Abstract:

The agricultural credit markets in Vihiga Divison of Kakamega District, Kenya, were analysed using descriptive statistics and regression analyses applied to both secondary and primary data. The objective was to valuate the causes of the limited use of formal credit in the division. The following factors were responsible for the limited use of formal credit by the small-scale farmers: Firstly, the formal credit sources had tight and rigid eligibility criteria as well as cumbersome application procedures and credit delivery systems which also made the borrower cost to be high. Secondly, the supply of credit was below its demand and therefore there were not enough funds for every borrower. Thirdly, loan repayment schedules were incompatible with the cash-generating pattern of agricultural enterprises and this was a disincentive for would-be borrowers. Lastly, some farmers never applied for formal credit either because they were not aware of its existence or because of tight and rigid eligibility criteria associated with it. As a result of these factors, informal credit sources were the predominant sources of credit for the farmers.