rents by Government.

The main coffee growing areas of the Colony have a high proportion of their total acreage suited to coffee and the burden of land rents is not excessive, but it will be realised that upon estates which require a total area of 2,000 acres to provide 200 acres of coffee land, the burden of rent charges is very high indeed. These up-country areas are already faced with a number of other disadvantages, and the Coffee Board urges that the question of Land Rents in these areas should be revised with a view to reducing rents to a figure which the land can afford to carry.

for THE COFFEE BOARD OF KENYA.

(Sd.) R.S.WOLLEN.
CHAIRMAN.

NAIROBI.
25th November, 1935.
RSW/VW.

APPENDIX to Memorandum
on Agricultural Indebtedness.

THE COFFEE BOARD OF KENYA.

NOTES ON
MORTGAGE SUMMARY STATEMENT.

The following notes on the mortgage position will assist in an understanding of the Mortgage Summary Statement.

(1) Under the heading "Total Mortgage Principle" are included debenture issues.

(2) In a number of cases, estates owing money under the heading "Other Principle Commitments secured on title deeds or security other than crop" have no advances from agents, and these loans, although not secured on crop, are actually floating overdrafts which are reduced upon realisation of crop. The amounts under this heading are owed to Banks and Agents.

(3) Of the 379 estates included in the Mortgage Summary Statement, 26 have no mortgage and no debt to Banks. Of the balance of 353 estates, 50 have Bank overdrafts only and no other commitments.

The danger of basing calculations too much on average figures is evidenced by the following individual statements :-

Ex Class 3 - Category A.

Ref.	Mortgage Principle.	Interest.	Per ton Commitment on Interest Charges.	Next Crop Estimated.	Per ton Commitment on Interest Charges.
207	£27,000	£1,745	£5.0	475 tons	£3.7
226	41,148	907	5.4	245 tons	3.6

In the case of reference 226, a moratorium already exists in respect of £24,000 of the mortgage principle and the estate possesses a further 2,000 acres of land suitable for coffee.

The following further individual statement from other classes will also evidence the great variation which exists and the necessity for examining every individual case :-

Class 2.

Category.	Mortgage Principle.	Interest.	Per ton Commitment on Interest Charges.
A	£8,000	£480	£8.8
B	21,250	1,100	16.4
	18,000	1,440	25.6
C	35,000	2,450	49.0
D	15,000	1,200	40.0
	500	30	1.8
E	10,000	600	35.5

The greater number of estates in categories E, F, and G are situated in up country districts. Of the 121 farms in these categories in Class 2, only 18 are situated in districts to the East of the Rift Valley.

The total number of estates in categories E, F, and G in the four classes included in the Mortgage Summary Statement is 229. The total acreage under coffee is 18,096, or an average of 79 acres per estate.

As the owners of these estates advise that they possess an additional 37,362 acres of land suitable for coffee, it is evident that plantings are a long way from completed. Of the 18,096 acres under coffee, 8,227 acres are as yet not fully productive, 3,020 acres are still under three years old, and a further 5,198 acres are between the age of three and six years.

The estates in these categories are therefore still in the early stages of development.

-------oOo-------

Nairobi,
25th November, 1935.
RSW/VW.

APPENDIX to Memorandum on Agricultural Indebtedness.

THE COFFEE BOARD OF KENYA.

MORTGAGE SUMMARY STATEMENT.

Class.	Category.	No. of Estates.	Total Acreage under Coffee as at 30/6/34 Acres	Average production Seasons 1931/32 1932/33 1933/34 Tons	Total Mortgage Principle. £	Interest Payable as at 30/6/34 £	Avge. Rate approx. %	Other Principle Commitments securd. on title deeds or security other than crop. £	Interest Calculated at 6% £	Total Principle £	Total Interest £	Princpl. Commitment per acre under Coffee. £	Interest Commitment per acre under Coffee. £	Int. Commitment per ton of Average Production. £	Total Int. Calculated at 3½% £	Int. Commitment per ton at 3½% £
2	A	6	1,881	417	1,300	73	5.6	11,307	678	12,607	51	6.70	0.40	1.80	441	1.06
	B	5	1,425	311	53,000	3,725	7.0	7,050	423	60,050	4,148	42.14	2.91	13.34	2,102	6.76
	C	12	2,760	508	57,300	3,908	6.8	10,255	615	67,555	4,523	24.47	1.64	8.90	2,364	4.65
	D	35	6,384	857	74,387	5,502	7.4	26,775	1,607	101,162	7,109	15.87	1.11	8.29	3,541	4.13
	E	43	4,222	405	61,936	4,167	6.7	23,836	1,430	85,772	5,597	20.31	1.09	13.82	3,002	7.41
	F	28	2,089	147	47,522	3,188	6.7	6,725	404	54,247	3,592	25.97	1.71	24.44	1,899	12.92
	G	50	2,173	80	66,040	4,950	7.5	8,038	482	74,078	5,432	34.09	2.50	67.90	2,593	32.41
TOTAL		179	20,934	2,725	361,485	25,513	7.0	93,986	5,639	455,471	31,152	21.76	1.44	11.43	15,942	5.88
3	A	6	3,747	830	71,148	2,972	4.1	6,266	376	77,414	3,348	20.66	0.89	4.01	2,709	3.26
	B	7	2,017	387	17,170	1,352	8.0	6,885	413	24,055	1,765	11.92	0.87	4.53	842	2.18
	C	12	2,587	483	34,595	2,989	8.6	14,528	872	49,123	3,861	18.99	1.49	7.99	1,719	3.55
	D	25	4,620	634	75,653	5,520	7.2	8,408	504	84,061	6,024	18.19	1.30	9.50	2,942	4.62
	E	22	2,447	268	39,793	2,415	6.0	3,480	209	43,273	2,624	17.52	1.07	9.79	1,515	5.65
	F	9	649	40	3,440	226	6.6	10,440	626	13,880	852	21.39	1.33	21.30	486	12.15
	G	17	762	30	15,649	1,174	7.5	85	5	15,734	1,179	20.65	1.55	39.30	551	18.33
TOTAL		98	16,829	2,672	257,448	16,648	6.5	50,092	3,005	307,540	19,653	18.27	1.17	7.33	10,764	4.03
4	A	3	2,080	326	39,800	2,962	7.4	9,011	541	48,811	3,503	23.46	1.68	10.74	1,708	5.24
	B	2	618	83	7,911	566	7.2	12,076	725	19,987	1,291	32.18	2.09	15.55	700	8.43
	C	4	1,531	169	30,825	2,331	7.6	-	-	30,825	2,331	20.13	1.52	13.20	1,079	6.32
	D	19	[illegible]	437	69,955	5,004	7.1	4,261	256	74,216	5,260	24.36	1.72	12.03	2,598	5.94
	E	22	2,544	261	46,301	3,132	6.8	2,990	179	49,291	3,311	19.37	1.30	12.68	1,725	6.61
	F	6	531	36	10,994	773	7.0	600	36	11,594	809	21.83	1.52	22.47	406	11.28
	G	7	438	11	9,610	695	7.[illegible]	405	24	10,015	719	22.86	1.64	65.36	351	31.91
TOTAL		63	10,792	1,323	215,39[illegible]	15,463	7.1	29,543	1,761	244,739	17,224	22.68	1.50	13.02	8,567	6.47
5	A	1	750	78	16,000	1,140	7.0	2,500	150	18,500	1,290	24.67	1.72	16.54	648	8.56
	B	1	360	55	10,550	750	7.7	-	-	10,550	750	29.30	2.08	13.64	369	6.71
	C	3	775	114	30,128	2,180	7.2	-	-	30,128	2,180	38.87	2.81	19.12	1,054	9.24
	D	9	1,738	239	43,000	2,956	6.9	8,500	510	51,500	3,466	29.63	1.99	14.50	1,803	7.55
	E	11	1,337	126	41,485	3,048	7.3	12,175	730	53,660	3,778	40.13	2.82	29.98	1,878	14.90
	F	3	265	13	24,500	1,365	5.5	122	7	24,622	1,372	92.91	5.18	105.54	862	66.31
	G	11	639	21	15,400	1,178	7.7	-	-	15,400	1,178	24.10	1.84	56.09	539	25.66
TOTAL		39	5,864	646	181,063	12,617	7.0	23,297	1,397	204,360	14,014	34.87	2.39	21.66	7,153	11.09
GRAND TOTAL		379	54,419	7,366	£1,015,392	£70,241	6.9%	£196,718	£11,802	£1,212,110	£82,043	£22.28	£1.28	£9.81	£42,426	£5.76

Nairobi,
25th November, [illegible]

32

F. C.O.

382/16/36

9

4 FEB 1936

Mr. Paskin 29/1

Mr. ~~Price~~ Amery 31/1

Mr. Parker 3/2 F.

Mr. Parkinson

Sir G. Tomlinson

Sir C. Bottomley.

Sir J. Shuckburgh

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State

C.O.
3 FEB

DRAFT.

Kenya
No 62
Gov.

Sir,

With ref. to your desp. No 11 of the 10th of Jan. I have etc. to inform you that, so far as I have been able to ascertain, no report on the working of the New Zealand Mortgagors & Tenants' Relief Act 1933 is available in this country.

The S. of S. for Dominion Affairs has however been good enough to ask the Gov. Genl. of N. Zealand to communicate direct to you any available information on this subject as such info. as the N. Zealand Govt. may be able to furnish.

(Sgd.) J. H. THOMAS

FURTHER ACTION.

3182 20/11/34 [illegible]

23

BTR

THE COFFEE BOARD OF KENYA

H.C.H. BULL, A.C.A. London Representative

TELEPHONE WHItehall 5703
CABLES Cofboard London

GRAND BUILDINGS.
TRAFALGAR SQUARE
LONDON, W.C.2

Ref F.4.

Date Monday, 16th December, 1935.

PERSONAL.

G.L.M.Clauson,Esq.,C.M.G.,O.B.E.,
Colonial Office,
Downing Street, S.W.1.

My dear Clauson,

(5) I hope to be able to send you a copy of the Financial Memorandum you have just returned with your very interesting remarks.

I agree in principle with all that you write but I personally feel that in the present state of the Industry's health drastic treatment of the situation is required and, although I agree that great caution should be observed in any steps taken, a "safety first" policy cannot get the Industry on to its feet. There is I think a precedent or two for increasing a financial risk from the Government's point of view. The Herring Industry and the Tramp Steamer Industry both of which are in very poor health have now been inoculated with Government money with the hope of reviving them. Both these are, I should imagine, grave risks financially, but it is expedient that these industries should not perish and therefore the risk is justified.

I feel that Kenya's Coffee Industry is a similar case and should receive similar treatment. With Germany casting longing eyes on any bits of East Africa she can get hold of, it would be folly to allow Kenya to expire gradually through the failure of her major industry.

/ I /

I rather agree with you with regard to the present prices of coffee, but surely something can be done to prevent the huge margin of profit now being made between the wholesaler and consumer in England. The retail price of coffee has not been reduced a penny since the price to producers fell. I know of coffee bought at 42/- per cwt. being sold at 100/- to the retailer who then sells it for 200/-. This is monstrous but I really am at a loss to find a remedy. The public seem to insist on paying 2/4 to 3/- per lb. for their coffee and will go elsewhere if a retailer reduces his prices in the hope of selling more.

An Empire Coffee Marketing Company which incorporates the Importers and Brokers is the solution I think. The price can then be controlled, provided the import of Foreign coffees is also controlled.

Yours ever,

[signature]

For some [illegible]
[illegible]

C. O.

Mr. Clauson 12/12

Mr.

Mr. Flood has seen & agreed

Sir C. Parkinson.

Sir G. Tomlinson

Sir C. Bottomley

Sir J. Shuckburgh

Perml. U.S. of S.

Parly. U.S. of S.

Secretary of State.

For my sig

DRAFT.

H. C. H. Bull Esq.

[illegible] 9/12 — [illegible]

Dec 1935

I have read the enclosed & return it with my reluctance: it is full of interest & I hope that we shall get a copy to keep in due course.

It seems to me an extraordinarily sound & clear exposition of the present position; in the light of subsequent events it is an amazing chronicle of human folly; but it is easy to be wise in such circumstances.

As regards the proposals for future policy I must admit to a greater feeling of doubt.

Apart from other [illegible] which I do not challenge it seems to me that there are ~~two~~ the proposals are based on two very doubtful hypotheses.

The first is that the [illegible] is going to behave itself in future. The proposals seem to me to leave very little margin, if any, for possible bad crops in the future; ~~&~~ ~~yet~~ all the history of the past goes to show that coffee crops at the best are uncertain & fluctuating & ~~that~~ when you superimpose on this the fickleness of the East African climate, it seems to me that you are bound to assume that the average performance of the crop will not exceed say 66 % of what it ought to be. I do not think that this is allowed for in the calculation.

The second is the hypothesis that the crop will always be freely saleable at a price about £10 a ton above the present year's ~~[illegible]~~ figures. I wish I could think that this is so, but I can't. If the Kenya crop is to go up to & over 20,000 tons, & if there is to be a similar expansion in T.T., as well as ~~competition~~ normal production from Uganda, India & possibly the West Indies, the ~~preferential markets in the U.K. (15,000 tons)~~ export crop of the Colonial Empire alone will be in the region of 50,000 tons a year, to which must be added anything up to about 10,000 tons from India. These figures make the preferential Empire markets, U.K. (say 15,000 tons) Canada (say 14,000 tons), Union of South Africa (say 13,000 tons) with a few ~~others~~ smaller markets bringing the total up to perhaps 45,000 tons or so look pretty silly. Nothing like the whole of these markets are

C.O.

Mr.

Mr.

Mr.

Sir C. Parkinson.

Sir G. T[illegible]

Sir C. B[illegible]

Sir J. Shuckburgh

Parly. U. Secy. of S.

[illegible]

Secretary of State

DRAFT.

FURTHER ACTION.

at present secure for the Empire, & even if they were the foreign coffee which now goes to them would have to find a home somewhere else. In these circs it seems to me that on a long view it is quite possible to [illegible] growing on the Brazilian model forcing them -selves & what the future may well hold in store is an alternation of good years when the price will be driven down by the sheer presence of coffee on the market & bad years when quality will drive down the price of the reduced crop. Frankly I do not feel any great confidence that coffee will stay much above present levels and should on the whole expect it to settle down a bit below them.

In these circs I am afraid that my general prognosis is on the whole more unfavourable than the Board's & that leads me to challenge some of their proposals.

For the Conciliation Board proposal I have nothing but admiration, but when it comes to the suggestion that the Govt should put up ~~the~~ finance, then I feel that the reason is the usual one, that the risk is greater than other people care to take. That seems to me a bad reason for adding to the liabilities of the community at large. The memo. brings out the fact that the lenders are as much responsible for the present mess as the borrowers; I feel that it is for the two guilty parties to work out a solution between them with the help of the Conciliation Board.

I have not gone into the thing in detail to form a judgement on the point of the proportion of the industry which ought to be allowed to go by the board, but frankly I think that I shd be a bit more ruthless than the Coffee Board itself. Permanent invalids are a curse to the country & to themselves & they had much better be allowed to die quickly. If this is to be the policy, as I think it shd be, then I wd sooner that no government money was buried with them.

In particular, in view of the future market prospects, I wd sooner kill the up-country estates below the minimum economic unit than put the money up to help them to expand.

What do you think?

Yours ever

(Sd) [illegible]

AGRICULTURAL INDEBTEDNESS.

List of Legislation in Dominions, etc.

List to Kenya (2)

ALBERTA

Agricultural Industry Stabilization Act - No.25 of 1935.

Debt Adjustment Act - No.13 of 1933.

BRITISH COLUMBIA

Mortgagors' and Purchasers' Relief Acts - Nos.49 of 1934 and 49 of 1935.

CANADA

Farmers' Creditors Arrangement Act - No.53 of 1934.

MANITOBA

Debt Adjustment Acts - Nos.8 of 1932, 9 of 1933, 9 of 1934 and 11 of 1935.

NEW GUINEA

Mortgagors' Relief Ordinances - Nos.31 of 1934 and 16 of 1935.

NEW SOUTH WALES

Farmers' Relief Acts - Nos.33 of 1932, 13 of 1934 and 18 of 1935.

Moratorium Acts - Nos.57 of 1932 and 22 of 1935.

NOVA SCOTIA

Mortgagors' and Purchasers' Relief Act - No.3 of 1933.

ONTARIO

Mortgagors' and Purchasers' Relief Act - No.35 of 1933.

QUEENSLAND

Mortgagors' Relief Acts - Nos.6 of 1931 and 10 of 1932.

SASKATCHEWAN

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END

<u>SASKATCHEWAN</u>

Debt Adjustment Act - No.88 of 1934-35.

<u>SOUTH AFRICA, UNION</u>

Farmers' Assistance Act - No.48 of 1935.

<u>SOUTH AUSTRALIA</u>

Farmers' Relief Acts - Nos.1996 of 1931, 2057 of 1931, 2100 of 1932.

Farmers' Assistance Act - No.2134 of 1933.

Mortgagors' Relief Acts - Nos.2046 of 1931, 2112 of 1933, 2145 of 1934 and 2197 of 1935.

Primary Producers Debts Act - No.2200 of 1935.

<u>SOUTHERN RHODESIA</u>

Farmers' Debts Adjustment Act - No.26 of 1935.

<u>TRINIDAD</u>

Mortgages Extension Ordinance - No.12 of 1934.

<u>VICTORIA</u>

Farmers' Relief Acts - Nos.3962 of 1931, 3971 of 1931, 4019 of 1932, 4025 of 1932, 4060 of 1932 and 4201 of 1933.

<u>WESTERN AUSTRALIA</u>

Farmers' Debts Adjustment Acts - Nos.49 of 1930, 4 of 1931, 43 of 1932, 45 of 1933 and 46 of 1934.

Mortgagors' Rights Restriction Acts - Nos.19 of 1931 and 23 of 1934