AN ANALYSIS OF SMALLHOLDER CREDIT PROGRAMMES IN BUNGOMA DISTRICT WITH SPECIAL REFERENCE TO KAVUJAI DIVISION.

BY

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This thesis is my original work and has not been presented for a degree in any other University.

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ABSTRACT

Small holder agriculture has become very important in Kenya's economy in the recent years. As the population has kept on increasing, the formerly large farms have continued to be subdivided into smallholdings and some given to former squarters. It is because of this and its overall contribution to the National Gross Domestic Product that this sector is given a positive bias in the Economic development of Kenya. Farm Credit in small scale farming is a vehicle to farm development, as more often, there is lack of funds in smallholder farms.

This study was undertaken with the main objective of giving a descriptive analysis of Small Scale Farm Credit in Kavujai Division of Bungoma District. It was also intented to describe the characteristics of the farmers who borrow these loans, and in particular it investigated who among the small scale farmers use these loans in Kavujai Division in terms of farm sizes, off-farm income, farm assets and the education level.

The main factors considered in this study were the structure of the lending institutions, the conditions under which the available loans are made to farmers and the economic viability of the enterprises recommended by the lending institutions. Other factors considered as affecting the use of credit by smallholder farmers are the size of the farm holding, the off-farm income status of the farmer, the farm assets and the formal education of the farmer.

Literature review showed that capital is a constraint in smallholder agriculture and that if given credit, smallholder farmers will benefit from it. The review also revealed that very few of the smallholder farmers have access to agricultural credit. Other reasons given in previous studies reviewed as contributing to low credit utilization in some areas were:-

(i) Lack of integration of credit with the availability of inputs;

(ii) A general lack of economically viable enterprises to be financed; and

(iii) Lack of adequate supervisory and extension staff to advise the loanees.

The data for this study was collected in Kavujai Division of Bungoma District during the 1979 crop season. Information was collected from the farmers, credit institutions and government officers by recording it on a questionnaire schedule. Some information from the data collected by Central Bureau of Statistics during the IRS 4 survey was used for comparison. Descriptive analysis of the results using tabular comparison was used to determine the proportions of the respondents affected by various problems. A simple correlation analysis was performed to establish the relationship between the amount of loan used on one hand and the size of the farm, off-farm income, the farm assets and the level of formal education on the other. The differences of the means of the above variables between the sample farmers with loans and those without were tested using student t-test.

A comparison between the sample farmers with loans, those without and IRS 4 data means was conducted. The results of the field survey showed that a number of problems limited the utilization of credit by small scale farmers in Kavujai Division. There was lack of qualified technical staff to deal with farmers' problems in relation to small scale agricultural credit. Many institutions did not have adequate staff to advise the farmers on the best use of borrowed capital. The conditions required by the lending institutions to be fulfilled by farmers were found to be very strict and rigid. Most small scale farmers who needed credit were not able to fulfil the requirement conditions. The time period taken from the time the farmer applies for the loan and when it is disbursed was found to be very long thus resulting into late planting and subsequent poor performances. Many farmers usually opted out of the programmes after loan approvals.

A very critical issue on the utilization of small farmer credit in Bungoma District was the ceiling imposed on the amounts of the loans to farmers in the seasonal programmes. For Integrated Agricultural Development Programme (IADP), and Smallholder Production Services and Credit Project (SPSCP), the ceiling was Kshs.1,000/- per 3 acres. Five hundred shillings per two acres was the ceiling for Farm Input Supplies Scheme (FISS). These amounts were found to be too little to cover even the most critical operations. Most farmers who borrowed these loans were forced to use their own sources to finance some of these operations. Those who could not raise moremoney from other sources opted out of the loans.

Most of the crop enterprises tied up to some of these loan programmes by the loaning institutions in the form of crop packages were found to be very unprofitable. These acted as disincentives to the potential loanees who could not find profitable enterprises to invest in.

The correlation analysis showed that there was a positive correlation between the loan used on one hand and the size of the farm, the off-farm income, the farm assets and the education level of the farmer on the other. There was significant differences between the means of the size of farm, the off-farm income, the farm assets and the education level, values of the sample farmers with loans and those without at 95% level.

There were bigger differences between the values of the means of the above variables for the sample farmers with loans and the IRS 4 data means than there was between the corresponding values for sample farmers without loans and the IRS 4 data. It was therefore revealed by the study that the small scale farmers who use the smallholder agricultural loans are the more well-to-do influencial smallholders. However, more work is required on smallholder credit programmes especially on the repayment performance and the interaction between large scale farm credit and smallholder credit in Bungoma.

CHAPTER I

1.0 Purpose of Study

This study describes the small scale farm credit programmes in Kavujai Division of Bungoma District. It further describes the characteristics of the farmers who borrow these types of loans, and in particular it investigates who among the small scale farmers benefit from the small scale credit programmes in Kavujai Division.

1.1. Introduction

The importance of small scale farms in Kenya's Economy cannot be overstressed. Since Independence (1963) the contribution of small scale farmers to the gross marketed produce has been steadily increasing from 2.17% in 1963 to 55.5% in 1979, thus taking a major share of the total agricultural earnings. The productivity of the small scale farms is also higher compared to large scale farms in Kenya i.e. 635/- per acre of average farm size of 7.5 acres compared to 111/- per acre of average farm of 124 acres (16,PG.94).

Though the contribution from the small farm sector to Kenya's economy is becoming more and more important, the productivity of the land will not remain high or increase indefinitely as there are many forces acting against it. The productivity of land depends on the use made of it, potential of the land, population pressure, infrastructure, access to markets and other development resources, and how carefully these resources are preserved.

Many of these factors are beyond the farmer's control. The size per holding of the high potential land available for agriculture is becoming less and less as the population increases, resulting into subdivision of these holdings. Infrastructure and access to the market, though important, are largely in the hands of the Government and the small-holder farmer has little to do about them.

However, the farmer has a say in the determination of the proper use of his land, and proper manangement of these holdings, by employing correct combination of the resources of production, i.e. labour and capital.

The productivity of small scale farms will be greatly increased by the proper application of the correct inputs, timely seed-bed preparation and by use of the most effective methods of cultivation. High yielding varieties of seed and other concommitant and modern inputs like, fertilizer and pesticides in recommended quantities will be needed to increase yields on small scale farms. Most of these inputs will have to be financed by the farmer either from his own savings or from some other source of funds.

It would appear difficult for the small holding to provide him with both subsistence requirements and surplus for sale, without borrowing some funds to enable him secure these inputs. Lack of capital in the rural small scale farms has led to many a farmer being caught up in a vicious circle of low productivity ahd poverty. To break such a circle, credit will be required to:-

a) Finance a portion or all the operating costs of the production and marketing of the resultant produce;

b) Stimulate capital accumulation from these small farms;

b) Accelerate the adoption of modern technology and eventually;

d) Strengthen the economic position of the farmer.

This will move him along the subsistence - commercial continuum. That is, credit is required to enable the farmer to acquire the necessary inputs to enable his produce more on him farm, than he would otherwise. As I.Vasthoff found in 1980, the Government loans to small holders would make it possible to improve their farming in order to become a modern enterprise(28).

1.2 Access to Credit by Small Scale Farmers

In order that he may finance his farming operations, the smallholder will need to get funds from various sources within his reach. Such sources include:-

> His own savings, his earnings from any employment he might have or borrowed funds.

Credit may be both from formal organized institutions for lending, or from informal sources which include:- neighbours, shopkeepers, relatives or other informal lending agencies. Formal credit is provided by either Public (semi-Government) institutions such as the Agricultural Finance Corporation, or private institutions such as commercial banks.

The small scale farmer in the rural area has a number of limitations compared to large scale commercialised farmers, which make him assume a low profile in the decision making mechanism concerning agricultural credit. Many of the agricultural lending agencies require collateral, as security on their loans, which the small scale farmer has been lacking in an acceptable form.

Lack of land title deed has therefore been considered one of the limitations of the farmer. The possible alternative security, such as crops or livestock, has been refused by various institutions due to the risks involved in the farming business and problems of foreclosure. In some instances, smallholder farmers have been judged at face value to be "credit unworthy". Saving in the small scale farming community has not been possible due to the meagre resources and the unlimited financial needs facing the farmers in the rural economy. Further still savings if any may be in the form of livestock or food which may not be easy to liquidate. The investment of the farmer's own capital to the farm is even made more difficult by the many competing demands for money such as school fees, food, clothing, accomodation etc., which need immediate attention.

Another limitation facing many small scale farmers in the rural areas has been lack of skill and experience in farming. This has increased the risk of lending to small scale farmers as there has been a very high incidence of farming failures. However, these limitations have not hindered the Government's recognition of the important role played by the small scale farmers in the development of Kenya's economy. The need to produce more on the small farms to feed a rapidly growing population, to improve the standard of living in the rural areas, and to reduce the income disparity between urban and rural population, has been recognized by the Government.

Whatever the limitations of the smallholder farmer in getting credit from other sources, he has an important role to play in the overall economy of Kenya. Because commercial banks only want limited involvement, it is therefore the responsibility of the Government to avail credit facilities to the smallholder under relatively convenient conditions to make it easily accessible. The Principal theme of the 1979 - 1983 Kenya Development Plan is the alleviation of poverty. In the agricultural sector, the plan focuses mainly on the small farmers, with the intention of improving their role in the monetary economy. In an effort to increase crop and livestock output suited for export, to improve the Nation's foreign trade position and to create more employment opportunities in the rural agricultural sector, the Government has initiated a number of credit programmes to assist the smallholder. As outlined in the next section, it is this aspect of smallholder credit that will form the basis for this study.

1.3 Statement of the Problem

The basic problem of this study is that few small scale farmers in Kavujai Division are participating in small farmer credit schemes despite the fact that there are facilities for the provision of these type of loans. Though there are funds to be used by the small scale farmers, very little of them are being borrowed.

The efforts of the Government and allied agencies to provide small farm credit in Bungoma District and Kavujai Division in particular have not met with much success. From 1971 to 1978 the Government has introduced a total of six different credit programmes to assist smallholder farmers. International Development Association Loans(IDA 105) was introduced in 1971. In 1972 Guaranteed Minimum Return(GMR) was introduced and United States Agency for International Development Programme (USAID) was initiated in the District in 1975.

Between 1975 and 1978, three other programmes; Smallholder Production Services and Credit Project(SPSCP), Farm Inputs Supplies Scheme (FISS), and Integrated Agricultural Development Progammes(IADP) were all started to assist the small scale farmers. Loan facilities for these programmes were available both from Co-operatives and Agricultural Finance Corporation(AFC). Very few farmers, however, particapated in these programmes for the last eight years. Out of the 20,816 small farm holdings in Kavujai, only 621 received loans in the eight years making an average of 77 loans per year. This was only 3% of the total small farm holdings. Between 1976 and 1980 the Government availed Kshs.2,475,200 through three smallholder credit programmes i.e. IADP, SPSCP and FISS, to be lent to small scale farmers in Kavujai. Within the same period, only Kshs.910,547.10 was borrowed. This was only 36.8% of the total amount available.

In 1979, the Bungoma Farmers Co-operative Union Committee set aside Kshs.600,000 to be lent to farmers in Kavujai through SPSCP. None of this amount was disbursed to farmers. It has been shown by previous studies that credit is a constraint to small scale farmers and therefore they need credit if they have to increase their production. It is also evident that where capital is a constraint, availability of credit can step up production if the affected farmers used the loans to improve their farming.

Here is a situation in Kavujai Division, where there are many credit programmes and funds are available. Yet, only 4 out of 1000 farmers are making use of these facilities and only 36.8% of the funds available for loans are being taken. The problem therefore is:- Why are there only these few farmers using small scale credit facilities in Kavujai?

1.4 Objective of the Study

The objective of this study is to give a description of the smallholder credit programmes operating in Kavujai Division of Bungoma District. In particular, the study looks at the structure of the lending institutions, the conditions for borrowing and whether or not these conditions are suitable for small scale farmer borrowing. The study further tries to find out who among the small scale farmers are using these loans in Kavujai in terms of farm size, off farm income, farm assets and the education level.

1.5 Hypotheses Tested

Four hypotheses were tested by this study:-

(1) Farmers with larger farm holdings in Kavujai Division have access to credit.

(2) The farmers who have a higher off-farm income in Kavujai Division get small scale farm loans.

(3) The farm assets of a farmer are a determining factor in the acquisition of small farm credit in Kavujai.

(4) Formal educational status of a farmer is a determining factor on the acqusition of small scale farm credit.

1.6 Organisation of the Text

This text is divided into six chapters. Chapter I deals with the purpose of this study. Chapter II gives an overview of the overall credit schemes in Kenya. It also gives a detailed description of the small farm credit programmes in Kavujai Division. In Chapter III a review of the relevant literature is presented while Chapter IV describes the methodology used in the study.

Chapter V deals with the analysis of the field results and the testing of the hypotheses of the study. The final Chapter of this study, VI, presents the summary, conclusions and recommendations on the acceleration of the small farmer credit use in Kavujai.

CHAPTER II

2.0 AGRICULTURAL CREDIT IN KENYA

2.1 Overall Credit Scheme in Kenya

Agricultural Credit in Kenya is provided by a number of institutions and through a variety of programmes which generally cater for specific credit needs. The institutional structure is fragmented and lacks mechanism for Co-ordinating the several sources and flows of credit to the agricultural sector.

The financial institutions serving agriculture can be classified into three types. The first consists of the older structures oriented towards large scale agriculture. The second consists of relatively new institutions and programmes serving the smallholder agriculture, and the third is composed of series of programmes formed to support the transfer of agricultural land from Europeans to African ownership. The oldest farm credit institutions in Kenya, which fall in the first type, are those which were tailored to large commercial agriculture.

These include:-

(a) Nine Commercial Banks, some of which have changed their ownership and policies since independence,

(b) The Merchant suppliers, such as the Kenya Farmers Association(KFA) and other smaller firms; and

(c) The Government backed land and Agricultural Bank; now amalgamated with the Agricultural Finance Corporation; and the Guaranteed Minimum Return Scheme (GMR), which included crop insurance element. GMR was discontinued in late 1979 due to poor repayment performance. In its place is the Seasonal Credit Scheme.

The newest farm credit institutions are those which have been and are being introduced to smallholder agriculture.

These include:-

(a) Cash Crop Authorities, such as the Kenya Tea Development Authority (KTDA), the Pyrethrum Board, Horticultural Crop Development Authority(HCDA), National Irrigation Board (NIB) for rice and other irrigated produce and several sugar outgrowers schemes.

(b) The Co-operative Societies, which have, of late, become multi-purpose rather than special-functional;

(c) And experimental programmes of the major merchant suppliers, the Food and Agriculture Organisation (FAO), input supply schemes and various related programmes such as Integrated Agricultural Development Programme (IADP), Smallholder Production Services and Credit Project (SPSCP), and other small credit schemes.

The institutions which facilitate the land transfer-either intact or sub-divided - from a European dominated Commercial Agriculture, to one based on African ownership predominantly in the form of smallholdings fall in the third group. These include British Land Transfer Programmes and its related development schemes, Settlement Funds Trustees (SFT), through the Department of Settlement, the AFC and Commercial Banks.

This classification involves only the formal credit sector in Kenya. However, no doubt, there is the informal credit sector alongside this formal one, about which little is known. For the purpose of this study, we shall confine ourselves to the formal institutions, which consist of new institutions and programmes, serving smallholder agriculture.

The choice of the class of loans to be examined is based on five main criteria:-

(i) Credits which are directly issued to farmers and not to organizations as such;

(ii) Schemes which are currently in operation;

(iii) Credit involving small scale farmer;

(iv) Credit directed into use for immediate production on seasonal terms and not development or capital purchase as such, and

(v) Credit institutions which are relevant to those available in Kavujai Division.

2.1.1. Loan Types and Their Relative Importance:

Loans provided to small scale farmers cam be classified according to two criteria. In the first criterion of classification, loans are defined according to the time period. Using this system, loans are grouped as short-term, medium-term (or intermediate), and long-term loans.

(1) Short-term loans: These are loans which last less than two years.

These are provided for crop planting as well as to meet the recurrent costs of livestock production and to meet other variable expenses.

Such loans are usually provided for one growing season.

(2) Medium-term loans: These loans last between four and six years.

This type of loans is intended for the purchase of livestodk, the planting and raising of permanent crop, purchase of farm machinery and equipment for making some permanent improvements.

(3) Long-term loans: This class of loans is available for the purchase of land or for making more costly permenent improvements on the farms. They last a period of over ten years.

The second system of classification categorizesloans according to their sizes.

The Agricultural Finance Corporation Groups Loans into:-

Small Scale Loans - Less than K.Shs.20,000/-
Large Scale Loans - More than K.Shs.20,000/-.

In this study, the agricultural loans are accordingly classified as short-term loans (less than than two year), medium-term loans (two to ten years), and long-term loans (over ten years); and small scale loans (less than K.Shs.20,000/-), and large scale loans (more than K.Shs.20,000/-.

The short-term loans are the most widely used loans in Kenya Agriculture. As can be seen from table 2.1,of the total new Agricultural Credit issued in 1973/74 to 1978/79, on average more than 50% of them were short-term loans. Even more remarkable is the fact that they are assuming a larger proportion of the total loans issued, ranging from 47.7% of the total credit in 1973/74 to 73.7% in 1976/77.

This development is in line with the requirements of the smallholder farmers. This point is made clearer when we consider the loans issued to only small scale farmers and Co-operative Societies which, in any case, are predominantly composed of small scale farmers. From Table 2.2., it is notable that as much as 80% of the loans issued to Co-operarive Societies are short-term loans. The remaining, i.e. medium-term, long-term, and other loans take up only 20% of the total.

Table 2.1: New Agricultural Credit Issued by Type of Loans in Kenya: 1973/74 - 1978/79.

Period	Total Loans (K£'000)	Short Term Loans (K£'000)	Medium Term Loans (K£'000)	Long Term Loans (K£'000)	Other Loans (K£'000	Percentage of Term Loans to Total %
1973/74	5,212	2,485	1,448	1,090	189	47.7
1974/75	17,477	9,687	6,023	1,745	22	55.4
1975/76	25,035	17,330	5,287	2,392	26	69.2
1976/77	20,959	15,451	2,477	2,661	370	73.7
1977/78	27,467	15,682	4,999	5,830	956	75.1
1978/79	18,928	10,144	3,864	3,351	1,569	53.6

* Other loans include inputs such as fertilizers, pesticides and machinery.

Source: Statistical Abstract 1978, 1979 and 1980.

The short-term loans taken by small scale farmers were used for the purchase of farm inputs, land preparation, where this was a constraining factor, the purchase of dairy animals and to meet the farmer's variable costs of maintaining the animals. Medium-term loans were used for the purchase of machinery, tools and establishment of cash crops such as coffee, pyrethrum, etc.

The drop in total loans taken in 1976/77 period was due to an A.F.C. loan embargo, less from Co-operatives and non-Banking institutions. There was also more money available to the farmers from coffee and tea due to increases in prices during that period. There was generally low demand for credit by the farmers. However, more farmers qualified for bank loans.

Table 2:2 New Agricultural Credit Issued to Small Scale Farmers and Co-operative Societies in Kenya by Type of Loans, 1973/74 - 1978/79, and percentage of Short-term.

Period	Total Loans (K£'000)	Short Term Loans (K£'000)	Medium Term Loans (K£'000)	Long Term Loans (K£'000)	Other Loans* (K£'000)	Percentage of Short-term %
Small Scale Farmers:						
1973/74	1,469	745	509	27	189	50.7
1974/75	2,223	1,287	1,287	-	22	48.3
1975/76	2,813	2,137	599	50	26	80.0
1976/77	2,462	1,817	595	29	22	73.8
1977/78	3,119	1,013	1,905	135	66	32.5
1978/79	2,675	2,389	188	64	34	89.3
Sub-Total	15,069	9,324	5,081	305	359	61.9
Cooperative Societies:						
1973/74	2,582	1,599	909	74	-	61.9
1974/75	9,651	5,579	4,063	10	-	57.8
1975/76	15926	10,926	4,981	21	-	71.7
1976/77	9,846	7,963	1,883	-	-	80.9
1977/78	10,602	6,926	3,676	-	-	65.3
Sub-Total	48,607	32,993	14,812	105	-	67.9

* Other Loans include Agricultural Inputs, e.g. Fertilizers, Pesticides, Machinery and Seed provided in kind.

Source: Statistical Abstract 1978, 1979 and 1980.

2.1.2 Loan Distribution and Utilization in Kenya

Small Farmer Loans are channeled to farmers through an array of isolated institutions and agencies all over Kenya.

The most outstanding of these are the Agricultural Finance Corporation, Co-operative Bank of Kenya(CBK) through Co-operative movement and a number of Commercial Banks. There are also some institutions and agencies that specialize in various items or agricultural enterprises. These ones include Agricultural Settlement Fund (ASF) and some specialized crop authorities. There are also some input trial projects organized as demonstrations on farmers' plots by various merchant suppliers and companies to promote their trade but no doubt serve to benefit the farmers in turn, e.g. Sapa Chemicals, Murphy's Chemicals and other related firms.

In section 2.2, we look at the structure and conditions of small credit in Kavujai Division of Bungoma District.

2.2 Small Farm Credit in Kavujai

The credit services in Kavujai Division are performed by both the oldest farm credit institutions and the newer institutions and programmes serving the smallholder sector. Since Bungoma District as a whole, and Kavujai Division in particular, is a smallbolder farming area, only those institutions relevant to the small scale credit are available.

The farm credit institutions available in Kavujai can be classified as Government organized or quasi-Government and private institutions. The Government organized institutions are Agricultural Finance Corporation, with a Branch Office in Bungoma Town, and the Co-operative Bank, which operates through the Bungoma District Farmers Co-operative Union, also with its Central Offices in Bungoma Town. The private institutions are three Commercial Banks: Barclays Bank of Kenya Ltd., Kenya Commercial Bank which is substantially Government owned and the Standard Bank Ltd. Also available is the Kenya Farmers Association (KFA) Offices and shop in Bungoma Town.

In addition to these formal institutions for credit provision in Kavujai, there exists the informal credit sector which is organized through friends, kinship (including remittance from relatives), merchants such as shopkeepers, money lenders and other dealers in agricultural items within the Division. Although this type of lending exists, its magnitude is not known.

2.2.1 The Agricultural Finance Corporation

Agricultural Finance Corporation is a parastatal organisation for Agricultural Credit only. It allows no deposits at all. A.F.C. has two Branch Offices in Bungoma District. One is in Bungoma Town serving Kavujai Division and another at Kimilili Town, serving Kimilili, Mt. Elgon and Tongareni Divisions.
The office at Bungoma is headed by a Branch Manager, assisted
Loans Officer
by one Loans Clerk, a Secretary and a driver.
The Branch Manager and the Loans Officer are the only members of staff who have some agricultural training. The A.F.C. Branch is intended to serve a population of about 147,581 farmers. The loan policies and procedures followed by the A.F.C. Branches in Bungoma are the same as those applied elsewhere in Kenya.

i) The criteria applied by AFC in deciding to make loans specify that:-
   - (a) The loan must be for a specific farm project,
   - (b) The project must be technically feasible and economically viable;
   - (c) AFC must be satisfied that the project will be well managed;
   - (d) There must be reasonable assurance that the loan will be repaid; and
   - (e) The loan must not impose an undue burden on the financial position of the farmer-loanee.

ii) A.F.C. loans cannot be used for purposes outside the agricultural firm. AFC loans are only available for farm development and for financing agricultural industries.

iii) AFC loans are not paid out in cash. Portions of credit are disbursed either directly to the suppliers or to the borrower in respect of identified expenditures already incurred.

iv) The AFC makes sure that its loan will be repaid by making sure that the applicant meets the following conditions prior to approval of his application:-

(a) that he is credit worthy, as determined by A.F.C. Branch;

(b) that the project for which the loan is requested in relation to the overall development requirements of the loanee is of priority;

(c) the project is financially viable;

(d) the farmer's ability to look after the project to be financed.

v) AFC issues foreclosure notices to loan defaulters, but only as a last resort.

The process of making a loan by the AFC involves the following steps. The potential loanee, who is either recruited by the Ministry of Agriculture staff or activity seeks to get the loan, goes to the AFC Branch Manager and purchases an application form at Kshs.10/-.

He completes the form and takes it to the Agricultural Staff in his area, usually a Technical Assistant(TA), to counter-check and certify as to whether or not the applicant is ready or qualified to obtain credit for the purpose in question. The form is then returned to the AFC Branch Manager, who presents it to the District Loans Advisory Committee (DLAC), whose membership includes the local District Agricultural Officer (DAO) as Chairman, and the (AFC) Branch Manager as Secretary.

The approved forms are then given to the Branch Manager who checks on the technicalities and forwards them either to Nairobi Head Office, or to the Area Controller at Kisumu who scrutinizes them and further processes them and gives the approval, depending on the size of the loan. The loanee, if successful, is informed of the success and then can incur expenses, and the invoices forwarded to the AFC for payments, which can only be made to dealers who are approved by A.F.C. Some modifications in the procedure of processing AFC loans have been effected since 1976 apparently to reduce the length of period it takes between the application and the final approval. Now the Branch Manager may process and even approve the application without the knowledge of DLAC. The argument given for this is that since the Branch Manager is the one responsible for the ultimate collection of the repayments, he can also be responsible for processing the application. A copy of the loans approved is made to the District Agricultural Officer in such a case.

The AFC has no arrangements for the provision of inputs or the marketing of the produce. It is hoped that produce will be sold through the official marketing channels, e.g. National Cereals and Produce Board. In such a case, part of the proceeds from the sales are remitted to AFC to repay the loan. Otherwise, the loanee is responsible for selling the produce and repaying the A.F.C. The repayment of the loan is between one and two years for the short-term loans. An interest rate of 10% to 11% is charged.on most loans. For small farms, AFC concentrates on medium-term loans, 70% of which are for purchase of dairy cows. However, small scale short-term seasonal crop loans such as the newly started Seasonal Credit Scheme and Integrated Agricultural Development Programmes are partly channeled through AFC. Other smallholder credit schemes administered through A.F.C. include International Development Association (IDA 105) Smallholder Credit Project Phase II.

IDA 105 project finances crops, livestock development, poultry development and farm machinery and equipment. It carries an interest rate of 10% p.a. This project is financed as follows:- A.F.C. and Government 20% of total loan; IDA (World Bank) 60%, and the farmer is expected to contribute 20% of the total borrowed, mainly in the form of labour. AFC also operates Unites States Agency for International Development (USAID) programmes, which finance similar enterprises as IDA (105) above, but at 11% interest p.a.

Apart from the above programmes which are financed by the external agents, AFC also operates its own lending programme financed by its own funds to smallholder farms, known as AFC Small Scale Loans (AFC SSL). For the funds borrowed under this programme, 10% interest rate p.a. is charged. The AFC SSL programme finances a wide range of farm items such as dairy, poultry and crop like maize, beans, sugar cane and others. Until 1979, AFC used to operate the Guaranteed Minimum Return Credit (GMR), which contained crop insurance element. It used to finance the production of maize and / or wheat, only in the scheduled growing areas. The minimum acreage allowed was 15 acres. It used to provide Kshs.500/- per acre of maize at an interest of 10% to 11%. Apart from the terminated GMR scheme, all other loan facilities through AFC required that the borrower pledges his land title deed as security.

Table 2.3 below illustrates the loan disbursement for the five small scale credit schemes in Kavujai, by the AFC Branch for the 1979/80 season. The programmes involved are IDA 105 Phase II, AFC Small Scale Loan (AFC SSL), Integrated Agricultural Development Programme (IADP), USAID and the new Seasonal Credit Scheme (SCS). A total of Kshs.1,418,800 was disbursed. Figures for repayment were not available.

Table 2.3 Loan Disbursement in Kavujai Division by A.F.C. for 1979/80 Season.

Credit Programme	Interest Rate %	Number of Approvals	Amount Disbursed K.Shs.
IDA 105 Phase II	10	36	313,100
AFC Small Scale Loans	10	6	72,500
I.A.D.P.	11	13	59,700
U.S.A.I.D.	11	-	-
Seasonal Credit Scheme	11	94	973,500
Total	-	149	1,418,800

Source: A.F.C. Bungoma Branch.

2.2.2 Co-operative Bank of Kenya (CBK)

The Co-operative Bank of Kenya is a major Commercial Bank involved in lending funds to boost the agricultural sector. The Co-operative Bank of Kenya was established in order to mobilize the financial resources and provide a source of finance for the Co-operative Movement. It was registered under the Co-operative Societies Act in 1965 but started operating in 1968, when it was also registered under the Banking Act. The Co-operative Bank does not deal directly with individual farmers and only lends to registered Co-operatives Societies under the various Co-operative Credit Schemes. The Co-operative Societies are, in turn, responsible for lending to individual member farmers and also collects the repayments and remits to Cooperative Bank of Kenya.

The Bungoma Co-operative Bank, which serves Kavujai farmers in addition to farmers from other Divisions, is a(Banking) Section of the Bungoma District Farmers Co-operative Union.

The union is headed by a General Manager who is in charge of the entire organizational set-up. The Co-operative Bank is headed by the Secretary, who is in charge of several banking clerks. Its financial activities are audited by the Audit Section in the Department of Co-operative Development. As far as farmers' loans are concerned, the banking section works in close liaison with the credit section, another section in the union, headed by the Credit Secretary. Unlike the A.F.C., the Co-operative Bank accepts deposits, but from members only, and the minimum deposit to be left in the customer's account is Kshs.5/-. It pays an interest rate of 5% p.a. on deposits.

To maintain an account with the Co-operative Bank one must be a member of a Co-operative Society affiliated to the union and sell one's produce through the Society. The Co-operative Bank has accounting branches in various societies whose membership requires a payment of Kshs.7/- and buying of at least one share of Kshs.20/-. The services to the Co-operative members are performed jointly by the Bungoma Union and the Department of Co-operative Development, with the Departmental officials mainly acting in advisory capacity. However, before any money is cashed from the bank by any society, it has to be approved by the District Co-operative Officer (DCO) by countersigning the withdrawal cheques.

For all the credit activities, the Bungoma Union follows the credit policy as outlined in the Commissioner of Co-operative Development's Circular No.9/72, issued by the Commissioner to, among others, all Co-operative Unions in the country on 27th November, 1972, which states inter alia:-

1) "Each member shall be allocated a fixed credit limit:-

   Reason:- To enable a positive credit control and avoid excessive indebtedness, while still allowing for necessary inputs on credit.

2) The limit shall not exceed 10% of the average annual crop value of coffee or 5% of the average annual crop value of pyrethrum or milk. The credit outstanding is recovered in full from each subsequent payment and can be drawn again up to the limit fixed. In both the above cases, it is assumed that the percentages are far in excess of what is normally spent as production costs for the respective producer.

3) Failure to repay the credit outstanding will result in a "black list" of defaulters being circulated to all officers allowed to issue goods or funds as credit to members.

4) A member shall only be allowed to collect goods on credit from one store, or with a written authority from that store, if the goods are available elsewhere.

5) Default in repayment of a due loan instalment will result in "black listing" as mentioned in paragraph 3 above.

6) A "black list" member shall not be eligible for loans.

Reason:- A member, already known as a "bad debtor", does not qualify for a loan.

7) All credit limits shall be reviewed at the first committee meeting of a new financial year.

Reason:- Increased or reduced production may warrant a different credit limit to be allocated to a member."

The details of the process of making a loan to a member differ from society to society, depending on the by-laws of the society. In some cases, there are no formal procedures required for loans to members in form of inputs.

If a society finds itself with some surplus inputs in store, then the Secretary/Manager is allowed to advance to the members who may need follow-up and subsequent repayment. In normal circumstances, the procedure followed is roughly as outlined below:-

i) The interested member makes an application to the Society's Loan Committee which comprises of the Chairman, Secretary/ Manager and Treasurer; sometimes a Co-operative Development representative and a representative from District Agricultural Officer's Office are invited but only in an advisory capacity.

The loan application form includes thirteen categories of questions, which include the produce marketed through the society for the last three years, the security offered (which is mainly his estimated production during the repayment period), the names of two guarantors, a proposed repayment schedule, personal information relating to the applicant and his family, pieces of land operated by the applicant, other real movable property, investment, debts outstanding, non-farm income, and the extension officers' statement.

ii) Following the Committee meeting, the successful applicants, and their guarantors each must sign a loan agreement. The guarantors must be full members of the Society. The loan agreement must also be witnessed by two other members who are familiar with the borrower and his guarantors.

iii) All the loan approvals from the Society, plus any other funds that the Society may apply for, for its general purchases, are forwarded to the Union Loan Committee in Bungoma. The Committee which includes the Chairman, the General Manager, the Credit Secretary and the Banking Secretary, scrutinizes each application individually. After approval of the loan application, the Union enters into another loan agreement with the Society, represented by the Chairman, the Secretary and Treasurer. The District Co-operative Officer is also a signatory to the agreement which specifies the total loan-package and the period for which the loan contents shall be made available to the Society. Loans are paid out in three different ways depending on the purpose for which they are meant:-

1) Members may draw against their credit facilities by obtaining goods on credit from Societies/Union stores or private merchants who are reimbursed by the Society. In cases of Union stores or private merchants, the borrower needs to get a "loans in kind notification" from his own Society.

2) Loans may, in certain instances, be given in cash, as for the payment of labour on the borrower's farm. Cash advances are given only at the time they are needed.

3) The Society may also perform some duties for the member such as transportation of some items by the Society/Union vehicle, preparation of land by the Society tractor, etc. on credit.

The conditions to be fulfilled by the loan applicant vary from one society to another, depending on the by-laws of the society as well as from one loan scheme to another.

For example, to qualify for IADP, SPSCP or FISS loans, a farmer must have attended one week's course at a Farmers' Training Centre (FTC). He must have taken lessons at the FTC on crop husbandry, Co-operative Principles and loan management. He must also accept a loan package as provided for and the form in which it is issued. For IADP and SPSCP, he will get 75% of the loan as farm inputs and 25% in cash. As for FISS, all is provided in kind. These conditions are in addition to individual society's requirements. Generally, when one examines the societies in Kavujai, one finds that an application may be refused at society level if the applicant does not fulfil some or all the following conditions:-

That the application:-

i) Must be honest and trustworthy as judged by the committee from his past dealings in the Society;

ii) Must not have any other loan with the Society or must not be indebted to the Society/Union;

iii) Should have a capital share in the Society, each capital share is from Kshs.20/- to Kshs.100/-;

iv) Must have sound mind and be over 18 years old;

v) Must be an active member of the Society; and

vi) Must be a farmer who has been a member of the Society for a minimum of three years.

The amount of loan approved must be within the limit of the maximum amount provided for by the relevant programme. The repayments of all the Society/Union loans are usually recovered through deductions made against the payment to deliveries of produce. The Co-operative Bank, either at Societies level or Union level, may accept cash payments. Once the loans are made by the Union to the Societies, the societies are held responsible for all the loans to their members. This means that if a society does not pay back its loan in full, then no further loans will be made to it by the Bank/Union, irrespective of whether some of its members have settled all their loan dues or not.

This affects any further loans to other members of the Society even those who might not have received any loans before. The same rule applies to the union when repaying the loans to the Co-operative Bank Headquarters in Nairobi from Societies.

The interest rate charged on the Co-operative loans depends on the type of scheme, but it is generally between 10% and 12% in Bungoma. The Co-operative movement has the widest distribution channel of production credit to small farmers through a number of schemes as outlined below:-

1) Co-operative Production Credit Scheme (SPCS)

   Co-operative Production Credit Scheme is a short-term, as well as a medium-term credit scheme. It is also used for production of crops other than coffee.

2) United States Agency for International Development (USAID)

   USAID is operated through Co-operative Bank and A.F.C. The conditions are similar to those administered through A.F.C., only that if loaned through Co-operative Societies, land title is not pledged as security, as is the case with the normal A.F.C. loans.

3) Integrated Agricultural Development Programme(IADP)

   IADP is a relatively new credit programme introduced in 1976. The objective of this programme was to cater for the small scale farmers who had not been able to benefit from the already existing credit facilities. Seventy five per cent of the available funds under this scheme lending to the farmers is channelled through C.B.K., while the other 25% is through A.F.C. Through the Co-operative Societies, there is no land title deed required as security. IADP loans carry an interest rate of 12% p.a. and borrowers are supposed to operate within a specified crop package which varies from area to area. IADP is financed by the World Bank, in collaboration with the Government of Kenya.

4) Smallholder Production Services and Credit Projects (SPSCP)

SPSCP was started in 1975 and is financed by the International Development Association (IDA). It is very similar to IADP in both conditions and management. The only difference is that it is wholly channelled through CBK, not AFC. It also operates through a specified crop package relevant to specific areas. It has an interest rate of 12% p.a. and lasts only one crop season.

5) Farm Input Supplies Scheme (FISS):

FISS was introduced in 1976 with the objective of making farm inputs readily available to small scale Co-operative farmers in less developed areas of Kenya. It aims at assisting financially weak Co-operative Unions and Societies through provision of credit in the establishment of the stores for farm inputs and produce. It also provides funds for lending directly to the farmers in the form of inputs at no interest at all. The funds and "technical advice" for FISS are provided by the Danish International Development Agency (DANIDA). The extension service is provided by the Government of Kenya, through the Ministries of Agriculture and Co-operative Development.

6) Seasonal Credit Scheme (SCS):

This credit scheme, which was started during 1980 crop season, was introduced as a replacement to the GMR which was discontinued as already mentioned. It is channelled through both Co-operative Unions and A.F.C. It is proposed to be available to farmers for the production of maize and other grains. It caters for farmers with land ranging from 10 acres and above and is available for only one season. The maximum amount allowed in 1980 was K.Shs.750/- per acre of the crop in question.

7) Smallholder Coffee Improvement Programme(SCIP):

This is the newest of the credit programmes which has been introduced to cater for smallholder coffee farmers. It is aimed at both the expansion of acreage under coffee and to improve the management of the already existing one. It is only in coffee growing areas.

Totals of 2,573; 3,093 and 2,390 loans were disbursed by Bungoma District Co-operative Union to the farmers for the 1976/77, 1977/78 and 1978/79 crop seasons respectively. The credit schemes involved were CPCS, IADP, SPSCP and FISS. Table 2.4. gives a summary break-down of these loans.

Table 2.4: Co-operative Bank Loan Disbursement for CPCS, IADP, SPSCP and FISS Programme for 1976-1979 in Kavujai Division.

Programme	1976/77		1977/78		1978/79	
	No. of Loanees	Amount K.Shs.	No. of Loanees	Amount K.Shs.	No. of Loanees	Amount K.Shs.
1. CPCS	1,769	153,967.00	2,489	565,143.10	2,390	2,137,060.00
2. IADP	200	142,535.40	345	190,145.55	-	-
3. SPSCP	324	325,336.35	-	-	-	-
4. FISS	280	119,481.50	259	133,047.70	-	-
TOTAL	2,573	741,321.05	3,093	888,336.35	2,390	2,137,060.20

Source: Bungoma District Farmers' Co-operative Union.

In 1977/78 Crop Season the Co-operative Bank approved K.Shs.600,000 the for SPSCP loans to the farmers. However, the farmers refused to take the loans because they were approved late by the Co-operative Bank. The following Season, the Union did not apply for any loans under IADP, SPSCP and FISS due to non-payment of the previous loans by the farmers.

2.2.3 Commercial Banks(other than CBK):

There are eight commercial banks in Kenya other than the Co-operative Bank of Kenya. Three of these are involved in agricultural lending. The three which are active in Agricultural Credit are the Kenya Commercial Bank, Barclays Bank of Kenya Ltd., and the Standard Bank. These three Banks have Branches distributed in many rural areas in the country. The others, which do little lending to farmers, are the National Bank of Kenya, the Commercial Bank of Africa, the Bank of Baroda, the Bank of India and the Algemene Bank of Nederland. These banks have their offices in major towns only.

The role of Commercial Banks in lending to agriculture has become more and more important in the recent years. As can be seen from Table 2.5, Commercial Banks loans to agriculture have been increasing since 1972 at a rate between 15% and 80% annually. The highest of these increases was experienced between 1974 and 1975. In 1975 K.£36,848,000 were lent to Agriculture compared to K£.20,472,000 in 1974.

Table 2.5 Commercial Bank Loans to Agriculture* in Kenya 1972 - 1979

Year	Total Loans Made (£'000)	Increase over previous year(%)
1972	12,017	-
1973	17,798	48.10
1974	20,472	15.02
1975	36,484	79.99
1976	40,658	10.54
1977	54.395	33.79
1978	72,517	33.31
1979	89,999	24.10

* Includes Forestry and Fisheries.

Source: Economic Review 1977,1978,1979 and 1980.

Despite this increase of participation in agricultural credit by Commercial Banks, the relative lending to the agricultural sector as compared to the total lending perfomance has remained low. This can be seen from Table 2.6. below:-

Table 2.6: Commercial Bank Lending to Agriculture in relation to other Commercial Bank Credit outstanding as from 1970 - 1980 in Kenya

(K£'000)

Year	Total Bank Credit Outstanding	Bank Credit Outstanding to Agricultural Enterprises	Agricultural Lending as a percentage of Total Credit
1970	86,945	9,335	10.7
1971	120,125	12,575	10.5
1972	100,339	12,574	12.5
1973	99,695	12,017	12.0
1974	130,628	17,798	7.3
1975	178,436	20,472	11.5
1976	226,588	40,658	17.9
1977	311,950	54,395	17.4
1978	406,810	72,517	17.8
1979	485,995	89,999	18.5
1980*	560,270	100,966	18.0
Total	2,707,745	443,306	16.4

* Up to September, 1980.

Source: Statistical Abstract 1977,1978,1979, and 1980.

From Table 2.6 it can be noted that the percentage of the total loans from Commercial Banks that go for agriculture Sector has only increased from 10.7% to 18.0% between 1978 and 1980. This was an average percentage of 16.4%. It is apparent that though agriculture provides more than 50% of the Kenya's Gross Domestic Product, the sector only benefits from 16% of the Commercial Bank Loans. Even then, most of these loans go to the large scale farming sector.

Three Commercial Banks have their Branch Offices in Bungoma Town and serve farmers in the whole District including Kavujai. The three banks are the Kenya Commercial Bank (KCB), Barclays Bank of Kenya Ltd., and the Standard Bank. The operational conditions of these banks are similar in most cases. All of the banks accept deposits.

Three types of accounts are operated by the Commercial Banks. There is the savings account which has a minimum amount of deposit to be maintained in the account ranging from K.Shs. 300/- for Standard Bank to K.Shs.500/- for Barclays Bank of Kenya. In 1979, the banks paid an interest of 5% p.a. on the deposits. The current account carries no interest and the amount of money required to open the account is K.Shs.1,000/-. A ledger (of service) fee of more than K.Shs.60/- every six months is charged. In the third type of account, a customer may fix his money with the bank for a longer time. The interest paid on the fixed account is more than 5% p.a. depending on the length of time the account is fixed, and the interest rates ruling at the time.

The three Commercial Banks advance loans and overdrafts for agricultural business. There seems to be no clear-cut lending policy to the agricultural sector in these banks, despite the fact that agricultural lending should be given priority and be increased. Before a customer applies for a loan, he must maintain his account for more than 12 months. No preference is given to any type of account, whether current or savings. The customer who needs a loan is required to make an application to the Manager, stating:-

i) the amount of loan required;
ii) in his opinion, the suitable terms of repayment of principal loan;

iii) The type of security which he intends to pledge and the value he thinks it has,

iv) How he intends to utilize the loan if approved.

The Manager calls the applicant for an interview in which the application is either rejected or accepted. The factors taken into account before a loan is rejected or approved by the bank include:-

1) Owners equity in relation to the amount being requested; one bank restricts the maximum amount allowed to half the applicant's direct income other than from the farm;

2) Past earnings or business returns;

3) Adequate records of accounts on his farming and the ability to repay the loan;

4) Whether the security being offered is sufficient or not;

5) The terms being sought for the loan are either too short or too long to be profitable;

6) Indebtedness of the applicant elsewhere and whether there will be risk of loss to the bank lending the money or not.

If the applicant is successful, an agreement is signed by the applicant before a lawyer after which the bank grants the loan to the applicant. The whole process takes about three months and may cost the applicant about Kshs.500/- to Kshs.600/- on the transport, search for the parcel of land, legal and other fees. The banks charged an interest rate of 9% to 10% in 1979 depending on the purpose of loan and the terms. The maximum period for the loan repayment is 36 months.

Available information from two of the three Commercial Banks in Bungoma reveals that there are no loans given which are unsecured and that the security allowed is land title deed 1. It is argued that other movable assets are not accepted because they tend to disappear from the farm if the loanee senses danger of failing to repay. There are other factors considered other than security.

Such factors include:-

1) The purpose for which the loan is sought, and its priority rating;

2) The ability to repay the loan;

3) The suitability of the repayment conditions; and

4) The viability of the project and its ability to generate money.

Customers' loan applications are rejected on 5 major grounds:-

a) Inadequate security;

b) Low and Seasonal flow of income;

c) Unreliable character of the applicant;

d) Unrealistic expenditure being proposed in the application: and

e) Expenditure proposed being in conflict with Government policy.

For the two banks studied, there were 1,800 loan applications in the last 12 months ending on December, 30 1979. Of these, 1,126 were for agricultural purposes which represents 62.5% of the total applications. A total of 1,070 applicants were successful (i.e. 59.4% of 1,800) and only 490 of them were for agricultural undertakings. These 490 represent 45.8% of the total loans approved. 43.5% of the agricultural loans requested and only 27.2% of the total loans applied for within 12 months.

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1. The researcher could not be allowed to get into the details of one commercial bank as the Manager claimed he had not been given clearance from the Head Office in Nairobi.

The amounts of money involved were not available to the researcher. The Commercial Banks foreclose and auction farms and other pledged assets in case of non-payments.

2.2.4 Kenya Farmers' Association(KFA)

The Kenya Farmers' Association(KFA) is a Country-wide Co-operative Organization which was founded in 1915 by some European farmers. The membership of KFA includes both individual farmers (mainly large scale) and Co-operative Organizations. KFA has three operative Branches with shops in Bungoma District. They are located at Bungoma Town, Webuye Town and Kimilili Market Centre. The farmers from Kavujai Division are served by the Branch in Bungoma Town. Many items used by farmers are sold by KFA at Bungoma Town. These items range from small tools to heavy pieces of machinery used by farmers as well as fertilizers, seeds, pesticides and other seasonal inputs.

KFA makes very short-term credit mainly to members, but also to non-members, in the form of farm inputs. Members may be advanced inputs on credit, which must be repaid within 90 days from the end of the month in which the purchases are made. For non-members, they are expected to settle their debts within 30 days following the end of the month in which the inputs were supplied. KFA may levy interest on overdue balances. Due to the short period allowed for credit, the credit facilities available from KFA are only for those farmers who may be expecting some cash later or some other loan but wish to have inputs earlier than the time money is available. In this respect, KFA in Bungoma is more of an input supplier "shop" to the farmers than a credit institution. There are no outlined procedures for loan application and approval in the KFA shop. A farmer purchases the required inputs either in cash or on credit.

If the latter is the case, then an invoice is issued which should be settled within the required period. The were no statistics of the credit performance of the KFA made available to the researcher because there was no standardized system of recording credit other than keeping receipts of invoice copies.

Table 2.7 gives a summary of the most important credit schemes operating in Kavujai, the conditions required for potential participants and the disbursement performance.

Table 2.7: A summary of the Credit Programmes, their Conditions and Disbursement in Kavujai, Bungoma District 1976/77 - 1978/79

Institution/ Programme:	Conditions	Interest	Disbursement K.Shs.
A) AFC:			
1) G.M.R.	1. For wheat and maize only 2. Land size 15 acres or more 3. Maximum per acre K.Shs. 500/- (1977) 4. Crop insured 5. Gazetted areas only	10% or 11%	
2) IDA(105) Phase II	1. Land Title Deed 2. Smallholder with an income less than K.Shs.1,300 p.a. 3. Grace period: Livestock - 3 years Crops - 2 years Poultry - 1 year Machinery - 4. Farm Model for Investment: 5 acres of selected crop 3 grade cows 100 laying hens 1 60 HP Tractor	10%	1976/77: 490,783.90 1978/79P 313,100.00
3) AFC(SSL)	1. Crop and Livestock enterprises of recommended varities and breeds respectively 2. No title deed, but: a) Proof of legal ownership. b) A Power of Attorney in which the owner.	10%	48,000.00

Table 2.7 cContinued:

Institution/ Programme:	Condition	Interest	Disbursement K.Shs.
	authorizes AFC to register on his land when registered.	10%	1978/79
	3. Meant to serve smallholders with non-registered land.		[illegible]2,500.00
4) IADP	1. Smallholder with less than 20 acres of land	11%	1976/77: 214,370.00
	2. Only for maize, sunflower or beans.		
	3. Short training on Agriculture (4days) at FTC.		
	4. Pledge land Title Deed.		
	5. Sell produce through Cereals and Produce Board only.		59,700.00
5) SCS	1. For maize growing and wheat	11%	1976/77:
	2. Pledge of land title deed		
	3. Sell Produce through National Cereals and Produce Board		1978/79:
	4. No acreage limit		973,500.00
TOTAL AFC			1,418,800.00
B) Commercial Banks:	1. Pledge land title deed.	9%	
Barclays Banks	2. Have an account with the bank for minimum of 12 months.	to 10%	
Standard Bank	3. Pledge other movable assets.		
Kenya Commercial	4. Approved a minimum loan of K.Sh.2,000/-.		1978/79: 490 loans
	5. Amount restricted to a minimum of half of his net off-farm regular income per year.		(Amount not available).

Table 2.7 Continued:

Institution/ Programme:	Conditions	Interest	Disbursement K.Shs.
C) Co-op. Union: (Co-op. Bank)			
1. CPCS	1. 21 or more years old. 2. Member of Society for three or more years. 3. Should have marketed produce through the Society for three years or more before. 4. Allowed for only 14 months or less. 5. Can borrow a maximum of not more than two thirds of average net value of deliveries made by him to Societyies over the preceeding 3 years and not more than 10% of the total available for lending to members.	12%	1976/77: 153,967.60 2,137,060.00
2. SPSCP:	1. For farmers with less than 20 acres of land. 2. Farmer must attend a course at the FTC on agriculture for 4 days or more. 3. Must be a member of Co-operative Society. 4. Should have not received gross per capital income from the farm in excess of K.Shs.800/- but has the potential to do so. 5. Have two loan guarantors who are members of the Society.	12%	1976/77: 325,336.00

Table 2.7 Continued:

Institution/ Programme:	Conditions	Interest	Disbursement K.Shs.
	6. Accept a crop package of three acres one of cotton, maize and sunflower or beans each. 7. Receive 75% of the loan in kind. 8. Maximum amount of loan allowed for three acre package is KShs.1,000/-.		
3. IADP	1. Conditions 1,2,5,6,7, and 8 same as SPSCP above. 2. If do not meet the Co-operative conditions can get it through AFC by pledging land title deed. 3. Agree to sell all produce through the officially appointed agency.	12%	1976/77: 142,535.40 1978/79: 190,481.55
4. FISS	1. Fulfil all Co-operative conditions outlined in Section 2.2.2 of this text. 2. Accept a crop package of two acres each of cotton or sunflower, maize or beans. 3. Maximum loan allowed is KShs.500/- for the two acre package. 4. Conditions 2,3, and 5 of SPSCP also apply.	0%	1976/77: 119,481.50 1978/79: 133,047.00

* 1976/77 season is taken for Co-operatives because that is the only season when all the four schemes operated in Kavujai at the same time.

Source: From discussions with various agencies involved, 1979.

2.3 Evaluation of Small Farm Credit Performance in Kavujai

Repayment Performance

Agricultural loan repayment has been generally poor in Kenya as a whole. In 1979, as already mentioned, the Government abolished the GMR scheme due to poor repayment performance by the farmers. In his analysis of the loan repayment records of all loans issued by A.F.C., Josef Vasthoff(1968) reports very poor repayment performance. The repayment performance of loanees has been generally very low in Bungoma District as a whole and in Kavujai Division in particular.

As at the end of March, 1979 Bungoma District Co-operative Union owed the Co-operative Bank of Kenya about Kshs. 6 million in arrears since 1976. The individual farmers and Societies owed the Union about Kshs.3 million. Since 1964, Bungoma District farmers owe A.F.C. some 20 million shillings in the form of GMR arrears. As for the other development loans (e.g. A.F.C. SSL, IDA, USAID), the corporation has in some cases, been forced to foreclose and even auction farms belonging to defaulters. The repayment performance in the new seasonal loans has also been very low.

Though the small scale loans such as IADP, SPSCP and FISS are seasonal loans and are due for repayment immediately after the harvest at the end of the first year, only 19.5% of the total IADP and SPSCP loans had been repaid as at 31st March, 1979. These were loans given during the 1976/77 crop season. As at the end of October, 1979, an average accumulated rate of 71% and 43% for IADP and SPSCP respectively outstanding loans since 1976/77 season had been recovered. For the loans issued in 1977/78, IADP stood at average repayment rate of 14.4% and FISS at 12%. No SPSCP loans were given to farmers during this season. Tables 2.8 and 2.9 illustrate the repayment performance of IADP, SPSCP and FISS loan schemes and their operations in Kavujai Division.

2.8 Principal Loans Given, Accrued Interest and Repayment Rates of IADP, SPSCP, and FISS During the 1976/77 Season as at 31/10/79 by Societies in Bungoma District, Kenya.

Season	Project/ Society	No. of Loanees	Principal Loans Given (K.Shs.	Accrued Interest K.Shs.	Total Loans KShs.	Repayment as at 30/10/79 Kshs.	Percentage of Total Loan Repaid %	Date Repayment Due
1976/79	IADP:							
	Kabula	18	17,272.00	5,226.35	22,498.35	10,356.20	46.0	31/12/77
	Kitinda	40	35,013.40	10,437.90	45,451.30	23,738.55	52.2	31/12/77
	Sasuri	23	12,046.00	2,232.70	14,278.70	13,952.55	97.8	31/12/77
	Namango'fulo	35	21,841.00	4,581.00	26,422.50	22,176.40	83.9	31/12/77
	Chesikaki	37	20,010.00	3,233.65	23,243.65	20,779.20	89.4	31/12/77
	Menu	47	36,353.00	6,723.20	43,076.20	34,367.75	79.8	31/12/77
Total	for IADP	200	142,535.40	32,435.30	1174,970.70	125,380.65	71.6	
1976/77	SPSCP:							
	South Kanduyi	58	57,195.35	16,997.10	74,192.45	49,132.25	66.2	31/12/77
	Kimugui	79	70,994.00	21,918.80	92,912.80	38,503.90	41.4	31/12/77
	Khalaba	59	38,816.50	11,392.35	50,508.85	31,785.85	63.3	31/12/77
	Khachonge	73	61,010.00	19,135.65	80,145.65	29,058.10	36.2	31/12/77
	Webuye	55	97,320.50	30,802.05	128,122.55	34,725.45	27.1	31/12/77
Total	for SPSCP:	324	325,336.35	100,245.95	425,582.30	183,205.65	43.0	
1976/77	FISS:							
	Webuye	124	51,430.00	-	51,430.00	20,885.10	40.6	31/12/77
	Kimalewa	67	30,837.00	-	30,837.00	18,080.80	58.6	31/12/77
	Lukusi	89	37,214.50	-	37,214.50	24,069.60	64.7	31/12/77
Total	for FISS:	280	119,481.50	-	119,481.50	63,035.50	52.76	

Source: Ministry of Agriculture and Ministry of Co-operative Development Progress Report on IADP, SPSCP and FISS October, 1979; and Annual Report 1979.

Table 2.9: Principal Loans Given, Interest Accrued and Repayment Rates of IADP and FISS Programmes During 1977/78 Crop Season as at 31/10/79 by Societies in Bungoma District, Kenya.

Season	Project/ Society	No. of Loanees	Principal Loans given K.Shs.	Accrued Interest K.Shs.	Total Loan K.Shs.	Repayment as at 31/12/79 K.Shs.	Percentage of Loan Repaid %	Date Repayment Due
1977/78	IADP:							
	S. Kanduyi	52	22,023.50	4,514.15	26,537.65	6,324.65	23.8	31/12/78
	Kimugui	54	23,126.00	4,637.90	27,763.90	2,864.50	10.3	31/12/78
	Kimalewa	76	54,651.00	11,008.30	65,659.30	10,443.40	15.9	31/12/78
	Webuye	45	49,633.00	10,284.10	59,917.30	1,772.30	2.9	31/12/78
	Khachonge	26	5,580.00	1,113.55	6,693.55	2,513.05	37.5	31/12/78
	Kitinda	35	12,310.55	2,468.75	14,779.30	5,194.85	35.1	31/12/78
	Kabula	37	14,809.50	3,071.95	17,881,45	876.00	4.9	31/12/78
	Sasuri	1	1,019.50	274.25	1.293.75	650.00	50.2	31/12/78
	Menu	19	6,992.50	1,536.90	8,529.40	2,377.10	27.9	31/12/78
Total	for IADP:	345	190,145.55	38,909.85	229,055.40	32,965.85	14.4	
1977/78	FISS:							
	Webuye	149	70,351.20	-	70,351.20	3,715.70	5.3	31/12/78
	Lukusi	45	25,663.05	-	25,663.05	3,866.00	15.0	31/12/78
	Bumula	65	37,033.45	-	37,033.45	8,433.30	22.8	31/12/78
Total	for FISS:	259	133,047.70	-	133,047.70	16,015.00	12.0	

Source: Ministry of Agriculture and Ministry of Co-operative Development Progress Report for IADP, SPSCP and FISS, October, 1979, and Annual Report 1979.

CHAPTER III

3. REVIEW OF RELEVANT LITERATURE

3.1 Credit and Finance

The term "finance" has many meanings depending on the context in which it is used and the professional leaning of the user. Thus, in order to avoid the possible ambiguity of the term in this study, its meaning must of necessity be first established.

To a public servant, finance refers to public funds under the custody of an authorized accounting officer, for meeting public expenses. A.S. Hornby, E.V. Gatenby and H.Wakefield (1963) (17,P.370) refer to finance as the "Science of Management of public money". Graham Bannock, et al (1972) (3) hold that finance refers to the provision of money when and where required. Finance in this context may be required for consumption or for investment. When it is provided for the latter then it becomes capital finance and can therefore be distiguished into business finance, consumer credit and public finance.

W.G. Murray and A.G. Nelson (1980) (31,P.3) have a much wider understanding of the term. In their view, finance refers to acquisition and use of capital. Agricultural Finance is understood by them as the study of financing the farm business. It goes further to include institutional aspects of "credit" which involve the basic structure and characteristics of lending institutions as related to obtaining and using credit in the farm business.

In the context of this study, the term "finance" is used to mean money needed for use in transacting and for the acquisition of resources used in the process of production. Credit is understood as either finance or other capital inputs, or both, required for the production process and which is acquired with an understanding that the amount so borrowed and the accompanying services will be paid for at a later time period. In the agricultural production process, credit is used to acquire needed resources of production. It should be noted that without these inputs (factors of production), then credit in any form becomes functionless, unless it is for consumption.

3.2 Small Farm and Farm Credit

High farm income and a high level of living resulting from high productivity require the right combination of land, labour, capital and management. Any of these four resources of production can be limiting. When capital is limiting on the farm relative to other resources, then the productivity of these other resources can be increased by providing more capital. Under such circumstances, credit will be necessary, if the farmer cannot finance the limiting inputs from his own resources. E.O. Heady and H.R. Jensen (1954) (15,P.591) were of the opinion that the purpose of credit is to increase resource productivity or income and levels of living. Credit will only be necessary in the smallholder agriculture if finance or other forms of capital necessary for production are limiting. If credit is made available under such a situation, then it can lead to the development of small scale farms.

If capital is not a binding constraint, then some other factor or factors should be looked for to explain lack of development of smallholder agriculture. The important question is, therefore, whether finance is a constraint in small scale farming in Kenya or not.

3.3 Some Work Done on Small Farm Credit

A number of studies have been carried out on smallholder credit in Kenya.

Most of these studies have assumed that credit is a constraint in small scale agriculture and have proceeded to find ways and means of increasing the provision of small scale credit to smallholders. One of the most comprehensive of these studies was conducted by G.F. Donalson and J.D. Von Pischke (10). Their study revealed that the amount of total credit available to smallholders was very small especially to the very smallholders.

> "Of the 1.2 million smallholders, it seems that fewer than 250,000 have access to formal credit. These 12 - 15 per cent are probaly in the upper quartile of smallholders in terms of farm size and gross income" (10,P.6).

Although their study recognized the Co-operative movement as the major source of smallholder credit in terms of volume and number of borrowers, it seemed to imply that the smallholders had been kept out of the reach of credit. It also revealed that those institutions lending to both large and small scale agriculture sub-sectors generally provided less to the small farm category.

The major reason given in their study for this phenomenon was the absence of both co-ordination among the credit institutions and the lack of integration of the provision of credit with the availability of inputs and advisory services:-

> "At a lower level, credit provision is frequently not well integrated with either the availability of inputs (e.g. the shortage of grade cattle), or with the provision advisory services" (10,P.7).

The authors further recognized the immediate need to solve this problem and recommended that this could be done by setting up a formal policy panel separate from any lending institutions, but with representation of all institutions involved.

This argument was directed towards the already established idea that credit was necessary in the development of small farms in Kenya. The absence of credit would therefore result into a constraint in specific functions and areas in Kenya agriculture, although the question of credit being a general constraint was left open. The authors point out:-

> "whether or not credit is a major overall constraint in Kenya agriculture may be irrelevant. What is almost certainly the case, in Kenya as elsewhere, is that credit is required for certain purposes and in certain situations even if it is not a constraint across the board" (10,P.19).

What is probably not discussed in this survey is that the magnitude of credit used is a result of both supply and effective demand for it. If there is low demand and high supply, the use will be low; if there is high demand but low supply, the use will still be low. If both supply and demand are high, then there will be increased use.

If credit is not a constraint in small farms, then the demand will be low, which will result into low use. The first task would be to establish whether or not credit is a constraint. A study by Judith Heyer in 1962 (16,P.81) showed that credit was not a constraint in small farm development. The result of her study showed that capital (financial capital) was not a binding constraint in Masii (Low Land Machakos) where she conducted her survey. Her original hypothesis that credit was a major limiting factor in peasant agriculture was discarded. This hypothesis was discarded when it was found that credit was available but returns in agriculture were risky and low.

> "there appears to be no acute shortage of capital in Masii either among the farmers or traders and evidence suggests rather a shortage of profitable outlets for available funds" (16,P.81).

Further evidence from her study suggested that small farmers had no difficulty in obtaining funds because they had assets that they could easily liquidate. Their problem remained in finding profitable investment channels.

> "The funds that are available on the farms do not go into agriculture but into cattle" (16,P.81).

Studies by J.D. Von Pischke about credit in Kenya Agriculture also support this opinion. His studies have shown that the "need creed" for credit in smallholdings is false. Substantial savings are generated among smallholders and there is potential for additonal savings in these holdings. Von Pischke also thinks that farm development is used as a "stepping stone" to secure credit for other non-farm investments.

> "An acquaintance of the writer (Von Pischke's) borrowed from a commercial bank for farm development (in this case a somewhat attractive and patriotic exercise for a banker in Kenya) and used the funds, given in cash, for the purchase of additional land. Doubtless others who talked (of) farm development to their bank managers used their loan proceeds for investment in taxis, shops and for school fees and colossal binges" (36,P.13).

However, there does not seem to be enough evidence to show that credit (or capital) is not a constraint in small farm agriculture. For example, Dr. Heyer's observation that farmers prefer investing in cattle to agriculture is not enough evidence that finance is not a long term operating constraint on small farm output or productivity as such. Cattle in many parts of Kenya are part of farm development. Oxen are used for tilling land in many parts of Kenya, including Machakos. When hired out for work, oxen and ox-ploughs fetch cash for other uses on the farm. In fact, some agricultural credit institutions, e.g. AFC, provide credit to small scale farmers to purchase oxen and ploughs as alternative to tractors (35,P.80).

Von Pischke provides no statistical information in support of his contention about the misdirection of credit obtained in pretence of farm development. There is a possibility in Von Pischke's findings of a situation where agricultural credit is available on subsidized terms not tied up with the most profitable enterprises. In such a case, a farmer may obtain the loan, but rather than use it on uprofitable farm development, he invests it into other lucrative business. This does not imply that the farmer has money of his own for farm development. Contrary to the findings of Heyer and Von Pischke about credit not being a constraint is small farm development, a study by Josef Vasthoff on small farm credit in Kenya noted that lack of credit is in fact a constraint on small farm development. According to results of his field work, credit extension has a positive impact on small farms income.

> "The results obtained in the survey of 108 sample farms show that the extension of credit to smallholders can improve farm income substantially. Under the assumed data, the increment to net income as a result of the credit provided was calculated to be 206 Shs. per year the annual net return on average invested loan capital was 26%" (31,P. 112).

According to Vasthoff's findings, therefore, the external aid to the small scale farm finance seemed to be a limiting factor on the development of smallholder agriculture and subsequent increase in income. Vasthoff went on and recommended that:-

> "Priorities for the intended purpose of the loans should be established in order to provide a basis for dividing limited funds among the farm activities represented by the loan applicants. The approach to apportionment of loans must stress economic aspects more than at present. It must embrace a comprehensive analysis of the market and the market chances of the loan applicant"(35,P.112).

According to this recommendation, the economic return of the enterprise should be the basis for the allocation of credit.

Vasthoff also felt that if it could be established that some applicants had funds of their own, then their loan applications should be refused:-

> "Loan applications from farmers who are in a position to develop their farms with their own funds should be rejected without exception" (35,P. 112).

The rationale behind this recommendation seems to be that farmers who have substantial internal funds of their own are not constrained by lack of credit. Whether or not this is true is subject to question. Furthermore, farmers with their own funds may borrow for many reasons. The funds may not be available for farm use due to other pressing needs or possibly because credit is subsidized. All the same, Vasthoff recognized the limitations of funds in smallholder agriculture.

One of the more recent studies on small farm credit in Kenya was conducted by G.M. Mwabu in 1976. In his study of Finance in smallholder Agriculture in Tharaka (Eastern Kenya), he found that there were some problems which hindered the development of small farms in the study area, which included lack of money.

> "In order of their importance, the problems that constrain farm development in Nkondi (study area) are the following:-
>
> 1) Lack of farm machinery (mainly tractors)
> 2) Lack of water
> 3) Shortage and delays in farm inputs
> 4) Lack of money
> 5) Lack of transport
> 6) Lateness in payments for cotton delivered to Co-operative Society
> 7) Lack of Pasture" (29,PP. 124 - 125).

In general, Mwabu's findings also imply the need for finance in the small farms in his study area. This is confirmed in the same study when it was found that many farmers were benefitting from the intended credit.

> "About 85% of the sample farmers think that the Co-operative credit they get to grow cotton is beneficial to them".

He concluded his study by noting that:-

> "There is evidence from the study area that credit Co-operative Societies can accelarate growth of small farm investment and incomes through their extension of credit to small farmers". (29,P.127).

The Mwabu study was not concerned mainly with whether or not credit is a constraint in small scale farms development per se. Finance is definitely required in the development of smallholder agriculture for the purchase of modern inputs and for the adoption of new technology if the productivity of these farms has to be increased. It should be noted that in a money economy, credit can be used to purchase any limiting factor of production. Timely provision of such credit to the smallholder farmer will therefore remove some of his constraining factors of production. This study therefore is designed to look into additional factors which affect the availability and utilization of the small scale farm credit by the small scale farmers. It therefore considers both institutional and farmer factors determining credit utilization in both magnitude, distribution and disbursement as such.

Various studies have been carried out elsewhere along these lines and have come up with various reasons and factors responsible for low credit distribution to small farmer. In Uganda, Diana Hunt, in her study of "The 1966 plans for the Expansion of Agriculture Credit", identifies various weaknesses in the proposals which would have affected the credit provision:

(i) "A number of proposed projects were not viable from farmer's point of view.

(ii) Co-operative Societies would have been unable to cover their lending costs from the loan revenues.

(iii) It seemed highly unlikely that the scheme would have generated benefits exceeding the value of the social costs incurred.

(iv) A large proportion of the necessary supervisory staff were not available, nor had adequate provision for training been made.

(v) No clear policy was established by the Department of Agriculture regarding the use of credit to encourage innovations, and no provision was made for Government to carry part of the risk of innovations where these had inadequate testing on peasant farms.

(vi) No provision was made for the evaluation of the impact of the credit scheme" (18,PP.362-363).

A study by a group of FAO experts studying the possibilities of strengthening the provision of credit to agriculture, especially through Co-operatives, recommended the following six pre-requisites for a successful implementation of projects on agricultural credit.

1) "The existence of adequate and sufficient socio-economic planning and desire of all parties and groups concerned to implement it. Effective planning presupposes the existence of adequate statistical material and an effective administration at all levels.

2) An adequate rural infrastructure (roads, railroads, storage system, etc.).

3) An efficient system for stabilizing fluctuations in prices for agricultural produce.

4) A proper system of land tenure.

5) Adequate and effective arrangement for marketing and supply.

6) A well-organised and satisfactorily operated agricultural extension service" (12).

The study also noted that continuity in Government Policies was important for strengthening the agricultural credit. B. Sen (1968) in India, lays the whole blame of less participation by small farmers in small farm credit on poor structure of the lending institutions, especially co-operatives. He associates these trends of events with the following factors:-

a) "Co-operative leadership and management is in the hands of larger farmers, therefore the needs of the smaller farmers are likely to be overlooked when loans are being approved.

b) Land ownership is being used as the sole criteria for extending credit to members. The small farmer may not have adequate land for consideration.

c) The Co-operative set-up lacks technical expertise and operational efficiency for dispensing production oriented credit; and

d) Lack of co-rdination between the agencies in charge of agricultural input supplies".

We conclude the review of the previous work done on the problems of small holder credit with a recommendation by G.L. Johnson and Lewis K. Zerby (1960):

> "In attempting to understand problems of credit as they relate to farmers, it is important to consider the historical, economic, sociological, and moral contexts within which these problems occur"(4).

Although the importance of historical, sociological and moral factors in determining smallholder credit utilization is recognised, only economic factors are stressed for the purposes of this study.

The foregoing review indicates that there exist limitations of finance in the smallholder agriculture. In such a situation the smallholder farmer who lacks factors of production due to unavailability of funds can acquire them if credit is provided. This has been shown in the review to improve the farm income substantially.

The review also reveals that small holders have limited access to farm credit. Other possible reasons cited for low utilization of small farm credit by small holders are:-

- Lack of co-ordination between the provision of credit and the supply of inputs.
- Lack of adequate advisory services to the farmer by the credit institutions.
- Profitability of the enterprises to be financed, as determined by their economic returns.

This study examines these factors, among others, in Kavujai Division in relation to the objectives as outlined in Section 1.1.4 of this text.

CHAPTER IV

METHODOLOGY

4. Survey Area

4.1 Size and Location

This study was conducted in Kavujai Division of Bungoma District in the Western Province of the Republic of Kenya. Kavujai is the largest of the three Divisions in Bungoma. The other two Divisions are Kimilili and Tongareni. Kavujai covers an area of 1,141 sq.km. of the total area of Bungoma District which is 3,046 sq.km. (27). It comprises four of the eleven locations in the District. The four locations are East Bukusu, West Bukusu, North Malakisi and South Malakisi.

4.2 Choice of the Study Area

Kavujai Division of Bungoma District was selected for this study based on the following factors:-

(1) Kavujai is the largest of the administrative Divisions in Bungoma and it contains about 82% of the smallholdings in Bungoma District 1. That is, out of a total of 123,039 smallholdings in Bungoma 100,698 are found in Kavujai Division.

(2) Kavujai Division has most of the facilities supporting agricultural development. For instances, there are two National Cereals and Produce Board Depots, a KFA shop, a Co-operative Union and a Branch Office for AFC in the Division. There is also a railway station which facilitates the transportation of most farm inputs ~~and~~ the movement of produce.

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1. Mt. Elgon Division is mainly forested and has little agricultural land.

Nzoia Sugar Factory and the administrative headquarters provide ready market for the farm produce. These facilities are assumed to have ah accelarating effect on the provision and use of agricultural credit for crop and livestock production in the area. As already mentioned in chapter II, AFC and Co-operative Union are the main agriculturallending institutions in the Division. KFA also supplies inputs to the farmers. The National Cereals and Produce Board Depots are the main marketing institutions for the farm produde.

All the smallholder credit facilities (which are the target of this study) operating in Bungoma District are found in this Division. IADP for example is confined to Kavujai Division only in the District.

4.3 Sample Selection and Sample Size

The sample size for this study was restricted to 60 farmers due to financial and time limitations and also to have a fairly large sample. Initially, this sample was intended to include loanees from the commercial banks who had taken agricultural loans. However, this was not possible as, according to the lending policy of the commercial banks, the researcher could not be allowed to scrutinize the loan register.

The first task in the sample selection was to get the 60 farmers who would be statistically representative of the smallholder farmers who could qualify for small scale loans. Theoretically, the best sample selection would be that which would ensure that each farmer in the population had the same probability of being included in the sample. Random sampling would be the best selection method to use. However, for the purpose of this study, a Purposive Systematic Random Sampling was used.

By this method, two seperate samples were selected and put together to form one sample of 60 farmers. First, a list of 35,400 farmers registered at the D.A.O.'s Office was compiled. By picking every hundredth name on that list, a sample of 354 farmers was selected. These were farmers who had not had loans before. From the 354 farmers, a smaller sample of 35 farmers was selected by picking every tenth name. Secondly a list of all the farmers with small scale loans for 1977/78 and 1978/79 seasons was compiled from the Co-operative Union and A.F.C. This came to a total of 5730 loanees from whom a sample of 358 were selected by picking every 16th name on the list. Thereafter by picking every 10th name, a smaller sample of 35 loanees was selected.

The two samples were cross-checked for any names that might have appeared in both. The two samples of loanees and non-loanees were combined to give a single sample of 60 farmers. The remaining 10 farmers together with an additional 5 chosen arbitrarily formed the sample of 15 for questionnaire pretesting.

Out of the 60 farmers that formed the sample for data collection, four were found to have left the District. Three others assumed to have been non-loanees were found to have had loans the previous season and were therefore treated as loanees. Some four non-loanees were eliminated from the analysis when it was discovered that the information they gave was incomplete and unreliable. This, reduced the sample from 60 to 52, comprising 33 loanees and 19 non-loanees.

To supplement the data collected from the sample farmers, the means for the variables used in the correlation analysis for the District were compiled from the Integrated Rural Survey (IRS4) data collected by the Central Bureau of Satistics, Ministry of Economic Planning and Development. The means from the IRS4 were compared with those of the loanees and non-loanees. However, the IRS4 data could not be included in the t-test due to lack of some parameters. The confidentiality of the IRS4 data could not allow the Researcher to calculate the variance and other parameters required for the t-test.

4.4 Questionnaire Design

Information for this study was collected by administering questionnaires and conducting oral face-to-face interviews with the respondents. Two types of questionnaires were used to gather information required for this study. The first one, which was administered to the farmers was designed to collect information on such aspects as the amount of loan taken, the size of the farm, the farmer's income, family size, age, sex, education level, security offered, yields, interest rate, repayment, etc. The second questionnaire was administered to the credit institutions available in Kavujai. The information collected in this questionnaire included, loan types and procedure, interest rate, conditions, repayment procedure, etc. Copies of the two questionnaires are included in Appendices 1 and 11 at the end of this study.

Information from the farmers was collected by the researcher assisted by three Technical Assistants(TAs) trained in Farm Management at Bukura Institute of Agriculture for two years, and were engaged in agricultural extension in the Division. The first duty of the researcher before collecting the data, was to train the three Technical Assistants in the field enumeration procedures and parameter measurement. This was done in two steps and the researcher was assisted by the Ministry of Agriculture Field Enumeration Supervisor stationed in Kakamega. The first stage of training was conducted in the office of the Supervisor for three days. The second was conducted in the field by interviewing selected farmers.

The questionnaires were pretested early in November, 1979. This was done by personal interviews conducted between the researcher and the farmers. Fifteen questionnaires were used for pre-testing. The ultimate information was collected by the interviewers approaching respondents individually. The information obtained was then recorded on the questionnaire schedule. As for the institutions, the questionnaires were filled by the relevant officers in the presence of the researcher. The time of reference for the enquiry was the 1978/79 crop season.

4.5 Limitations of Sample and Data Used for the Study

Various limitations and problems cropped up unexpectedly during the study period and data collection process. First, out of the 60 farmers selected for interview, only 52 could be used in the final analysis. The number was reduced because four of the farmers had migrated from the District half a year before the survey and therefore could not be contacted. Four others were unwilling to give the required information and when two of them finally agreed after persuation, to be interviewed, the information they gave was found to be unreliable after counter checking. They were therefore subsequently left out. Secondly, most of the farmers could not remember some of the data required as there were no records kept. The researcher and the enumerators resorted to estimations. For example, some farmers did not know their age. In such cases, important events such as the Second World War were used for estimation.

In some cases, there was a discrepancy between the amount of loan the farmer believed he owed the lenders such as Co-operative Union and the AFC and the amount which these institutions recorded as loan owed to them. In such cases, the researcher resorted to the records of the lenders as the farmer would eventually be forced to pay that amount and not just what he believed. The greatest problem was encountered on the assessment of the off-farm income. Many farmers at first believed that this information was required in order to subject them to income tax. This problem was overcome in some cases by contacting the local Agricultural Technical Assistants who had to convince the farmers of the confidentiality of the information. In other cases, the farmers' annual expenditures were used as proxy for the income as the farmer could easily state his expenditures.

4.6 Methods of Analysis

Four methods were used in analysing the data of this study. First, a tabular form was used to determine the proportions of the respondents affected by various problems. Secondly, a simple correlation analysis was performed to establish the relationship between the amount of loan used by the farmer and the size of the farm, off-farm income status of the farmer, the farm assets and the farmer's level of formal education.

In order to test the differences of the means of the above named variables (i.e. size of farm, income, farm assets, and the education of the farmer), between the sample farmers with loans and those without the loans a student t-test was used. This was necessary in order to establish whether or not those differences were statistically significant or were due to chance. Finally, there was a simple comparison of the same means of the same variables from the author's data and the data collected in the same area by Central Bureau of Statistics during the Integrated Rural Survey - 4 (IRS 4) survey.

4.7 Definition of the Variables used in the Correlation Model

Five variables were used in the correlation analysis of this study. The variables used were:-
The loan borrowed by the farmer(y); the size of the farm holding(x1); the off-farm income of the farmer(x2); the farm assets(x3); and the formal education of the farmer(x4).

The first variable in the analytical model is the loan used by the farmer. This variable includes all the farm inputs supplied to the farmer on credit and/or cash that the farmer received from the lending institutions and signed for. There were cases where the amounts of loans approved by the institution to the farmer were more than the actual amount used. If some inputs were not taken by the farmer, then their value was not included in the total loan. The loan was measured in Kenya Shillings using 1979 market value.

Many lending institutions in the Country still insit on collateral as security for issuing loans. This is normally in the form of title deeds. Usually, the larger the farm the higher its value is, and the more easily the owner can acquire a loan from the lenders. The size of the farm holding here was measured in acres and included only the land which was available for cultivation. In cases where respondent was not sure of the size of his farm, the researcher or his assistants used pacing to estimate the size. It was hypothesized in this study that farmers with larger farms had easier access to loans than those with smaller ones. It is therefore expected that there will be positive correlation between the size of the farm holdings and loan.

The off-farm income included income from salaries and/or wages earned, income from business, remittances from urban and non-urban friends and relatives. Proceeds from farm produce or land were not included. This variables was measured in Kenya Shillings per year. Logically it would be expected that the off-farm income would be negatively correlated with the amount borrowed. This is so because a farmer who had more funds coming from activities other than the farm would be expected to use some of the money in the farm business. In fact, he may not need a loan or if he does, he may not use as much loan as another farmer with an equal holding but with less off-farm income. Many of the small scale loan programmes in Bungoma were designed to assist the worse-off small scale farmers. If this is true, we expect a negative correlation. If on the other hand those with higher off-farm income are the ones using the loans, there will be a positive correlation.

The value of the farm assets in this study included all the livestock and other property on the farm i.e. cattle, sheep, goats, chicken, ducks, temporary and permanent crops, produce in store, seed material, tools, machinery and farm buildings at 1979 cost. Many lending institutions in Bungoma would want to carry out a valuation of the farm assets before they granted the loan to a farmer. The more the farm assets a farmer had, the easier it would be for him to be granted a loan. Also the higher the value of the assets the bigger the loan one would get subject to the given ceiling where it was applicable. If this was the case, it is expected that there would be a positive correlation between the value of farm assets and the loan used. This would therefore mean that the richer a farmer was in assets on the farm the more likely he was to get a loan in Kavujai. The value of the farm assets was estimated in Kenya Shillings at the 1979 cost.

The farmer in this study is defined as the person who makes the many management decisions on the farm including the decision on whether or not to borrow money for the farm. The education level was measured in years of formal schooling starting from standard one in Primary School. Thus standard one = 1 year, standard two = 2 years etc. Education is an important aspect of agricultural development. Hayami and Ruttan (1971) argue that in less Developed Countries, it needs substatial investment in rural education to increase productivity of the farm to any reasonable magnitude. Education is expected to provide a basis for technical change. Lack of adequate education is the basis for conservatism, limitation of capacity to absorb risks, fear to invest in productive resources and general lack of information. Highly educated members of the society are generally opinion leaders and are more likely to acquire a position of leadership in the society than the ones with less education. He therefore becomes an influencial member of the community. Such a farmer, will therefore be in a better position to acquire a loan from a lending institution than the other farmers. A positive correlation is expected between this variable and the loan used.

CHAPTER V

5. Result Analysis and Discussions

This chapter analyses the results and presents discussions on the findings. At the same time the chapter deals with the testing of the hypotheses.

5.1 Analysis of the Results

Table 5.1. Age Distribution of the Sample Farmers in Kavujai Division, Bangoma District, in Kenya 1979

Age Group (Years)	Total	Percentage of Total
30- 40	13	25
41- 50	22	42.3
51- 60	6	11.5
61- 70	9	17.3
Over 70	2	3.9
Total	52	100.0

The average age of the Sample Farmers was 49 years.

Source: Author's work.

Many of the people in Kavujai involved in farming as a business were above the age of 30 years. This may have been so due to the fact that most of the younger people were either in school or in urban centres looking for or participating in wage employment. On the other hand, about 79% of those interviewed were aged between 30 and 60 years. About 67% were in the middle age group and therefore within the "investment- conscious cadre". It is possible that younger people do participate in farming, but since they have not inherited land from their fathers, they can't make any farming decisions. On the other hand much older farmers were not amenable to change and introduction of new technology would only be adopted cauticusly.

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Only about 21% of the respondents were above 60 years of age.

5.1.1 Major Occupation and Income Source of the Sample Farmers of Kavujai

Most of the respondents in the sample revealed that farming was not their fulltime occupation. As table 5.2 shows, many depended on other regular sources of income, other than farming.

Table 5.2 Distribution of Sample Farmers According to Most Important Source of Income in 1979

Most Important Source of Income	Number of Respondents		Percentage	
	Total Sample	Number with Loans	Total (Sample)	Sample with Loans
1) Paid employment(Civil Servants and Teachers)	16	15	30.8	93.8
2) Self employed eg. Businessmen and Petty Traders	14	13	26.9	92.9
3) Regular remittances from relatives but not in 1 or 2	6	1	11.5	16.7
4) Established coffee as a major income source [1]	5	3	9.6	60.0
5) Small Scale Farming other than Coffee	11	1	21.2	9.1
6) Those in 4 and 5 above	16	4	30.8	25.0
7) Total (excludes 6)	52	33	100.0	-

[1] Ownership of established coffee is considered credit wothness by Co-operative Union.

Source: Author's work.

Table 5.2 shows that over 30% of the farmers in the sample were public servants (Teachers and Civil Servants) and about 27% were businessmen and traders. Thus, more than half of the respondents were persons who were not full-time employed on their farms. The table shows that more than 84% of those who benefit from small scale farming loans are people with considerable influence in the society. Civil Servants and Teachers, especially, are people who are local leaders and have a big influence in the society's decision-making. The results of the survey of the co-operative societies in Kavujai revealed that about 80% of these societies have teachers, civil servants and influencial businessmen forming more than half of the membership of the committees of societies.

It is interesting to note that out of 16 public servants (civil and teachers) and 14 businessmen, found in the sample, 15/of them respectively had loans. These figures show that / and 13 on average, 93% of the sample-public servants and businessmen had smallholder loans and only 25% of the "real" small scale farmers in the sample having loans. Only one out of eleven farmers in the sample who had no coffee had a loan. It may be argued that public servants and businessmen are more development conscious and may aggressively seek assistance by looking for loans rather than waiting for extension officers to "convince" them. However, some full-time smallholder farmers interviewed said that they had even gone to the extent of applying for the loans, only to be turned down in the end. Teachers and Civil Servants have guaranteed regular paid jobs and are most of the time away from their farms. It would appear, therefore, that the funds lent to this group of farmers are given to the people who have little time to manage their farms. Most of the teachers and civil servants interviewed alleged that they easily qualify for loans since repayment was guaranteed by their salaries.

It can be seen from table 5.2 that only 12.1% of the loanees may be classified as those working and deriving their income from their smallholdings.

As table 5.3 below shows, more than 57% of the respondents get over Kshs.2,000/-p.a. from sources other than farming. Only 42.3%, most of them farmers without regular sources as indicated in table 5.2, get below Kshs.2,000/- p.a.

Table 5.3 Annual Off-farm Income Distribution for the Sample Farmers in Kavujai Division in 1979

Income Level Kshs. per year	Loanees	Non-Loanees	Sub-Total	Sub-Total as % of Total
0- 2000	4	18	22	42.3
2001- 4000	10	1	11	21.1
4001- 6000	8	-	8	15.4
6001- 8000	4	-	4	7.7
8001- 10000	3	-	3	5.8
Over 10,000	4	-	4	7.7
Total	33	19	52	100.0

Source: Author's work.

The off-farm income of the total sample ranged from as low as Kshs.0/- p.a. to as high as Kshs.16,000/- with a mean of Kshs.3,903/-.

5.1.2 Farmer Information and Extension Services

(a) The farmer's main source of information and awareness about the agricultural activities is supposed to be the agricultural extension staff in the field.

This is acquired mainly through staff visits to the farms. There were 71 Technical Assistants (TAs) and 107 Junior Agricultural Assistants in Bungoma District, deployed on extension services 1.

The major means of transport used by these TAs and JAAs is the bicycle, or local buses. Taking the area of Bungoma District to be 2,507sq.km. (excluding Mt. Elgon Forest, 533 sq.km. and Bungoma Town, 6 sq.km.), there is on average about one Technical Assistant or one Junior Agricultural Assistant for every 14 sq.km. This is a manageable area by one member of staff, given adequate means of transportation.

Other sources of information available to the farmers include Co-operative Societies, field days, Barazas, and neighbours. When asked about their first source of information about the existence and availability of the Agricultural loans, the respondents gave the sources as shown in table 5.4 below.

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1. This is according to the interviewed with the District Agricultural Officer, Bungoma District November, 1979.

Table 5.4 The number of Respondents and the First Source of Information about the Existence of Farm Credit and their Distribution in Kavujai Division, 1979

Source of Information	Number of Respondents	Percentage of Total Respondents
Co-operative Societies	18	34.6
Agricultural Staff	15	28.8
Neighbours	6	11.6
Farmers' Training Centre	5	9.6
A.F.C. Staff	3	5.8
Commercial Bank	1	1.9
Field Days, Barazas	1	1.9
Those who were not aware	3	5.8
T o t a l	52	100.0

Source: Author's work.

From table 5.4 it can be seen that only 5.8% the sample did not know of the existence of small farmer credit while over 94% were aware of these facilities. Therefore, low participation cannot be blamed on ignorance.

5.1.3 Borrowing Conditions and Problems Encountered

Some of the most limiting conditions in taking the credit, in the opinion of the farmers, include the adherence to a specified crop package of three specific crops, with one acre each to be planted. In the case of Kavujai, the crop package was composed of 3 acres - one each for maize, cotton, sunflower or beans for IADP and SPSCP loans. A maximum of only Kshs.1,000/- was available for this package. For FISS, two acres - one each for maize and beans or sunflower- with Kshs.500/- ceiling.

Seventy five per cent of loan was supplied as inputs. This package-deal approach would be viable only if two conditions were fulfilled. First, the enterprises in the package should be the most profitable, i.e. have the highest returns. Secondly, the inputs have to be available in adequate amounts and at the right time. The most critical operations should be covered by the loan. The economic returns of the enterprises covered are given in the next section.

Asked whether the amount of loan given was sufficient for covering the most critical operations and inputs, 98% of the sample farmers said "NO". Only 2% answered in the affirmative. Asked about the sufficiency and the favourability of the present loaning system to the small scale farmers, 63% of them had the opinion that it was neither sufficient nor favourable. The reasons given by the 33(or 63%)of the respondents for their responses are given below in table 5.5.

Table 5.5: Main Reasons Given by the Loanee Respondents as being Limitations in the Present Lending System.

Reason Given	Total	Affected	Not Affected	Percentage Affected
1) Too little funds are allowed.	33	29	4	87.9
2) Most of the loan is given in kind so we cannot use it for the crops we want.	33	26	7	78.8
3) The loan processing delays too much and the funds come too late.	33	33	0	100.0
4) Very few operations are covered.	33	23	10	69.7

* Total farmers in sample who got loans were 33.

Source: Author's work.

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Other reasons given in addition to the above tabulated ones were:-

1) Loan application process should be free without demanding application and legal fees.

2) A.F.C. cheques take too long to be given to the input suppliers who refuse to give inputs on the strength of A.F.C.'s loan approval alone. Unless farmers pay them cash, inputs will not be available when needed.

3) Wrong kinds of inputs are sometimes supplied by the Society to the farmers, e.g. 20-20-0 fertilizer for top dressing maize.

4) "We do not get advice from the Ministry of Agriculture experts before we apply for the loans", one of the respondents claimed.

Many respondents said they had encountered a lot of problems when trying to get loans for their farming in the past and even presently. The main problems encountered by the farmers are presented in table 5.6 below.

Table 5.6 Common Problems Encountered by Farmers in Trying to Get a Small Scale loan in Kavujai and in Using it.

Nature of Problem Encountered	Total Interviewed	Number Answering 'Yes'	Number Answering 'No'	Yes as percentage of Total
Have to be friendly to Committee officials or be known by Managers.	52	10	42	19.2
Loan funds not available so difficult to get.	52	4	48	7.7
No inputs available even if you have the loan approval.	52	41	11	78.8
Inputs are too far from farm.	52	6	46	11.5
Loans are approved too late to be of any use.	52	42	10	80.8
Too risky to get the loan as non-payment will result in loss of farm.	52	33	19	63.5
Lending agencies put too stringent conditions.	52	40	12	76.9
Crop failures too frequent	52	45	7	86.5

Source: Author's work.

It can be noted from the above table that most loanees and potential loanees were affected by problems such as unavailability of proper inputs at the right time, late approval of loans, stringent conditions and high security demanded by the lending agencies and frequent crop failures.

There is therefore a high risk in taking the loans. These problems are not independent of one another. If loans are not approved in time then both the land preparation and input purchase will be delayed. If the planting is done late in the season, there is a high risk of very low yields or complete crop failure. Furthermore, non-availability of the right inputs, at the correct time, may result in poor performance and if yields are low, the repayment capacity of the loanee is reduced, thus making it very likely that he forfeits his security. This makes the use of small farm loans in Kavujai a risky business. The strict borrowing conditions restrict the number of possible loanees. This may have an effect on the number of small scale farmers who participate in the credit schemes.

5.1.4 Economic Returns from the Loans

The economic benefits derived from the loans by the farmer are controlled by many factors. These include the amount invested, the combination of the enterprises undertaken and the marketing of the produce.

The maximum amount of loan given is Kshs.1,000/- for a package of 3 acres as required, for I.A.D.P. and S.P.S.C.P. For F.I.S.S., the total is Kshs.500/- for a package of two crops each on an acre. The costs of growing various crops in the package as computed by the District Agricultural Office are shown in table 5.7

Table 5.7 Production costs of four crops considered in various packages financed by Small Scale Seasonal Loans in Kavujai Division during 1978/79 Season (Kshs. per acre)

Crop	Land Preparation	Seed Kshs.	FERTILIZER (a) Kshs.	(a) Kshs.	Spray Chemical Kshs.	Total
Maize	120	30	151.10	209.75	-	517.85
Sunflower	120	90	88.15	-	-	298.15
Cotton	(c) 320	(d) -	302.15	209.75	190.00	1021.90
Food Beans	120	60	100.20	-	39.00	319.70

(a) Fertilizer for planting usually SSP

(b) Fertilizer for top dressing usually CAN

(c) Two ploughing @ Kshs.120/-, harrowing @ 80/-

(d) Seed was provided free by Cotton Lint & Seed Marketing Board.

Source: Ministry of Agriculture, Bungoma District Farm Management Guidelines, 1978/79.

The funds given as loan excluded costs of labour for planting, weeding, spraying (in case of attack by pests) and harvesting. The costs of gunny bags and transportation of produce to the market are also left to the farmer. In Cotton Production, weeding is the most critical operation. Generally, cotton is a labour intensive crop and as many as six weedings are recommended by Agricultural Extension Staff in Bungoma District. Although these may be too many, more than three weedings are required 1.

1. This was revealed during the author's interview with the Bungoma District Crop Officer, November, 1979. J.D. Acland (1971) recommends several weedings.

Table 5.8 shows the costs of the various crop packages recommended as derived from the costings in the District Guidelines 1978/79.

Table 5.8: Total costs of Packages as recommended, ceilings allowed per package and the deficit to be met by a farmer for IADP, SPSCP & FISS during 1978/79 Season in Kshs. per acre

Crop	PACKAGES			
	1	2	3	4 a/
Maize	517.85	517.85	517.85	517.85
Cotton	1,021.90	1,021.90	-	-
Sunflower	298.15	-	298.15	298.15
Beans	-	199.20	199.20	-
Total	1,837.90	1,739.45	1,015.20	816.00
Ceiling Allowed	1,000.00	1,000.00	1,000.00	500.00
Deficit	837.90	739.45	15.20	316.00

a/ Package 4 is for FISS.

Source: Bungoma District Farm Management Guidelines, 1 1978/79.

It is only package 3 which is feasible even though, this package excludes cotton. These loans were intended to assist the farmers without funds. The ceilings of the amount of loan allowed are not realistic. Furthermore, the loans don't cater for all the farm operations. Operations like planting, weeding and harvesting are left to the farmer. The success of the credit scheme which has a package deal will depend to a large extent on the economic returns of the enterprises involved. It would therefore be expected that "ceteris paribus", the most profitable combination of enterprises would be recommended.

Table 5.9 below shows the gross margins of the nine most profitable enterprises in Bungoma District during the 1978/79 season.

Table 5.9: The Gross Margins of the Nine Most Profitable farm Enterprises in Bungoma District, Based on the 1978 Produce Prices.

Enterprises	Gross Margins in Kshs. per acre
Tomatoes	4,219.50
Onions	3 4,802.15
Dairy (1 dairy cow)	1,094.55
Cassava	864.00
Ground Nuts	752.00
Maize	743.20
Beans (Rose Coco)	404.00
Sunflower	303.00
Cotton	17.00

Source: District Guidelines, Bungoma District (1978/79).

According to the District Guidelines Analysis, tomatoes production is the most paying enterprise in the District farm followed by the onions, dairy and cassava in the order of decreasing Gross Margins. Any crop package which is aimed at economic returns from the loans should include these crops at least in order of their gross margins. As it is, the crops which are included in the credit crop package are maize, cotton, sunflower and beans. These crops have the lowest returns as judged from their gross margins. According to the District Agricultural Office, Cotton was included as a security crop because it can be sold through the Co-operative Society. So the loan repayment can be effected by deductions from the proceeds. Maize was included because it is a food crop as well as a cash crop. There was no justification for the inclusion of the other two crops, i.e. sunflower and beans.

Under such a situation, where the least profitable enterprises are imposed on the farmer by the lending institutions, the credit programmes are unlikely to succeed. Farmers, like other businessmen, are rational decision makers and may not be willing to take loans if it is likely that the returns will be low. Such credit programmes are bound to have a low performance. The potential loanees are likely to be scared off the credit facilities by these unprofitable conditions. The repayment performance of these programmes would also be expected to be poor.

Farmers should be left to choose their own enterprises according to the economic returns of each enteprise. This will not only encourage more participants but will also give them scope for decision making. It is therefore not surprising that IDA (105) credit programme has a better performance in Kavujai (see table 2.2 since it caters for a wide variety of enterprises. An investigation into the enterprises for which the farmers used the borrowed funds gave the results as shown in table 5.10 below.

Table 5.10: The number of Loanees in the Sample and the Crops on which the Borrowed Seasonal Loan was used in Kavujai in the 1978/79 Season Corrected

Enterprisesfor which loan Used	No. of Loans	Percentage of Total Loan
Maize	14	42.4
Sunflower	2	6.1
Sunflower and maize	13	39.4
Maize, ~~and~~ Sunflower & beans	3	9.1
Maize, Sunflower and Cotton	1	3.0
Total	33	100.00

Source: Author's work.

According to the economic returns of the crops allowed in the loan packages, maize was the most profitable, followed by beans, sunflower and cotton in that order.

However, the most profitable enterprises in the District were not included in the crop package for the loans. The argument advanced for their exclusion was that there was no organised marketing channel for them. It would therefore be difficult to recover the loans used in producing them. Maize was planted by about 94% of the sample loanees. Most farmers reported having taken some inputs for other crops but did not actually plant these crops. For the farmers who had planted a combination of three crops, the loan was not enough and so had to use some of their own funds. As can be noted from table 5.10, most farmers in the sample deviated from the crop package recommended to them by the lending institutions.

5.1.5. Marketing of Produce

Almost 90% of the farmers interviewed expressed their disatisfaction about the marketing channels of farm produce. There was no organised marketing outlets for most farm produce. "What is the point of getting a loan which you cannot pay simply because you cannot sell your produce?" One farmer reported to the author. Though the National Cereals and Produce Board was supposed to buy most of the produce, the Board refused to take most of the grains from farmers on what one respondent described as "dubius , grounds".

There were no guaranteed prices and these fluctuated from one month to the other, though official prices were being set by the Government. For example, farmers were assured of the price of maize being Kshs.80/- per 90kg. bag. Later in the year 1979, it had been reduced to Kshs.65/-. The prices available on local market varied between Kshs.35/- a bag to Kshs.60/-.

Another outstanding factor identified as a constraint in the Marketing System was the transportation of both inputs needed and the produce sold by the farmers. The transportation charges were reported to be as high as Kshs.5/- per 100kg. load per km. The lack of adequate transportation means and the general lack of access-roads also made it difficult for farmers to transport produce to markets.

Tables 5.11 and 5.12 show the description of the prices of farm produce and the transportation system by the sample farmers respectively.

Table 5.11: Description of the Price of Farm Produce by the Sample Farmers in Kavujai Division-1979

Description of Farm Produce Price	Total Respondents	Percentage of Respondents to Total Sample
Satisfactory	15	28.8
Not Satisfactory	37	71.2
Total	52	100.0

Source: Author's work.

About 71% of the respondents were thus dissatisfied with the price of produce. Prices of agricultural produce act as incentives or disincentives to farmers who would like to undertake farming for profits. Many farmers would like to be assured of high and stable prices before they undertake the production of some agricultural enterprises. High and stable prices are likely to attract farmers to agricultural production. If such farmers have no funds of their own. they are likely to go in for loans. This in turn will increase loan utilization. It is therefore likely that the low and fluctuating prices of crops such as maize act as disincentives for the farmers to participate in the loan programmes in Kavujai.

Table 5.12 Description of the Transportation System in Kavujai by the Sample Farmers in 1979

State of Transportation	Number of Respondents	Percentage of Respondents to Total Sample
Good	9	17.3
Satisfactory	8	15.4
Poor	33	63.5
No comment	2	3.8
Total	52	100.0

Source: Author's work.

The majority of the respondents (63.5%) felt that the transportation system was poor.

It is important for the farmer to reach the market and sell his produce so that he gets the money to repay the loans and for his other uses. If he cannot reach a ready market, this will not only affect the repayment of the loans but will also discourage any new comers from agricultural production. This is likely to reduce the demand and utilization of agricultural credit.

Some farmers visited had their produce still in store due to lack of access to markets. Other farmers could not utilize the loans approved to them because they had failed to get means to transport the inputs from the KFA depots to their farms.

5.1.6 Correlation of Specified Variables with Amounts Borrowed

In this section, the correlation results are presented together with the discussions. The last part of the section deals with the testing of the hypotheses of this study by using the student t-test.

The first duty of this analysis was to establish whether there was any correlation between the loan used by the farmers on one hand and the size of the farm, the off-farm income, the farm assets and the education level of the farmer on the other. Below is the correlation matrix for the variables considered in the Analysis:-

Table 5.13: Correlation Matrix for Loan Used, Size of the Farm, Off-farm Income, Farm Assets and Education of the Farmer

Loan (Y)	Size of Farm XI	Off-Farm Income X2	Value of Farm Assets X3	Education Level X4
Loan(Y) 1.00	0.26	0.65	0.29	0.33
Size of Farm X1	1.00	0.14	0.59	0.08
Off-Farm Income X2		1.00	0.28	0.34
Value of Farm Assets X3			1.00	0.20
Education Level of Farm X4				1.00

Source: Author's work.

Table 5.13 shows that there is positive correlation between the loan used by the farmer and the size of the farm, the off-farm income, the farm assets and the educational level of the farmer. Though the exact manner in which each of the above variables affect the use of the loan by the farmer cannot be determined from the matrix, it is evident that the partial increase in each of the "independent" variables is associated with an increase in the loan used (either borrowed or given). The figures in the table, shows the degree of linear relationship between the two variables concerned.

The loan is 26%, 65%,29% and 33% linearly correlated with the size of farm, off-farm income, farm assets and educational level of the farmer respectively. The highest linear correlation is between the loan and the off-farm income i.e the correlation coefficient is given as 0.65. This relationship confirms the allegation that people who get small loans in Kavujai are those who get higher income from elsewhere. This contradicts the purpose for which most small holder farm credit projects were established.

Second in magnitude, is the education level of the farmer which has a correlation coefficient with the loan, of 0.33. This confirms that more educated farmers are more likely to get loans in Kavujai than less educated ones. The value of farm assets and the size of the farm have correlation coefficients of 0.29 and 0.26 respectively, with the loan. Both these qualities are indicators of riches. The interpretation here is that the more well-to-do farmers are more likely to get smallholder farm credit than the poorer less developed ones.

5.1.7 Testing the Differences of the Means

After establishing that there is a (positive linear) correlation between the loan and the defined independent variables, it is important to establish whether there is a significant difference in the means of these variables between the farmers who used smallholder farmer loans and who didn't have the loans in Kavujai Division. By using a student t-test, at 95% confidence interval, the differences between the two samples were tested. For this purpose the two samples were analysed seperately yielding the following values as shown in table 5.14 below.

Table 5.14 Values of the Sample means and variances for loan, size of farm, off-farm income, Farm Assets, Education levels of the Farmers without loans and those with loans in Kavujai Division.

Sample	P1= Farmers with Loans		P2= Farmers without Loans		P3=IRS Averages
Sample Size	N1 = 33		N2= 19		
	Mean $\overline{X1}$	Variances S_1^2	Mean $\overline{X}_2$	Variance S_2^2	
Loan (Kshs)	932.80	396,761.60	0	-	-
Size of Farm(Acres)	7.6	21.37	6.6	9.24	6.7
Off-Farm Income (Kshs.)	5,639.70	1,466057.80	681.60	282,188.35	724.00
Farm Assets(Kshs.)	18,079.70	3,31358.10	4977.504	9688714.90	4,400
Education Level (Years)	5.7	11.12	4.5	24.15	c. 4.0

Source: Author's work.

In order to test the hypotheses of this study, it was necessary for the study to establish whether or not the differences in the means as shown in table 5.14 above were due to chance or were significant and therefore were for the samples from two different populations P1 and P_2. For every independent variable, the differences between the two means were computed at 95% level of confidence.

Table 5.15 The 95% confidence interval of the differences in the means of size of Farm, Off-farm Income, Farm Assets and Education level of the two Samples

Variable	Lowest Value of D	$\overline{X}_1 - \overline{X}_2$	Highest Value of D	Calculated t values.
Size of Farm Acres	0.4	1.0	1.6	3.27
Off-Farm Income Ksns.	4817.80	4958.1	5098.4	70.66
Farm Assets Kshs.	12655.6	13,102.0	13548.4	58.66
Education Level (Year)	1.8	2.5	3.2	6.84

D.F. = 50

Source: Author's work.

Table 5.15 above shows that there are significant differences between the means of the four independent variables considered from both samples. The difference between the means of the size of the farm from the two samples ranges from 0.4 acres to 1.6 acres. That of the Off-farm Income ranges from Kshs.4817.80 per year to Kshs.5,098.40 per year and that of the farm Assets from Kshs.12,655.60 to Kshs.13,548.40 while that of the education levels is between 1.8 years (approximately 2 years) to 3.2 (approximately 3 years). Since in all these cases, zero falls outside these ranges, at 95% level of confidence we can say that there is a significant difference between these parameters. We can therefore infer that the two populations are different as far as these variables are concerned.

5.1.8 Hypotheses Testing

The final objective of this study was to establish who among the smallholder farmers are using the smallscale loan facilities in Kavujai in terms of farm holdings, the off-farm income, the farm assets and the educational level. Based on this, four hypotheses were formulated and tested in this study. In order to do this, the means of these correlates were computed for the sample farmers with loans, those without loans and the means from IRS 4 data. The differences between the means from the samples with loans and those without loans were tested using a t-test. The data from IRS 4 could not be tested because of the reason mentioned in section 4.3.

The first hypothesis of the study was that "Farmers with Large Farm Holdings in Kavujai Division have easier access to credit". The 95% confidence interval of the difference in the means of farm sizes of the farmers with loans and those without was found to range from 0.4 acres to 1.6 acres. This was therefore found to be significantly difference from zero at that level. The hypothesis was therefore accepted. This was further confirmed by the "t" value which was 3.27. The second hypothesis "that the farmers who have a higher off-farm income in Kavujai Division get Small Scale Farm Loans" was also accepted when the 95% confidence interval of the difference in the means of the off-farm incomes of those with loans and those without was found to fall between Kshs.4817.80 and 5098.40. This was significantly different from zero and was also confirmed with a large "t" value of 70.66.

The third hypothesis of the study stated that "The farm Assets of a farmer are a determining factor in the acquisition of small farm credit in Kavujai". The difference in the means of the farm assets of those farmers with small farm loans and those without was considered and found to be between Kshs.12,655.60 and Kshs.13,548.40 at 95% confidence interval. The calculated "t" value was found to be 58.66. The hypothesis was therefore accepted. The last hypothesis to be tested in this study was that "Formal Education Status of a farmer is a determining factor on the acquisition of small scale farm credit in Kavujai". At 95% confidence interval, it was found that the difference in the means of the formal education standards in years of schooling was between 1.8 (approximately 2 years) and 3.2 (approximately 3 years).

The "t" statistics value attached to this was 6.84. This hypothesis was, like the other three before it, accepted since there was a significant difference from zero.
From the above hypotheses, it is apparent that the farmers in Kavujai who use, and can be assumed to have access to small scale farm loans from the institutions studied, are those who have relatively larger farm holdings, have higher incomes from sources other than the farm, have invested quite a greater deal in their farms and have higher formal education than the others. Given the above situation then both the lending institutions and the small-holder farm credit programmes in Bungoma, and Kavujai specifically are far from meeting the needs of the farming community. This state of affairs leaves those farmers who are unable to raise enough money to develop themselves without any assistance.

Looking at the means of such variables like farm sizes, off-farm income Farm Assets and level of formal training , we note that there are significant differences between the means for the sample of farmers with loans and those without loans.

Though the differences between the mean values calculated for farmers loans and those computed from IRS 4 data could not be statistically tested, table/below shows/ 16 that there are bigger differences between these values than there are between those without loans and the general average i.e. IRS 4.

5.1.9 Comparison Between Sample and IRS 4 Data

A simple comparison was conducted between the means of the sample data and those of the IRS 4 data for the variables considered in the correlation model. It was not possible for the differences to be tested statistically due to lack of parameters such as variances for IRS.4. The researcher could not be allowed access to raw IRS data due to the confidentiality and strict regulations involved.

However, looking at table 5.16 below, it can be noted that the difference between the means of sample farmers without loans and the IRS 4 means is only 0.1 acre for size of the farm, Kshs. 42.40, Kshs.577.50 and 0.5 years for off-farm income, farm assets and education /respectively. Whereas / level the corresponding differences between IRS 4 and sample farmers with loans are 0.9 acres, Kshs.4915.70, Kshs. 13,102.20 and 3 years! It is surprising to note here that the means of the off-farm income for sample farmers with loans is about seven times more than the IRS value whereas the farm assets are over three and a half times more.

It is evident from the above information that there are minor differences between the IRS 4 data which represent the population averages and those of the farmers without loans. On the other hand, there are very big differences between the IRS 4 means and those of the sample farmers with loans. It is apparent that the few farmers who use smallholder credit facilities in Kavujai are much above the average farmer in terms of the variables considered.

Considering that 71.15% of farmers in Bungoma District have less than 7.5 acres of land; 73.1% get off-farm income of between Kshs.0.00 and 3600.00 p.a., and 50.3% have farm assets of between 0 and 5600/- 1, the few who benefit from the smallhold credit programmes are those in the upper quantile interms of these variables.

Table 5.16 Means of the considered variables for the Sample farmers with loans, those without loans and the IRS 4 Data for Kavujai Division

Variables \ Type of Data	Means for the Variables: Farmers With Loans	Farmers Without Loans	IRS 4
Size of the Farm-holding(Acres)	7.6	6.6	6.7
Off-Farm Income(Kshs)	5,639.70	681.60	724
Farm Assets(Kshs)	18,079.70	4977.50	4400
Education Level(Years)	7.0	4.5	4.0

Source: Author's work.

Given the present structure of the commercial banks and their profit making policy, it is not surprising that their loanees are required to guarantee repayment and to provide adequate security. However, this state of affairs becomes rather out of place when it is applied to agricultural credit especially those designed to assist the "helpless" smallholders (e.g. IADP, SPSCP, FISS, and Small Scale IDA. schemes)

1 Kenya, Statistical Abstract, 1980.

It becomes even more prohibitive given the socio-economic status of the majority of the small scale farmers in Bungoma. The average farm size in Western Province is 2.75 Acres. It is therefore important that for a Smallholder Farm Credit to be successful and meet its objectives, it should be designed to cater for this group of farmers.

Though formal training may be discribed as an "eye-opener" that makes farmers aware of their needs and to be able to aggresively look for the existing facilities, it should not be a creterion for giving loans to small scale farmers as most of them are likely to have no schooling at all. From the above findings, it it apparent that the small scale farm credit facilities in Kavujai are probably being misdirected and under-utilized. Should this be the case, then they will be expected to perform poorly.

5.2 Discussions

Limitations to Small Scale Loan Acquisition in Kavujai

Looking at the credit institutions operating in Bungoma District especially in Kavujai Division, one would be convinced that the acquisition of credit by farmers would be a matter to be determined by the willingness of the farmers. AFC, Co-operative Union and the Commercial Banks (Barclays Bank of Kenya, Kenya Commercial Bank and the Standard Bank) all lend to farmers. The first two are exclusively for services to the farming sector. The commercial banks are ready to lend to the needy farmers who may so wish. However, a critical look at the structural, administrative and general coordination of these institutions reveals certain limitations which may provide bottlenecks to the acquisition of credit by smallholders.

The structural organization of the lending institutions appears to be least suited to the small farmers' credit requirements. The staffing of these institutions as it could be seen from the investigations, can only be effective with large scale farming loans. The AFC, which is a primary agricultural lender, has only the Branch Manager and the Loans Officer to serve the farmers. This staffing as revealed by this study, provides for a ratio of 1:1000 in terms of staff to potential loanee is reduced further by the fact that the two officers can either go out together in the same vehicle, or one per day, to visit the farmers while the other one remains in the office. This situation reduces the staff-loanee ratio to 1:2000. The loanees are therefore unlikely to get adequate supervision and guidance from the lending institutions.

The Commercial banks are even less prepared to provide extension services to the farmers. The three banks contacted did not have any provisions for agricultural extension. There was no agriculturally qualified member of the staff. Smallholder agriculture, especially in Kavujai, which is near subsistance level, will require close supervision and intensive technical advice from any lending institution in order to ensure proper allocation of the credit inputs. Loans either in cash or in kind given to inexperienced users left on their own may be open to higher incidence of misuse. In this respect, the Co-operative Unions have attempted to solve the shortcomings.

Field Assistants have been employed at least one per two Societies to follow-up the loanees. For a system to have an efficient administration of loans there must be proper guidance to the loanees on the best way to utilize the availed credit facilities. Proper guidance and supervision by the loaning institutions can reduce the mismanagement of loans by the farmers which often results into indebtedness. Small farmers in Kavujai therefore require proper and adequate supervision if they have to benefit from the loans offered them. The Researcher's findings show that commercial banks lack adequate specialised supervision staff to deal with farmers' problems. There are also no arrangements by the banks, for marketing farmers' produce and so repayment collection becomes a problem. Guidance from the banks on input supply and provisions for crop failures is also lacking. This lack of guidance may render a farmer indebted leaving him unqualified for participation in future loan programmes. Evidence of low loan repayment is noted in table 2.9. Only people with other non-farm sources of income may meet their repayment obligations thus making the smallholder credit facilities be at the dispossal of only people who are well-off financially.

The conditions laid down by the lending institutions are less favourable to small scale farmers. Both the Commercial Banks and the AFC still insist on pledging land as the only security to ensure repayment of the borrowed money. Whereas this may be the most effective security, it may also exclude some farmers who may need production credit. First, it excludes the borrowers who may not have processed their land title deeds and those from areas where land registration is not complete.

Secondly, a farmer who may have pledged his title deed for any development loan is automatically excluded from getting any further loans either for production or development until the loan is cleared. The requirements by the Commercial Banks that a customer should have been with the Bank for not less than 12 months serves as a restriction to new members who may need the assistance of the Bank. Furthermore, the minimum deposit required, coupled with suitability and adequacy of the records of accounts are further restrictive measures. The Banks will also require to be convinced by the applicants' past earnings or business returns. Along these lines, it is only the already established farmers and businessmen who have acquired sound financial status elsewhere that the Banks are suited to serve. The Co-operative Societies insist that the potential borrower should have been a member for at least three years and should have been marketing his produce through the Society prior to the loan request.

Therefore, the newer members of the Societies who have not qualified for these conditions will definitely be denied the services. The requirement by some credit programmes that specific enterprise mix e.g. crop packages be stuck to, by the farmer is in contravention with the economic principle of the highest return to inputs. This is especially so if the enterprises in the package are not the most profitable in the area. This is supported by the fact that IDA Phase II which had no specified package had a higher disbursement rate through A.F.C. in 1979/80 than I.A.D.P. which had a specified crop package (see table 2.3). Farmers are rational decision makers. In order for these credit facilities to be available to the small scale farmers, the structure of the institutions should be flexible so as to suit the increasing need of credit by the smallholder. It is the policy of the Government to have the Banks and other institutions lend more to agricultural sector. This is however not reflectrd in the structure of these institutions.

Besides the structural issues limiting the small scale credit use in Kavujai, there are many other constraints at the operational levels of the institutions. The fact that there is unquestionable adherence to the traditional control procedures which last as long as three months from the time the application is made to the time the approval is granted, in itself augers against small scale farmers who need seasonal credit. The structure of agricultural operations is such that it cannot be postponed for three months without affecting the yield of the crops. This delay in the loan approvals tends to result in a drop-out of potential loanees who may have applied for consideration, at the last minute. This was evident in the Co-operative Societies visited by the researcher. This type of arrangement can only be tolerated by the farmers who have other sources of income that can be utilized for the purchase of inputs and land preparation when due, before loan approvals with a hope that their funds will be reimbursed by the lending institutions when their applications are finally approved. This type of farmers may not be desperately in need of credit assistance except for convenience purposes.
The day-to-day activities of the Co-operative Societies are entrusted in the hands of the Secretary/Manager who, inturn is responsible to a Management Committee.

Investigations into these committees revealed that more than three-quarters of them, including the Chairman, are people who have fulltime engagements elsewhere, either as Civil Servants, teachers or Member of Parliament. Most Managers had between eight to ten years of formal education, with no other additional training. It is very unlikely that such Secretary/Managers will be familiar with the complex problems of the farmers, especially where finance is involved.

A further problem may emanate from the fact that the committee is composed of influencial well-to-do people who are not really typical small scale farmers. This committee may be tempted to concentrate on the interests of well-off smallholder farmers than those who really need help (see B. Sen, 1968). The differences in interest rates charged by the various credit programmes make little difference especially where some programmes like IADP and SPSCP operate on credit rationing basis. Some, such as FISS, charge no interest but still have poor performance. Furthermore, Josef Vasthoff (1968) showed that higher interest rates charged are not a particular obstacle to be farmers (35).

Small Scale Farm Credit is expensive to administer and the process and the interest charged on it should reflect the cost of such services. Low interest rates are likely to discourage lenders with opportunities outside agriculture and make lending to small scale borrowers an unprofitable business. With this low interest condition operating in the agricultural lending business, commercial banks in Bungoma are likely to be less willing to lend the small scale farmer, thus keeping low the farmer's borrowing. Discussions between the researcher and two of the Bank Managers revealed that service cost for small scale loans is too high since they tend to be small and many.

The Banks are therefore reluctant to advance many small scale loans. The only other facility available for small borrowing are overdrafts. These ones are usually for very short periods and have to be repaid even before the end of a crop season. Whatever the case may be, only people with money in their Commercial Bank accounts can be considered for lending facilities. The minimum deposit to open a savings account and maintain it is Kshs.500/-. However, to open a current account requires at least Kshs.1000/-. These requirements are out of the reach of the majority of the smallscale farmers most of who are living at subsistance level.

The fact that procedures for loan acquisition are not well related to the realities of the situation and to the development opportunities that exist in the small scale agricultural sector may explain the low participation by small scale farmers in farm credit in Kavujai Division. One major shortcoming in the administration of small farm credit in Kavujai which not only limits borrowing by small scale farmers but also may lead/overall poor performance/to is lack of coordination. There are many institutions and agencies involved in rendering services to small scale farmers in Kavujai Division, and Bungoma District as a whole. On one hand, there are the credit providing institutions. On the other hand, there are those institutions involved in the marketing of the farmers' produce and farm inputs. And even more involved are those Government Departments concerned with the agricultural extension and administrative services.

The various credit institutions operate in isolation and there is no coordination between many of them and other agencies involved in input supply and marketing of produce. At one time the Co-operative Union accused the National Cereals and Produce Board(NCPB) of not accepting maize and sunflower from the Co-operative Societies and that it was the Board that was making it difficult for the repayment of seasonal crop loans by the farmers 1. This is defeating the very requirements of the smallholder credit programmes. From table 2.7, we note that IADP, SCS, SPSCP and FISS programmes require that a loanee accepts to sell his produce either directly to the N.C.P.B. or to the Society which in turn sells it to N.C.P.B. If the N.C.P.B. cannot accept the produce from the farmers, then the loan repayment will be low. Further still, the potential loanees will be scared of borrowing since they may be sure of defaulting.

It was further alleged that the Kenya National Federation of Co-operative (KNFC) and KFA were making it difficult for the seasonal credit programmes to operate as they were not supplying the inputs required by farmers on loan in time. Most of the loans were given in kind i.e. in form of inputs. These inputs could only be provided either by Co-operative Societies or individual farmers through either KNFC or KFA. If planting time was critical and certain inputs were necessary but not available then it would be difficult for the loanees to use their approved funds. The functions of the District Loans Advisory Committee, which in any case only included AFC and the Department of Agriculture on AFC loans only, had been rendered less effective. AFC Branch Managers were authorized by their Head Office to process and approve loans without necessarily contacting the District Agricultural Officers. District Credit Coordinating Committee formed for the coordination of activities of IADP became less functional when its meetings were being attended by the officials of the Ministries of Agriculture and Co-operative Development alone.

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1. This was contained in a report by the District Credit Coordinating Committee Review of IADP and SPSCP presented to the District Agricultural Committee (DAC), 1978.

Its structure had been intended to include Co-operative Union Managers with their Secretaries, AFC Branch Managers with their Loan Officers, District Development Officer and representatives from KFA and National Cereals and Produce Board. There has been no attempt to integrate the Commercial Banks in the extension services related to farm credit in the District.

The apparently unsatisfactory performance on the side of credit schemes was also identified by the Ministries of Agriculture, Co-operative Development and Allied Agencies i.e. Kenya National Federation Co-operatives; Cooperative Bank of Kenya; Coffee Board of Kenya; Cotton Lint & Seed Marketing Board; National Cereals and Produce Board; Kenya Farmers Association; Agricultural Finance Corporation officials, during their tour of these two provinces. During a wind-up meeting of the representatives from these agencies held in Kisumu, the following constraints were identified as far as credit utilization was concerned:-

1) "There has been untimely processing of credit;
2) Size of credit has also been meagre;
3) Lack of knowledge on the farm operation;
4) There has been lack of good reputation between lender and borrower which makes the borrower reluctant;
5) Loans have been taken lightly as if they are free money;
6) Non-availability of inputs;
7) Lack of land title deed;
8) The problem of produce marketing and price structure;
9) Poor follow-up has also led to the misuse of credit;
10) The regulations pertaining to certain credit schemes such as Guaranteed Minimum Return"[1].

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1. Republic of Kenya, Ministry of Agriculture. Report of the Tour of officials of the Ministries of Agriculture, Co-operative Development and Allied Agencies to Nyanza and Western Province, 8th - 13th August, 1977.

The conference also felt that there was necessity for concerted effort by all agencies concerned to Co-operate and smoothen out these constraints, thus identifying the lack of co-ordination that exists among the various lending agencies. Credit to the farmer in terms of financial assistance in isolation has no meaning if it cannot be utilized to acquire the required inputs. It is therefore important that when the funds are made available, there should be inputs within the farmers reach.

The farmer should also be guided on how and where to acquire the inputs from. He should be informed of the proper types of inputs and their recommended applications. The farmer should also have proper information on the availability of markets and the prevailing prices. He should be informed of the security of his crop and that he will be able to meet his repayment obligations. Smallholder farmers are particularly sensitive about these issues and since they usually lack means to ensure that the above facts are correct, they are likely to end up frustrated with their loans. It is therefore important for all agencies involved with the farmers services to be coordinated in order to provide consolidated services to the farmers in a more collective approach. If this coordination is lacking, most of the small scale farmers who are unable to ensure the above may be unwilling to participate in the programmes especially if previous borrowers have been victims of such situations before.

In the foregoing section, we have looked at some issues which might have had negative effect on the small scale farmers' participation in the smallholder credit programmes in Kavujai. ~~In section 5.3, the hypotheses of this study are tested.~~

(e) Farm Input Supplies Scheme (FISS);

(f) Seasonal Credit Scheme (SCS);

(g) Smallholder Coffee Improvement Programme (SCIP);

3) Commercial Banks;

4) Crop Authorities and Merchant Suppliers e.g. Kenya Farmers Association (KFA).

Having established that there was an overall low participation in the small scale credit programmes by smallholder farmers in Kavujai, a more detailed examination of the structure, conditions and procedures of the available credit schemes serving small scale farmers in Kavujai was conducted. Various shortcomings were noted as being instrumental in the apparent limitation to the number of farmers participating in these credit programmes.

With the help of the questionnaires, a field survey was conducted and various problems were identified concerning the use of smallholder credit, from the point of view of the farmers. The major problems included the lack of qualified staff to deal with agricultural credit in relation to small scale farmers' problems; too strict conditions which do not favour small scale farmers; long time taken to process the loans and delay in disbursement; lack of loan security on the part of the farmer; imposition of a crop package (which has low economic returns) to the farmers; less amount of money given than can adequately cover the cost of production; and unavailability of farm inputs which are intended to be purchased out of loan funds.

Most of these problems can only be tolerated by the richer farmers who have other sources of income and can therefore afford to use their own money while waiting for reimbursement from the institutions. A correlation analysis was conducted and showed that there was a positive correlation between the

(e) Farm Input Supplies Scheme (FISS);

(f) Seasonal Credit Scheme (SCS);

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Most of these problems can only be tolerated by the richer farmers who have other sources of income and can therefore afford to use their own money while waiting for reimbursement from the institutions. A correlation analysis was conducted and showed that there was a positive correlation between the loans used on one hand and the size of the farm holding, the off-farm income, the farm assets and the formal training of the farmer loanees on the other hand. This correlation seemed to confirm the posibility that richer farmers are the ones using the small scale credit facilities in Kavujai. The four hypotheses tested in this study were:-

(1) Farmers with larger farm holdings in Kavujai Division have access to credit.

(2) The farmers with higher off-farm income in Kavujai Division get small scale farm loans.

(3) The farm assets of a farmer are a determining factor in the acquisition of small farm credit in Kavujai; and

(4) Formal educational status of a farmer is a determining factor in the acquisition of small scale farm credit.

The four hypotheses were subjected to the student t-test. The first hypothesis was accepted when it was found that the mean farm size for the sample farmers with loans was significantly different from the mean of those without, at 95% level. The second hypothesis was also accepted when at the same level of significance, the mean off-farm income of the sample farmers with loans was different from the mean of those without. Likewise, the third hypothesis was accepted when it was found that at that level, the mean farm assets for the sample loanees was much higher than those of the sample non-loanees. The last hypothesis of this study was accepted at the 95% level of significance on the grounds that there was a significant difference between the education levels of sample farmers with loans, and those without.
A comparison was conducted between the means of these variables for the farmers with loans and those without loans on one hand and the means of the IRS 4 data on the other.

It was found that there were much bigger differences between the means of the sample farmers with loans and the IRS 4 means than the differences between the IRS 4 means and those of the farmers without loans. It was therefore evident that those farmers benefiting from the small scale farm credit in Kavujai are those within the upper quantile as far as the four variables considered in the hypotheses were concerned.

It was therefore established that the small scale farm credit schemes in Kavujai Division, Bungoma District tend to favour the rich influential farmers and discriminates against the really "needy" target farmers. This was seen as a misdirection of the smallholder loans away from the target farmers and was a possible reason for the low participation of small scale farmers in these schemes. Hence poor credit performance.

6.2 Conclusions

This study is concluded by looking at two main aspects. First, the factors which were found likely to limit the participation of the small scale farmers in the credit facilities available in Kavujai Division. Second, the proposals for accellerating smallholder farmer use of the small scale loans. The objective of this study was two-fold. It was intended to present a description of the small scale credit programmes operating in Kavujai based on the structure of the institutions concerned and the conditions of the various programmes as they related to suitability of small scale farmer borrowing. Secondly, the study was intended to find out whether or not the credit programmes are descriminating against the small scale farmers who are the target group and favouring the rich influential farmers.

Based on the findings of this study, the factors determining the use of the credit facilities can be divided into three main catagories which can be classified as institutional factors, government factors and farmers' own factors. The manner in which these factors have been administered in Kavujai has been limiting to the small scale farmer borrowing.

(a) Institutional Factors

This study has established that the structure of the agricultural lending institutions is less suited to small farmers. There are inadequate agriculturally qualified staff for administering and supervising the numerous small loans taken by the farmers. Commercial Banks lack any staff with training in Agriculture. AFC has only two officers to serve a whole division, thus leading to a very low effective staff to loanee ratio of 1:2000. Co-operative Societies are left to Secretary/Managers who are not well qualified to deal with farmers' problems.

Only "bigger" farmers who know what they are doing are able to manager their loans. The prequalification conditions for the would-be-loanee required by most of the lending institutions are likely to exclude the "really" needy farmers from borrowing from these institutions. Commercial banks require that an applicant for a loan should have been a depositor for not less than one year. All others, except co-operatives, require that the loanee-to-be should have another off-farm regular source of income. Conditions such as "credit worthy" and "must be honest and hard working". required by the co-operative bank, leave a lot of loop-holes for subjective enforcement by the society officials.

These conditions are seen to have diverted the loans, initially meant to assist the "helpless" farmers, to most people who are in influential positions, leaving target farmers helpless. Processing of the loans takes too long and is usually too complicated for small farmers. The loans end up reaching the farmers so late in the planting season that the risks of crop failure and therefore default are too high. Only farmers with other funds can prepare land early enough. There is no provision for risk-sharing arrangements and the smallholder is therefore usually left with the whole risk.

The demand that land title deed be deposited with the lending institution as security was seen to have much effect on loan demand by the farmers. This is likely to limit the number of small scale farmers getting loans from both commercial banks and the AFC since most of them do not have the title deeds. The enterprises financed by the credit schemes existing in Kavujai also provide another source of weakness in the loan distribution and demand. A number of loan schemes, like IADP, SPSCP and FISS operate on crop package basis. The crops within these packages are less profitable. At the same time the amounts of loan given to grow these crops are much less than the cash out-lays for raising them. This leaves the farmers with a heavy burden of financing some of the critical operations from other sources. If a farmer has no other sources of funds as is the case with most of the small scale farmers, there is a high likehood of getting low yields due to lack of adequate and proper inputs including lack of proper seedbed preparation. About 87.8% of the sample farmers felt that the loan funds were too little to meet the cost of production.

(b) Government Factors

The factors attributed to the government are mainly extension services and coordination. The services to small scale agriculture include price regulation, marketing of the produce, supply of the inputs and advisory services. The study has revealed a general lack of well organized marketing for the agricultural produce. Transportation of the produce and inputs is expensive and sometimes lacking. The most serious problem revealed was the unavailability of farm inputs, and when available they come too late.

This problem has a direct bearing on the loan utilization, as lack of inputs will mean no planting. If the inputs come too late in the season, then the farmer is not able to use the credit. About 78.8% of the sample farmers revealed that there were no inputs even if the loans were approved (Table 5.8). There is a shortage of staff for advisory and supervisory work from the government departments of Agriculture and Co-operative Development. The loan follow-up by extension officers is therefore inadequate. There is evidence that there is lack of coordination between the loan provision by the lending agencies, the inputs supply and the marketing of the produce, and the extension services.

(c) Farmer Factors

This study has revealed that there are a number of factors which are considered by the lending institutions as important before a farmer is given a loan. The size of the farm holding, the off-farm income status of the farmer, the value of farm assets and the formal education of the farmer were seen as being the major factors determining whether or not a small scale farmer used a loan.

A correlation analysis revealed that these factors had a positive correlation with the loan used. This study found that the credit programmes in Kavujai seem to discriminate against small scale farmers with little or no off-farm income at all, smaller farm holdings, fewer assets on their farms and had little or no formal schooling. Given that most farmers in the district and Kavujai Division in particular were in this category, it appears these loans were being misdirected to farmers who would do without them thus leaving the target farmers who need these loans. This is seen as being instrumental in the low participation by small scale farmers in the smallholder credit programmes hence, poor performance of these programmes.

6.3 Proposals for Accelerating Small Farm Credit Utilization In Kavujai

On the basis of the findings of this study, the following proposals are made with an aim of accelerating or improving the use of credit among small scale farms in Kavujai.

a) Loan Provision

(i) All loans intended to be used in a given crop season should be borrowed at least three months earlier than the onset of the planting season. Any loans not approved by then should be withheld until the following season. Late loan approval and the subsequent late farm operations by the farmers are major contributory factors to reduced yields. Once planting is late the yields will be low. It is evident from work done in Western Kenya that each day delay in planting after the onset of the season, reduces maize yields by 80kg. per acre 1.

1. Mwangi, H. Private Communication, 1980.

At 1979 price of Kshs.80/- per 90kg. bag, the farmer loses Kshs.71.10 per day per acre. It is therefore important that the loans be approved early enough to avoid this loss. Only farmers with other sources of funds could use their money early pending reimbursement from the loaning institutions.

(ii) The approval of any agricultural loans should be done in close consultation with the District Agricultural Officer. In turn, the District Agricultural Officer should be charged with the responsibility of close follow-up of such loans to supervise their use.

(iii) The conditions for the loan approval by commercial banks should be relaxed and be suited to small farmer borrowing. Such conditions should also be reviewed as the situation of the farmers' needs changes and should be based on the farmer's merit.

(iv) There should be flexible ceiling on the amount of loan given by any scheme. Each loan should be granted on merit, and on the basis of requirements. Funds should be provided to cover all the operations especially the critical ones. If farmers are left to augment the loans with money/their own pockets/_from to pay for critical operations such as weeding, there is a likelihood of them ignoring some of these operations to save their money. In such a case the yields will be lowered and may not cover the repayments of the loans. Only rich farmers have had the capacity to "top-up" the loan funds hitherto.

(b) Loan Use

(i) For the successful use of the loan funds, it is recommended that enterprises should be financed according to their economic returns.

(ii) The right type of inputs should be available in adequate quantities in the stores and should reach the farmer at least two months before the planting time. The responsibility of ensuring the availability of the recommended inputs should be vested in the government. Smallholder farmers are unlikely to have the ability to procure inputs from far distances on their own.

(iii) Extension services by all the lending institutions and the government departments concerned should be intensified. The frontline staff should be increased and a farmer-loanee should be visited regularly and reports made on his progress from time to time.

(c) Marketing of the Produce

(i) Before an enterprise is financed by a loan or included in a crop package, thorough market study should be made on its marketing channels. If there is any doubt on its marketability, it should be excluded immediately.

(ii) There should be regular and continous produce price review to conform with the rising prices of inputs. This will encourage many smallholder farmers to participate;

(iii) The government should intensify the development of rural access roads, as a way of reducing tran- transport costs which "eat" into farmers margins.

(d) Repayment of the Loans

(i) All payments due should be recovered from the produce delivered to marketing agents in order to avoid diverting of funds to non-agricultural enterprices.

(ii) Any loan which are not paid when due should be penalized by making the farmer pay a higher interest on the outstanding arrears. Such a farmer should not be allowed any further loans.

(e) Coordination

The key factor in the success of farm credit utilization in Bungoma as a whole is coordination among the relevant authorities. A District Credit Coordinating Committee is proposed here to include all the authorities involved in the credit provision, extension services and supervision, administration, input supply, marketing of produce, etc.

Although there are no specific findings in the study which point to the required combination of this committee, it is recommended that the District Commissioner (DC) be the Chairman and the District Agricultural Officer (DAO) be Secretary. This recommendation arises from the author's working experience in the District.

According to the organisation of public services at the district level, the D.C. is the coordinator of all the public officers in the District. He is also in charge of all the administrative, developmental and political activities at the district level.

This organisation therefore puts the D.C. in a better position to effectively coordinate and summon together all the relevant authorities concerned with agricultural credit. Similarly, the DAO is the head of all the agricultural activities in the District. He liaises with all the agencies connected with agricultural production in the district. He is therefore in a better position to act as a secretary to the proposed committee.

It should be noted that the key factor to the success or failure of a credit programme is the economic returns of the enterprises financed. Farmers like any other businessmen would like to make profits from their farming business. They would therefore go in to plant the most profitable crops so that they can pay the loan back and remain with some money for use. For a loan programme in Kavujai to be successful, the farmers should be left to choose the enterprises which will bring them the highest returns. As the situation is, there are crops attached to the loans which are not the most profitable in the area.

Some crops like cotton, sunflower which are included in the crop packages for IADP, SPSCP and FISS have the lowest gross margins. If such crops are attached to loan programmes, there is a likelihood of the farmers diverting funds to other non-agricultural but more profitable business or refuse to participate in the loan programmes altogether. It is therefore important that the government allows choice of enterprises by the farmers, on merit if such programmes as IADP, SPSCP and FISS have to succeed in Kavujai Division.

Finally, it is important to note that the mainstay of this Country's economy is Agriculture. The major section of Agricultural Production is composed of Small scale farmers. Bungoma District and Kavujai Division in particular is mainly a small scale farming area with over 90% of the farmers in the lower quantile in terms of size of holding, income, farm development and even education. Any agricultural credit programme not suited to the needs to these farmers with conditions suited to their borrowing will be excluding the majority of the agricultural producers in the area and is unlikely to be successful in its performance.

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APPENDIX I

MINISTRY OF AGRICULTURE

PROJECT MANAGEMENT AND EVALUATIONS DIVISION

A FARM SURVEY ON SMALL HOLDER CREDIT UTILIZATION IN BUNGOMA DISTRICT, 1979.

I. IDENTIFICATION:

(a) Farmer's Name ....

(b) Cooperative Society ....

(c) Village ....

(d) Sub-Location ....

(e) Division ....

(f) Date of Inverview ....

(g) Name of Enumerator ....

II. BACKGROUND INFORMATION:

(a) Are you the owner of this farm?

Yes .... No ....

(b) Are you (1) Single (2) Married (3) Divorsed (4) Widowed?

....

(c) If married or were married, how many wives does/did your husband have?

....

How many wives did/do you have?

....

(d) How many children do you have?

....

(e) Family Particulars:

Members	Approximate Age	Level of Education	Living on farm not	Class (for School Chilren)
Husband				
Wife/				
Wives:				
1.				
2.				
3.				
4.				
5.				
Children:				
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
etc.				
Other Relatives on the farm:				
1.				
2.				
3.				
4.				

(f) What is your main occupation?

1. Farmer ....
2. Trader ....
3. Civil Servant/Teacher ....
4. Trader in other items (specify) ....
5. Businessman (shop-keeper etc.) ....

(g) Do you have any other source of income?

Yes .... No ....

(h) Who manages this farm?

Husband ....

Wife ....

Son ....

Manager ....

Other (specify) ....

(i) For how long have you been farming? .... Years

What farming experience do you have?

....

(j) Have you ever attended any Agricultural training e.g. F.T.C., Field training institute etc? Specify ....

....

(k) How did you get to know about farming: ....

III. <u>LAND USE</u>:

(a) (i) What is the total size of your farm .... acres .... hectares

(ii) How many holdings do you have?

....

What are their sizes?

....

(b) Do you have a land title deed for the farm or any other security?

Yes .... No ....

IV. LABOUR REQUIREMENT:

(a) Total labour requirement for the farm .

WEEKS		Operations	Labour Used Amount Family	Hired	Total
January:	1.	....	....	....	......
	2.	....	....	....	......
	3.	....	....	....	......
	4.	....	....	....	......
February:	1.	....	....	....	......
	2.	....	....	....	......
	3.	....	....	....	......
	4.	....	....	....	......
March:	1.	....	....	....	......
	2.	....	....	....	......
	3.	....	....	....	......
	4.	....	....	....	......
April:	1.	....	....	....	......
	2.	....	....	....	......
	3.	....	....	....	......
	4.	....	....	....	......
May:	1.	....	....	....	......
	2.	....	....	....	......
	3.	....	....	....	......
June:	1.	....	....	....	......
	2.	....	....	....	......
	3.	....	....	....	......
	4.	....	....	....	......

Table cont.....

WEEKS	Operations	Labour Used Amount Family	Hired	Total
July : 1.	....	....	....	....
2.	....	....	....	....
3.	....	....	....	....
4.	....	....	....	....
Aug. : 1.	....	....	....	....
2.	....	....	....	....
3.	....	....	....	....
4.	....	....	....	....
Sept.: 1.	....	....	....	....
2.	....	....	....	....
3.	....	....	....	....
4.	....	....	....	....
Oct. : 1.	....	....	....	....
2.	....	....	....	....
3.	....	....	....	....
4.	....	....	....	....
Nov : 1.	....	....	....	....
2.	....	....	....	....
3.	....	....	....	....
4.	....	....	....	....
Dec. : 1.	....	....	....	....
2.	....	....	....	....
3.	....	....	....	....
4.	....	....	....	....
TOTAL				

(b) How many workers did you have during the year?

1. Permanent Labour ....
2. Casual labour ....

(c) How much land do you rent from outside? .... acres.

(d) Land Use Table

Major Enterprise	Total Land Owned			Rented/Leased
	Acres 1	Hect. 2	Hect. 3	4
1.				
2.				
3.				
4.				
5.				
6.				
Others: - Roads, Hedges, Wells, Swamps, etc.				
Total Land				
Homestead				

(e) How much money did you pay them per day?

1. Permanent (per month) Kshs. ....
2. Casual per day/work Kshs. ....
3. Value of food if given Kshs. ....
4. Others (specify) ....

V. FINANCIAL COMMITMENTS:

(a) What are the most important activities you spend your income on - per year basis.

1. School fees .... K.Shs. ....
2. Food and subsistance .... K.Shs. ....
3. Clothing .... K.Shs. ....

4. Repairs and maintenance .... Kshs. ....
5. Dowry (bride price) .... " ....
6. Drink and Entertaining friends .... " ....
7. Buying of new tools .... " ....
8. Running the farm .... " ....
9. Paying of house maid/boy .... " ....
10. Funeral .... " ....
11. Others (specify) .... " ....

In each case state the period in which it was spent, year, month, season, quarterly etc.

(b) From where do you get all this money?

....

(c) How much do you get (approximately) per day/month/year/ season etc.?

K.Shs. .... Per ....

VI. CAPITAL VALUATION OF FARM

	Number of Units	Price for Unit	Value in K.Shs.
Livestock:			
1. Dairy Cows			
2. Bulls			
3. Other cattle over 2 years			
4. Cattle 1-2 years			
5. Cattle under 1 year			
6. Sheep			
7. Goats			
8. Chicken			

Table cont.....

	Number of Units	Price for Unit	Value in Ksh.
9. Ducks			
10. Others (specify)			
Crops:			
Permanent crops			
Produce in store			
Seed material			
Others (specify)			

Tool and Machinery:	Number Available	Age How Old)	Approximate value
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
FARM BUILDINGS	Age	Approximate Value	
1.			
2.			
3.			
4.			

CREDIT (LOANS)

() Have you ever borrowed money to use on your farm?

(i) Yes .... (i) No ....

(a) From where did you borrow the money?

1. Cooperative ....
2. A.F.C. ....
3. Bank (specify) ....
4. Friend or neighbour .....
5. Others (specify) ....

(a) Why did you not borrow any loan?

1. Not available ....
2. Not aware that it exists ....
3. Interest too high ....
4. Conditions too strict ...
5. I have no security ......
6. I had enough money ......
7. Other reasons (specify) ....

(b) What was the name of the loan?

....

....

(b) How many types of loans do you know of? ....

Names of Loan

1. ....
2. ....
3. ....
4. ....
5. ....
6. ....
7. ....

(c) How much money did you borrow? ....

(i) In cash K.Shs. ....
(ii) In kind (value K.Shs.) ....
(iii) The year & month of loan .... 197 ....

(d) What were the items you were given in kind?

ITEM IN KIND	UNITS	VALUE IN K.SHS.
1.	....	....
2.	....	....
3.	....	....
4.	....	....
5.	....	....
6.	....	....

(e) What enterprise did you borrow the loan for? ....
....

(i)

CROPS	MONEY BORROWED	ACREAGE PLANED	YIELD HARVESTED
1.	....	....	....
2.	....	....	....
3.	....	....	....
4.	....	....	....
5.	....	....	....
6.	....	....	....

N.B. Use the form attached to fill in the output and variable cost data.

(ii) Livestock:

ANIMAL TYPE	NUMBER	VALUE K.SHS.
1.	......	....
2.	......	....
3.	......	....
4.	......	....

(iii) Other projects e.g. fencing, purchasing of land, water development etc. (specify)

	Project	Unit	Value of loan Borrowed	Intended Benefit
1.	....	......	....	....
2.	....	......	....	....
3.	....	......	....	....

(f) What is the interest rate of the loan(s) borrowed? ....
....

	Loan Type	Interest Rate(%)
1.	....	....
2.	....	....
3.	....	....
4.	....	....
5.	....	....
6.	....	....

(g) How much money have you repaid up to now?

	Loan Type	Borrowed & Interest	Amount Repaid K.Shs.	Date Repaid	Percentage Repaid
1.	....	....	....	....	....
2.	....	....	....	....	....
3.	....	....	....	....	....
4.	....	....	....	....	....
5.	....	....	....	....	....

(h) Have you finished repaying the loan?

(i) Yes ....

(ii) No ....

(iii) If No, can you give us the reasons why you have not finished?

1. ....
2. ....
3. ....
4. ....
5. ....
6. ....

(i) Do you think the amount of the money given was enough for your needs?

Yes .... No ....

(i) If No, How much would you have wanted and how much did you apply for?

Wanted K.Shs. ....

Applied for K.Shs. ....

(ii) What reasons did they give you for not giving you what you wanted?

....

....

(j) Where else apart from the loan did you get the rest of the money?

....

(k) Do you think the present loaning system is sufficient?

Yes ....

No ....

If No, Why?

1. Too little money given ....

2. Too few enterprises financed ....
3. Too many conditions to qualify before getting the loan
....
4. Only known people get them ....
5. They only give the loan in kind ....
6. Only few operations are financed ....
7. The interest rate is too high ....
8. The loan delays too much ....
9. No comment ....
10. Others (specify) ....
....

(l) What problems do you encounter in acquiring the loans at present?
1. Have to be known ....
2. Loans are not available ....
3. No inputs available ....
4. Inputs are located too far ....
5. Inputs come too late ....
6. It is too expensive to get the loan ....
7. The loaning agents demand very high security (specify)
....
8. Crop failures are too frequent ....

(m) From whom did you learn about the availability of farm loans to small farmers?
1. My neighbour(s) ....
2. Agricultural Staff ....
3. Veterinary Staff ....
4. From the A.F.C. Staff ....

5. From the cooperative society ....

6. From the banks ....

7. From the course I attended at the F.I.C. ....

8. Others (specify) ....

(n) Do you think that getting a loan has helped you? ....

(o) Why did you decide to get this particular loan? ....

....

VIII. EXTENSION SERVICE:

(a) Where did you say you got information about farming practices from?

1. Farm Training course ....

2. Suppliers/Traders ....

3. Other farmers ....

4. Ministry of Agriculture Extension staff ....

5. Government Officials other than M.O.A. staff ....

6. Barazas ....

7. Others (specify) ....

(b) How many times did M.O.A. extension staff visit you this season?

Crop husbandry .... per month/week/year

Livestock/Veterinary .... per months/week/year

Credit/farm Management .... per month/week/year

(c) Did the extension staff inform you of any demonstrations this season?

(i) Yes .... (a) Did you go? Yes ....

(ii) No .... (b) No ....

(c) Why didn't you go?

1. No time ....

2. Not interested ....
3. Bad experience from previous ones ....
4. Already known the subject ....
5. Distance too far ....
6. Others (specify) ....

(d) Did you or any other member of your household attend a course or F.T.C. or other Agricultural courses?

1.Yes ....

(i) Was the course relevant?

Yes ....

No ....

2.No ....

(i) Why not? ....

(e) Did you get as much labour as you needed last season?

Yes ....

No ....

(i) If no, why not?

1. Too expensive ....
2. Not sufficient cash available ....
3. No labourers available ....
4. Others (specify) ....

IX. INPUT SUPPLY

(a) Where do you get your farm inputs from? ....

How far is it from here .... (miles/km.)

(b) How do you transport the inputs to your farm? ....

If you do it by a hired transport, how much money do you pay? .....

K.Shs. ....

(c) Are all the inputs you required available in the stores nearby?

Yes .... No ....

It no, how do you get them?

....

(d) Do you receive your inputs at the right time?

Yes ....

No ....

If No, what improvement would you suggest to better the situation?

....

(e) Do you use all the inputs recommended by the M.O.A. staff?

Fertilizer ....

Certified seed ....

Early land preparation ....

Others 1) ....

2) ....

3) ....

4) ....

5) ....

(f) How much do you pay for the farm inputs? ....

Type of Inputs	Quantity Purchased	Price Paid K. Shs.
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11		

X. MARKETING OF PRODUCE

(a) How do you sell your produce?

....

(b) What price are you given per unit of produce sold?

	Produce type	Unit	Price/Unit Ksh.	Units sold
1.	Maize	....	....	....
2.	Cotton	....	....	....
3.	Sunflower	....	....	....
4.	Beans	....	....	....
5.	Sunflower	....	....	....
6.	....	....	....	....
7.	....	....	....	....

(c) Is the price you get when selling through the cooperative and privately the same?

Yes .... No ....

If no, what is the difference?

(i) In services ....

(ii) In cash ....

(d) Would you sell the produce for the same money at the farm as you would if you took it to the market?

Yes .... No ....

(e) If no how much would be the difference? ....

(f) How much do you pay for transport? K.shs. ....

(g) How far is the nearest market from the farm? .... Km/miles

(h) How far is the cooperative society from the farm ...... kms

How far is the Maize and Produce Board depot from the farm?

....

How would you describe the present transportation system

1. Good ....
2. Satisfactory ....
3. Poor ....

(i) What would you say about the price of the farm produce; is it satisfactory?

....

....

Because ....

APPENDIX II.

MINISTRY OF AGRICULTURE:

PROJECT MANAGEMENT AND EVALUATION DIVISION

BUNGOMA DISTRICT

A. QUESTIONNAIRE TO BE FILLED BY CO-OP. SOCIETIES

1. Name of the Cooperative Society ....
2. Union to which it is affiliated ....
3. Secretary Manager ....
4. How many members are there in this society in total ....
5. How many members are active, dormant? (a) Active ....

   (b) Dormant ....
6. What are the requirements for one to be a full member of this society ....
7. How many committee members are there on the committee of this society? ....
8. What are the requirements for the member to be appointed/ elected as a committee member? ....

   ....

   ....
9. Do you ever advance loans to members of the society? (Yes or No) ....
10. What sort of member do you consider for the loans? ....

    ....
11. What are the loaning facilities that you have for members? ...

    ....

    ....
12. What other duties does the cooperative society perform for members?

    (a) ....

    (b) ....

(c) ....

(d) ....

13. Where does the society get the funds for running its daily activities? ....

14. Do you ever get any loans from the Unions, private institutions or Government? (specify) Yes or No ....

15. If yes to (14) then how much have you borrowed for the last 12 months? ....

16. What did you use the money for? ....
....

17. What was the interest rate? ....

18. How much of it have you repaid? ....

19. How much is the balance? ....

20. If you have not repaid all, what reason can you give us that has delayed the repayment?

(a) ....

(b) ....

(c) ....

(d) ....

21. How many loan applications have you received from the members during the last 12 months? ....
....

22. How many of these have been successful? How many have been unsuccessful?

(a) Successful ....

(b) Unsuccessful ....

23. What factors do you consider for members before you advance or recommend them loans?

(a) ....

(b) ....

(c) ....

(d) ....

(e) ....

24. Do you give the members any loans in kind or in cash?

(a) Kind .... (Yes, No)

(b) Cash .... (Yes, No.)

25. If yes (24) what sort of farm inputs do you give the Loanees?

....

....

26. Where do you buy the inputs from? ....

27. Do you ever buy produce from the farmer members? Yes, No ..

28. If yes when did you buy the last produce (month) ....

29. How much do you pay for unit purchased?

Produce Type	Unit	Price Paid	Remarks
(a)	....	....	....
(b)	....	....	....
(c)	....	....	....
(d)	....	....	....
(e)	....	....	....

30. Where do you sell the Produce purchased? ....

31. How much more is paid for unit sold? ....

(a) .... K.Shs. .... Per ....

(b) .... " .... " ....

(c) .... " .... " ....

(d) .... " .... " ....

(e) .... " .... " ....

32. How do you recover the loans from the members? ....

....

33. What do you do to the members who default? ....

....

....

....

34. Can you now give us the following information about the committee members?

Committee Member	Educational Std.	Occupation
1. Chairman		
2.	....	....
3.	....	....
4.	....	....
5.	....	....
6.	....	....
7.	....	....
8.	....	....
9.	....	....
10.	....	....
11. etc.		

35. In conclusion, can you tell us any problems concerned with credit and loans, and running of this society?

(a) ....
(b) ....
(c) ....
(d) ....
(e) ....
(f) ....
(g) ....
(h) ....
(i) ....
(j) ....
(k) ....
(l) ....
(m) ....
(n) ....

All information given here will be treated as confidential and will not be exposed to any third party.

Signature ....
SECRETARY/MANAGER

B. QUESTIONNAIRE FOR THE FORMAL LOANING INSTITUTIONS: UNIONS, COMMERCIAL BANKS, A.F.C., etc.

I am an Agricultural Officer pursuing a higher degree programme at the University of Nairobi. The purpose of this study is to establish the current way the small loans are being utilized in Agricultural Production and establish a recommendation into the better ways of using the same more productively in the near future.

Any information gathered in this questionnaire will be considered highly confidential and will not in any way be exposed to any third party.

Name of Institution : ....

....

(1) Do you ever give loans to farmers for any farming business? (Yes, No) ....

(2) If yes to (1) when you advance the loans to the customer, do you ever ignore collatered security? ....

(3) If yes to (2), under what conditions? ....

....

....

(4) If no to (2) do you evaluate the security to know that all the loans fully secured, over secured or undersecured?

....

(5) Besides security, what other factors do you consider before giving the loan?

(a) ....

(b) ....

(c) ....

(d) ....

(6) What are the rates of interest you charge for loans? ......

....

(7) What is the maximum deposit (savings) Kshs. ....

(8) What rate of interest is paid to the customers for their deposits? ....

(9) What is the fixed charge for customers running current accounts? ....

(10) Do you allow customers to choose on what type of A/C to run (fixed, current, savings etc)? ....
....

(11) If no, to (10), then why? (Specify) ....
....

(12) When advancing the loans which customers in terms of A/C do you prefer? Why? ....
....

(13) For how long (in months) should the customer run his A/C before you consider him for a loan? ....

(14) Do you have a ceiling or floor for loan advances? .....
....

(15) If yes to (14), (a) ceiling Kshs. ....

(b) floor Kshs. ....

(16) On what major ground do you reject customers' applications for lo

(a) Inadequate security

(b) Low flow and seasonal income

(c) Unreliable character

(d) Unrealistic expenditure being proposed in application

(e) Expenditure proposed in application being in conflict with government policy

(f) Others (specify) ....

(17) Roughly what is the amount of fixed cost for loan (legal fee, stamp duty, charge fee, service fee etc.)?
....

(18) How long do you take to process loan applications? ....
....

(19) How many loan applications have your received in the last 12 months? ....

(20) How many of these were used for Agricultural purposes? ....

(21) What is the average size of loan applied for?
K.Shs. ....

(22) How many were successful in either case? ....

(23) What is the average size loan for successful applicants?
....

(24) How many defaulters in the last 24 or 12 months?
....

(25) What is the maximum period for loan repayment? ....