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INSTITUTIONALISING RURAL DEVELOPMENT IN KENYA:  
SMALLHOLDER CREDIT ORIGINS AND PERSPECTIVES

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INSTITUTIONALISING RURAL DEVELOPMENT IN KENYA:  
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ABSTRACT

The broad concern of the paper is the nature and extent of institution building as a critical factor in realising the apparently elusive goal of sustainable rural development. The evolution of official smallholder credit is therefore analysed from the pre independence to post-independence period highlighting the various perspectives that have significant implications for the institutionalisation of rural smallholder credit.

Rural peasants were at first, especially during the colonial period, not considered economic men and no thought was understandably given to credit needs of smallholder farmers. However with the view to impending political independence in Kenya agricultural modernisation embraced the African farmers and official smallholder credit emerged. The granting of smallholder credit continued in this new form well into the post independence period.

The thrust of the argument in this paper is that smallholder credit institutions emerging out of government initiatives have neither addressed themselves to the actual local problems of production by smallholder farmers nor have they created a broad-based suitable framework to accommodate overall credit needs of this particular group of rural households. A major failing underlined in this analysis is overemphasis on public bureaucratic and technical production issues at the expense of the more critical socio-economic dimensions of rural development. A significant implication emphasised is negative consequences for institution-building that can lead to sustainable rural development.

\* This is a background paper to ongoing analysis of data collected under a research titled "Borrowing and Lending among Kenyan Smallholders: 'Informal' Credit and its Relations to 'Formal' Credit," funded by the Social Science Research Council (SSRC) New York.

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INTRODUCTION: The Emergence of Institution - Building in Rural Development.

It is now well recognised among students of rural-development that institution-building is a major, if not a key, factor in realising the various objectives of development effort in the rural areas.<sup>1</sup> However, this is only a recent turn of events. It can in fact be said to have started receiving forceful expression only in the 1980s, due to the shift of concerns, in both the perceptions and practice of rural development.

At any rate, a significant emergent trend, which institution-building is part and parcel of, is the present direct focus on the compelling necessity of sustainability of initiatives in rural development. The focus on sustainability, particularly in terms of implementation of rural programmes, has meant the development of the capacity of the rural people to manage their own affairs.<sup>2</sup>

In the African context, sustainability of rural development has indeed become of urgent concern owing to seemingly endless crises of stagnation, poverty and famine which have increasingly thrown the lives and activities of rural dwellers into constant disarray. In the extreme cases of drought and war, famine victims and also refugees, whatever capacity these groups, mostly rural dwellers, had before, is ruined and their hopes for a future completely shattered.<sup>3</sup>

It is a basic contention by the proponents of institution-building approach to rural development problem that, through strong local institutions, rural residents' capacity to determine and control their own affairs can be realised.<sup>4</sup> The local level institutions for development would comprise government and non government (NGOs) organisations, community organisations including indigenous based groups, co-operatives, etc. The essential roles of these various organisations would include, for instance, acting as catalysts for local development initiatives and projects, disseminators of new ideas and innovations, providers of critical information, most importantly, playing the role of intermediaries between the people and government.

It however needs to be emphasised that the types and range of institutions, and even their roles, have been changing depending on the perspectives

on the development process generally, and in particular the perceptions of rural development.<sup>5</sup> The institutions for smallholder credit in rural Kenya are no exception and therefore need to be put into context, in view of these changing broader development perspectives and the specific relevant rural development perceptions. This should facilitate a proper identification and a useful understanding of the role(s) particularly of credit institutions in rural development.

#### Smallholder Credit: An Institution-Building Context

The conceptualisation of institutionalisation found in organisation theory is a key theoretical source and should form the basis for an accurate and informative analysis of institution-building. In the institutional approach to the study of organisations institutionalisation is characterised as a process. It happens to an organisation overtime, reflecting the organisation's own distinctive history, the people who have been in it, the groups it embodies and vested interests they have created, and the way the organisation has adapted to its environment.

An organisation, therefore, becomes an institution when it takes on values, including ways of acting and beliefs valued for their own sake, thereby acquiring a self, a distinctive identity. Thus in perhaps its most significant meaning, "to institutionalise" is to infuse with value beyond the technical requirements of the task at hand.<sup>6</sup>

As technical instruments, organisations are designed as means to definite goals and are therefore expendable. Institutions whether conceived as groups or practices, are however, not just technical instruments. They in addition, have also a "natural" dimension, being products of interaction and adaptation and having become receptacles of group idealism. They are therefore less readily expendable.<sup>7</sup>

A fundamental argument made in reference to administrative systems but of relevance to other forms of organisation, including institutions, should be noted here. The essence of the argument is that no single institutional or behavioural pattern can be said to characterise the process of political modernisation, nor is there a single way to organise the administration and to staff the public bureaucracy of a developing society. The broader implication here is that no single form of institution can be presumed to be "good" for all circumstances.<sup>8</sup>

The various institutions of smallholder credit in the rural areas should therefore be selectively viewed in terms of their suitability and effectiveness in serving the myriad purposes of a cross section of the rural population, and in particular reaching the rural poor. The crux of the argument is that having preconceived notions of suitability of such institutions for any developing society as a whole, or across two or more societies, may only end up undermining rural development initiative(s). The critical point to make, therefore, is that non-indigenous and/or indigenous based institutions may be suitable for organising smallholder credit depending on the particular circumstances.

#### Smallholder Credit Institutions: Development Theory Context

The origins, nature and implications of development have been widely debated among and within social science disciplines yielding various formulations of the concept development.<sup>9</sup> A significant point in the debate for this discussion is the broad acceptance of an important role for institutions in the social, political and economic dimensions of development.

However, due to changing conceptualisations of development there have been widely varying perceptions of the specific roles and even the nature of institutions in the development process. A good case in point is political development which for a long time has been equated with "modern politics" and characterised as the organisation of political institutions such as parties, public bureaucracy, parliament, judiciary, etc., as these have been known to operate in western democracies. This, in brief, meant introducing similar institutions to those found in western political systems and the "modernising values" they embody. On the contrary, this has not been borne out by the political development experience of most African countries."<sup>10</sup>

It should however be recalled that during the 1950s and on through the 1960s it was economists who tended to dominate development thinking and hence the debate. This is clearly evidenced by the dominance, during that period of economic perspectives using models, e.g. dual sector, labour surplus and stages of growth, that later became notorious for their omission of non-economic or human factors in the process of development.<sup>11</sup>

The key point for this analysis is at any rate that these economic models, as in the case of modern politics, had a strong western bias emphasising the inevitable reliance, in the advanced stages of development, on western-type capitalist economic institutions, notably the free market operating within a monetary economy. Economic policy focused on importation of western capital, technology and skilled manpower for purposes of growth and industrialisation. The traditional and underdeveloped sectors, especially agriculture, were conspicuously neglected.

Thus apart from the fact that these western models had excessive macro orientation, in the African context, they did not focus on her resource endowments and institutions. The culture, attitudes, preferences and institutions of the African people were in fact viewed as obstacles to development. Planners and policy-makers therefore assumed that indigenous population especially the rural poor needed to be led into modernity in virtually every aspect of their livelihood including culture.

In the same vein, in the initial stages of development planning in newly independent countries, there was a dominant preoccupation with economic variables. The practice then was to have economists, in most cases foreign draw up development plans sitting at the capital. Their substantive concern was with the accuracy of their models and not with socio-political variables including input decisions by politicians, and even the administrators who were supposed to serve, and who were also expected to participate in the implementation. In other words, institutional development for planning and plan implementation was initially not part of the agenda for development planning theory and practice.

It is therefore important for a proper understanding of the role of rural credit in development in the African context to bear two points in mind. First is the extended dominance of western economists of the conceptualisation of development and subsequently the practice of development planning as well as policy-making which, therefore, has also shaped policy on credit.

Secondly, credit, being concerned with money or finance generally, by virtue of intellectual division of labour between academic disciplines became automatically the preserve of economics where there is even a subdiscipline of monetary economics. But institutions, being concerned with social values and organisation, fell outside economics, mainly in the disciplines of



sociology and political science. The inevitable consequence has been to view credit and even specialised institutions created essentially for credit distributions, in purely economic terms, for instance, investment capital, commercial interest rates, security, default, repayment rates, etc. In short, there is heavy reliance on market criteria considerations in the thinking and the actual design of credit and the attendant organisational arrangements.

#### Background to Smallholder Credit - An African Context

The evidence of evolution of official smallholder credit in the African context can be traced to two major sources. First is what can be referred to as credit ideology whose origins are found in the views, mostly misconceptions, held over the years, right from the colonial period, regarding the African rural peasants savings and credit behaviour.

These ideas also originated mainly from western economists. For instance, they for long contended that Africans were not "economic men" in the western sense. This was in effect denying any form of savings and credit practices for the so-called "economic" purposes. Hence the commonly held idea until recently that African rural peasants lack the propensity to save. The argument advanced later to the contrary, is that the widespread belief among economists that saving and investment are rare, even as concepts, in indigenous African economic life, may occur because the economist does not know where to look for evidence of their existence.<sup>12</sup>

All the same certain of the ideas regarding rural peasant credit behaviour have shown remarkable persistence. This is exemplified by "the small farmer credit need creed" which is the belief that small, mostly poor farmers lack access to credit.<sup>13</sup>

Secondly, it is through policy initiatives, based on various perceptions and strategies of rural development, that smallholder credit has taken shape, particularly in the post independence period, and gained recognition as a major factor in rural development. An important, fundamental step in this connection was the change of focus in models of development, evidenced by the shift from agriculture and industry in dual sector macro economic models using per capita income index, to farm level using the household unit standard of living index. Thus it became necessary to take into account

rural farm and nonfarm needs in the design especially of development in the rural areas.

The main reason for the shift from the dual sector macro models was simply the realisation that the resulting strategies for development were mostly oriented to the export of primary commodities and import substitution. Indeed the outcome of policies and programmes of such strategies has been a clearly apparent failure to provide dynamic forces for the structural transformation of the African economies especially in the rural sector.

A significant key consideration for this analysis at any rate is the enhanced understanding of the nature of the rural society, especially its socio-economic structure, which has given rise to new perceptions of rural development. The crux of the matter is that there has been the recognition of non-economic, mostly indigenous, factors as playing a major role in development especially in the rural areas. However, in the case of rural smallholder credit in the African context the role of indigenous elements is yet to be fully recognised.

In direct reference to smallholder credit evolution, it can be said that at first, when rural peasants were not considered economic men, there was obviously no thought given to smallholder credit needs by the colonial authorities and none was available in practice. Likewise industrialisation-led economic growth strategy virtually ruled out smallholder credit in the agricultural sector. As a matter of fact a popular broad policy prescription under this particular strategy was to encourage the transfer of labour and agricultural "surplus" by turning the terms of trade against agriculture.<sup>14</sup>

The emergence of official smallholder credit was therefore closely linked to the much wider concern with modernisation of the agricultural sector. In most sub-Saharan African countries historically this happened towards the end of the colonisation period. In the case of Kenya in particular it was at this point in time that the concern with agricultural modernisation embraced the African farmers with a view to the impending political independence. This trend actually continued, basically the same, well into the early years of independence under the Swynnerton Plan.

The Origins of Official Smallholder Credit in Kenya.

The colonial administration prohibited by law, lending to Africans in Kenya for virtually the whole colonial period. Specifically, loans above Shs. 100/- were not permitted by law except in special cases authorised by the District Commissioner. This colonial attitude regarding credit opportunities for Africans essentially explains the origins of smallholder credit, from both public and private commercial sources, in Kenya. It was thus until much later towards the close of the colonial period that there were signs of emergence of smallholder credit for Africans.

1. African Betterment Fund.

The initial quasi-official credit arrangement for African was through African District Councils. The loans were provided by the African Betterment Fund created around the time of World War II, and financed through cesses on agricultural produce. These loans took the form of manure or other inputs worth about £50. The recipients were normally personal acquaintances of a district - level agricultural or veterinary officer and a number were members of the councils themselves. In other words the recipients were part of the local elite by virtue of education and/or wealth.<sup>15</sup>

The loans were in effect administered to a few "better farmers" mostly in Central Province. Later in the 1950's the fund was drawn upon to provide financial incentives to a class of "improved farmers" in Nyanza, whose grooming started about 1951.<sup>16</sup>

2. African Land Development (ALDEV)

The African Land Utilisation and Settlement Board, later known as the African Land Development Board (ALDEV), gave the first loans from official sources to smallholders in Kenya. ALDEV started lending to smallholders in 1948 giving small sums, mostly between Shs. 1000/- and 2,000/- to only a very small number of farmers.<sup>17</sup>

The loan period was generally for 5 years. An interest rate of 4.5% was charged in 1948 rising to 6.5% in the late 1950s. ALDEV extended, between 1948 and 1959, a total sum of £77500 to smallholders throughout Kenya. However, in that period, while Central Province received 349 of these

ALDEV loans Nyanza Province with a comparable population received only 21. The main underlying reason for this highly disproportionate distribution is that the loans were made available only to "credit worthy" farmers with "good investment proposals".<sup>18</sup>

The broad purpose of ALDEV lending to smallholders was for "farm development". The loans were initially for fencing, terracing, tools and machinery, and payment of labour. There was however a change of emphasis in the late 1950s to fertilisers; grade cattle; planting materials for coffee, rice, pineapple and pyrethrum; and a few piped water supplies, tractors and farm buildings.

The responsibility for administration of ALDEV loans to smallholders rested with district agricultural staff who, in some districts, especially in Central Province, became increasingly overburdened over the years. A significant change came about in the loan administration arrangement with the setting up of the national statutory body, Agricultural Finance Corporation (AFC), in the year of Kenya's independence (1963) to succeed ALDEV. The 1969 Agricultural Finance Corporation Act gave the AFC wider powers and it assumed assets and liabilities of ALDEV.

#### The Agricultural Finance Corporation (AFC)

The purpose for which the AFC was set up is to assist in the development of agriculture and agricultural industries by making loans to farmers, co-operations, private companies, public bodies, local authorities and other persons engaging in agriculture or agricultural industries. The AFC from its inception is a government lending institution depending upon the national treasury for its source of funds. The government, together with the board of directors, therefore, determine policy for the AFC.

The AFC divides its loan portfolio into two categories, large scale and small-scale. This classification is according to loan sum as opposed to farm size. In the 1960s AFC financed mainly land purchase and large scale development. Also included was the seasonal Guaranteed Minimum Return (GMR) scheme for which applicants were required to have fifteen acres for maize cropping only, i.e. pure stand.

In brief, in its lending operations, AFC had even by the 1970s placed greater emphasis upon financing large farmer or commercial agricultural projects than small farmer agricultural productivity. It was indeed admitted by the Government as recently as 1976 that the AFC "has been unable effectively to organise seasonal credit for small-scale farmers".<sup>19</sup>

The problems of the AFC with smallholder credit generally can be directly linked to two limitations. First, the AFC over the years could only focus on priority areas of the Ministry of Agriculture on whose field staff it has depended heavily for recruitment of loan recipients. Secondly, and even more limiting, has been the major requirement that prospective loanees must have title deeds. This has meant, in addition, that the AFC could only focus on areas where land registration has been completed. The major outcome of these two limitations has been a strong AFC bias not only towards larger farmers but also to districts of highest agricultural potential where it was government priority to complete land registration.<sup>20</sup>

However, the problems of AFC with smallholder credit need to be seen in the broader context of development thinking and strategies of 60s and early 70s. It will be recalled that this was the hey day of industrialisation-led development and export primary commodity production in agriculture in which the government assumed a spearheading role. Hence the origin of AFC credit from public funds and a government technical department, ministry of agriculture, being assigned a key role in the institutional arrangement for the distribution of the credit.

Furthermore government priorities, in terms of target population and regional coverage, therefore, automatically became the focus for AFC. The argument, in brief, is that in line with government national development strategy, AFC mandate was essentially geared to commercial projects aimed at the transformation of agriculture so as to facilitate industrialisation viewed then as crucial in overall economic development.

#### Kenyan Smallholders

It is difficult especially due to continuing agricultural transformation to come by a straightforward answer to the question of who the smallholders are in the Kenyan situation. There has been indeed no attempt to

identify them as a group so far in this discussion. It is however necessary for purposes of further analysis of credit focusing on rural areas, to at least provide a broad characterisation of smallholders of Kenya who are the specific group of concern for this discussion.

It is useful to begin with the historical basis of emergence of smallholders as a group. The crucial starting point is European settlement in Kenya which gave rise to large-scale mixed farms, plantations or ranches. These farms were found in areas which became known as the "White Highlands" located mostly in Rift Valley, Central and Eastern Provinces of Kenya. A good indication of the importance assumed by the large-scale farms is that they dominated the agricultural market sector. In addition large-scale farms in their heyday in Kenya accounted for about 20% of all arable land of Kenya and enjoyed certain privileges and protection from domestic and foreign competition.

In contrast Africans were relegated to subsistence agriculture in small-scale farms and in pastoral areas. This is essentially because the colonial administration imposed severe restrictions on the growing of cash crops and the rearing of exotic dairy breeds by Africans, to the advantage of Europeans. A major outcome was the emergence of a dual character which remains a key feature of Kenya's agriculture.<sup>21</sup>

It was therefore possible to make a clear distinction between large and small-scale farming in Kenya during the colonial period. The distinction closely corresponded to non-African owned farms in the so-called "scheduled areas" and the African owned farms in "non-scheduled areas" respectively. Thus in the colonial period smallholders were basically Africans residing in separated areas also known as African reserves.<sup>22</sup>

A change in the official attitude towards African farming and hence smallholders came about in the mid-1950's. It was marked by the publication of the Swynnerton Plan <sup>outlining</sup> a new approach to African agriculture that immediately brought about removal of colonial restrictions and inhibitions on smallholders. Specifically, African smallholders had the opportunity to start growing high value cash crops such as coffee, tea, pyrethrum, etc., and also engage in dairy farming.

Individualisation of tenure was introduced in the smallholder farming areas to be accompanied with support services. The services comprised agricultural extension, training, credit and co-operative development. A significant emergent characteristic of these arrangements, involving mainly government ministries and statutory boards, is that the activities in the ensuing years remained by and large tailored to serving smallholders undertaking high value cash crop production and dairy farming. In other words a focus on smallholders in high potential areas in the provision of services. This is in conformity with government strategy of concentration on cash crop production in these particular areas.

The major point regarding these changes is that they brought about new dynamics to agricultural development. The different levels of agricultural development subsequently transformed the rural areas differently in such a manner that there could no longer be homogeneous African reserves. The major outcome is that although smallholders have remained African, they have at the same time become less and less homogeneous especially in their farming activities due to the differentiation process taking place in the rural areas.

It should be noted, however, that in the immediate post independence period development involving smallholders as in other sectors, notably the public service, was simply referred to as Africanisation. Thus in the concern specifically over Africanisation of agriculture the overriding focus was on farming areas per se and not the kind of African smallholders. In other words the differences in sizes of African holdings was for example not the major issue. Rather, Africans gaining possession of land in the former White Highlands and/or growing lucrative cash crops were of immediate and paramount importance. This was viewed as a sure sign that Africans were reaping the fruits of the struggle for independence.

All the same, relocation of the African population, particularly to former European areas, or more accurately to originally African-owned land, was instrumental in changing the spatial distribution of smallholders. They were no longer confined to the former African reserves. Also the nature of operations of smallholders changed to include cash crop production not to mention the emergence of large scale African farmers. Therefore, although the number of Africans engaged in subsistence production remained substantial this became a residual group that continued to diminish over time due to increasing change to agricultural production for the market. All in all, the

smallholders became a diverse group and the diversity was on the increase in subsequent years of political independence and enhanced agricultural transformation.

The identification of smallholders as African owners of small farms, relative to large European farms, at any rate posed no problems particularly around the time of independence in Kenya. Furthermore, the actual size of small farms being given a range of up to 20 hectares was not considered anomalous either.<sup>23</sup> However, due to various factors, notably subdivision of the small farms into even smaller parcels, mainly due to population pressure, this simple classification using a 20 hectare ceiling increasingly became less appropriate in referring to smallholders albeit in some areas more than in others.

It needs also to be borne in mind that not all the small-scale farming areas are suitable in terms of production of high value products. The implication here is that a small farm in higher altitude areas suited to the production of coffee, tea, pyrethrum or dairy products may be quite different in terms of size and nature of operations compared to a small farm in a lower altitude engaged in pastoralism. As a matter of fact small-scale farms in the higher altitude ranges have generally experienced faster development despite being smaller relative to farms in the lower altitudes. The point again in brief is a wide-ranging diversity amongst smallholders in Kenya which is not captured by simply equating smallholders with small scale farmers especially if the criterion of grouping is holding size alone.

A broad characterisation of the small farm sector advanced by Heyer therefore provides useful pointers to key features of smallholders. The small farm sector is defined, in contrast to large farm sector, in terms of its relative scarcity of land, relatively large quantities of labour to apply to the land, relatively small quantities of capital, low incomes, small scale business, and limited access to research, technical advice, skills, information, markets transport and finance.<sup>24</sup>

Smallholders are therefore, first, rural folk mostly engaged in small-scale farming as their main occupation. Secondly, regarding factors of production, there is a constraint of land and capital which are in limited supply while labour is available to them in relatively large quantities.



Thirdly, there is limited access to and utilisation of technical and other support services notably innovation information and finance. Fourthly, low returns of smallholder farm operations necessitate non-farm activities to supplement low incomes from farming. Fifthly, in terms of location on the ground smallholders are in large numbers typically found in the former African reserves where there are a good number engaged in just subsistence farming. However, smallholdings in former European areas are also growing in numbers particularly with the continuing subdivision of large-scale mixed farms into smallholdings, especially those owned by co-operatives.

The specific concern of this analysis will be mainly smallholders in the former African reserves where subsistence agriculture is still widespread and African social cultural values on credit for instance is still predominant. These areas have now also assumed major importance in the development effort of independent Kenya government implying improved policy and services. This relatively new reorientation is however basically a reflection of the problems encountered in the overall rural development effort which have tended to be intractable in these areas of smallholders concentration. The question to be addressed is the prospects of institutionalisation of rural development in these areas through initiatives of policy and services such as smallholder credit.

The Government Focus on Kenyan Smallholders: Post-Independence Beginnings

The government focus on smallholder credit particularly in the post independence period in Kenya has to be viewed in the context of first, development strategies and policies of the Kenya government. Secondly, in terms of the government perception of the role specifically of smallholders in the development process. It is this perception of their role in particular which has directly influenced attempts to address smallholder needs, including credit, and in turn has determined the nature and extent of smallholders involvement in the development process.

Kenya's Development Strategy

In devising a strategy for development, following the attainment of independence, Kenya concentrated on three major objectives. These are first, to achieve a fast overall growth rate; second, to undertake Kenyanisation of the economy; and third, to ensure that the benefits of development are distributed equitably. In brief the emphasis, as in other sub-Saharan African countries, has really been on the twin objectives of economic growth and equity greatly publicised by the national development plans especially in the 1960s and 1970s.

The way in which the various factors come into play in efforts to achieve these somewhat conflicting objectives, however, very much depends on the role of the state in a particular country in the development process. In the case of Kenya, a government paper, Sessional Paper No.10 of 1963-65 on African Socialism remains the key authoritative reference on state participation in development.

To begin with the type of society envisaged in the paper is one consisting of property owning individuals, where individual consumption and accumulation are encouraged. Secondly, the state refrains from active involvement in the production of goods and services and in the ownership of the basic means of production, distribution and exchange. Thirdly, the state uses public funds and institutions to create, sustain and encourage a group of private entrepreneurs or African capitalists.

Therefore, more so in the initial stages, Kenya opted for economic growth as opposed to more broadly-based development. This, in turn, meant preference for a strategy of only developing those economic sectors which were already productive.

A further critical consideration was that existing economic structures should not be tampered with. This, in the case of the agricultural sector, for instance, was revealed in a World Bank Report which the government received with enthusiasm<sup>25</sup>.

Within the agricultural development programme, the most favourable economic results will be forthcoming from continued development along the lines set out under Swynnerton Plan. Accordingly we recommend a programme devoted mainly to land consolidation enclosure and development of cash crop production in non-scheduled areas.<sup>26</sup>

Smallholders: Landowners Producing for the Market

Thus, in view of the strategy adopted by Kenya, the major focus of post independence government intervention in the sector in particular was the Africanisation of agriculture. This largely meant the transfer to African use of the farms previously owned by Europeans through various land transfer and settlement schemes in many cases involving subdivision of large farms. Also part and parcel of this process has been the ongoing land adjudication and registration which started in the colonial period as land consolidation.<sup>27</sup>

It needs to be underlined that the government has over the years given high priority specifically to adjudication and registration giving the rationale that it is important in speeding up subsequent agricultural development. In the 1974-1978 Development Plan it is stated that one of the requisites for successful farming is a system of land tenure that encourages investment in the land and enables it to be used as a negotiable asset for obtaining credit, both of which are inhibited by traditional tenure systems.

However, in line with government strategy of development of cash crop production the bias regarding the progress made to date in land adjudication and registration is unmistakable. The focus has clearly been on former scheduled (European) districts and the ecologically identical high potential districts in former non-scheduled (AFRICAN)

districts suited for lucrative cash crops.<sup>28</sup> The specific concern in this policy action is apparently that those in high potential areas, where land has been registered and title deeds are available, can have access to other benefits that go along with possession of titles, especially loans.

#### The Post-Independence Trends in Smallholder Credit

The AFC was established at the time of independence apparently with the erroneous assumption that it would provide an answer to smallholder credit needs as well. As already indicated, with the commercial agriculture orientation of the AFC, it became the source of additional problems which only served to complicate the situation for smallholders. A good case in point is the problem experienced with CMR which was temporarily modified in 1968 and 1969 allowing smallholders to apply in groups to offset the 15 acre restrictive requirement to individual smallholders.<sup>29</sup> Thus the shortcomings of AFC to meet smallholder credit needs were recognised fairly early and gradually attention directed to finding a workable credit arrangement.

A basic new trend in the post independence period, increasingly became an inherent feature of funding of subsequently created smallholder credit programmes even for AFC. This was the provision of substantial external foreign loans. The origin of this practice was the widely held idea regarding newly independent states in the 60s that the key constraint in their development was lack of capital. A major well known result was the writing of development plans during this period with the express purpose of securing foreign funding. Therefore in matters of credit which involved finance the option of foreign loans became the obvious choice. In the case of Kenya funding from foreign sources initially came from Britain, Commonwealth Development Corporation (CDC), World Bank and the West German Government.

Furthermore the credit was tied to production of cash crops. In terms of distribution, credit had a bias for commercial production mainly for export. Thus, the trend established in the 60s was that growers of cash crops, viz. coffee, tea, pyrethrum, wheat, maize and cotton, as well as those undertaking dairy production emerged as virtually the only beneficiaries of increasing rural credit. This, not surprisingly meant benefits to only a few smallholders at this point in time as the majority of the smallholders were still engaged in subsistence oriented production.

The complex task of channeling credit to smallholders scattered widely in the rural areas also resulted in significant trends in terms of institutions for smallholder credit. First, due to the leading role the Kenya government assumed in development, and specifically in view of loan agreements with foreign governments, obviously the government had an interest in the distribution of credit and the ultimate beneficiaries of smallholder credit programmes. Therefore government public bureaucracy literally took charge of the additional function of distribution of smallholder credit. However, the basic reason for such a move was the prevailing view then, regarding institutions of developing countries, that the public bureaucracy was the only rational, efficiently organised institution that could successfully undertake modernisation tasks.<sup>30</sup> The distribution of smallholder credit was no exception.

Secondly, mainly to supplement government effort, special credit organisations were instituted by the government. A good case in point is again AFC. Alternatively, the government channelled the credit through organisations under its control, for instance, statutory marketing boards and even co-operatives. Therefore following independence smallholder credit was in terms of distribution channels largely a government affair. This in itself is a useful pointer to the limited scope of smallholder credit, more so in the 60s, since these "government" organisations operated in only certain parts of the rural areas. In other words the government penetration of the rural sector was just beginning following independence.<sup>31</sup>

It should also be emphasised that, apart from AFC, practically all these organisations had been instituted for specific purposes notably marketing of produce e.g. coffee, tea, pyrethrum, milk, etc. Therefore, credit was an added function just as in the case of public bureaucracy.

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There were therefore not by nature credit institutions established on the basis of credit felt needs of the intended beneficiaries. A good indication of this is the fact that credit terms such as loan duration and activities financed were tied to the specific enterprises of particular crop organisation, especially the production cycle. It is essentially in this light that, for instance, the distinction between short-term credit of upto 3 years for coffee, tea, cotton, maize, wheat etc. and medium term credit of 3-10 years for dairy production can be understood.

It needs also to be underlined in this connection that policy-makers at the centre in conjunction with foreign donors determined which enterprises were to receive credit financing. The specific activities financed, notably seeds or fertilisers, and whether the credit was given in cash or kind was essentially decided upon by the external donors making capital available. Kenyan policy makers and implementors mainly took charge of responsibility for administration of the credit. In certain cases a donor could also set up a special credit administration machinery that for all practical purposes ran parallel to the established government arrangements for this purpose.

A major consequence of these various practices regarding credit availability and administration was extreme diversity in credit terms and conditions as well as coverage, both in terms of smallholder beneficiaries and the geographical spread. This is revealed by the different smallholder programmes which mushroomed in Kenya especially in the 70s.

The first part of the paper is devoted to a general discussion of the problem of the origin of life. It is shown that the origin of life is a problem of the origin of the first self-replicating system. The author discusses the various hypotheses that have been proposed for the origin of life, including the panspermia hypothesis, the hydrothermal vent hypothesis, and the RNA world hypothesis. The author concludes that the RNA world hypothesis is the most plausible one.

The second part of the paper is devoted to a detailed discussion of the RNA world hypothesis. It is shown that the RNA world hypothesis is based on the fact that RNA is capable of both storing genetic information and catalyzing chemical reactions. The author discusses the various experiments that have been carried out to test the RNA world hypothesis, and concludes that the RNA world hypothesis is supported by the experimental evidence.

The third part of the paper is devoted to a discussion of the evolution of life from the RNA world to the present day. It is shown that the evolution of life is a process of increasing complexity and specialization. The author discusses the various stages of evolution, from the first self-replicating system to the emergence of the first eukaryotic cell. The author concludes that the evolution of life is a process of increasing complexity and specialization.



Conclusion

Smallholder credit institutions emerging out of government initiatives have neither addressed themselves to the actual local problems of production by smallholder farmers nor have they created a broad-based suitable framework to accomodate overall credit needs of this particular group of rural households. This is attributed mainly to the fact that these particular institutions inherited a structure with an orientation towards cash crop production geared essentially to economic growth and not balanced all round development.

A major failing underlined in this paper is overemphasis on public bureaucratic and technical production issues at the expense of the more critical socio-economic dimensions of rural development. The paper is thus providing direct pointers to the fact that sustainable rural development will only take an enduring form upon the de-marginalisation of the smallholders. Smallholder credit programmes, therefore, need to be sensitive specifically to the needs of smallholders, both in terms of organisational approach and focus, so that these activities are institutionalised at the grassroots resulting in sustainable rural development.

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