Interim Report of the Agricultural Indebtedness Committee

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YOUR EXCELLENCY,

TERMS OF REFERENCE.

We have the honour to submit the following interim report on the terms of reference entrusted to us in September, 1935 (Government Notice No. 662 published in the Official Gazette of 2nd October, 1935), which read as follows :—

> "To explore the possibilities of lightening the burden of agricultural indebtedness."

PERSONNEL.

2. The personnel of the Committee is as follows :—

The Attorney General (the Hon. W. Harragin, K.C.) (*Chairman*).

The Treasurer (the Hon. G. Walsh, C.B.E.).

W. Evans, Esq.

J. Nordlinger, Esq.

J. Campbell, Esq.

W. C. Hunter, Esq.,

with T. L. Hately, Esq., the Assistant Secretary, Land and Agricultural Bank of Kenya, as Secretary.

MEETINGS.

3. The first meeting of the Committee was held on the 19th September, 1935. Thereafter the Committee sat on one day during September, five in October, two in November, and four in December.

ATTENDANCE.

4. The attendances of members of the Committee at meetings were as follows :—

The Attorney General	13
The Treasurer	13
W. Evans, Esq.	13
J. Nordlinger, Esq.	13
J. Campbell, Esq.	13
W. C. Hunter, Esq.	13

WITNESSES.

5. Evidence was heard by the Committee from the following persons :—

Archer, C. Kenneth	Kirton, Capt. W.
Ashford, Major	Knapman, Major L.
Boedeker, H. S.	Kopperud, B.
Coldham, P. J. H.	Martin, J. R.
Gailey, Major	Milligan, Major J. W.
Griffiths, Col. G. C.	Morrison, G. R.
Grogan, Major E. S.	Robson, W. J.
Hamilton, G. A. H.	Schwartze, Capt. E.
Hamilton, H. B.	Tannahill, A. C.
Harvey, The Hon. Conway	Taylor, Major C. M.
Hudson, G.	Wolfe, H.
Hunter, G.	Wollen, R. S.
Keatinge, Dr.	White, H. D.
Kirton, Major W.	

MEMORANDA.

6. Memoranda from the following persons and bodies were received and considered :—

Abbay, Col. B. W.	Taylor, H.
Bargman, H. F.	Thornton, S.
Beesley, S. N.	Viner, E.
Brown, Q. H.	White, H. D.
Cartwright, A.	Wright, C. A.
Cavendish Bentinck, The Hon. F.	Wynter, J. N.
Copeman, Col. M. B. G.	Coffee Board of Kenya
Elmer, L. A.	Indian Association, Eldoret
Figgis, E. K.	Kipkarren Farmers' Association
Lillywhite, The Hon. W. G.	Koru Farmers' Association
Lipscomb, J.	Laikipia Farmers' Association
Long, Caswell	Makuyu District Farmers' Assoc.
Meiklejohn, I. H.	Nyanza Indian Farmers' Assoc.
Mitchell, R. J.	North Kenya Settlers' Assoc.
Morgan, R. R. W.	Ravine Farmers' Association.
Newton, B. M.	St. Austin's Catholic Mission
Pullen, J. F.	Songhor Farmers' Association
Scarborough, J.	Thika Farmers' Association
Shaw, W. A.	Trans Nzoia Farmers' Association
Singh, Hakam	Wheat Advisory Board

An invitation to submit memoranda or give evidence was extended to all farmers' and district associations, both European and Indian. Only two Indian associations replied, one in terms which brought forward no relevant matters for consideration. One prominent Indian submitted a case for consideration which fell outside the terms of reference of the Committee. This matter was referred to the Standing Board of Economic Development, in whose province the matter lay.

ACKNOWLEDGMENTS.

7. We take this opportunity of acknowledging our indebtedness to those who submitted memoranda or gave evidence before us.

We desire also to record our indebtedness to the able and valuable memorandum submitted by the Coffee Board of Kenya, extracts from which are given elsewhere in this report.

HISTORICAL.

8. During the early stages of the Committee's deliberations it was represented that a real danger existed of deserving farmers having implements and stock, necessary to a continuance of farming operations, sold up under distraint by unsecured creditors.

With the object of extending the protection from attachment afforded by existing legislation, the Committee urged the introduction of an amendment to the Civil Procedure Ordinance, 1924, to protect such live stock and implements of husbandry as may be necessary to enable a farmer to earn his livelihood, up to a value of £500, and agricultural produce up to a value of £25.

A draft amending Ordinance on these lines was published in the Official Gazette of 5th November, 1935 (Government Notice No. 751), and was duly passed into law on the 29th November, 1935 (Ordinance No. 39 of 1935).

ARGUMENT.

9. From the minutes recording evidence offered the Committee and the discussions thereon, endeavour has been made in this report to produce a reasoned argument leading up to and justifying the conclusions and recommendations contained in the final paragraphs.

The argument is set forth under the following heads :—

(*a*) Long term finance.

(*b*) Kenya and primary products.

(*c*) Meteorological.

(*d*) Markets.

(*e*) Value of experience.

(*f*) Preservation of non-native activities.

(*g*) Importance of European maize industry.

(*h*) Importance of coffee industry.

(*i*) Desirability of extending dairying and mixed farming.

(*j*) The present position of agricultural indebtedness.

(*k*) Causes of present position.

(*l*) Ill effect on farming operations.

(*m*) Prices of various commodities.

(*n*) Attitude of mortgagees.

(*o*) Assistance to agriculture in other dominions and colonies.

(*p*) Wheat, tea, sugar, and sisal: No evidence of immediate assistance required.

(*q*) Assistance recommended only to approved farmers.

(*r*) Necessity for immediate relief.

(*s*) A middle class.

(*t*) Recommendations.

LONG TERM FINANCE.

10. It must be understood that the recommendations contained in paras. 29 *et seq.* of this report are not related to any issue of Government bonds or to the provision of long term finance, but are confined to the relief only of urgent and approved cases, due regard being given to the necessity for avoiding as far as possible such disturbance of existing conditions as would interfere with legitimate mortgage business between private borrowers and investors.

We examined at length a proposal for a bond issue to liquidate mortgage debts, but consider that we cannot express an opinion on or recommend a scheme which to the best of our knowledge has no parallel in other dependencies, without an assurance that such scheme or modification thereof would meet with the approval of the Secretary of State.

We recommend therefore that the draft proposal be submitted to the Secretary of State for examination by financial experts, and, if the scheme is considered feasible or politic, we shall then make recommendations for its particular application to the needs of this Colony.

Since this report was drafted we have received a detailed statement from the Secretary, Colonists' Vigilance Committee, giving summarized particulars of the outcome of a questionnaire issued to all farmers on the question of their urgent indebtedness. We propose to forward this memorandum, together with the original questionnaire and covering letter, and an elaborated memorandum on the Government Bond proposal, to Government for despatch to the Secretary of State at the earliest convenient opportunity.

KENYA AND PRIMARY PRODUCTS.

11. The conclusions reached by the Committee start from the conviction that this Colony is in a very favourable position to compete, given equal terms, with other countries in placing

certain primary products on the world's markets. For example, the following tables show the average yield per acre in Kenya of maize and wheat as compared with other countries :—

MAIZE

YIELD PER ACRE OVER THE PAST THREE YEARS

Kenya ..	.. ..	7·14 bags per acre
Argentine ..	.. ..	7·75 „ „
South Africa	.. ..	2·82 „ „
S. Rhodesia	.. ..	4·53 „ „
U.S.A. ..	.. ..	6·21 „ „

Over the period 1924-25 to 1934-35, which includes seasons when locusts destroyed a large proportion of the crop, the yield per acre in Kenya averaged 6.74 bags.

WHEAT

Kenya ..	..1921–34	2·77 bags per acre
Argentine ..	..1921–30	3·6 „ „
U.S.A. ..	..1921–30	4·2 „ „
S. Rhodesia	..1925–30	2·4 „ „
S. Africa ..	..1921–30	2·7 „ „

The yield per acre of wheat in Kenya for the years 1929-30 to 1933-34 was as follows :—

1929–30	.. .. ..	4·64 bags per acre
1930–31	.. .. ..	2·82 „ „
1931–32	.. .. ..	2·01 „ „
1932–33	.. .. ..	2·11 „ „
1933–34	.. .. ..	4·16 „ „

We are indebted to the Agricultural Economist and to figures from *Bromhills' Statistics*, kindly supplied by Colonel Griffiths, for the above information.

RAINFALL.

12. We are indebted to the British East African Meteorological Service for the following statistics for the years 1930-1934, giving the rainfall in the principal maize, wheat and coffee growing areas and stock and dairying districts :—

Station	Average Rainfall			Annual Rainfall						
	Altitude	Period	Inches	1930	1931	1932	1933	1934	1935 to August	
	Feet			*Inches*	*Inches*	*Inches*	*Inches*	*Inches*	*Inches*	
Maize and Wheat Areas										
Kitale	6,700	1925–34	46·94	51·20	56·14	48·50	36·93	39·87	33·20	
Sabatia	6,750	1921–34	41·10	54·72	40·67	53·16	30·99	29·46	31·69	
Cherangani	6,100	1926–34	41·53	58·18	42·67	49·86	33·64	38·31	30·29	
Nakuru	6,024	1908–34	37·75	51·78	37·07	41·60	27·64	21·31	23·06	
Soy	6,200	1915–34	39·80	55·80	51·11	52·55	40·44	35·73	36·28	
Eldoret	6,824	1931–34	38·81	—	44·91	41·00	30·31	38·93	32·67	
Kedong	6,200	1922–34	25·88	44·53	26·35	23·71	9·92	14·59	18·14	
Kampi ya Moto	5,350	1914–34	34·33	48·59	30·19	37·21	22·54	27·09	27·43	
Hoey's Bridge	6,000	1931–34	40·00	—	54·72	44·12	28·24	32·31	33·09	
Solai	6,000	1918–34	40·72	52·15	31·64	45·41	23·36	32·65	27·97	
Kitale (Health Office)	6,220	1920–34	44·45	52·12	50·05	44·80	39·47	39·20	46·50	
Coffee Areas										
Songhor	5,500	1917–34	58·11	80·94	69·39	63·16	46·88	48·62	—	
Turbo	6,150	1924–34	49·43	58·76	59·70	55·92	38·19	48·37	38·88	
Thika (Donyo Sabuk)	5,000	1917–34	36·35	53·01	45·70	44·53	35·09	21·72	26·08	(To Oct.)
Kiambu (D.C.)	5,796	1907–34	40·78	65·26	48·77	41·22	32·11	24·80	34·51	(To Oct.)
Thika (Gethambwini)	5,000	1920–34	37·99	59·18	38·19	37·48	28·45	26·29	18·22	
Kabete (Vet. Laboratory) ..	6,203	1916–34	40·20	60·08	47·09	45·48	25·80	25·48	21·32	
Kericho (Jamji)	6,000	1925–34	61·68	72·02	71·96	63·32	52·26	52·86	52·42	
Kiambu (Kigwa)	5,700	1929–34	39·16	61·42	43·67	34·50	26·08	25·46	27·48	(To Oct.)
Makuyu	5,050	1922–34	33·14	55·21	37·11	35·63	24·92	26·73	22·19	
Fort Ternan	5,800	1919–34	48·22	65·26	60·62	56·94	35·99	35·21	38·56	
Nairobi (Railway)	5,495	1917–34	35·07	61·80	39·18	Incomplete	21·33	19·42	19·66	(To Sept.)
Kaimosi	5,300	1914–34	73·89	84·44	77·11	66·82	69·39	67·80	44·72	
Stock and Dairying Areas										
Thomson's Falls..	7,150	1921–34	37·81	57·19	33·62	41·58	30·53	30·30	28·98	
Rumuruti	6,090	1911–34	27·88	37·57	25·79	26·09	21·24	25·71	17·28	
Naro Moru	6,000	1913–34	25·92	34·20	23·97	29·77	27·02	24·19	15·59	
Gilgil	6,660	1921–34	25·29	40·22	27·08	23·32	20·01	13·79	17·21	
Naivasha (Njabini) (Kinangop)..	8,500	1913–34	46·18	67·27	47·60	47·02	34·61	28·50	27·85	

MARKETS.

13. The geographical position of Kenya opens to it the markets of South Africa and East Africa, India and the Far East, which offer an outlet capable of extension and supplementary to the markets in Europe, America and Canada, in which Kenya enterprise has already secured its principal footing for such commodities as Kenya can produce in competition with other sources of supply.

VALUE OF EXPERIENCE.

14. We do not consider it necessary to stress the importance to the Colony of an economically sound European agricultural industry, or the value to the Colony of farmers who have gained experience of the varying conditions and special difficulties of the country.

A number of European farmers in Kenya came to the country without previous agricultural experience. Their knowledge of methods, control of diseases and pests, preservation and improvement of soil fertility and general local farming conditions has been gained at considerable cost, but now represents an asset which the Colony cannot afford to lose. The full beneficial results of this will be more apparent when favourable climatic conditions return and the world's markets recover.

PRESERVATION OF NON-NATIVE ACTIVITIES.

15. We concur in the view underlying practically the whole of the evidence received that the economic progress and prosperity of the Colony, the consolidation of Kenya's position within the Empire, and the healthy development of the native along progressive lines towards a higher civilization, can be furthered best by active prosecution of the dual policy; that is, the parallel development of non-native in conjunction with and complementary to native activities.

This is in accordance with the policy of the Imperial Government.

IMPORTANCE OF EUROPEAN MAIZE INDUSTRY.

16. We are also satisfied of the importance to Kenya and neighbouring territories of the European maize industry. We agree with the view of the Economic Development Committee that the preservation of the present organization and structure of the maize industry justifies a "national effort to assist it and safeguard its interests" (*vide* Economic Development Committee Report, para. 613), and with the further opinion of the same Committee that "Maize must be regarded as an essential

crop. Its production in Kenya is one of the Colony's greatest safeguards against famine, for it is now a staple food of most of the native population and, apart from famine considerations, it is required in large quantities as a basic factor in other local industries. We regard the maize industry as of vital importance to the economic welfare of the Colony." (Ibid. para. 172.) Native-grown maize is not sufficient to meet local requirements and, in times of famine, European-grown maize has to be imported into the Reserves. Uganda and Tanganyika would also rely on Kenya maize to supplement internal shortage, and if European maize production proved inadequate the only alternative would be, as has been done in the past, to import from abroad at great expense.

As the result of the efforts of European growers, Kenya maize K 2 is now definitely established in the word's markets and commands a premium over Argentine maize, and the average production per acre in Kenya compares favourably with other maize-growing countries as is shown in an earlier paragraph.

IMPORTANCE OF COFFEE INDUSTRY.

17. According to the Report of the Economic Development Committee (para. 155 *et seq.*), the average value of coffee exported over the past three years has been given at 47 per cent of the total exports of the Colony. For the year 1932 the figure was 61.7 per cent of the total.

The coffee industry as a whole gives employment equivalent to the full-time services of 50,000 natives.

There are 929 coffee growers, representing 45 per cent of the total number of occupiers of agricultural holdings, and, in addition to the large number of owners managing their own farms, the industry gives employment to 683 Europeans.

The Agricultural Census Report for 1934 gives the total acreage of planted coffee as 102,238 acres, of which only 65,643 acres are fully mature. 14,046 acres are still under three years old, and 22,549 acres are between three and six years old.

Data obtained from the Coffee Board of Kenya show that the capital invested in 418 coffee estates is approximately £4,500,000.

Kenya coffee has established a high reputation for quality on the London market, and despite the setback caused by abnormal conditions prevailing over the past three years there is no occasion to suppose that in due course this reputation should not be enhanced when normal conditions return. In general it provides the best demonstration and advertisement of the Colony's suitability and scope for European enterprise. It constitutes a serious attempt to exploit one of the best of the Colony's natural assets, and we are of opinion that its vigorous development is in the best interests of Kenya and the Empire.

MIXED FARMING.

18. Maize must be regarded as a "pioneer" crop, essential to the development of the territory. In other countries similarly situated, maize production has formed the stepping stone towards more diversified farming, and in our opinion the time has arrived for farmers now growing maize or wheat only, to be encouraged and assisted to change over to mixed farming.

The majority of cereal-growing areas are suitable for mixed farms, and not only do such farms lend themselves to cattle, pigs, poultry and dairy produce, but such extension of the farmer's activities would enable him more fully to utilize the area of his holding and would assist in maintaining soil fertility. Many witnesses have stressed the advisability of such a change-over and its advantages over the present widespread reliance on cereal crops alone.

THE PRESENT POSITION OF AGRICULTURAL INDEBTEDNESS.

19. Apart from the scaling down of debts which may be effected through Conciliation Boards, we have not recommended the institution of any machinery which will directly lighten the burden of agricultural indebtedness, for the reasons given in para. 10, nor have we had an opportunity of ascertaining the actual total burden of debt. In the absence of any details covering loans by companies or individuals, a proper assessment of the actual indebtedness of agriculture is impossible, but the following figures may give some indication of the position. In the Report of the Economic Development Committee (para. 135) a figure of £2,116,000 is given as representing loans and advances to agriculture outstanding in the books of the Kenya banks at the end of 1932. At the end of 1934 loans to the extent of £472,415 had been made by the Land Bank, and advances outstanding in the books of the Agricultural Advances Board at the end of 1934 amounted to £104,759.

So far as the position of the coffee industry is concerned the memorandum of the Coffee Board of Kenya deals with returns as at 30th June, 1934, from coffee estates producing 87.8 per cent of the total Kenya crop, and indicates that on these estates the total indebtedness in respect of mortgages, bank overdrafts and other loans secured on the land or upon security other than crops or chattels mortgage is £1,212,110, the annual interest charge being £82,043.

The total indebtedness in respect of shortfalls on advances made against crops by merchant firms is shown as £71,803, the annual interest charge calculated at 6 per cent amounting to £4,308.

Seasonal indebtedness, secured on crops or by chattels mortgage, excluding shortfalls, is estimated to amount to £173,912 as at 31st December, 1934. The annual interest charge calculated at 5½ per cent plus interest on advances against unsold crops amounts to £12,920.

The total interest charges to be met by the coffee industry each year is summarized as follows :—

On mortgages, etc.	£82,043
On shortfalls	4,308
On seasonal finance	12,920
	£99,271

The Coffee Board emphasize that while the above figures present a general picture of the indebtedness of the industry, they are largely averages, and are far removed from the actualities of a great number of individual cases, and that any measures to alleviate the position can only be taken after individual consideration of individual cases. We are of the opinion that the position at the present time must be materially more serious as the result of the climatic conditions and the still further fall in world prices during the last eighteen months.

The picture of agricultural indebtedness provided by the foregoing extracts from evidence is of very limited service to us, inasmuch as it fails to give any indication of how the figures might be allocated as between indebtedness and oppressive indebtedness.

CAUSES OF PRESENT POSITION.

20. The present position of agricultural indebtedness can be attributed to the prolonged period of adverse agricultural conditions occasioned by the incidence of locusts and drought, which caused great damage from 1929 to 1933 on European-owned farms and in native areas, and to the low prices realized for primary products on the world's markets.

In 1929-30 the prices of primary products fell after a long period of prosperity. In the preceding years farms had been purchased at prices which in some cases have proved to be too high, commitments were entered into on the basis of the high prices then being realized for coffee, maize and other farm products; and total costs of production (management, implements, labour, etc.) were on a generous scale which could only be justified, if at all, by the prices then being realized for crops.

The collapse in the world's markets found a very large proportion of producers with no reserves to fall back on and with commitments which, on the reduced return obtainable from the sale of farm produce, were too high in relation to the resources of their farms.

The coffee industry was and to some extent still is at the development stage, profits earned during the period of high prices having been returned to the land by bringing further areas under development and providing permanent factories, buildings, etc. Large areas of coffee only came into full bearing after the collapse in prices had occurred.

The main coffee-producing areas have had the unprecedented experience of three consecutive years of drought, the effect of which is reflected in the low percentage of "A" grade, poor quality, and reduced yields of recent years. The same general conditions applied, although perhaps to a lesser extent, to the agricultural and pastoral industries. Maize and wheat growing areas suffered from the severe locust infestation of 1930-1933. In some districts losses due to locusts were approximately 20 per cent or more of grain crops, involving a shortage of over 200,000 bags of grain (*vide* Economic Development Committee's Report, para. 380 (*a*)).

ILL EFFECT ON FARMING OPERATIONS.

21. The reduced yields, inferior quality and low prices obtainable for produce have had the inevitable result of curtailing expenditure on farming operations, in many cases below the level required for the proper maintenance of the farm, of good husbandry and even of the individual.

Farmers have not had the finance necessary to carry out essential manuring and anti-erosion measures, implements have not been replaced and buildings have not been kept in a good state of repair. Such neglect has materially affected the efficiency of farming operations and the soil fertility of cultivated areas.

We also regard as a matter of great and far-reaching benefit the psychological effect of the removal of any condition which constitutes an ever-present menace to the farmer's security of tenure and continuance of operations.

PRICES OF VARIOUS COMMODITIES.

22. We are indebted to the Agricultural Economist for the following tables showing the prices realized during the past few years for coffee, maize, butter and sisal.

COFFEE PRICES.

Monthly average prices actually realized at the London auction during the last six years were as follows :—

MONTH	1929	1930	1931	1932	1933	1934	1935
	Sh. per Cwt.	*Sh. per Cwt.*	*Sh. per Cwt.*	*Sh. per Cwt.*	*Sh. per Cwt.*	*Sh. per Cwt.*	*Sh. per Cwt.*
January	124	111	79	108	73	60	80
February ..	122	101	82	106	67	73	84
March	122	83	78	93	62	79	73
April	118	73	73	75	57	70	66
May	113	69	65	66	56	65	54
June	96	63	56	58	59	52	38
July	95	58	55	60	57	57	—
August	97	66	52	64	55	52	—
September ..	99	72	57	82	57	64	—
October	92	80	74	75	55	51	—
November ..	93	79	80	72	62	55	—
December ..	101	75	93	71	58	58	—
YEAR ..	116	77	74	85	64	62	—

PRICES OF PLATE YELLOW MAIZE IN LONDON
(FROM BOARD OF TRADE JOURNAL)

MONTH	1929	1930	1931	1932	1933	1934	1935
	Sh. per 100 lb.	*Sh. per 100 lb.*	*Sh. per 100 lb.*	*Sh. per 100 lb.*	*Sh. per 100 lb.*	*Sh. per 100 lb.*	*Sh. per 100 lb.*
January	—	6·14	3·49	4·02	4·35	4·18	4·53
February ..	—	5·77	3·66	4·30	4·18	3·98	4·10
March	—	5·57	4·26	4·48	4·13	4·30	4·51
April	8·88	6·76	4·54	4·50	3·91	4·22	4·78
May	—	6·23	4·09	4·45	4·02	3·88	4·27
June	—	5·59	3·63	4·06	3·77	4·04	3·78
July	—	6·24	3·44	4·35	3·85	4·27	3·59
August	—	6·57	3·18	4·38	3·67	5·35	3·45
September ..	—	5·60	3·18	4·33	3·62	5·09	3·69
October	7·44	4·55	3·68	4·07	3·47	4·66	—
November ..	6·97	3·84	4·21	4·06	3·90	4·49	—
December ..	6·49	4·10	3·95	4·01	4·43	4·69	—

BUTTER—NEW ZEALAND 1ST IN LONDON
(FROM BOARD OF TRADE JOURNAL)

MONTH	1930	1931	1932	1933	1934	1935
	Sh. per Cwt.	*Sh. per Cwt.*	*Sh. per Cwt.*	*Sh. per Cwt.*	*Sh. per Cwt.*	*Sh. per Cwt.*
January	—	121	106	89	74	86
February ..	—	125	111	86	76	96
March	—	126	116	83	78	82
April	135	116	114	75	78	83
May	137	114	105	84	82	85
June	136	117	104	87	84	91
July	142	119	109	85	89	97
August	142	119	114	94	85	101
September ..	133	120	120	107	84	116
October	126	128	120	108	76	—
November ..	118	123	105	94	81	—
December ..	115	112	93	78	78	—

SISAL—F.A. NO. 1 IN LONDON, PER TON
AVERAGE, 1929 .. ..£39 10s.
AVERAGE, 1930 .. ..£26

MONTH	1931	1932	1933	1934	1935
	£ s.	£ s.	£ s.	£ s.	£ s.
March	—	14 5	14 15	17 15	11 12
June	15 7	12 15	18 2	16 10	16 5
September	12 2	16 15	17 15	14 0	22 5
December	17 0	15 0	15 17	14 5	—

ATTITUDE OF MORTGAGEES.

23. We are satisfied from evidence submitted by mortgagors and mortgagees that the majority of secured creditors have extended a very large measure of consideration to debtors during the period of depression. Rates of interest in many cases have been reduced or interest waived for a period, and few actions for foreclosure have been instituted. While it may be true that there is little reason to fear that a return to more prosperous times would result in a change in this attitude, we endorse the view expressed by the Coffee Board of Kenya that "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 run the risk of failing to meet his commitments. A composition arranged for a definite period of time would thus enable the planter to devote all his energies to the proper maintenance of his estate. Such proper maintenance is vital in the interests of creditors as well as debtors."

ASSISTANCE TO AGRICULTURE IN OTHER DOMINIONS AND COLONIES.

24. The Committee have had access to records of the various relief measures adopted in the following Dominions and Colonies :—

New Zealand.—Mortgagors and Tenants Relief Act, 1933; Rural Intermediate Credit Act, 1927, and Reports, 1930-1933.

S. Rhodesia.—Report of Committee of Inquiry into the economic position of the Agricultural Industry, 1934; Farmers' Debt Adjustment Act, 1935.

South Africa.—Land Settlement Act, 1931; Farmers' Special Relief Act, 1931; South African Farm Mortgage Interest Act, 1933; Export Subsidies Act, 1931; Dairy Industry Control Act (Amendment), 1932; Farmers' Assistance Act, 1935.

Alberta.—Debt Adjustment Board.

British Columbia.—Mortgagors and Purchasers' Relief Act.

Canada.—Farmers' Creditors Arrangement Act.

Manitoba.—Debt Adjustment Act, 1932.

New Guinea.—Mortgagors' Relief Ordinance.

New South Wales.—Farmers' Relief Act.

We are also aware of the large measure of assistance, direct and indirect, given in the United Kingdom to producers of agricultural products.

It has been further noted that the amount provided by the Government of the Union of South Africa, plus the excess costs met by consumers, plus the amount of loss on exports (quota), for the protection of agricultural industries amounted for the year 1933 to no less than £7,473,000 (*vide* South African Journal of Economics, September, 1935).

WHEAT, TEA, SUGAR AND SISAL.

25. No evidence has been given to this Committee that immediate assistance is required by any of these industries.

ASSISTANCE RECOMMENDED ONLY TO APPROVED FARMERS.

26. Our investigations show that while measures of relief are necessary to the agricultural industry generally, there are cases where, owing to the unsuitability of the soil, location of the farm or to lack of experience of ability of the farmer, no assistance can be afforded with any prospect of the ultimate success of the farm or relief of the farmer. We are of the

opinion that any form of assistance should be granted only after adequate enquiries into the financial position and farming ability of the farmer, the history and past production of the farm and the prospects of ultimate recovery.

NECESSITY FOR IMMEDIATE RELIEF.

27. We realize and wish to stress the fact that many farmers will not be able to continue operations unless some measure of relief can be afforded without delay. Apart from the position outlined in paragraph 19 the fact that for a prolonged period farming operations have been conducted at a loss, has left many without any working capital with which to meet labour costs, etc., to plant another crop or to maintain existing areas.

The coffee industry is further affected by the decision of merchant houses to curtail and in some cases to discontinue seasonal and anticipatory advances on which planters have relied in past years.

This decision has completely upset all the calculations of the planters concerned, and although it is reasonable to suppose that the merchant houses may be looked to for a crop advance in July to September, when the crop is sufficiently advanced to admit of an estimate of its tonnage and value, in very few instances have these planters been able to make any financial arrangements for bridging the gap from January to June. The crop already reaped is held by the merchants against the advances made for its production and as the circumstances already detailed have combined to deprive last season's operations of any profit, the planter has no source of income from which to meet the cost of maintenance until the next crop is in sight. The necessity for finding a means to alleviate this position is vital and immediate.

We are satisfied that finance should be made available to approved farmers to enable this gap to be bridged and are of the opinion that such assistance would go a long way towards establishing a sound system of coffee crop finance and would save many worthy and experienced planters from failure.

A MIDDLE CLASS.

28. It is anticipated that the majority of applications for financial assistance will come from planters embarrassed by a variety of commitments to secured and unsecured creditors, the total amount of which renders it almost certain that the creditors cannot be satisfied in full from the result of next season's operations. This involves a threat of possible

disaster emanating from action by one of several parties, the mortgagee, the holder of a chattels mortgage, or the unsecured creditor. The recommendations of the Committee embrace an endeavour to meet this position by a scheme involving protection for the participant over a period during which it is hoped he will rehabilitate himself by means of carefully controlled finance.

There is, in addition, another class to be reckoned with, i.e. the planter who, although not actually embarrassed by the threat of possible action by a creditor, relied upon assistance from a merchant house to finance his crop. This assistance being denied him, he has no funds with which to carry on.

It was suggested to us that the proposed conditions surrounding any Government advances, as set out in the concluding paragraphs of this Report, might appear unduly exacting in such a case. After consideration of the point we have decided that no real hardship would be imposed in connection with this class, but, on the contrary, the proposed restrictions and conditions attached to an advance would work for the actual protection and benefit of the borrower, the Government and the mortgagee.

In any case, it is hoped that with further capital made available to the Land Bank and the granting of the widened powers asked for by the Land Bank Board, a considerable number of planters will then be eligible for ordinary Land Bank advances.

RECOMMENDATIONS

Introductory.

29. Agricultural finance falls into two classes :—

(a) *Long Term*, to meet the mortgage position and such other purposes as are defined in the Land Bank Ordinance;

(b) *Short Term*, to meet seasonal finance and to assist cereal farmers in a change over to mixed farming.

The difficulty with which we are faced is to suggest remedial measures which come within the bounds of practicability, and can be recommended to the Imperial Government.

We feel that no action should be recommended which would have the effect of creating a feeling of insecurity among investors and are of the opinion that any settlement between debtor and creditor should be voluntary. Some witnesses have stated that without compulsion any attempt to arrive at an equitable adjustment of the indebtedness position will be unsuccessful, others were in favour of nothing being done to prejudice the existing rights of secured creditors.

Kenya Colony depends very largely on imported capital for the development of its resources and any step taken which will result in loss of confidence by lenders, however beneficial to the debtor for the moment, must react to the detriment of the agricultural industry as a whole.

Land Bank Capital.

30. With regard to Long Term finance we have already referred to a scheme based on a bond issue but at this stage we should like to support the recommendations of the Economic Development Committee for an increase of the capital of the Land Bank by £500,000, and the raising of the present maximum of an advance to any one farmer to £5,000, and the maximum amount for the discharge of a prior mortgage to £3,500 (*vide* Economic Development Committee's Report, Chap. VI, paras. 466-483).

It is understood that this proposal has been supported by Government and is now receiving consideration by the Secretary of State.

The scheme which has been put before us with regard to the long term adjustment of debts is of such magnitude (though on the face of it of such simplicity) that, without the most careful examination by experts, we consider that at this stage it would be folly to express an opinion either in favour of or against it, particularly as, short of going to the London Market for a loan of several millions, which we are told we would never be able to obtain, we have not yet evolved any other scheme which would take its place.

Finance for Short Term.

31. We recommend that of the £500,000 referred to in the preceding paragraph, Government should be empowered to direct the Land Bank to set aside a sum not exceeding £200,000 (which amount, with interest, shall be guaranteed by Government to the Land Bank) in order to supply funds for the provision of seasonal finance and assistance to cereal farmers in a change over to mixed farming, the procedure for which is set forth in the following pages.

The £200,000 to be set aside is not to be regarded in any sense as a subsidy to any industry, it is to be advanced as a business proposition, at an interest as low as Government considers reasonable, having regard to such factors as the interest payable on the loan, cost of administration, establishment of a reserve fund, etc.

It may be thought that, in considering and reporting on the advisability of inaugurating a scheme of Short Term advances, we are exceeding our task which was to explore the possibilities of lightening the burden of agricultural indebtedness, and, on the strict interpretation of our terms of reference, there might be some substance in the criticism, but we feel that the position is so critical that action must be taken immediately.

It would be fatal for us in leisurely manner to propound some scheme of long term finance which we know would involve long and detailed consideration before it could be brought into operation by Government, when we believe that if action is not taken promptly a considerable number of the farmers of this Colony will be ruined, and it is for this reason that we hasten to forward to Government this interim report.

We trust that by recommending this procedure we shall not be condemned as having failed in our main task, which we are in fact postponing for reasons given in paragraph 10.

Proposed Machinery.

32. We recommend that the following steps be taken immediately :—

(1) That a Conciliation Board be appointed to consist of five members one of whom shall be drawn from the Land Bank Board, with one of His Majesty's Judges as Chairman.

(2) That Local Committees be appointed in various districts composed of the District Officer as Chairman and two members of farming and business ability.

(3) That all applications, together with the recommendations of Local Committees be submitted to the Conciliation Board with whom the final decision shall rest.

(4) That definition of the powers of Local Committees and Conciliation Board and regulations governing advances be the subject of an instruction by the Governor in Council.

(5) That the administration of advances approved by the Conciliation Board be in the hands of the Land Bank, which shall be appointed agent for Government in the administration of the scheme. (Where reference is made to the Land Bank in the following pages it is in this capacity as Agent for Government.)

(6) That Land Bank agents in each district report at stated intervals to the Land Bank with a copy to the Local Committee.

Procedure.

33. Having established these bodies the procedure envisaged by us will be as follows :—

Upon a farmer determining that it is necessary for him to obtain assistance he will apply to the Local Committee stating his requirements and filing a complete list of his indebtedness, which will be open to inspection by any of his creditors.

Upon receipt of this application in due form the Chairman of the Local Committee shall immediately issue what is called a "Stay Order" over the whole property of the applicant, which will have the effect of vesting the property of the applicant temporarily in the Land Bank, but this Stay Order will permit the applicant to make deliveries under any agreement already made and to enter into fresh agreements with the approval of the Land Bank.

The Chairman of the Local Committee may also direct an approved valuer to visit the farm of the applicant, and make a report upon his assets and will in due course call a meeting of the Local Committee. At this meeting the position of the applicant's affairs will be freely discussed and the conditions under which, in the opinion of the Committee, an equitable adjustment of the applicant's position could be arranged (should this be necessary). The whole matter will then be referred to the Conciliation Board.

Every opportunity should be taken to discuss the position with the applicant and his creditors before submitting the matter to the Conciliation Board. The Conciliation Board will then call a meeting which the applicant and his creditors shall have the right to attend in person or by a fully authorized representative, or they may send in their views in writing with the object of arriving at a settlement.

Should a majority of the creditors refuse to consent to the proposed adjustments or conditions of the settlement the Board will refuse the application in which case the "Stay Order" will be removed, and the debtor and creditors permitted to follow their usual legal remedies.

When the terms of the proposal or any variation thereof are agreed to by—

(*a*) the Conciliation Board,

(*b*) all the secured creditors, and

(*c*) a majority in number and value of the unsecured creditors,

and whether such agreement involves an adjustment of debts or not, the Chairman of the Conciliation Board will reduce the terms to writing and will file this document (which in many ways will resemble a Deed of Arrangement) in the Registry, which document will be binding on all parties, at the same time extending the Stay Order for a period not exceeding one year, unless a longer period has been agreed upon by the creditors. In calculating the majority of creditors required by this section no such unsecured creditor shall be reckoned in number unless his claim be of the value of at least five pounds, holders of second mortgages or chattels mortgages to be considered as secured creditors.

Although the Stay Order (except with the consent of the creditors) will be only issued for one year we contemplate a renewal of this Stay Order from year to year where there is any shortfall on any advance, but the total period shall not exceed in all more than five years.

Government funds can only be issued when reasonable security is offered and it is for this reason that Stay Orders are necessary under the Scheme before advances can be authorized.

In cases where it is considered necessary that Government Funds are required for the purpose of continuing existing operations the decision of the Conciliation Board should include an instruction specifying the amount which the Land Bank should advance.

Suggested Regulations.

34. (1) The security and terms for repayment of any advance to be such as are deemed fitting by the Conciliation Board.

(2) All securities to be registered in the name of the Land Bank.

(3) No stamp duty to be payable on any document, instrument or deed issued by or in favour of the Land Bank.

(4) Full particulars of all persons in respect of whose estates Stay Orders have been issued or removed to be notified for public information in the Official Gazette on the issue or removal of the Stay Order.

(5) Accounts of revenue and expenditure to be kept by participants in a form to be prescribed by the Land Bank.

(6) The Secretary or Assistant Secretary of the Land Bank to act as Secretary to the Conciliation Board and clerical services for the work of the Conciliation Board to be supplied by the Land Bank.

Security for Advances.

35. The next point to consider is the security to be held by the Land Bank.

As we have said previously, the effect of the Stay Order will be to vest the farm in the Land Bank for the period of the Stay Order, but it must be clearly understood that this does not in any way affect the rights of any secured creditor, except that it will postpone his remedies, e.g. the sale or foreclosure of any property movable or otherwise over which he may have a lien.

The security will be on the crops which will be grown and reaped during the time that the Stay Order is in existence and any other security which it will be possible to obtain from the applicant. Thus, if money is advanced to a farmer to enable him to raise a crop of maize and also to start a herd of cattle, the security for the money would be the value of the crop together with a chattels mortgage on the cattle and their progeny, while the proceeds of any milk or milk products sold would also be paid to the Land Bank.

Limit for Advances.

36. Under the proposed scheme of Short Term advances it is suggested that the maximum advance should be limited as follows :—

Coffee.—£7 per acre of fully bearing coffee, save in exceptional cases.

Maize.—Sh. 30 per acre of planted area.

For cattle, dip and fencing.—£500.

For any other purpose.—At the discretion of the Conciliation Board.

Should the crop be wholly or partially lost through locusts, diseases or other unforeseen calamity, admittedly for that year there would be a loss and the only hope of recovery of advances would be in carrying the farmer for another year.

We fully realize that there is an element of risk attached to such investments, but, having considered all the existing circumstances, we are of the opinion that it is a risk that the country should take.

THE FARMER.

37. Having outlined the procedure for and the security of the Land Bank it is necessary to point out the advantages of this project to the farmer. So far we have shown that, by the granting of a Stay Order, he is secure in his farm so long as the order is in force, but as against that all his property has been vested in the Land Bank. The procedure with regard to him is visualized as follows: As soon as the Conciliation Board have agreed to accept the investment the farmer will ordinarily be appointed as manager of the estate under the supervision of the Land Bank (or their agents) and included in amounts paid to him will be a sum to include a monthly salary, which should represent an amount sufficient to support himself and his family, having regard to all the circumstances of his case. All other money necessary for the production of the crop up to the agreed limit, will be paid to him (as and when required) by the Land Bank after his vouchers have been duly passed by the Land Bank or its agent in his district. He thus obtains a living, a certain security of tenure and has a better prospect of being able to keep his land so cultivated and manured that he will be able to take advantage of the rise in commodity prices which must, we trust, take place in the near future.

THE CREDITORS.

38. The advantage of this scheme to the creditors lies in this fact: Few creditors are in a position to take over and run the farm themselves nor are many in a position to finance the farmer to run it. In view of the present world prices the prospect of an advantageous sale of the farm is almost negligible and their security, as we have shown, is yearly deteriorating through the farmer's financial inability to cultivate his land.

By consenting to a Stay Order and/or an equitable Deed of Arrangement the creditor knows that funds will be provided to cultivate the land and that the farmer will be supervised by the Land Bank agent, thus preserving the value of his security, and he also knows that if the crop realizes more than the Land Bank advance the surplus will be divided in the usual order of priority which will be laid down in the Ordinance.

39. We trust that the scheme which we are now suggesting will not be dismissed as idealistic, socialistic or impracticable, for we feel sure that it can be worked, that it will be a godsend to many deserving farmers and that the risk to Government is infinitesimal in comparison with the possibility and probability of good to the country in general.

We realize that many a farmer will be disappointed at our recommendations but it must be understood that we do not represent a philanthropic society and are therefore unable to recommend help to any but those who, in the opinion of the Board, will be able with help to make good. The bad farmer, the good farmer with bad land, the possibly good farmer with good land who is so heavily involved that no arrangement with his creditors can be made, are all beyond our help.

40. The above scheme may appear to our critics cumbersome and perhaps unduly expensive, but it is hoped that in practice, with the assistance and co-operation of such bodies as the Kenya Farmers' Association, who have already offered to help the Land Bank in every possible way to implement the smooth working of our endeavour, much time and money will be saved.

41. In conclusion we would like to place on record our appreciation of the industry and ability of our Secretary, and also the great assistance given to us voluntarily by Mr. Thornton, both as Acting Secretary during the temporary absence of Mr. Hately, and also as our special emissary in certain country districts.

W. HARRAGIN (*Chairman*).

G. WALSH.

W. EVANS.

J. NORDLINGER.

J. CAMPBELL.

W. C. HUNTER.

23rd December, 1935.

T. L. HATELY, *Secretary.*

POSTSCRIPT.

We desire to place on record our grateful appreciation of the ability and patience with which our Chairman has conducted the deliberations of the Committee. Proceedings have been expedited and our somewhat onerous task has been materially lightened by his unfailing courtesy and experienced guidance.

G. WALSH.

W. EVANS.

J. NORDLINGER.

J. CAMPBELL.

W. C. HUNTER.

T. L. HATELY, *Secretary.*

NOTE BY MR. JOHN NORDLINGER.

I have signed the Majority Report because, in the main I agree with the arguments set forth therein and also with the proposed scheme for short term finance.

There are, however, certain vital points on which my views are not in accord with those expressed in the report, and I beg to set those forth as follows :—

Under the heading "Procedure" the report recommends that all the secured and a majority in number and value of the unsecured creditors must agree before the farmer can be granted any assistance whatsoever, even that of a Stay Order. This is not the case in the New Zealand Act on which to a considerable extent our proposals are based, which reserves the decision as to whether a Stay Order shall be granted or not to the Conciliation Board, and where a Stay Order is granted, it is for a period of five years and not for yearly periods as recommended in our report.

In my opinion if this scheme is to be successful in keeping the deserving farmer on his land it is essential that the same power should be given to our Conciliation Board. As it is at present the recalcitrancy of even one obdurate creditor can prevent the most deserving case from obtaining any assistance under the proposed scheme. Further, even if all his creditors agree to the Stay Order being granted for the period of one year, there is grave reason to fear that an improvement in values is likely to result in his failing to obtain a renewal of their agreement from year to year for that further period which is necessary in order for him to make good the past losses which, it is agreed, have been incurred through circumstances beyond his control.

It is hardly necessary to point out that under the suggested conditions the good farmer on his well-farmed land who happens to have a small first mortgage compared to the total normal value of his farm is the one likely to have the most difficulty in obtaining this agreement, especially if and when values start rising again.

This is hardly in accordance with the opinion expressed by the Committee (*vide* paragraph 14) that the experience of the European farmer "represents an asset which the Colony cannot afford to lose".

The Committee also express the opinion (*vide* paragraph 21) that: "We regard as a matter of great and far reaching benefit the psychological effect of the removal of any condition which constitutes an ever present menace to the farmer's security of tenure and continuance of operations".

In my opinion the scheme as suggested does little or nothing however to remove the serious dangers which threaten the very existence of so many deserving farmers.

That the farmer is entitled to protection by the State is recognized in the Acts of various British possessions as quoted in our report. It should be noted that these Acts in almost every case date back to 1930/1 and the fact that we in Kenya have waited till 1936 to take similar action is undoubtedly one of the causes of the aggravation of the present burden of agricultural indebtedness.

In the New Zealand Act, during the enforced period of the five year Stay Order, the Conciliation Board endeavours at intervals to arrange a voluntary composition with the farmer's creditors in cases where the Board considers this necessary. If unsuccessful a Board of Review has large powers of enforcing a composition at the end of the five-year period. Any such composition is based on the productivity of the farm during the period the Stay Order is in force. The farmer's conduct and efficiency is taken into due consideration by the Board. It is, however, expressly laid down that the amount of his debts is not to be the guiding factor but that the Board is to be guided by the value of the farm and the efficiency of the farmer. On the face of it, this may seem to be unduly hard on the creditors but it must be remembered that the purchasing power of money at the present time is immensely greater than when the money was lent.

I consider that in order to give the farmer a reasonable opportunity of getting on his feet again the Conciliation Board should have the power to enforce a Stay Order for the same period as in New Zealand, viz. five years, and that they should be granted the same power of enforcing a composition at the end of the period that the Board of Review has under the New Zealand Act, such power only to be used if the purchasing power of money remains abnormally high.

The Government of Kenya has recognized the necessity of exceptional measures in passing the Mortgagors' Relief Act and I can see no reason whatsoever why the Conciliation Board, which is to be under the chairmanship of one of His Majesty's judges, should not be granted the same powers as are granted to similar bodies under the New Zealand Act.

I consider further that steps for reducing the rate of interest on Agricultural Mortgages, such as have been taken in other British possessions, are essential in Kenya and should be taken at once. Evidence led before the Committee has in most instances emphasized the necessity for this and our late Governor, Sir Edward Grigg, has stated in the Imperial Parliament that it is absolutely essential.

A further most effective method of "lightening the burden of agricultural indebtedness" is a measure of so-called devaluation of the East African currency, i.e. the controlling of the East African shilling at a discount with the sterling shilling instead of, as at present, controlling it at par. This method has been adopted by several of the Dominions including Australia and New Zealand. It has also been adopted almost universally by all the coffee-producing countries.

It is a very severe handicap on our primary producers to have to compete unaided in the world's markets with the produce of these countries. It is to be hoped that the Secretary of State for the Colonies will give his reasons at an early date as to why similar steps should not be taken in the East African Territories.

If there are good reasons against this then I feel that it is essential that the Secretary of State should suggest to the local Government alternative measures to afford equivalent relief.

The accumulated burden of debts, the necessity of the alleviation of which was recognized by Government in the setting up of our Committee, is to some considerable extent due to this handicap.

JOHN NORDLINGER.

23rd December, 1935.