INFORMAL AND FORMAL CREDIT IN RURAL KENYA

A Case of Western Kenya Grassroots Borrowing and Lending in an Institutional Development Perspective

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INTRODUCTION

The channelling of increasingly large amounts of development credit into the rural sector can be traced to the 1970s. It was mainly the outcome of the identification of rural development as the focus of aid and development strategies under the aegis of the World Bank.[1] There is no doubt that for the developing countries in particular this was a major landmark in development thinking and practice marking a departure from macro oriented economic policy focused on growth and industrialisation strategy with a heavy urban bias. Instead, the traditional and underdeveloped sectors, especially agriculture, which were hitherto neglected somewhat suddenly became of prime concern.[2] A significant highlight of this new trend was the increased earmarking, promotion and distribution of credit for production within the agricultural sector.[3]

It should however be noted that the emergence of official credit specifically for smallholders was closely linked to the concern basically of modernisation of the agricultural sector. In most sub-Saharan African countries historically this happened a decade or two earlier towards the end of the colonisation period. In the case of Kenya it was in the 1950s when, with the view to impending political independence, the concern with agricultural modernisation embraced the African farmers. It was then that the colonial administration initiatives to provide agricultural credit for African smallholders farming started.

It was, at any rate, later in the 1970s, when credit became part of the rural development package, that organisational arrangements for distribution of official credit to smallholders in Kenya started emerging. These took the form of special credit schemes essentially for production of specific crops for instance coffee, cotton, sunflower, sugarcane, tea, maize etc.

It is the broad objective of this discussion to examine the different organisations for credit in the rural sector in Nyanza and Western provinces of Kenya focusing on the relations between informal and formal credit to determine the role of both in rural development. The two major issues to be addressed are first, the form of rural institutions for borrowing and lending in terms of their origins, methods and scope of operations, services, leadership and clientele/beneficiaries. Secondly, the role and capabilities of these institutions in rural smallholders socio-economic development.

Credit Organisation as Rural Institution-Building

The analysis of the various forms in which borrowing and lending takes place amongst smallholders can basically be understood in the broader context of building institutions for rural development. It is indeed 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.[4]

The main rationale for institution-building derives from the focus, especially since the 1980s, on sustainability of initiatives in rural development. In a fundamental sense, in relation to institution-building, and particularly in terms of implementation of rural programmes, sustainability has meant the development of the capacity of the rural people to manage their own affairs. It is further argued that this capacity that enables rural residents to determine and control their own affairs can be realised through strong local institutions.[5]

Local level institutions for development would comprise government and non-government organisations, community organisations including indigenous based groups, co-operatives, etc. In terms of the essential roles of these organisations these would include acting as catalysts for local development initiatives and projects, disseminators of new ideas, and innovations and providers of critical information. In a nutshell the critical role to be played by the local level institutions is to act as intermediaries between the people and government. They should provide avenues for participation to ensure development by people and for people such that economic growth translates into sustainable improved well-being of the people.[6]

The significance of the foregoing conceptualisation of local institutions and their role becomes apparent given the recent negative experience with Integrated Rural Development (IRD), which was a major perception of development in the rural areas very much in vogue in the 1970s. An important assumption of IRD was that a critical minimum effort essentially through external intervention was necessary to have a noticeable impact on target populations in a short time. The projects were therefore concentrated in a limited area and were administered through semi autonomous agencies which paralleled other government agencies. The focus of these projects conceived under IRD was on small farmers and an attempt to promote improvements in the quality of rural life and increase off-farm opportunities.[7]

Review analyses of IRD experience have revealed certain basic shortcomings running contrary to sustainable development emanating from people's participation and therefore of relevance here. First, the projects were based on inadequate knowledge of technical possibilities and small farm conditions.[8] They in particular exhibited little understanding of the local institutional environment by, for instance, ignoring local knowledge and indigenous organisations. The second shortcoming, related to the foregoing one, was that the administrators of these projects tended to regard rural communities as undifferentiated masses and therefore frequently ignored social structures and economic and political hierarchies. A major consequence was the local elite becoming the main participants and thereby reaping disproportionately larger benefits and not the targeted poorest 40 percent.[9] Thirdly the increased scope of rural development activities meant that most could not possibly be sustained simply because they exceeded the design, implementation and evaluation capacities of national governments and donor agencies.[10]

These shortcomings of IRD experience underline the need to approach the organisation of smallholders credit as rural institution-building. This in essence means that credit organisations should be seen to undergo an institutionalisation process that takes place over time, reflecting the particular 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.[11] The resulting institutions whether conceived as groups or practices are not just technical instruments like organisations designed as a means to definite goals that become expendable after the achievement of those specific goals such as organisations for the sole purpose of distribution of food to victims of a temporary famine. The institutions in question in addition, also have a "natural" dimension, being products of interaction and adaptation and having become receptacles of group idealism making them less readily expandable.[12] Thus non-indigenous and/or indigenous based institutions may be suitable for organising smallholders credit depending on the particular circumstances.

In the African context, however, the role of indigenous elements as regards rural smallholders credit is yet to be fully recognised. This is partly due to a persistent negative view of credit organised on the basis of indigenous arrangements. These have been generally regarded as working at best inefficiently and frequently censured for exploiting small scale borrowers. At the same time smallholders have been seen to be in desperate need of a prerequisite for adoption of new and profitable technologies. The major consequence has been emphasis on access to formal credit on concessionary terms and informal credit not assigned a proper role or being shunned altogether.[13]

Informal and Formal Credit

The analysis of the relations between informal and formal credit calls for a broad view of credit to include any transfer of goods or services between one person or group and another, or to any of its members, with expectation of a return at a later time. The return may take the same form or a different one.

The use of the term "informal" here is in the conventional sense, meaning non-institutional, unregulated. This is however not to suggest that unofficial systems are without unregulated activities. The formal-informal distinction usage is therefore not as a rigid analytical category but as a heuristic or shorthand device.

Moreover "informal" and "formal" modes of credit are not distinct spheres, but interlocking parts of larger, more complex networks of borrowing and lending. The parts may compete, co-operate symbiotically, or simply co-exist. They usually change in relative importance, seasonally and over longer periods.

The overflow of formal upon informal credit systems can take many forms. A good case in point is institutional lenders, through special credit schemes, deliberately seeking to 'undercut' informal lenders thought to charge exorbitant interest rates. And yet some institutional lending relies heavily on ancillary local-level "informal" lending for its functioning and vice versa. For instance long delays of co-operative loans often results in farmers arranging secondary loans among themselves to be able to complete the necessary farming activities especially land preparation, planting and weeding in time for the rains. Sometimes the promise of a formal loan can be used as a form of guarantee to secure informal credit.[14] Likewise, those receiving formal loans can lend to informal borrowers using these very same resources from formal sources.

General Characteristics of the Study Area

The study area where data was collected during a period of 8 months in 1988/89 is in two rural locations of western Kenya namely, Nyakach in Kisumu District, Nyanza Province and Vihiga in Kakamega District, Western Province.[15]

Nyanza and Western are adjacent provinces in the Lake Victoria basin but the two research locations, generally having contrasting socio-economic characteristics, were purposely selected to generate data to facilitate comparison between different socio-cultural environments. Nyakach in Kisumu is inhabited by Nilotic speaking Luo while Vihiga in Kakamega is inhabited by Bantu-speaking Luhya. The two areas are in addition in different agro-ecological zones.

1. Nyakach

Nyakach area of study is in a lowland cotton zone lying below 1219 metres above sea level on a flat plain on the shores of Lake Victoria.[16] This is a low rainfall area receiving a mean annual rainfall of 762 millimetres. But the key feature is poor reliability and high evaporation levels which makes increased land use productivity dependent upon meeting crop needs for water during the critical growth period of the year. The rainfall regime of the area allows for only one cropping season annually during the long rains falling in March/April. The area in fact suffers from frequent drought and flooding.

The soils, mostly of the black cotton type, are poorer and generally of low productivity reflected in the poor vegetation of mainly grassland with scanty shrubs. The land along the lakeshore is marshy and mostly covered by papyrus plants. Land has been surveyed, adjudicated and registered in both Upper and Lower Nyakach but not for the whole of Kisumu district, notably Maseno and Winam divisions.

The whole of Lake Victoria basin is in demographic terms a heavily settled region with a population distribution pattern largely influenced by the rainfall distribution. The lakeshores where rainfall is low and erratic population is sparse compared to the higher plateau area where it is moderate and the highest areas of heavy rainfall where the population is clustered. Nyakach located in the lakeshore has therefore a relatively lower density of just above 100 persons per sq.km.[17] The area carries the smallest proportion of the total district population and also has the least dense population in Kisumu district as a whole.

The residents of Kisumu district derive their livelihood mostly from small-scale agricultural farming, fishing and industrial activities. Smallholders produce mainly maize, sorghum and beans which takes up nearly two-thirds of their farm land.

Sugar cane and cotton are the two major cash crops in the district. However it is cotton that is the main cash crop grown in the Nyakach area of study while rice is also grown on a small scale using flood irrigation.

In the area of study although there is increasing market participation, subsistence-oriented agriculture is still widespread. The general practice is mixed cropping of maize/sorghum by farmers most probably to spread risk against crop failure due to drought. Sorghum is the most important subsistence crop not only in Lower Nyakach but also in most parts of the plains. Drought resistant, mainly root crops e.g. cassava and sweet potatoes are also grown to cope with drought or emergency seasons.

Livestock farming in the area involves keeping of indigenous stock feeding on natural pastures under the communal type of grazing system. There are indications of over-grazing particularly in North Nyakach where poor range condition has been noticed already by the livestock field staff.

There are fishermen among the people of Nyakach living in the immediate vicinity of the lake engaged in the production of different species of fish. It has been recognised that, with the present state of technology in use in Lake Victoria waters, the fishing occupation is a very hard type of manual work and is physically insecure due to the dangers of drowning. It is also viewed as economically insecure because of the low levels of returns. This situation is complicated by the tendency among fishermen to spend their daily income almost immediately and be left with little saving in cash.

The fishermen are generally considered strongly traditional in nature and usually invest more in the traditional economic sector. Thus the earnings of a fisherman are used first to provide for the needs of his family and to take care of his fishing equipment. The remaining income is then ploughed into purchase of livestock especially cattle which is the traditional embodiment of wealth. The livestock can subsequently be utilised for investment in other sectors. In the case of fishermen in particular, who are mostly polyganous, cattle are commonly mobilised for "marrying additional wives".[18]

Agriculture continues to lead over other sectors of the Kisumu district economy in terms of contributions to employment. It was estimated in 1986 that those engaged actively in smallholders agricultural and livestock activities constituted about 55 per cent of the total labour force.[19] The private non-agricultural and informal sector operations, mainly in market and town centres, employed about 16 per cent. The public sector constituted 29 per cent of the total labour force. Thus household income in the district is derived from three main sources in order of importance namely, farm enterprises; non-farm enterprises; and salary and wages.

It also needs to be underlined that the structure of the population is such that the proportion of young persons who have not reached productive age has grown very rapidly. As of 1988, nearly 47 per cent of the total population estimated to be 715,346, was in this category. This population group is therefore virtually equal in proportion to the total labour force (those between 15 and 59 years old) calculated at 49 per cent.

The labour force figure estimated by Central Bureau of Statistics (CBS) in 1988 was 354,283 people. It comprised of 183,566 females and 170,717 males. This gives a high unbalanced sex ratio of 93:100.[20]

2. Vihiga

Vihiga area of the study is in the distinctively different highland tea zone.[21] The altitude in this area is higher and rises to well over 1219 metres in some places. Rainfall is also higher at 1,778 millimetres mean annual with no dry season. The probability of obtaining less than 750mm of rain in a year is only 0 per cent to 10 per cent. Thus reliability of rainfall is also higher and the area is therefore better watered and not susceptible to floods due to proper drainage down the hilly terrain. The rainfall regime has two maxima in April/May and August/September resulting in two cropping seasons in the long rains, February to June, and short rains, August to November respectively. The mostly well drained, dark red friable soils are fertile. However, the original vegetation, probably a moist mountain-oriented forest has been replaced by cultivation savannah mainly due to population pressures on land.

Vihiga is located in a zone of high agricultural potential suitable for maize, coffee and exotic cattle. All land had been surveyed, adjudicated and registered in Vihiga and in fact in the whole of Kakamega district as of 1976. All land title deeds have therefore been processed and collected or are awaiting collection by the owners.

Vihiga is however one of the divisions with the highest population concentration in the densely settled Kakamega district which also has a rapidly growing population. The population density is estimated to be 1000 persons per sq.km. The pressure on land is therefore very great with a major effects of inhibiting the economic management of available resources.[22]

The average land holding is less than 0.5 ha per family, or household. This is far below the FAO accepted area for subsistence purpose of 1.4 ha per family.[23] The key concern however is the continuing subdivision of these into even smaller units due to population pressure. The major result of this is giving rise to a decrease in the land-owning family's ability to produce basic crops for its subsistence. At the same time the sub-division also results in an increase of family units headed by persons who neither own nor have access to land.[24]

An important factor regarding population distribution in the Lake basin is that historically it is an area of out-migration particularly of males in the 20 to 45 years bracket many of whom return later in life. The population migrates into commercial farming regions and urban centres throughout the country.

The high density of population and scarce land in Vihiga has meant a greater out flow of people, to the neighbouring Rift Valley districts and to other less densely populated divisions of Kakamega district such as Lurambi, Mumias, Kabras and Lugari, in search of land and/or other income earning opportunities.

Kakamega is basically an agricultural district with a large proportion of the farmers practising small-scale mixed farming. Maize and beans are the two most important food crops in the district. In addition sorghum, millet, English potatoes, vegetables, cassava, bananas, pawpaws and other fruits are also grown and livestock kept. The cash crops include coffee, cotton, tea, sugarcane, french beans, sunflower and the rearing of dairy cattle.

In Vihiga specifically the crops grown comprise coffee, tea, french beans, maize, beans, millet, sorghum, bananas, pawpaws, sweet potatoes and dairy cattle keeping. Land area estimated at 3,104 sq.km is still under subsistence production. However the most significant point regarding agricultural production in this area is that the division experiences food deficit is and grains, especially maize, come into the local market from outside of the division. In most cases, maize produced by a household within the division may not be adequate to sustain that household for more than three months after the harvest. In other words maize grown is mostly depleted at the household level and hardly reaches the local market.

At issue basically is population pressure on land which is so great that first, most of the land has been under continuous cultivation over the years and is therefore in need of fertiliser and high yielding seed in order to be satisfactorily productive. Secondly, there is no more land to be subdivided into family holdings. This acute land scarcity also places a major obstacle in the provision of social service facilities such as education, health and transportation due to major constraints in the acquisition of public land for physical construction.

Employment within Kakamega district is largely within the agricultural sector, mainly smallholders, that accounted for 24 per cent of total labour force in 1988. The private non-agricultural and informal sector operations constituted only 8 per cent while a meagre 6 per cent of the labour force were in public sector employment.

The most striking figure, at any rate, is 62 per cent of the labour force classified as out-migrants.[25] There has actually been increased out-migration mainly due to rapid increases in the labour force mostly through additions from the large numbers of school leavers who apparently cannot all be absorbed by the agricultural sector.

The total labour force estimated at 599,460 people in 1988 constituted 42 per cent of total district population. It comprised of

333,172 females and 266,288 males. This also gives a high unbalanced sex ratio of 80:100.

The economic activity within the district still being largely geared to producing subsistence crops has meant that transfer earnings in the form of remittances by Kakamega out-migrants are an important source of livelihood. It is assumed that 50 per cent of the out-migrants are gainfully employed and on average remit Ksh 100 per month to their kin and dependants staying within the district. There is otherwise a high contribution by wage employment, especially the public sector, to the districts income but this income is very limited.[26]

Open unemployment is non-existent due to the absence of an industrial sector. It is "disguised" employment which is rampant within the agricultural sector and is particularly evident in the populous southern divisions including Vihiga. In these southern divisions, surplus labour exists throughout the year in contrast to the north which experiences seasonal shortages of labour.

In 1988 the percentage distribution of population by specific groups showed that over one-half of the district population consisted of people below 15 years which means that the district overall has a youthful population. If this youthful proportion of the population is combined with those in secondary schools as well as those over 60 years they all add up to about 65 per cent of the district population. The major implication is that nearly two-thirds of the total population, estimated at 1.43 million in 1988, is comprised mostly of dependants under the care of about 35 per cent of the district population. This means that provision of basic facilities especially food, health and education is likely to use up most if not all surpluses available thereby negatively affecting the district's ability to save and invest.

Study Methodology

The source of data, derived mainly from fieldwork in Nyakach and Vihiga, comprised smallholders individuals or households, individual nonfarm entrepreneurs, rural government and nongovernmental field personnel, rural leaders of co-operatives, women groups, leaders and rank-and-file members of "ROSCAs) and other local welfare organisations.

In drawing a sample for this study, multi-stage sampling and various sampling methods were used to net the different categories of respondents that could furnish us with comprehensive information on the diverse aspects of borrowing and lending among smallholders.

In the first instance the researcher together with seven field assistants, during the months of July-August-September 1988, carried out unstructured interviews with 90 residents of Vihiga and 71 residents of Nyakach. These were residents of villages/localities sampled mainly on the basis of different levels of socio-economic development and ensuring equal representation of men and women. Respondents were asked questions about themselves and their neighbours aimed at delimiting the nature and scope of borrowing and lending within the particular locality. In addition, information was obtained for this purpose from discussions with leaders of various local organisations and field personnel of government agencies and NGOs.

The second major step was taken in March-April 1989 when semi-structured and structured interviews were conducted with the sample 208 Vihiga respondents and 131 respondents in Nyakach resulting in a total stratified sample of 339. The categories of respondents included first, 46 "borrowers and lenders" randomly selected from a listing of all residents of Vihiga and Nyakach previously informally interviewed in 1988.

Secondly, 31 members of agricultural marketing co-operatives which had participated in specialised credit schemes were interviewed in both locations of the study area. These respondents comprised those who had received loans, randomly selected from loan recipient lists obtained from the societies, and a few members who had not received credit. The societies were S. Nyakach FCS, Wamondo FCS and Lunyerere FCS.

Also included under specialised credit schemes were 33 respondents randomly selected from a listing of beneficiaries of the Special Rural Development Programme (SRDP) in Vihiga where this particular credit programme was implemented in the early 1970s. An important consideration in including SRDP in this particular study was to provide historical depth to our understanding of official credit.

Thirdly, 84 respondents, members of savings and credit co-operatives (SACCOs) including a small number serving as a control group were randomly selected from purposively chosen SACCOs on the basis of size, level and nature of operations of SACCOs in the study area. The SACCOs included in the sample were those for teachers, government staff in public administration, health, education and agriculture, etc. as well as health workers of an NGO.

Fourthly, following essentially the same sampling strategy as in the case of SACCOs, 73 respondents, members of five different women groups were identified and interviewed in Vihiga and Nyakach.

Fifthly, 72 respondents, members of six different rotating savings and credit associations (ROSCAs) were identified and interviewed using the same sampling strategy followed in the case of SACCOs and women groups.

Lastly, it was felt that an indepth knowledge of borrowing and lending would be gained by monitoring credit transactions regularly on an ongoing basis during the period of the field survey. To this end, 27 households and 12 nonfarm entrepreneurs such as carpenters, tailors, retail traders, etc. were identified for at least two visits in one week in the case of every informant in this category. The basic idea was to depict a complete picture of credit arrangements from the standpoint of the particular household or nonfarm entrepreneur and the diverse aspects of borrowing and lending to be portrayed in detail and in their entirety. This set of information would then form a broad base and supplement standardised information yielded from the 339 respondents, constituting the stratified sample, who were interviewed using the same questionnaire.

The breakdown of the total stratified random sample according to the two locations in the study area is presented in Table 1.

Table 1. Study Sample

RESPONDENT CATEGORY	VIHIGA	NYAKACH	TOTAL
Borrowers and Lenders	28	18	46
Marketing Co-operatives	10	21	31
SRDP	33	NA	33
SACCOs	39	45	84
ROSCAs	48	24	72
Women Groups	50	23	73
TOTAL	208	131	339

The sample was constructed with a focus on rural smallholders credit activities both informal' and 'formal'. This is apparent from respondent categories based on the various major sources of credit in the rural sector including informal sources, co-operatives, ROSCAs, SACCOs and women groups.

BACKGROUND CHARACTERISTICS OF HOUSEHOLDS IN THE STUDY AREA.

Demographic Data

The respondents in Nyakach are all members of the Luo ethnic group. They are however, due to sparse population of the area, widely spread out on the ground. They are consequently settled in only three locations and 17 sublocations. In Vihiga, the respondents belong to the Maragoli and Tiriki ethnic groups which are members of the broader Luhya ethnic grouping. In this area of high density population settlement, the respondents are for administrative purposes divided up into as many as 10 locations and 25 sublocations. However, they are relatively closer in proximity as neighbours compared to Nyakach generally, due to relative closeness of the homes.

The respondents composed overall of 53 per cent females and 47 per cent males were therefore with regard to gender, nearly equal in proportion for the whole survey sample. However, Vihiga had a disproportionately higher percentage of female respondents (60 per cent) than males (40 per cent). In direct contrast in Nyakach male respondents (60 per cent) were more than females (40 per cent).

The marital status of the respondents also showed a marked difference between Vihiga and Nyakach in terms of monogamy and polygany. In Vihiga monogamous marriages are predominant (86 per cent) and polyganous marriages are greatly limited (3 per cent). In the case of Nyakach polygamous marriages are a sizeable proportion (24 per cent) and monogamous marriages (61 per cent) less predominant than in

Vihiga. The disparity underlines the significance of the tenacity of cultural practices relating to marriage among the Luo and the social influence of christianity among the Maragoli.[28] The two places by and large shared similarities when it comes to respondents who are not married monogamous or polygamous because they are divorced/separated, single or widowed. This group of respondents in Vihiga as in Nyakach constituted a relatively much smaller proportion of around 10 per cent only. This underlines the continued strength of family life in rural society.

The two localities are also virtually similar regarding overwhelming dominance of men as heads of households. In Nyakach 95 per cent and Vihiga 93 per cent of the household reported being male-headed while only 5 per cent and 7 per cent respectively are headed by women. The somewhat slight edge Vihiga, with relatively more female-headed households, has over Nyakach should be seen in a broader context. In view of the prevalence of outmigration in Vihiga, in addition to households headed by women without husbands, there are those lacking resident males because husbands reside elsewhere and are in effect absent. In both cases, the smallholding is operated by a female who therefore effectively becomes the head in the absence of a male head.

Thus in the case of males in wage employment and residing away from home, for instance, in town, while their wives reside on the rural farm, there has been reference to "one family, two or more separate households".[29] It is in this light that a higher proportion of female respondents, more so in Vihiga, should be understood. The female respondents are the ones mostly found at home and are also the ones who are knowledgeable about the rural smallholding operations.

In comparison to an estimated figure of up to 30 per cent female-headed households reported for Kenya as a whole, the proportion of such households in both Vihiga and Nyakach is much lower.[30] This disparity can be largely attributed to Luo and Luhya cultural norms in which there are strong patrilineal kinship ties virtually excluding women from inheritance of land and setting up of homes. There are instead inbuilt into customs and tradition of both ethnic groups, arrangements for social and economic welfare of women without husbands mostly within the extended family network.

It can be argued therefore that the rise of female-headed household in the study areas, more especially in Vihiga relative to Nyakach, is in part due to the socio-economic decline of extended family arrangements. This trend essentially has been triggered off by increasingly small land holdings that are inadequate even for the livelihood of the nuclear family or land dispossession that leads to the extreme consequence of being deprived of the main source of livelihood. In the same vein polygany, as a social institution that in the rural sector generally has economic basis in adequate land ownership such that each wife has an individual holding, is set to be on the decline a trend exacerbated by the ownership of increasingly smaller pieces of land or complete lack of land.

The information on household membership revealed that in Vihiga and Nyakach, size of households is in most cases large. The average number of people living in a household was found to be approximately 9 and 10 in Vihiga and Nyakach respectively. The breakdown by sex of people living in the household, including children further revealed that there were roughly equal numbers of males and females. But households in Nyakach tended to have a somewhat greater proportion of females in them than Vihiga which it would seem is mainly due to the continued prevalence of the practice of polygany. The household size and structure are therefore by and large similar in both areas.

The average age of heads of households was found to be around 50 years in both localities. The ages however tended to be slightly higher in Nyakach compared to Vihiga which generally has a relatively more youthful population as already indicated in the background demographic information.

Education and Training

The responses on the education of those interviewed in both areas show that about two-thirds of them have had formal education mostly up to primary and secondary level and are therefore at least literate. It is with regard to lack of formal education that Nyakach with a high figure of 21 per cent shows a significant difference compared to Vihiga with a low figure of only 9 per cent. This disparity can be understood in terms of mainly poor access to educational facilities in Nyakach in particular. It is furthermore important to bear in mind the fact that women, who comprised a substantial portion of the study sample, historically have had limited access to formal schooling as compared to men. The implication is that inadequate schooling opportunities would tend to work to the greater disadvantage of women than men.

There were a good number of respondents who said they had acquired practical training or skill apart from formal education, more so in Nyakach (42 per cent) than Vihiga (33 per cent). These, in Nyakach, were mostly teachers while in Vihiga both teachers and tailors featured prominently. This in a way points to a relatively greater diversity of occupations reported in Vihiga than Nyakach.

Occupation and Other Income Sources

The leading main occupation is farming as reported in both areas but to a slightly greater extent in Nyakach (59 per cent) than Vihiga (51 per cent). It is however useful to recall here the largely subsistence orientation of farming in Nyakach hence inadequate as a source of livelihood for large households. In the case of Vihiga there is a deteriorating land ownership situation due to subdivision and population increases. It can be argued that these are key factors contributing to the apparent decline of farming as the main occupation in the two areas.

Teaching is next to farming in importance in both areas but reported by only 24 per cent in Nyakach and 29 per cent in Vihiga as the main occupation of these respondents. The discrepancy between these figures and the higher figures for those reporting having trained as teachers especially in Nyakach can be interpreted to mean that a number of teachers perceive or adopt some other occupation as the main occupation possibly due to low earnings from teaching. Also, to some extent the discrepancy can also be explained in terms of retirement, given the 50 years average age of respondents.

The respondents reported other types of occupation including civil service, artisan/blacksmith and petty trade but in each case below 10 per cent and therefore to a much lesser extent. The larger public sector and informal sector development in Kisumu generally, relative to Kakamega, helps explain higher figures for civil servants and artisans/blacksmiths reported as main occupations in Nyakach compared to Vihiga. It is in the case of petty trade mostly in agricultural products that Vihiga had a somewhat stronger showing (5 per cent) compared to Nyakach (1 per cent).

The respondents have other sources of income apart from the main occupation in both Vihiga (84 per cent) and Nyakach (68 per cent). Remittance is outstanding as an additional source of income, especially in Vihiga. It is followed by farming but not closely. To a much lesser extent petty trade is viewed as an additional source of income.

Those interviewed to a large extent particularly in Vihiga (67 per cent) than Nyakach (59 per cent) said they have members of their households working elsewhere and sending money back home. The information on relationship to the head of the household revealed that those sending money comprised the head, sons and daughters. In Nyakach the sons play an outstanding role in this regard compared to the head and daughters whose roles seem to be lesser and of virtually the same degree. In contrast, the head and sons play equally important roles in Vihiga while daughters play a relatively lesser role.

The heads sending money back home to their households were found to be husbands. In view of the fact that sons featured prominently in sending money, it is evident that the historic male domination of outmigration for purposes of wage employment is still continuing. Daughters have however played an increasingly important role mainly due to acquisition of formal education that has enabled daughters, in addition to sons, of the household to secure wage employment and get monetary earnings.

The detailed information sought and received on all adult members of the household working off the farm is consistent with and corroborates the foregoing findings on household members working elsewhere and sending money back home. The number of adults reported by households to be working off the farm is disproportionately larger in the case of Vihiga, almost double, than Nyakach. There is however a major similarity between the two areas regarding marital status of those working off the farm, evidenced by the fact that the majority, about three-quarters, are married in both Nyakach and Vihiga.

The numbers show that within the households in both areas it is the sons who are mostly working off the farm and clearly in a leading position much more so in the case of Nyakach. In the case of Vihiga other members of the household notably husband, wife and daughter also undertake jobs off the farm and apparently play a major role in household welfare through contributions to total income earnings of the household.

It is significant to point out that by inquiring broadly about members of the household working off the farm, the important role of wives and daughters, came out much more clearly. The indication is that women are mostly rural agricultural workers and are usually not perceived as working elsewhere, commonly understood to be away from rural residence in urban locations. The apparent consequence is a tendency of under reporting of earnings by women mainly due to failure to recognise incomes from rural/agricultural work. The end result is an under estimate of the contribution of women to the welfare of the household.

The information collected on the locality of off-farm work shows the employment in the rural sector to be of major importance also, compared to urban employment. Those reported to be working within their district were in proportion a little more than those working outside. It needs to be pointed out, to take care of the argument that district headquarters, Kisumu and Kakamega, are urban centres that those working in their districts were actually found to be mostly working within the division outside the district headquarters. This was much more so the case in agriculturally relatively more productive Vihiga than in Nyakach.

In brief, the agricultural productivity of a rural area greatly determines the nature and extent of availability of rural sector farm and off-farm employment. The implication is that for rural dwellers, especially women, the existence of productive employment locally means a greater contribution to the welfare of the household and generally to local level development.

It would seem, however, that in both Vihiga and Nyakach the various factors limiting agricultural development have resulted in limited farm and more so off-farm agricultural employment. Those reported to be working off the farm were found to be mostly in wage, public sector employment mainly as teachers and civil servants. Government was specifically identified as the employer of approximately two-thirds of adults working off the farm and coming from the two areas. This finding is consistent with subsistence orientation of agriculture in Nyakach and in the case of Vihiga outmigration coupled with subdivision of farms. Likewise the decline of farming as the main occupation observed earlier is corroborative evidence of more people being engaged in off-farm non-agricultural work.

Land Ownership and Use

Land ownership and cultivation show similarities and significant differences between households in Vihiga as compared to Nyakach households. In both areas the majority of the respondents (over 90 per cent) reported cultivating their land as owners over a long period spanning at least one generation. Furthermore, two-thirds of the respondents have never bought land. There were very few tenants who were found to be more in Vihiga (9 per cent) relative to Nyakach (5 per cent). This land ownership pattern generally underscores the persistence of well known African customary acquisition of land through male inheritance. This is despite the forces of change including outmigration and population pressure coming into play in recent years.[31]

The acreage owned by each household is small especially in Vihiga where the average size of an individual holding was calculated to be 3 acres but the minimum as little as one-quarter of an acre. In addition nearly all those interviewed owned no more than 10 acres. In Nyakach individual holding average size was found to be about 7 acres with a minimum of one acre. At the same time around 10 per cent of the respondents own above 10 acres.

The holding is in most cases in the locality of birth or ancestral home of the respondent. However, a few respondents reported owning pieces of land elsewhere outside their locality of residence more so in Vihiga (28 per cent) than in Nyakach (15 per cent). It is useful to note also that the average size of land owned elsewhere by Vihiga households is much bigger almost double the size of pieces of land in the locality of original residence. In Nyakach, on the contrary, land owned elsewhere is of smaller size, less than one-half the average acreage owned in the locality of origin. Thus there is a trend of land ownership elsewhere, especially in the case of Vihiga, that can be attributed mainly to land scarcity due to population pressure in the area. In Nyakach the problem may in part be land fertility.

There is indeed relatively more land acquisition through purchase in Vihiga than in Nyakach. When asked whether they had ever bought land 42 per cent of respondents in Vihiga said yes as compared to only 18 per cent of respondents in Nyakach. The response by those who had bought land regarding the year of land purchase indicated that land buying practice has a longer history in Vihiga than Nyakach. The reported cases in Vihiga date back to the 1930s while in Nyakach it is more recent starting from the 1950s.

The information on years of land purchase overall shows that the practice essentially started taking root in both areas from the 1930s, and subsequently intensified in the 1960s. In the 1970s and 1980s the higher level of land sales would seem to indicate an increased demand for land. There are apparently two phases here of what is seemingly initial stages of an evolution process of a land market. The first in the 50s and 60s, immediately before and after independence, roughly coincides with the peak of African smallholders agricultural modernisation epitomised by the implementation of land adjudication and registration. The second phase in the 70s and 80s, roughly coincides with increased demand for land for purchase due to fast population growth and/or because land has increasingly been viewed as a form of safe investment.[32]

There is evidence showing that most (80 per cent) of those who purchased land had bought one piece only of mostly one to two acres. To a great extent they had bought land locally within their sublocation. Furthermore, a very large proportion, nine-tenths, had a land certificate or registration number of the land they had bought confirming bonafide ownership. It also shows knowledgeability and increased awareness of land transactions. The implication of buying the small piece of land locally would at any rate seem to be that the purchase of land is mainly for expansion of household farming and related non-farm activities.

It is therefore significant to point out in this connection the finding that financing of land purchases to a very large extent (80 per cent) was reported to be from the respondent's own funds and not a formal financing institution(s). Those who secured finance from elsewhere (20 per cent) reported having obtained funds only from co-operatives. Thus co-operatives turned out to be the alternative formal institutional source of financing, to which smallholders have access, for funding local development initiatives, notably land purchase.

The information on the various uses to which land had been put at the time of the study revealed a pattern of land use mainly for crop production. This was to a much greater extent in Vihiga than Nyakach. As a matter of fact in the case of Nyakach, due to relatively larger holdings, relatively bigger portions were allocated to other uses including pasture, fallow, bush/trees and homestead. Also what was classified as unusable land was much bigger in size in Nyakach than in Vihiga. These differences in land use are largely understandable in light of the major disparity in climate and the quality and sizes of land between the two areas discussed already.

Farm Produce and Marketing

The crops grown in Nyakach ranked in terms of the extent to which each is grown by the respondents in descending order include maize, millet, peas, cotton, beans, groundnuts, rice, cassava, vegetables and bananas. In the case of Vihiga the crops are maize, beans, coffee, bananas, tea, vegetables, french beans, potatoes, cassava, fruits, millet, sorghum and peas.

The land put under crop in Nyakach which on average is two acres is bigger in size compared to Vihiga with an average of just one acre. There is however use of fertiliser to a greater extent in Vihiga reported by more than 50 per cent of the respondents as opposed to only 10 per cent reporting fertiliser use in Nyakach. The application of insecticides is limited in both areas but there is the same pattern of the practice being found more in Vihiga (21 per cent) than Nyakach (10 per cent). Thus the growing of more cash crops and smaller holdings in Vihiga is understandably linked to the use of farm inputs to a relatively greater extent than in Nyakach. In other words there is evidence of more intensive farming in Vihiga than in Nyakach.

As regards sources of farm inputs those in 1988/89 were obtained mainly from local stockists more so in Vihiga. There is very limited reliance on co-operatives as a source of farm inputs in the area as one would expect in such a rural situation. This is in contrast to Nyakach where co-operatives are an important source of inputs even though local stockists are also the leading source as in the case of Vihiga.

The significance of co-operatives as a sou ce of inputs in Nyakach is understandable, bearing in mind the leading position of cotton as the major cash crop in the area. The growing of cotton, notably the provision of inputs, as well as the marketing of the crop have, until the last couple of years, been under the control of the Cotton Board and the co-operative societies and unions.

As regards purchase of farm inputs responses revealed that by far the leading source of finance was own funds of the respondent in Vihiga (87 per cent) and Nyakach (95 per cent). These figures were virtually the same for two consecutive years 1988/89 indicating that this is the normal practice. The other sources of financing, although playing a relatively minor role especially in Nyakach, are however worth noting for the purposes of this analysis. In the case of Vihiga the sources comprised co-operative, relatives and friends, commodity traders and commercial bank(s) while in Nyakach the sources were less diverse including relatives and friends, co-operative and only one instance of a commodity trader.

There is an important similarity between the two areas evidenced by heavy reliance on self-financing and to a limited extent turning to local sources, notably friends and relatives, as the main source of alternative funding. The evidence leads one to the conclusion that apart from co-operatives formal financial institutions such as banks, AFC, etc. play virtually no role at all in financing agricultural activities in smallholders areas like Vihiga and Nyakach. However, the diversity of funding sources in Vihiga that includes even commercial banks is a useful pointer to the view that financing of agriculture from formal institutional sources tends to be disproportionately channelled to agriculturally more developed areas.

There is similarity between the two areas in terms of marketing outlet for food crops produced which is mostly through local sales to traders and/or neighbours within the local market and even at home to neighbours. It is with regard to cash crops that there are variations in the marketing arrangements essentially because more cash crops are grown in Vihiga and each invariably has its own different arrangement. There is only similarity with regard to cotton in Nyakach and coffee in Vihiga that are both marketed through co-operative societies. The marketing outlets for tea, maize and french beans in Vihiga alone are a parastatal (KTDA), a co-operative union (KGGCU), and a private crop production and marketing firm (Hort Quip) respectively. There is therefore a wider range of types of produce marketing outlets in Vihiga compared to Nyakach.

The marketing outlets are for most respondents within a distance of two kilometres and therefore generally accessible in both areas. This is reflected in the modes of transportation of produce to the marketing outlets which are for the most part also similar in Nyakach and Vihiga. The leading type of transportation is carrying farm produce on the head combined at times with the use of hand drawn carts. This human porterage type of transportation is much more prevalent in Vihiga (77 per cent) than Nyakach (51 per cent). The use of animal/animal drawn cart is of outstanding significance in Nyakach reported by 39 per cent compared to a meagre 4 per cent respondents in Vihiga. Bicycles and motor public or private hire vehicles are also used but only to a limited extent especially in Nyakach (10 per cent) as compared to Vihiga (19 per cent).

The orientation to commercial farming in Vihiga reflected in crop production and marketing is also found in livestock production. In both areas livestock is kept by over 90 per cent of the respondents. However although those keeping cattle mostly reported possession of local breeds, more so in Nyakach where average heads of cattle almost twice the number for Vihiga, keeping of improved cattle was reported to a relatively greater extent in Vihiga. Sheep and goats are also kept in relatively larger numbers in Nyakach. Thus while increasing land scarcity is necessitating keeping of only certain types of livestock in fewer numbers, it is apparently resulting in the decline of subsistence farming in Vihiga as opposed to Nyakach.

Farm Labour: Availability and Use

The enquiries made on the availability of farm labour revealed that there is farm labour available for hire in each locality but reported more in Nyakach (33 per cent) than Vihiga (24 per cent). It was found that there is hardly the practice of importing nired labour from outside either of the two localities. It can therefore be said that there is heavy reliance on family/household labour in both areas that is supplemented with hired labour when the need arises, for instance for the tasks of land preparation, weeding etc.

Land preparation methods in both areas revealed major contrasts linked to differences in soil types, size of farms and land terrain. In Nyakach, with difficult to work black cotton soils but having relatively bigger plots on a flat plain, the use of mostly hired oxen for land preparation followed by hired tractors are predominant. It is only to a very limited extent that hired hands are used for land preparation and to a much lesser extent does one find the use of family labour for this purpose.

On the contrary in Vihiga using hired hands for land preparation is by far predominant given the more easily workable soils in the small plots situated in a hilly terrain. The use of hired tractors compared to hired oxen is to a more or less equal extent. But these two are used to a much lesser degree than hired hands.

The use of family labour and own oxen, although limited in both areas, was found to be still in practice in Nyakach more than in Vihiga. All in all therefore an important overall similarity between the two areas that can be deduced is that methods of land preparation currently in common use mostly involve payments for services rendered. The remaining farming tasks including weeding, harvesting etc. is then undertaken using household labour.

RURAL CREDIT SCOPE AND OPERATIONS

It should be reiterated that in this analysis of borrowing and lending among rural smallholders credit is broadly conceived. It includes any transfer of goods or services between one person or groups and another with the expectation of return later in the same form or a different one. The scope of rural credit is therefore very wide embracing both formal and informal modes of credit which, it has been argued already, are not at all distinct spheres. It is to gain insights into the nature and scope of these modes of credit that this study therefore undertook to comprehensively survey the various sources and forms of borrowing and lending in existence in Vihiga and Nyakach to help portray the credit situation in rural Western and Nyanza Provinces.

Commercial Bank and Non-bank Financial Institutions Credit

It is a general view which this study adopted that commercial banks and non-bank financial institutions fall in the category of formal institution credit sources. The main concern was therefore to ascertain the nature of links and therefore access smallholders have to them as providers of credit and the nature of their role in the provision of credit to smallholders.

Accounts Operated to Banks and Non-Banks

It was therefore important to first of all establish the extent to which smallholders belong to these institutions as clients/members. Thus those interviewed were asked whether they themselves or any member of their household have an account with a financial/banking institution. The responses revealed that virtually equal percentages in Vihiga (64 per cent) and Nyakach (65 per cent) have accounts with banks and/or non-bank financial institutions. Further information regarding the distribution of these accounts between the various financial institutions and the particular members of the household involved is given in Tables 2 and 3.

Table 2: Accounts Operated in Bank and Non-Bank Financial Institutions

Type of Institution	Vihiga N	Vihiga %	Nyakach N	Nyakach %
Commercial Bank	113	84	63	73
Non-Bank	2	2	9	11
Kenya Post Savings	18	13	10	12
Other	1	1	4	5
Total*	134	100	86	100

* Totals not adding up to 100 per cent due to rounding.
Source: Own compilation.

It is apparent that a major difference between the two areas is with regard to operation of accounts in non-bank financial institutions in which Nyakach has a higher figure. This can be explained by the fact that this type of institution witnessed a fast growth in Kenya only as recently as the late 1970s. The recent history, coupled with a crisis resulting in some closures in the 1980s, has meant that there has been no major expansion of these institutions outside the major urban centres such as Kisumu where they initially were established. Nyakach residents with more links in Kisumu as compared to those of Vihiga would tend to have a relatively higher level of contact with such institutions. The accounts reported with these institutions are mainly with Thabiti Finance Company branch in Kisumu.

The accounts in the case of commercial banks were found to be mostly with the leading established Kenyan banks namely Kenya Commercial Bank, Barclays, Standard and National Bank. Kenya Commercial Bank was outstanding in both areas mainly due to government part-ownership that has resulted in public sector payments particularly salaries being channelled through KCB. In addition, the recent policy of commercial banks to expand their branch network and move out of the main urban centres to district and/or divisional headquarters, major trading centres, etc. has been pursued vigorously by KCB. This must have contributed in a significant way to the capture of the market especially in Vihiga.

Those operating accounts were reported to have accounts mostly-around four-fifths in both Nyakach and Vihiga-within their district. There were only a few cases of those having accounts outside their province. These were found to be slightly more in Vihiga (13 per cent) than Nyakach (9 per cent) mainly due to the location of Kisumu in the neighbouring province not too far away from Vihiga and also easy access by road.

The accounts operated in Kenya Posts Savings are much lower in proportion compared to the commercial banks. This is striking and of interest in view of the fact that Kenya Posts has a long history of branch networks reaching deep into the rural areas and services including a savings component. It would seem that despite their accessability in the rural areas, the terms for operating savings accounts in a post office are restrictive. There is for instance no provision for channelling payments, especially monthly salary, through the account other than deposits and limited withdrawals by the account holder only.

Table 3: Household Members Operating Accounts with Banks and Non-Bank Financial Institutions

Relation to Head	Vihiga		Nyakach	
	N	%	N	%
Head	95	71	44	51
Wife	24	18	12	14
Son	11	8	29	34
Daughter	1	1	-	-
Brother	1	1	1	1
Other Relative	2	2	-	-
Total*	134	100	86	100

*Totals not adding up to 100 per cent due to rounding.

The operation of accounts by the different members of the household generally reflects their participation in off-farm wage employment. Thus in both areas the head of household, mostly husbands, lead. However, as regards other members of the household the sons are outstanding in Nyakach while wives are outstanding in Vihiga in operating accounts with banks and non-bank financial institutions.

It would sem that those interviewed may have been willing to give information mainly about they themselves having accounts but were not keen on fully reporting on accounts, hence incomes of other members of the household. A good case in point is a daughter whom it is expected will get married and cease to be a member of her parents' household. According to custom, on getting married her income/wealth belongs to her husbands' household. Although they both can continue to give financial and other assistance, the husband, as the household head, is commonly regarded to be in control. Furthermore the obligation of the husband is perceived to be greater towards his parents than his in-laws, the wife's parents.

However, whether one operates an account or not ultimately depends on whether there is a purpose for it. It is significant to note in this connection that it is currently a common practice for employers in the public and private sectors to pay salaries through the bank. It can be argued therefore that, since a sizeable proportion of those working off the farm in Nyakach and Vihiga are in wage employment, a major reason for most of these accounts being opened by employees is for the sole purpose of receiving their salaries. This is the case even in major urban centres including Nairobi.

A further similarity is that owing to the current high cost of living in Kenya withdrawal from salary earnings is generally made once at the end of the month even in Nairobi. The once-a-month withdrawal of salary earnings has actually been a well-known phenomenon over the years in rural towns where it is evidenced by overcrowding at the end of the month particularly by teachers.

The implication for this analysis is first, that banks and non-bank financial institutions are mainly a channel for salary earnings for most of those in wage employment in Vihiga and Nyakach. Secondly, there is a prevalence of once-a-month withdrawal transaction generally limiting interaction between account holders and the banks to one visit at the end of the month in a crowded atmosphere. Thus individual person-to-person business relationships with bank personnel is virtually ruled out.

The link to banks and non-bank financial institutions through operation of individual accounts aside, the critical issue for this study is the extent to which this type of institutions provide credit in rural areas like Vihiga and Nyakach for development. In other words, as the channels of formal credit, do smallholders in these areas have access to them, obtain credit and make use of it to improve their standard of living.

Those interviewed were therefore asked a number of questions specifically regarding the demand and supply of formal credit to their households. The opening question was whether the respondent or any member of his/her household had ever applied for a loan from any financial institution or bank. Those answering yes were 50 per cent in Vihiga and in Nyakach 47 per cent. This indicates nearly equal proportions in the two areas. It however also means that overall, just about one-half of the rural smallholders in these areas had sought to satisfy their credit needs through sources of formal credit.

The respondents were probed to help them remember and provide details of as many instances as possible of loan application to these institutions by any member of the household. Thus some were able to provide information on loan applications made as long ago as 15 to 20 years earlier. The number of instances of loan application reported by each respondent was mostly two but some respondents, although in decreasing numbers, reported on a third and fourth instance.

The identity of the members of the household who made the loan applications is shown on Table 4.

Table 4: Members of Household who Applied for Formal Credit

Relation to Head	Vihiga N	Vihiga %	Nyakach N	Nyakach %	Total N	Total %
Head	78	74	42	68	120	72
Wife	21	20	5	8	26	16
Son	1	1	12	19	13	8
Daughter	1	1	-	-	1	0.5
Father	2	2			2	1
Mother			1	2	1	0.5
Brother	1	1	2	3	3	2
Other Relative	1	1	-	-	1	0.5
Total	105	100	62	100	167	100

Source: Own compilation.

The heads of household whom we found to be to a great extent males are obviously in the lead in application for formal credit. A significant variation between the two areas is that in Vihiga the wife comes next to the husband while in Nyakach it is the sons. This pattern remained the same in all the instances, up to four, of application for formal credit reported. It is a useful pointer to the conclusion of males dominating access to formal credit. There is at the same time also an important indication of increasing access to this type of credit by women evidenced by applications in Vihiga that can be understood in terms of differences in on-going rural transformation in various parts of Kenya.

Types of Formal Credit Institutions

The information the respondents gave on the type of lender to whom application for loan had been made is interesting in two ways. First, it sheds some light on perceptions of sources of formal credit by smallholders. Secondly, one is provided with a useful impression of the range of sources of formal credit and the extent to which each one is within reach of smallholders.

Table 5: Type of Lender of Formal Credit

Type of Lender	Vihiga		Nyakach		Total	
	N	%	N	%	N	%
Co-operative	75	72	46	74	121	73
Commercial Bank	17	16	4	6.5	21	13
AFC	3	3	4	6.5	7	4
N/b Fin. Institution	3	3	6	10	9	5
Other	7	6	2	3	9	5
Total	105	100	62	100	167	100

It turned out, as shown in Table 5, that co-operatives are the major source of formal credit recognised by smallholders and approached for loans. The loan applications made, nearly three-quarters in both Vihiga and Nyakach, were channelled to co-operatives. The commercial banks even if taken together with non-bank financial institutions still remain a distant second implying a much lesser recognition and reach than co-operatives. The main surprise, at any rate, is the much poorer showing of AFC which is a special institution for financing agriculture that rural smallholders should be having a much higher level of contacts with for purposes of obtaining credit. It will be recalled that the predominant main occupation among smallholders in the areas of study was found to be farming. The root cause of the problem is AFC focusses on high potential cash crops and dairy farming with loan packages that exclude most rural smallholders.[34]

Purposes for Formal Credit

The purposes given for seeking credit provide useful indications for understanding the emerging pattern of contact with and recognition of institutions of formal credit. The information on purposes for loan applications is set out in Table 6.

Table 6: Purposes for Loan Applications

Purpose	Vihiga N	Vihiga %	Nyakach N	Nyakach %	Total N	Total %
Education fees	18	17	15	24	33	20
Building-residential	28	26.6	9	15	37	22
Land purchase	21	20	7	11	28	17
Farm inputs procurement	19	18	20	32	39	23
Cattle buying	9	8.6	2	3	11	7
Non-farm business	8	7.6	6	10	14	8
Tractor purchase	1	0.9	-		1	1
Car purchase	-		1	2	1	1
Other	1	0.9	2	3	3	2
Total	105	100	62	100	167	100

In broad terms the major purposes for which loan applications were made are farm inputs procurement, building a residential house, school fees and purchase of land. These are purposes for which initially agricultural marketing co-operatives and more currently savings and credit co-operatives have played a dominant role with regard to smallholders. Specifically, official credit for farm inputs has been historically channelled to smallholders through coffee and cotton co-operatives for example. In the case of Nyakach for instance the high figure for farm inputs can be linked to cotton crop co-operative credit.

The savings and credit co-operatives are quite flexible in terms of purposes for which credit can be obtained and have made available credit for various individual and household investment needs. Loans sought for purposes of putting up residential houses and paying school fees found to be outstanding in both Nyakach and Vihiga, as well as land purchase in the case of Vihiga, fall in this category. In additions farm inputs buying purpose is often also served with credit from savings and credit co-operatives.

The timing of most applications is also of significance. It was found that there was a concentration of applications for loans in the months of January to April. These accounted for around 50 per cent of all the applications reported. This points to an apparent link between the need for credit and payment of school fees at the beginning of the school year. This is also the period of land preparation, planting and weeding when there is need for farm inputs. Furthermore, this for western Kenya is the period referred to as "hungry season" when stored foodstuffs are depleted or run out completely and most rural households have to resort to various forms of borrowing to make ends meet. The implication is that co-operative credit, especially from the savings and credit type, is quite flexible serving a diversity of purposes and being available at the time of need.

It can therefore be argued that the purposes for which the majority of smallholders need credit are better served by co-operatives, especially savings and credit type of co-operatives, than commercial banks and even AFC. It is indeed a common view that for reasons of high administrative costs, commercial banks in particular prefer not to deal in small amounts of "personal" loans given to smallholders scattered in the countryside. This means that only a few smallholders, those who are well-to-do and/or have the right connections as far as credit is concerned get served by this type of institutions of formal credit. It is also evidenced by the fact that reported cases of those operating accounts with commercial banks was, as a percentage of our total sample, as high as 50 per cent. In contrast cases of applications for loans channelled to commercial banks constituted a meagre 6 per cent of our sample.

In another study, in an urban setting, it was found that only a limited number (36 per cent) of those operating accounts had made loan applications to commercial banks/financial institutions. Furthermore it was concluded in that study that banks/financial institutions are not regarded in any significant degree as sources of credit especially at the time of opening an account. To the contrary, nearly all (96 per cent) of those interviewed reported that the only reason for joining a savings and credit co-operative was to save and get a loan.[35] The findings of the present study of even fewer applications going to commercial banks indicates that in the rural areas, as one would indeed expect, they are much less perceived as sources of credit.

Credit Motive in Co-operative Participation

The major role of co-operatives as a source of formal credit for smallholders is further revealed by evidence of participation in co-operatives mainly for purposes of having access to credit. The membership of co-operatives showed the same pattern in the two areas of study. Fifty-five per cent of respondents in Vihiga and 58 per cent in Nyakach said they are members of co-operatives. In terms of co-operative type, savings and credit (SACCO) leads in both Vihiga (30 per cent) and Nyakach (31 per cent). SACCOs are closely followed by agricultural marketing co-operatives whose membership constituted in Vihiga 27 per cent and in Nyakach 28 per cent. There was hardly any reported membership of other types of co-operatives. In view of the relatively recent fast growth of SACCOs within Kenya's co-operative movement, they have apparently become increasingly popular even in the rural areas where marketing co-operatives have a much longer history dating back to the colonial period.[36]

The interest in co-operatives for purposes of obtaining credit was apparent from resources on services members say they receive from their societies. The number of respondents reporting receiving credit and savings services was the highest compared to any of the other services offered. An impact study carried out recently on agricultural marketing co-operatives only also found provision of credit to be highly rated by the members following closely on marketing of produce.[37]

It is important to add in this connection that the majority of those interviewed perceive the co-operative as belonging to the members and not the government or the management committee. This is significant for maintaining interaction within the co-operative as the members' own organisation. Indeed it was found that as many as three-fifths of those interviewed had participated in co-operative elections and most found members' attendance of election meetings satisfactory.

Participation in terms of application for loans from the co-operative was found to be high. Out of those reported to be members, up to two-thirds had applied for loans in both Vihiga and Nyakach. This is in great contrast to the wide disparity between those operating accounts and applications for loans channelled to banks.[38]

The procedures for loan application which are essentially those applicable to SACCOs were generally well known to the members. These included filling an application form, finding four guarantors, having been a member for at least six months and attaching a copy of the latest payslip.

How the application fared in terms of whether the loan was received or not is also a relevant consideration here as this determines the extent to which members benefit and consequently participate in co-operative affairs. In this regard the finding on all applicants for loans from bank/financial institutions is indicative bearing in mind that co-operative loans constituted the bulk of formal credit. The applications in question were overall found to have been successful to a very high degree, around 90 per cent. Furthermore the loans were to be about the same level received in cash and only to a very limited extent received in kind.

The explanations given for the few unsuccessful applications seemed to reflect more on the inadequacies of those seeking credit rather than inaccessibility of co-operatives as a source of credit for smallholders. These included failure by respondents to meet laid down loan requirements by for instance submitting applications late.

All the same, approximately one-third of co-operative members reported experiencing difficulties in getting loans which are worth noting. They were in effect complaining above all of delays in loan processing. There was also a strong feeling of unfairness in loan funds allocations, manifesting itself by way of discrimination or loan applied for not being granted in full, that was mainly attributed to corruption among co-operative officials.

The foregoing problems being experienced by smallholders in obtaining co-operative credit therefore need to be seen in the broader context of certain intractable problems they often come up against and which greatly limit their access to sources of formal credit. In our sample one-half of the respondents had not applied for loans from a co-operative or a bank and therefore had not sought to satisfy their credit need through institutions of formal credit. The major reasons given for not having applied were first, the respondent felt he/she does not meet the requirements for securing a loan from these sources (48 per cent). Secondly, some respondents felt they had other more readily accessible sources of loans and/or have no need at all for credit (26 per cent). Thirdly, some respondents said they lacked awareness of procedures and complicated requirements are a serious impediment to efforts of smallholders to get formal credit and actually constitute a major barrier between them and these sources of credit.

The information received on loan procedures and requirements of formal credit such as type of collateral, interest rate, grace period, default rate, etc. is by and large on co-operatives and pretty thin on banks and AFC. This unfortunately does not allow for what would have been an interesting comparison between different sources of formal credit, using primary data, that could have resulted in more comprehensive understanding of the forms and scope of these barriers facing smallholders in need of credit. However, in the discussion of informal credit the issue of credit procedures and requirements will be addressed in relation to formal credit paying attention to additional pertinent issues of loan amount sizes and target group stipulations so as to enhance that understanding.

As already argued informal and formal modes of credit are not distinct spheres, but interlocking parts of larger more complex networks of borrowing and lending. This however means that, in terms of identification especially for data collection and even analysis, it is relatively easier to investigate formal institutional credit which has been the focus of most analyses, compared to informal non-institutional credit without offices and proper records and viewed essentially as a residual category. The strategy adopted to gain a useful understanding of the nature, scope and operations of informal credit was therefore to cast as wide a net as possible to be able to capture whatever information respondents may give on their borrowing and lending activities, individually or in a group(s), other than formal institutional credit arrangements.

Rotating Savings and Credit Associations (ROSCAs)

Background Origins

It can be said that Rotating Savings and Credit Associations (ROSCAs) is the best known form of informal credit institution in sub-Saharan Africa. It has been particularly well documented for West Africa where its historical foundations have also been established.[39]

Two major forms of such associations identified are first "rotating credit association" referred to by various names in different places, for example, "njangi" (Cameroon), "esusu" (Nigeria) etc.[39a] In this form basically several persons contribute money regularly to a common fund and at each time of contribution give all of the money collected to a different member.

In the second form, the "Savings and Credit Association", members contribute varying amounts to what is in effect a savings bank of the association where funds are held for a year or sometimes longer. In that period members are eligible to take loans (with interest) from the savings of the group.[39b] Thus there is a savings component to the credit system.

It however seems that with mushrooming of savings and credit associations in recent years, in both rural and urban areas the term ROSCA is now used to refer to both forms of association. This is the apparent usage in the case of Zambia where ROSCA, with local names "chilimba" or "icilimba", although having principles that seem to conform with the first form i.e. rotating credit association, are labelled ROSCAs. At the same time in the Zambian case study, forms of savings associations akin to both rotating credit associations and savings and credit associations in terms of rotation, savings, mutual help etc., were identified.[40] All in all what this means is that apart from the different names given to this type of association it has overtime also taken varying forms in the same country.

In Kenya there is evidence of widespread existence currently of this type of association in various forms in both urban and rural areas. However, they apparently have a recent history generally confined to the post-independence period. This is mainly due to the discriminatory colonial policy that by law restricted credit opportunities for Africans. For instance, loans to Africans above Shs.100 were not permitted by law except in special cases authorised by the District Commissioner.[41] In the same vein local/clan associations comprising mostly welfare societies, burial societies and thrift associations were formed, in the late 1940s and 50s, by Africans, with the encouragement of the African elite, but their growth was thwarted by the colonial administration by turning down early attempts to register them as savings and credit associations under the Department of Co-operative Development. The official reasoning, is similar to the now familiar case of political independence, was that Africans were not yet ready to form such associations/societies. The truth of the matter was of course that the colonial administration did not favour independence and likewise credit to Africans. Thus it was not until 1964, after independence, that the savings and credit co-operative societies were registered in Kenya.[42]

The main purposes of these associations were to improve the welfare of the members, help bereaved families and venture into business. In certain respects notably savings and mutual help one can draw parallels with "njangi", "esusu" or "chilimba", even though our determined search for a local name(s) in western Kenya was not fruitful. The most commonly known and widely understood name seemed to be the obviously alien name of merry-go-round.[43] A Luo translation currently in common use is *"Nyaluora"*

The main concern in any case remains the nature and scope of operations of this type of informal credit institution which we set out to ascertain. The information received provided us with a useful perspective on informal credit which is relevant for understanding its operations wherever such associations are found in western and elsewhere in the country and even outside of Kenya.

ROSCAs in Vihiga and Nyakach

The responses regarding when those interviewed joined the first ROSCA clearly indicates that it is in the mid-80s that most people started getting significantly involved in ROSCA activities. The beginning is, however, relatively more recent in Nyakach where the first case reported is only in 1982. In contrast Vihiga had an early start dating back to the late 1960s and by 1982 nearly 20 per cent of the respondents had already joined ROSCAs.

It is of interest that there is a similar pattern with regard to co-operatives of an early start in Vihiga in the 1950s compared to Nyakach later in 1960s. A major involvement with co-operatives in both areas, however, comes later around 1980 and is linked to the growth of SACCOs. All the same there is an apparent somewhat earlier emergence of co-operatives than ROSCAs. It therefore seems that ROSCAs have in the 1980s experienced a relatively faster growth than co-operatives considering that fairly close figures were reported for membership of ROSCAs (52 per cent) as for co-operatives (67 per cent). This can also be interpreted as an indication of the relative importance of the two institutions to smallholders as intermediaries of development in the rural areas.

Membership and Leadership

There was however found a much wider disparity between membership of ROSCAs in Vihiga (64 per cent) and Nyakach (34 per cent) unlike for co-operatives which were 56 per cent and 58 per cent respectively, and virtually identical. In addition slightly more than one-third of those who are members of ROSCAs in Vihiga belong to more than one ROSCA while in Nyakach they were only one-quarter. The difference between the two areas can be mainly explained by the fact that ROSCAs are historically more established and have been promoted more by NGOs. As for similarity regarding co-operatives this can be traced to promotion of agricultural marketing co-operatives by the government in the post-independence period.

The membership composition revealed that members of ROSCAs are predominantly women and that a sizeable proportion of the ROSCAs restrict their membership to women only. Thus in Vihiga 54 per cent of ROSCA cases reported membership was restricted to females, 40 per cent opened their membership to both males and females and only 6 per cent were reported restricted to males. Similarly in Nyakach 70 per cent were restricted to females, 19 per cent open to both sexes and 11 per cent restricted to males. It would seem that women who constitute a majority of rural farm dwellers and have historically not found easy access to formal sources of credit have been attracted to ROSCAs as a viable alternative source of development resources at the local level.

The rural character of ROSCAs in both areas was furthei revealed by responses to a question asking those interviewed to identify for us what they considered the occupational concentration of members in a ROSCA. The main idea was to try and establish if members formed a ROSCA due to a common bond of occupation. This does not seem to be the case because over 60 per cent respondents said there was no occupational concentrations in ROSCAs.

However, occupations cited by those who felt there is concentration included farming (45 per cent), teaching (35 per cent) and business (18 per cent) in a descending order, which are commonly found in rural areas of Kenya. This simply means that rural farmers, businessmen and teachers can constitute membership of ROSCAs but in the majority of cases do not end up forming occupation wise homogeneous ROSCAs.

A fundamental issue that goes beyond just membership is whether rural dwellers who participate in them feel a sense of attachment or even commitment to ROSCAs. Also, whether those who have not joined wish to join and are therefore in a way interested in participating in ROSCAs. The finding that a disproportionately large number (84 per cent) of those who are members of ROSCAs do not wish to leave their associations means a desire for continued membership and is doubtless a strong indication of commitment to ROSCAs by these rural dwellers. In addition nearly one-half of those not yet members would like to join ROSCAs.

This shows an interest outside the present membership and points to a potential for future growth of ROSCAs in the rural areas.

The information we received on identification of leadership and the keeping of records indicates that although some ROSCAs still have elements of informal credit they are increasingly becoming formal organizations. In the majority of cases (63 per cent) officials were reported to have come into office through elections. Officials were reported to be volunteers in 24 per cent of the cases while 12 per cent did not have officials.

An important point arising from the few cases of volunteers and there being no officials is that these are generally local peoples organisations. A check on links with government and possibility of control revealed first that these ROSCA organisations are not registered as such but can operate under the umbrella of a registered organisation for instance a women's group. Secondly, there were no government officials in an administrative controlling capacity. There were a few civil servants found to be members of ROSCAs but not in their official capacity.

The keeping of records seems to be even more in practice than elections. The respondents were asked whether their ROSCAs kept written records and 80 per cent answered in the affirmative. This can be viewed to some extent as a reflection of arising level of education in the rural areas. But most significantly it can be interpreted as an indication of appreciation by the rural dwellers of the need for keeping records due to the expansion in volume and increasing relative complexity of transactions in ROSCAs.

Rotation Principle in Participation and Earnings

The terms for participation in ROSCAs show basic similarities between this type of association in Western Kenya and rotating savings and credit associations found elsewhere in sub-Saharan Africa. The members pay a monthly monetary contribution which for all those reporting membership of ROSCAs in our sample was an average of about Shs.100. There was however, a great disparity between Vihiga that had a higher rate of monthly contributions of over the Shs.100 average compared to Nyakach where it was below the average amount. This difference is further reflected in the range of amounts contributed which in the case of Vihiga was Shs.5-1000 while for Nyakach the figures were Shs.2-500. These differences in contributions between and within the two areas also mean that ROSCAs allow for participation in both relatively socio-economically well endowed as well as poor areas. And within these areas, both the poor and well-off rural dwellers can participate in ROSCAs.

The principle of rotation underlies the idea of "merry-go-round" found in ROSCAs in western Kenya. It was therefore of interest for us to ascertain how the decision of whoever becomes a recipient of the contributions is arrived at. The common method in use is to decide on recipients by lot when the group comes into existence thereby giving the members the sequence of their turns for receiving the contributions at the beginning. The new members who join are given positions in this sequence according to their time of joining the group. There was mention by a few respondents (20 per cent) of officials deciding recipients. But what this really means is that these officials are the overseer of the system ensuring that it works properly by assigning members their appropriate positions in the sequence of receiving contributions.

It does not seem that there are other factors known to most members coming into play in this method of choice of recipient. An indication of this is that an inquiry regarding age revealed that it is virtually not a factor. This method of rotation is therefore a basic fundamental feature of ROSCAs judging also from identical responses describing this particular feature that were received from both Vihiga and Nyakach. It is, however, important to add that the system is not totally rigid and that the sequence can be varied to suit the particular circumstances and needs of various groups. Thus when asked whether there is flexibility in the order of receiving the savings, two-thirds of ROSCA members, mostly in Vihiga said yes.

The responses to the question on the amount of money members last received from their ROSCAs showed that through the rotation arrangement they are earning on average five times their contribution. The actual amounts received were higher for Vihiga than Nyakach obviously because of differences in the amounts contributed as already shown. It should be noted that the larger the group the longer it takes for one's turn to reach but the amount received is actually bigger.

Utilisation of ROSCA Savings

It was a major issue in examining the purposes for which the earnings from ROSCAs are used to try and establish the extent to which savings are channelled into direct consumption and the nature and extent of use for investment. The respondents were therefore asked first, how much of the savings they received they had used for purchasing food. The information overall shows that approximately one-third of the money goes into buying food with a slight difference for members in Vihiga who spend a bit more of the money on food than those of Nyakach. This can be linked to land scarcity in Vihiga which is a major constraint on smallholders growing sufficient amounts of food themselves.

The balance of the savings is according to the members invested in various ways. The main areas of investment for these funds are as set out in Table 7.

Table 7: ROSCA Savings' Type of Investment

Type of Investment	Vihiga		Nyakach		Total	
	N	%	N	%	N	%
Utensils	45	32	14	30	59	31.5
School fees	31	22	15	32	46	24.5
Savings - Bank/post office	29	21	4	9	33	17
Farm inputs/equipment	20	14	8	17	28	15
Building-residential	8	6	1	2	9	5
Building - rental	-	-	2	4	2	1
Non-farm business	5	4	2	4	7	4
Cattle buying	2	1	1	2	3	2
Total	140	100	47	100	187	100

The basic point to make is that earnings through ROSCA savings are a major boost for rural household incomes which enables rural dwellers to meet both current and future commitments that sometimes require financial outlays that are generally too high to be met from regular rural household incomes. Thus apart from food, earnings are used for purchase of household goods e.g. utensils, furniture, clothes etc. and school fees to a very large extent. A similar pattern emerged in another study in Cameroon.[44]

At the same time, money is used in ways that ensure future income by being put on farm and non-farm income generating activities or put away as savings. In this connection it should be noted that the argument that paying school fees is a form of investment in the African context is now generally accepted.

The various uses of ROSCA savings looked at together with benefits members said they had derived from this type of association puts into proper perspectives both the savings and credit features intrinsic in ROSCAs. The information on benefits appears on Table 8.

Table 8: **Benefits Realised from ROSCAs**

Type of Benefit	Vihiga N	Vihiga %	Nyakach N	Nyakach %	Total N	Total %
Food/Utensils/Furniture bought	66	49.6	6	13	72	41
Getting credit/lumpsum	29	21.8	16	36	45	25
Education of children	26	19.5	12	27	38	21
Unity found	6	4.5	9	20	15	8
Business financing	5	3.8	1	2	6	4
Livestock acquisition	1	0.8	1	2	2	1
Total	133	100	45	100	178	100

It is significant that through savings in ROSCAs rural dwellers are able to get credit lumpsum because expenditure allocations can then be made according to priorities within the household. This also allows for a broader range of purposes, notably household consumption, being served in contrast to the restricted number of purposes for which loan applications are made to formal institutions of credit. In addition, there is a humane dimension to ROSCAs evidenced by the feeling of unity within the group which must result from socialisation among members. This means that there is a congenial person-to-person relationship in ROSCAs unlike, for instance, a commercial bank - customer business relations.

There is evidence showing in the same vein that ROSCAs were in most cases not set up to accomplish specific projects other than serving the credit and savings purpose. In response to the question whether there was a specific project which the association was set up to accomplish about 60 per cent responded in the negative. Those who said yes mentioned in a descending order buying household utensils (54 per cent), savings (20 per cent) and paying school fees (8 per cent) which in effect underscore the credit and savings function.

There was mention of projects such as purchase of poultry or land, and building construction, which are worth noting although coming from very few respondents. These are essentially income generating projects that would be undertaken by relatively big ROSCAs most likely being operated under the umbrella of a women's group. In this instance it is the savings function of a ROSCA that takes precedence over the credit function.

In the case of those who are not members but say they intend to join ROSCAs, both the savings and credit facilities and benefits are clearly the attraction. Thus, reasons for wanting to join comprised first ROSCAs being regarded as an easy way of saving (66 per cent). Secondly, they are viewed as a source of great help in cases of emergency (21 per cent). Thirdly, ROSCAs are considered to have easy borrowing terms (13 per cent).

The information received on ROSCAs is by and large positive indicating greater popularity than formal credit institutions and even co-operatives. There was however, mention of certain shortcomings of these associations which members are faced with and which are useful to bear in mind in our analysis. Although only a small minority (16 per cent) said they intend to leave ROSCAs, as many as one-half of the members informed us of problems they are experiencing in their associations. The key problems as one would imagine had to do with contributions and payments to members that apparently had negative effects on member participation. These were given as delays in payments, poor members turn out for meetings implying low and/or delayed contributions, defaults in payments, high contributions and corrupt officials. The reasons given by those intending to leave were more or less similar. These included some ROSCA members being regarded as unreliable or not committed to the association, a feeling that money received is too little, problems of communication among members, lack of money to pay contribution and corrupt officials.

In brief the shortcomings can be traced to first, lack of good, competent leadership that can bring about effective participation which in turn will result in members' contribution and payments being made satisfactorily and promptly. Secondly, the rural poor lack money to make contributions regularly especially if these associations set a relatively high monthly rate of contribution. It is in fact in Vihiga where contribution rates were found to be relatively high that members reported this problem. It will be remembered also that overall only a small number of members reported these problems which may be found in a few ROSCAs and to a limited degree. Therefore, with the introduction of good leadership in ROSCAs and the setting of appropriate rates of contributions it seems the usefulness of these associations found to be a major institution of rural credit and savings can be greatly enhanced.

The monies received from these associations, it should be emphasised, is a major boost to incomes of rural dwellers and translates into improved welfare of smallholders. It is thus significant that there is a bias towards women in the flow of funds as they bear a critical responsibility for family welfare and yet they do not often have a source of regular adequate income. At the same time the sources of formal credit are not within their easy reach more so for rural poor women.

It is also of significance that major expenditures such as school fees that can easily throw a rural household's welfare off balance completely can be met from lumpsum earnings from ROSCAs not to mention the emergencies they are faced with now and again and have only ROSCAs to turn to for even small amounts for their survival. In so far as the major expenditure is an income generating venture(s), the possibility of self-reliance and chances of a sustainable standard of living can be raised.

Lastly through ROSCAs there is an important link between informal and formal credit evidenced by savings from these associations being deposited by members in banks, post office, etc. These funds in effect become available for lending and can be borrowed by those mainly in urban areas, having access to these formal institutions. Furthermore, the ROSCAs themselves have to some extent adopted certain elements of formal organisations such as elections and record keeping that no doubt facilitate their functioning.

Individual Lending and Borrowing between Smallholders

The focus on ROSCAs was intended to generate information on informal credit activities taking place among smallholders as a group. However, since these associations have not been formed everywhere in the rural areas it was obvious that not all smallholders are members and therefore have access to this type of savings and credit facility. Furthermore for those belonging to them not all their credit needs may necessarily be satisfied within these associations. The implication is that there still remains a sizeable portion of borrowing and lending in the informal sphere that formal credit institutions and even these associations do not cater for.

The broad question which each of our respondents was therefore asked was whether to the best of his/her recollection he/she or any other member of the household had lent or borrowed anything at all. The rationale was to take a comprehensive view of credit and allow the respondents to complete the rural credit picture by supplementing the information on credit from sources we had identified with a description of whatever other borrowing and lending activities the different members of the household may be engaged in.

Household Members Participation in Individual Credit Arrangements

The responses give clear indications that such borrowing and lending is widespread among rural smallholders households and having strong historical foundations. In some cases relationships may be extending back a generation or more given the knowledge friendship and trust reported to be common basis of credit arrangements between borrowers and lenders. The information given on Table 9 shows that virtually all our respondents were involved in lending and/or borrowing. Furthermore we were able to record up to five

Table 9: Members of Household Lending and Borrowing

Relationship to head	LENT						BORROWED						TOTAL	
	Vihiga		Nyakach		Total		Vihiga		Nyakach		Total		Lent and Borrowed	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Head	89	45	68	55	157	49.2	81	43	65	52	146	47	303	48
Wife	99	50	32	25	131	41	97	52	30	24	127	41	258	41
Son	4	2	19	15	23	7	6	3	26	21	32	10	55	9
Daughter	1	1	1	1	2	0.6	1	1	1	1	2	1	4	1
Father	1	1	1	1	2	0.6	-	-	-	-	-	-	2	0.3
Mother	-	-	1	1	1	0.5	-	-	1	1	1	0.5	2	0.3
Brother	-	-	1	1	1	0.5	-	-	2	2	2	1	3	0.3
Other Relative	2	1	-	-	2	0.6	2	1	1	1	3	1	5	1
* Total	196	100	123	100	319	100	187	100	126	100	313	100	630	100

* Totals not adding up to 100 per cent due to rounding.

instances of borrowing and lending for some households, although in declining numbers, which indicates the greater frequency of this type of credit income compared to all other sources of credit considered already. The time span for the bulk of this large volume of credit activity was estimated to be within the previous two to four years. This means that the credit transactions were more recent and therefore generally current relative especially to formal credit.

It is also evident in Table 9 that among members of the household, it is mostly the head of the household and wife that are mostly involved directly in this type of credit arrangements but indicating overall male dominance. Although sons seem to be involved to relatively much lesser extent, in Nyakach the involvement of sons is significant and in conformity to their importance in terms of access to formal institutions of credit.

It is in any case significant in the case of Vihiga that wives whom we found to have an important role regarding access to formal credit are leading when it comes to local credit arrangements. In view of the fact that in Nyakach also, wives show greater involvement in this type of credit would seem to point to the conclusion that women constitute an important segment of actors in the informal credit sphere. It furthermore raises the possibility of women having relatively more say on resources made available by this type of credit arrangements. In the case of Vihiga, this is apparently out of necessity in view of outmigration resulting in women effectively becoming heads of most households.

There is however a need to examine closely the nature of the borrowing and lending activities to provide further evidence on informal credit operations. A relevant consideration here is a look at items lent or borrowed, whether these are in kind or cash and key aspects of the terms and conditions for lending and borrowing.

Relations between Borrowers and Lenders

The information on how borrowers and lenders are related proved useful by revealing to us the basis of this type of credit relationships. There is clear evidence that these credit transactions take place based on kinship ties, community/neighbourhood ties and also marriage ties.

The ranking of specifically mentioned relations which included relative in blood, relative from same clan, in-law, friend, neighbour etc. showed that most transactions take place within kinship groupings subsumed under the kinship networks. The friends and neighbours in rural western Kenya, where there is land settlement by clans, by and large turn out to be also kinsmen. In the case of Nyakach there is a Luo saying underlining the importance of kinsmen also cultivating friendship for the purpose of cementing kinship ties particularly with distant relatives who may not be living close by ("wat imedo go-siep"). In brief among the different relations between borrowers and lenders, kinship was found to be a dominant factor. Also, living in the same locality apparently influenced the decision of whom to enter into credit transactions with essentially, due to friendship.

The information given by the respondents explaining why they thought they had been chosen by borrowers to whom they had lent is interesting and of relevance here. The reasons in a descending order were being a relative, friendship, trust, being regarded as sympathetic and being neighbours. In Nyakach, being a relative was by far outstanding followed by friendship. In Vihiga trust was leading followed by friendship and being a relative but these were all more or less at the same level. However as regards the reason lenders agreed to lend, trust leads in both areas followed by being friends, sympathy and being neighbours. The general characterisation would therefore seem to be that borrowers and lenders basically trust each other in informal credit transactions essentially because they are relatives, friends and/or neighbours. It can be added that they know each other personally and quite often very well due to proximity of residence as members of the same community.[45]

Furthermore, borrowers and lenders it is apparent take each other into confidence in credit dealings. This is evidenced by more than three-quarters of our respondents who had lent agreeing that the purpose for which credit was sought had been specified to them by the borrowers. It should be emphasised that this is a face-to-face communication fundamentally different from stating a purpose in an application form for a loan from a formal credit institution devoid of any form of dialogue. Thus some discussion takes place and on the whole this indicates familiarity and mutual confidence among borrowers and lenders.

The credit given is, in majority of cases, consequently within the capacity of the lenders and borrowers' expectations generally resulting in the satisfaction of both parties. This would seem to be more so the case especially since the parties are not restricted by some artificially fixed loan ceiling or minimum amount. The lenders in nearly all instances (over 90 per cent) reported having lent the item/amount requested by the borrower in full as was required. Likewise nearly all the borrowers reported having received the full amount/quantity they had requested.

The failure to give the required amount/quantity in the small number of cases reported was explained by the lenders themselves in terms of not having all that was required and therefore giving whatever was available. The borrowers clearly concurred saying that the lenders did not have what was required in sufficient amounts and did give whatever they had to spare. The implication here seems to be that there is little or no reservations by lenders regarding borrowers especially when it comes to meeting their repayment obligations.

In the same vein, turning down of requests outright does not appear to be common although the reasons for this may not be known from this data. All the same, the broad generalisation to make is that those getting into lending/borrowing transactions treat each other with utmost consideration. The lenders in particular try as much as possible to meet borrowers needs within the limitations of their resources.

Lending and Borrowing Items

The items lent and borrowed between individual smallholders are diverse and comprehensively cover the various everyday livelihood needs of rural smallholders. The information on the depth and diversity in lending and borrowing scope found in the rural areas is given in Table 10. The broad range of items comprise money, foodstuffs, farm inputs, cattle, building materials, household requirements, etc. It is significant to point out that these items are a useful indicator of local production and hence the resource base of a particular rural area. For instance borrowing and lending of maize, maize flour, milk and farm inputs it is evident is at a higher level in Vihiga relative to Nyakach where monetary bias in the credit transactions is easily noticeable. This can be viewed as an indication of the mutual dependence of rural smallholders as opposed to reliance on resources originating from external sources.

The leading item of a disproportionately large percentage of credit transactions reported was found to be money going to as high as 68 per cent in Nyakach. There is however still a significant amount of borrowing and lending in kind despite the apparent increasing prevalence of cash economy in the rural areas. It can be said that the credit in kind is mainly foodstuffs which reflect local people's staple food and/or their own production. Thus Vihiga has more in kind transactions that can be linked to more food produce in terms of both greater variety and quantities. Also in relation to in kind transactions, a pattern was observed of borrowing in kind and a tendency of repayment being made in cash.

The possibility raised here is that of the rural dwellers borrowing local products for consumption which is subsequently paid for with cash remittances received. This does not rule out taking large quantities of local produce on credit for purposes of trade and not just consumption which was found to be actually happening in Vihiga in particular more than Nyakach.

Table 10: Items Lent and Borrowed Among Individual Smallholders in Vihiga and Nyakach

ITEM	VIHIGA		NYAKACH	
	LENT %	BORROWED %	LENT %	BORROWED %
Money	59	38.4	68.2	66.3
Maize	16.5	16.0	7.4	9.1
Maize flour	2.8	1.5	6.9	4.3
Millet	-		0.2	0.3
Wheat flour	-	0.3	0.2	
Meat	0.2	0.8	0.9	
Vegetables	2.2	0.8	0.5	0.3
Shop items	1.7	7.5	1.2	5.3
Sugar/milk	6.2	18.8	0.5	3.2
Beans	0.4	0.5		
Bananas	0.6			
Firewood	0.4		0.5	0.3
Cattle	2.8	1.8	4.6	2.9
Labour	1.5	5.7	2.8	0.8
Land	0.4	0.3	0.5	0.3
Farm inputs	1.1	0.8	0.5	0.8
Jembe	-	0.1	0.2	0.3
Ox plough	-		0.2	0.3
Wheel barrow	-		0.2	
Diesel	-	0.5		
Car		0.3	0.2	0.3
Bicycle	0.2			
Sufurias	0.2	0.3	0.5	1.1
Baskets		0.3	1.2	
Chairs			0.7	
Radio			0.2	
Drugs				0.5
Books	0.2	0.3		
Cement		0.5	0.2	
Building materials	1.7	1.0	1.4	1.1
Timber	-	0.3	0.2	0.8
Iron sheets	0.2	1.3		
Dress	-	1.0		1.3
Suit		-		0.6
Other	1.3			0.3
Total	100	100	100	100

In terms of value of items lent and borrowed the mean computed was for all reported lending transactions Kshs 508 and for borrowing Kshs 699. However, only around 20 per cent of both lending and borrowing transactions amounts were actually more than Kshs 500. In fact nearly 50 per cent were for amounts below Kshs 100. In brief this type of credit overall involves relatively small amounts compared to formal sources of credit and even ROSCAs. It also has an integral feature of in kind transactions.

Purposes of Credit for Smallholders

The information received on purposes for borrowing given by those who borrowed and the purposes lenders said they were given by those seeking credit from them revealed further the key features of informal borrowing and lending such that clear distinctions emerge especially vis-a-vis formal credit. This information is for the first instance of lending and borrowing transactions given on Table 11. The pattern was found to be essentially the same for the remaining up to four instances each of borrowing and lending.

Table 11: Purposes for Lending and Borrowing

	VIHIGA				NYAKACH					
	LENT		BORROWED		LENT		BORROWED		TOTAL TRANSACTIONS	
	N	%	N	%	N	%	N	%	N	%
Food and Clothing	56	41	107	58	41	33	38	30	242	42
Education	34	25	24	13	28	23	36	29	122	21
Farm Inputs	2	2	4	2	13		13	10*	32	6
Land Purchase	15	11	8	4	11*		2	2	35	6
Cattle Buying	4	3	1	1	10	8	3	2	10	2
Non-farm Business	5	4	9	5	2	2	7	6	33	6
Ceremony	8	6	8	4	12	10	13	10	32	6
Funeral	4	3	1	1	3	2	1	1	7	1
Pay Debt	3	2	5	3	1	1	1	1	13	1
Transport	3	2	6	3	4	3	1	1	13	2
Medical	1	1	3	2	3	2	2	2	9	2
Building-house	1	1	10	5	3	2	1	1	16	3
Furniture/Radio	-		-		4	3	4	3	4	1
Other	1	1			-		3	2	4	1
TOTALS	137	100	186	100	124	100	125	100	572	100

+ Totals not adding up to 100 per cent due to rounding.

* This is mainly borrowing and lending of seed from previous harvest and does not mean greater use of purchased farm inputs found to be the case in Vihiga and not Nyakach.

The ranking pattern of the various purposes being similar for different instances of credit transactions recorded is important because this points to priority needs to which smallholders prefer to channel resources from various sources including credit.[46] It is therefore natural that there is a large measure of correspondence between purposes for application for formal credit, purposes to which ROSCA credit is put and individual lending and borrowing purposes. Education is a good case in point, evidenced also by large sums of money realised at almost weekly harambees in which rural residents contribute towards education of their children locally and overseas.

However beyond the foregoing major similarity, it is the differences that are particularly striking between formal and informal credit generally. The larger volume of transactions reported in borrowing and lending individually and in ROSCAs shows that more smallholders have access to informal credit and seem to rely more on this type than on formal credit. It will be recalled in this connection that those lending as much as possible tried to meet credit demands of individual borrowers who indicated that enough was done to try and satisfy their needs. This is in direct contrast to a select few qualifying for predetermined loan portfolios in credit arrangements commonly found in formal institutions.

It is also evident in Table 11 that informal credit serves a much broader range of purposes than formal credit and even ROSCAs. The overriding purpose is clearly provision of a key basic need namely, food. It can therefore be deduced that apart from the foodstuffs we found to be lent and borrowed, a good part of the money - the leading item of credit-received on credit must be going towards the purchase of foodstuffs.[47] Other basic needs financed comprise health, clothing education and shelter.

There is financing of investment such as land and cattle purchase, farm inputs purchase, non-farm business and even education. But this is to a limited scale, at least relative to provision of basic needs, particularly food that literally means survival. Hence, funds in adequate amounts are sought elsewhere notably ROSCAs and co-operative SACCOs. This would seem to point to a complementarity in roles of the two types of credit whereby informal credit largely serves the current livelihood and/or survival requirements and formal credit is mostly channelled into investments geared to the future wellbeing of smallholders. It should be obvious from the correspondence in purposes to which credit from formal and informal sources is put, such as education and even social-cultural ceremonial obligations, that this is a very broad generalisation.

The point is therefore not simply the outdated view that formal credit is made available to enable rural poor peasants who lack savings to undertake investments. The experience with credit given for agricultural development that has over the years found its way into financing education and even social obligations to the great disappointment of both donors and governments is now well known. Rather, the point is that by informal credit, emanating from rural savings, adequately serving socio-economic rural dwellers' survival needs, commonly referred to as consumption purposes, formal credit will to a greater extent be directed into locally perceived, viable investments. This means in short that the two types of credit are not only compatible and complementary but also mutually reinforcing.

In a way, informal credit can be viewed as a necessary foundation for formal credit to serve purposes, such as increased cash crop production, that the latter is commonly meant for satisfactorily. This is if it is assumed that investment in farm or nonfarm business will generally be undertaken after socio-economic obligations have been met by smallholders and there are surplus resources to be channelled, for instance, into cash crop production and not the smallholders priority production of food crops or even purchase of foodstuffs. It is in this light that the precedence taken in the utilisation of resources from borrowing and lending transactions by smallholders for obligations of family maintenance or upkeep and maintaining as well as furthering community social networks should be understood. Likewise part of formal credit ends up being used to serve these needs if they have not been fulfilled. It is pertinent to remember also that although we find a priority use of informal credit on food supply generally by smallholders it was not until the mid-70s that rural formal credit programmes for them embracing food production were initiated. This underlines the historically heavy reliance on informal credit for this purpose and failure of formal credit to serve a felt need.

There was hardly any evidence of money lenders operating in both areas of study prior to or after the 70s. This may be mainly due to colonial laws restricting lending to Africans discussed already in relation to formal credit. As regards local traders who are often mentioned in relation to the supply of informal credit only a few were reported especially in Vihiga. This means in brief that in the areas of study informal credit arrangements are essentially between kinsmen, friends and neighbours.

Social Values Impact on Credit Terms

The social network subsuming the informal credit arrangements were actually found to greatly influence certain aspects of terms and conditions considered key to formal credit in a manner that the two types of credit emerged more distinctive in character. As regards lending security this was not found to be an established practice between borrowers and lenders in terms of collateral or token. In the case of token, practically all lenders and borrowers said there had been no such payment as a gesture of fulfilment of the credit deal. This can be said to be a dimension of generosity and sympathy towards relatives and friends in need. As for collateral, while nearly all respondents in Vihiga were saying there was no such arrangement, in Nyakach upwards of 60 per cent reported no such arrangement in the different borrowing and lending transactions. The collateral that the remaining proportion, roughly one-third in Nyakach, talked about was trust, which derives obviously from kinship, friendship and/or being neighbours.

In regard to charging interest, over 90 per cent both lenders and borrowers in the two areas said there was no such a charge. The two main reasons given for not charging interest were being relatives, friends or neighbours and the item of lending or borrowing being small in value. It may be argued that lenders may not want to overburden relatives or friends in need especially if they had before turned to them for assistance or may well do so in the future. This personal regard between borrowers and lenders could easily also result in playing down somewhat the monetary value of the transactions.

The concept of a grace period seemed foreign to smallholders informal credit arrangements given that an overwhelming majority of our respondents (over 95 per cent) did not report it as being an aspect of the terms of borrowing and lending. This could be related to the fact that repayment is done within a relatively short period of time. It was found in both areas of study that in nearly three-quarters of the transactions repayment was done almost immediately in a period of one month or less.

The repayment period as such is generally agreed on between borrowers and lenders and it was only in less than 20 per cent of the cases that it was reported that the repayment period had not been agreed on. In nearly three-quarters of the transactions the repayment period agreed on was one month or less with a substantial number agreeing specifically on a one month repayment period. All in all the repayment periods reported indicate that informal credit allows for very short term credit of even one week or less that can take care of problems poor smallholders are constantly faced with and which keep cropping up almost daily. For instance, a mother unexpectedly realising, when it is already time to prepare food for the children that there is no maize flour, salt, etc. or a baby being suddenly taken ill, runs to the next door neighbour friend and/or relative for assistance or credit. At the same time relatively longer periods of six or more months are catered for such that smallholders faced with catastrophe, for example crop failure or floods, can bail themselves out by taking advantage of quickly arranged seasonal loan in cash and/or kind to be repaid at the time of the next harvest.

In close relation to the repayment period, there is normally a major interest in the default rate which is generally regarded as low in informal credit as compared to formal credit. This data does not yield conclusive evidence in form of figures mainly due to the fact that the repayment period was reported not to have expired yet for those reporting outstanding payments. Further, this type of transactions can be many and have continuity over a period of time, they also involve exchange of gifts such that even if a particular item borrowed has not been repaid the repayment may still be expected without immediately considering this a case of default.

In any case from our evidence of the majority borrowers and lenders, over two-thirds, categorically reporting no outstanding payments and some payments not yet due, it is safe to conclude that borrowers and lenders actually meet their obligations and default is minimal in informal credit arrangements. Also there were only a few odd cases, around five, of complete failure to meet debt obligations and consequently action of reporting the culprit to the Assistant Chief was reported in Vihiga in particular. There was otherwise no report of action having been taken indicating no major dissatisfaction by lenders with the repayment record of borrowers from individual sources of informal credit.

Informal and Formal Rural Credit for Smallholders - Summary Conclusions

Informal credit relationships are person-to-person links. They are based on personal knowledge built overtime about each others individual conduct of personal and other affairs in ways that reflect reliability and trustworthiness. These arrangements are in the rural sector commonly indigenous evidenced by the fact that they are established at the local grassroots level generally by kinsmen and neighbours living in the same community and having common cultural norms and values. This kind of relationship normally does not require written agreements.

All the same, informal credit has clearly acquired definite forms and characteristics including to some extent keeping of records and becoming institutionalised. The credit from this indigenous institution is appropriately serving smallholders credit needs notably basic needs for the survival of poor smallholders. By serving everyday livelihood needs of rural dwellers, it is a necessary foundation for the proper operations of formal credit.

There is relatively easy access to informal credit in groups or individually and the terms and conditions suit even the rural poor. There are opportunities for obtaining credit by those in need when it is needed and according to the requirements of borrowers. Furthermore, the transactions in individual borrowing are devoid of elaborate procedures of application, guarantors or collateral and the delays commonly found in formal credit and even ROSCAs.

It was a strong opinion expressed by an overwhelming majority of our respondents (approximately 90 per cent) that informal borrowing and lending should be discouraged contrary to a widespread negative view, that it should be encouraged because it is exploitative and inefficient.[48] They in addition felt that this type of credit had contributed to development within their villagers. There had been, for instance, development in education and farming, co-operation had been enhanced, the needy helped and investment encouraged. There was to be sure negative opinions expressed that no development had been realised but this was the view of a very small minority.

In contrast it was found that smallholders are experiencing problems with formal credit. The problems enumerated to us which our respondents faced in acquiring loans from banks/financial institutions or co-operatives underscored the advantages of informal credit. The problems relate mainly to terms and procedures and included lack of adequate security, delays in loan processing, lack of awareness of credit requirements, high interest rates, loan amounts not given in full and corruption and mismanagement leading to discrimination in granting loans.

The views expressed on both informal and formal credit should be interpreted to mean that smallholders at the grassroots level do have various needs for credit including the survival, basic needs and investment as defined by them. These needs cannot all be fulfilled by just informal credit alone for most rural dwellers, especially when relatively large capital outlay is required in lumpsum, as evidenced particularly by ROSCAs savings, and credit from SACCOs. The key issue is therefore not the demand for credit but access to credit especially from formal credit institutions.

The respondents indeed expressed the view that improvements are necessary on the present arrangements for channelling credit to smallholders in need of credit. The obvious implication is restructuring formal credit terms, along the lines of group informal lending witnessed in ROSCAs and to some extent SACCOs, to suit smallholders including the rural poor and especially women who have historically and by custom been excluded from formal credit institutions and lacked regular income earning opportunities.

It is only by designing terms and conditions that suit various groups of smallholders, thereby serving their needs, that formal credit can become institutionalised at the grassroots level and contribute meaningfully to sustainable local level development. The needs of smallholders being addressed means essentially having a say and/or control of their affairs when it comes to credit matters as well. To this end, the already institutionalised indigenous organisations of credit no doubt also need some improvement to make them more effective. It was revealed to us specifically with regard to group informal borrowing and lending that leadership and communication among lenders and borrowers are key shortcomings that need to be addressed. However, the distinctive features of informal credit, both group and individual lending, that have made it attractive and useful to smallholders for their survival and development should as much as possible be sustained.[49] Thus improved informal and formal credit institutions can each play an appropriate role in serving smallholders credit needs leading to sustainable rural development.

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