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**INVESTIGATION OF CHALLENGES FACING ACCESSIBILITY OF
CREDIT FROM COMMERCIAL BANKS FOR FINANCING
AGRICULTURAL SECTORS IN KENYA:
(A SURVEY OF COMMERCIAL BANKS IN NYERI COUNTY)**

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D53/NYI/PT/14676/2009

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS,
KENYATTA UNIVERSITY IN PARTIAL FULFILMENT OF THE
REQUIRMENT FOR THE AWARD OF MASTER OF BUSINESS
ADMINISTRATION (FINANCE OPTION)**

MAY, 2013

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Declaration

This project is my original work and has not been presented for award of a degree course in any other university or higher institution of learning. Other people's ideas or thoughts cited are duly acknowledged.

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Acknowledgements

First to the almighty God who has given me the strength all through and whose grace has been sufficient for me. I also wish to acknowledge my supervisor Ms. Ann Muchemi for her support and advice throughout my studies. I also recognize Mr. Mungai J.N who was also my lecturer for his advice and lessons which have shaped my life. I cannot forget all lecturers who taught me valuable lessons which shaped my life. I also recognise my colleagues of MBA 2012 class for their support during the period. I am greatly indebted to you all for your encouragement and prayers that have brought me this far.

Dedication

This project is dedicated to my dear wife, Felister and my sons, Peter Junior and Mark Carson for their encouragement and support throughout my study period.

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ABSTRACT

Accessibility of credit is vital for the development of any sector in the country. There has been a big challenge in the country in financing the agricultural sector. The research study aims at analysing the various challenges facing accessibility of credit from Commercial banks for financing agricultural sectors in Kenya. The study was carried out in the various Commercial banks in Nyeri County. Kenya has a total of forty three commercial banks. Out of this, Nyeri County has a total of eleven commercial banks with a total of twenty five branches. The research adopted a descriptive survey approach where staffs working in the banks represented in Nyeri County were sampled. As at 31st December 2012, the twenty five branches of the eleven commercial banks represented in Nyeri County had a total population of three hundred and seventy five (375) employees. Out of this, the survey targeted the staffs who are involved in credit processes in their respective institutions. These staffs include branch managers, Credit managers, Operations managers and credit officers. The 11 commercial banks had 25 branch managers, 20 Operations managers, 17 Credit manager and 94 credit officers. The study therefore had a target population of one hundred and fifty six (156) banks staffs. Out of these, 30% were sampled making a sample of 47 employees. Sampling was done using stratified random sampling technique. The research used primary data which was collected through the questionnaires. The questionnaires had both closed and open ended questions and were administered through the employees of the various commercial banks using drop and later pick method. Data collected was both qualitative and quantitative. Quantitative data was analyzed using the descriptive statistics of mean, mode and median. Data has been presented using tables, graphs and charts. Qualitative data has been analyzed using content analysis. The response rate was 85.1% where out of the issued 47 questionnaires 40 were returned and considered adequate to commence the analysis. The findings established that customer related challenges, agricultural activity related challenges, loan related challenges and borrowing costs related challenges influences the accessibility of credit from commercial banks for financing the agricultural sectors in Kenya. It was recommended that Commercial banks in Kenya should come up with more flexible and customer friendly solutions to enable easier access of credit to the Agricultural sectors in Kenya.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

For many years, agriculture has been the backbone of Kenya's economy. According to the food security report of 2011 prepared by Kenya Agricultural Research institute, the sector directly contributes 24% of the Gross Domestic Product (GDP) and 27% of GDP indirectly through linkages with manufacturing, distribution and other service related sectors. The report further indicates that approximately 45% of Government revenue is derived from agriculture and the sector contributes over 75% of industrial raw materials and more than 50% of the export earnings. The sector is the largest employer in the economy, accounting for 60 per cent of the total employment. Over 80% of the populations, especially living in rural areas, derive their livelihoods mainly from agricultural related activities (Kenya economic survey, 2012)

The sector indirectly contributes to the GDP through linkages with manufacturing, distribution, and other service related sectors. Periods of high economic growth rates have been synonymous with increased agricultural growth and better performance. Most of the people in the world are poor, so if we knew the economics of being poor we would know much of the economics that really matters. Most of the world's poor people earn their living from agriculture, so if we knew the economics of agriculture we would know much of the economics of being poor (Schultz, 1979).

Due to these reasons the Government of Kenya (GoK) has continued to give agriculture a high priority as an important tool for promoting national development. In 2008, the GoK launched Kenya Vision 2030 as the new long-term development blueprint for the country whose focus is to create a “Globally competitive and prosperous country with a high quality of life by the year 2030”. The Vision also aims at transforming Kenya into “a newly industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment”. The Vision is anchored on the economic, social, and political pillars and will be supported on the foundations of macroeconomic stability; continuity in governance reforms; enhanced equity and wealth creation opportunities for the poor; infrastructure; energy; science, technology and

innovation; land reform; human resources development; security; and public sector reforms. The economic pillar targets six key sectors i.e. tourism, agriculture, wholesale and trade, manufacturing, financial service and IT enabled services. The government of Kenya has identified the growth of the agricultural sector as one of the six priority sectors among the economic pillar that make up the vision 2030. According to the ministry of Agriculture report of 2011, the Kenyan government fully understands the importance of the sector to the growth of the Kenyan economy. It therefore proposed various intervention measures to sustain and expand the sector. These measures include programmes for provision of improved seeds and fertilizer to farmers to increase food production, sustain and expand funding for irrigation, tax incentives for agricultural cooperatives and investors to invest in food processing and value addition, and to provide appropriate incentives for private sector investors for local manufacture of fertilizer and to invest in food storage to prevent post harvest losses (Nyoro, 2002)

Lack of working capital and low liquidity limit the farmer's ability to purchase productivity enhancing inputs like seeds, fertilizers and pesticide. In spite of the relatively high adoption rates of inputs like fertilizers, the quantities used are low and therefore, hybrid variety crops that are dependent on fertilizers may not attain their potential production. The average production efficiency levels are higher among producers who have access to formal credit (Awudu and Richard, 2001). Access to credit resulted to higher technical efficiency in maize production in Kenya. The achievement of national food security is to be a key objective of the agricultural sector. Food security in this case is defined as a situation in which all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life (Kenya Food Security Steering Group, 2008).

There is need for access to capital in the form of credits. Credit is defined as the ability to obtain title to and receive goods for use in the present, although payment is differed to a future date (Miler, 1977). Agricultural financing is the procurement and using of capital for agricultural production. Agricultural practice requires money for the purchase of various factors of production including land, labour and farm inputs. There are two main sources of agricultural financing; formal and informal sources. The formal sources are organized and guided by law

with effort on the part of the government, commercial banks, supervised agricultural credit, cooperative societies and government agencies. Informal sources include friends, relatives, moneylenders, saving societies and traditional groups. These sources are meant to facilitate and increase agricultural production. Though farmers may patronize these sources, there are some implications involved like provision of collaterals. According to Swinnen and Gow (1999), access to agricultural credit has been severely constrained in developing countries. This is because of the imperfect and costly information problems encountered in the financial markets. Such problems are known to be particularly important in agriculture. As a result of the informational imperfections between the lenders and the borrowers, rationing of credit demand becomes necessary for financial institution. Credit rationing refers to the situation where lenders limit the supply of additional credit to borrowers who demand funds, even if the latter are willing to pay higher interest rates (Stiglitz, 1994).

Credit rationing policy is, however, regressive to the small holder farm households as it has serious implication for growth and equity objectives of development policy. This is because when credit is rationed some borrowers cannot obtain the amount of credit they desire at the prevailing interest rate, nor can they secure more credit by offering to pay a higher interest rate. In such circumstances, liquidity can become a binding constraint on farmers' operations. Limited credit and high interest rates often appear as an impediment to agricultural development, inhibiting the acquisition of capital necessary for modern agriculture. The problems of adverse selection, moral hazard and other market imperfections may cause the effective transaction costs to be so high, as to limit trade in or lead to the demise of those markets (Dowd, 1992). It is the perception of this seemingly market failure that often results in pressure for government intervention.

Different Counties have different agricultural products depending on the prevailing geographical and climatic conditions which lead to the different subsectors in the agriculture sector. These subsectors include tea, coffee, horticulture, dairy, maize, wheat, sugar among others. The tea sector is the dominant sector and the coffee sector has started to pick up following a decline in the recent past. The horticultural and flora sectors have seen unprecedented growth over the past years as more companies venture into production and export of flowers and fresh produce. The

sugar industry has faced significant challenges and it is the government's intention to improve the sector. This industry is expected to show good growth over the next few years, should the government implement their stated policies. Other sectors where the country has significant untapped resources include cotton, forestry, fishing, pyrethrum, and macadamia nuts (Kibaara, 2005).

1.1.1 Nyeri County

Nyeri County is located in the central part of Kenya. According to the Kenya Geographic report (2012), Nyeri County borders Laikipia to the North, Meru to the North East, Kirinyaga to the East, Muranga to the South, and Nyandarua to the West. The County covers an area of 3,337 square Km. The climate is cool and wet with temperatures range from a mean annual minimum of 12°C to a mean maximum of 27°C, and rainfall amounts of between 550mm and 1,500mm per annum. The County has six constituencies namely Nyeri town, Tetu, Mukurweini, Kieni, Mathira and Othaya Nyeri town (officially known as Nyeri Municipality) was the administrative headquarters of the country's former Central Province.

Nyeri Town is the largest town and is also the proposed headquarter for the County. The town is situated about 150 km north of Kenya's capital Nairobi, in the country's densely populated and fertile Central Highlands, lying between the eastern base of the Aberdare Range, which forms part of the eastern end of the Great Rift Valley and the western slopes of Mount Kenya. According to the Kenya Population and housing census report (2009) by Kenya national Bureau of statistics the total population of Nyeri town was 119,273 with 36,412 households. The total population of Nyeri County was 693,558 with men forming 49% and women forming 51%. The population density was 208 people per square km. The total population of the country was 38.6M. The poverty level was 33% compared to 46% in the country. Nyeri town has a relatively low cost of living in comparison to Nairobi and other major towns in Kenya. Located in Kenya's fertile highlands, food and water are plentiful and relatively cheap. Nyeri town covers an area of approximately 10 square Kms.

1.1.2 Commercial banks in Nyeri County

According to the Kenya Banking survey (2012) by the Kenya Bankers Association, there are a total of 43 commercial banks in Kenya. The survey will be carried out at the commercial banks based in Nyeri County Nyeri County which has a total of 11 different commercial banks which have a total of 25 branches. The banks are located in the four large towns of Nyeri, Karatina, Othaya and Mukurweini. The banks are Kenya Commercial bank limited, National bank limited, Equity bank limited, Cooperative bank limited, Ecobank limited, Standard chartered bank limited, Consolidated bank limited, K- Rep bank limited, Jamii Bora bank, Barclays bank Limited and Family bank limited.

1.2 Statement of the problem

The access of finance is an important factor for the success of the sector through provision of capital needed for financing its growth. Limited credit and high interest rates often appear as an impediment to agricultural development, inhibiting the acquisition of capital necessary for modern agriculture. The problems of adverse selection, moral hazard and other market imperfections may cause the effective transaction costs to be so high, as to limit trade in or lead to the demise of those markets (Stiglitz,1994) .

It is the perception of this seemingly market failure that often results in pressure for government intervention. The government of Kenya is involved in agricultural financing through the Agricultural Finance Corporation (AFC). AFC collapsed in early 1990s due to non repayment of debts and political interferences (Argwings-Kodhek 1998). In the past five years, the corporation has been resuscitated after receiving 1.3 Billion Kenya shilling from the exchequer. The funding has enabled the corporation resume lending for seasonal and development loans. In addition, the corporation has expanded its lending frontier to cover value addition projects. In order to increase outreach the corporation is implementing the wholesaling group lending approach to organized farmer groups (AFC, 2010). The government's main effort at addressing agricultural credit needs gives few loans, in limited areas, to large-scale and wealthier farmers. In most developing countries, the share of commercial banks' loans to agriculture has been very low compared to manufacturing, trade, and other services sectors, hampering expansion and technology adoption. For example, in Kenya, the lack of capital and access to affordable credit is

cited by smallholders as the main factor behind the low productivity in agriculture. Access to formal credit in Tanzania and Ethiopia is mainly confined to large urban centres, where collateral requirements are high. In Uganda, high interest rates inhibit agricultural investments. While more recently micro-finance institutions have taken financial services to millions of previously un-bankable clients due to innovative instruments, they have so far largely failed to reach poorer rural areas and/or smallholder agricultural producers whose livelihoods are characterized by highly seasonal investments, risks, and returns (Peacock, 2004).

Agricultural sector has over the years been viewed as a risky investment for which commercial banks are unwilling to extend loans, more so to smallholders. According to the Central Bank of Kenya report (2011), the lending by commercial banks to the agricultural sector has increased from about Sh25 billion in 2002 to about Sh53 billion in 2011. This however accounted for only three percent (3%) of the total banks' lending portfolio which prompted the researcher to investigate on what are the challenges facing the accessibility of credit from commercial banks for financing Agricultural sectors in Kenya.

1.3.0 Objectives of the study

1.3.1 General Objectives of the study

The study sought to investigate the challenges facing accessibility of credit from commercial banks for financing agricultural sectors in Kenya.

1.3.2 Specific Objective of Study

The study had four specific objectives.

- i. To establish if customer related challenges influences the accessibility of credit from commercial banks in Kenya.
- ii. To investigate if agricultural activities related challenges influences the accessibility of credit from commercial banks in Kenya.
- iii. To investigate if loan related challenges has an influence on the accessibility of credit from commercial banks in Kenya.
- iv. To find out if the borrowing costs related challenges influences the accessibility of credit from commercial banks in Kenya.

1.4 Research questions

- i. Does customer related challenges influence the accessibility of credit from commercial banks in Kenya for financing agricultural sectors?
- ii. Do Agricultural activities related challenges influence the accessibility of credit from commercial banks in Kenya for financing agricultural sectors?
- iii. Does loan related challenges influence the accessibility of credit from commercial banks in Kenya for financing agricultural sectors?
- iv. Do borrowing costs related challenges influence the accessibility of credit from commercial banks in Kenya for financing agricultural sectors?

1.5 Significance of the study

The findings of this study are likely to have significance to a number of stake-holders. First the financial institutions in Nyeri County are a representation of the financial institutions in Kenya. The findings are therefore likely to have an impact on the lending processes to the agricultural sectors by the commercial banks. The banks might adopt and implement the recommendations which are aimed at having friendlier loan requirements. Secondly, the borrowers in the agricultural sectors who include the farmers, processors, traders in the agrochemicals and other farm inputs, transporters among other players might be better advised on the loan requirements from commercial banks. Kenyan Government may be able to use the findings to establish better policies and enhance its working relations with the commercial banks so as to support the agriculture sector. Other development agencies such as Nongovernmental organisations and international development partners are also likely to benefit from the findings. Future researchers may also extend the research and use the literature for more research on financing the agricultural sector in Kenya.

1.6 Limitations of the study

This study had a number of limitations. First there were non responses where some respondents did not to fill the questionnaires given due to the confidentiality requirements of banking processes. The researcher got introduction letters from the university indicating that the questionnaires were for academic purposes only and that confidentiality will be observed. The respondents were also not required to indicate their names on the questionnaire. Another

limitation is where some of the respondents may have given inaccurate information either deliberately or out of ignorance. The respondents were however encouraged to give information which was accurate and that the purpose for the questionnaires were for academic only.

1.7 Scope of the study

This study was limited to commercial banks in Nyeri County. The choice is Nyeri County for the survey resulted after consideration of several factors. First, the County has a total of 11 different commercial banks. These banks are a representative of all the 43 commercial banks in Kenya. Most of the banks in Kenya are concentrated in the large cities of Nairobi, Mombasa and Kisumu. However, Nyeri County has a representation of all the mainstream commercial banks in Kenya. Secondly, the county has fertile land which allows for farming of different crops such as Tea, coffee different cereals legumes, vegetables, fruits, flowers, tubers among other crops. There is also farming of different livestock such as dairy cows, sheep, goats, poultry, pigs, rabbits among others. The farming is done on both subsistence and commercial basis. The county also has many farmers due to the high population. Majority of the population depends on agriculture and the indigenous community has a reputation of being a farming community. The farming is both seasonal depending on the rain cycle and continuous through irrigation. These made Nyeri County a good representation of the agricultural activities taking place in most parts of the country and thus a good choice for carrying out the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter includes the literature review on sources of credit for financing the agriculture sectors, factors influencing accessibility of credit from commercial banks and theoretical framework and empirical review.

2.2 Role of agriculture in economic development and poverty reduction

Historically, few issues have attracted the attention of economists as has the role of agriculture in economic development and poverty reduction, generating an enormous literature of both theoretical and empirical studies. Much of this literature focuses on the process of structural transformation of economies, from the least developed in which economic activity is based largely on agriculture, to high-income countries where industry and services sectors dominate. A declining share for agriculture in national employment and GDP is an inevitable consequence of economic progress (Cervantes and Brooks, 2009). This is largely due to higher income elasticities of demand for non-agricultural goods and services. As their incomes grow, consumers increase their consumption of manufactured goods and services faster than their consumption of food. Paradoxically, the process is usually accompanied by rising incomes and a lower incidence of poverty among those who depend on agriculture for a living.

Lewis (1955) was one of the first of many development economists attempting to explain the paradox. He viewed economic development as a process of relocating factors of production from an agricultural sector characterized by low productivity and the use of traditional technology to a modern industrial sector with higher productivity. Lewis's theory was interpreted as advocating industrialization and used to justify government policies that favoured protection for domestic industries and, explicitly, taxed the agricultural sector (Kirkpatrick and Barrientos, 2004). That theory and its implications for policy have been largely debunked by later work and the degree to which economic policies of developing countries discriminate against agriculture has lessened dramatically in recent decades (Anderson and Valenzuela, 2008).

Many recent studies focus specifically on quantifying the relationship between agriculture and poverty. Bresciani and Valdes (2007) frame their analysis in terms of three key channels they say links agricultural growth to poverty: 1) labour market, 2) farm income, and 3) food prices. They provide a theoretical framework for investigating the quantitative importance of those various channels. They conclude that when both the direct and indirect effects of agricultural growth are taken into account, such growth is more poverty reducing than growth in non-agricultural sectors. Bresciani and Valdes emphasize especially that agriculture's contribution to poverty reduction is consistently greater than is agriculture's share of GDP. For their case study countries, agriculture's contribution came mainly through the labour market channel. They caution however that growth strategies based on such findings may not be valid in circumstances where the agricultural output mix does not feature labour intensive crops and livestock activity. Equally problematic for such a strategy is that much progress in agriculture historically has come from the introduction of labour saving technical change.

In a paper done as background for the World Bank's 2008 World Development report, Ligon and Sadoulet (2008) combine time series and cross-section data to estimate regression coefficients connecting consumer expenditures by decile to agriculture and non-agriculture GDP. Their findings are consistent with claims that agricultural sector growth is substantially more important than non-agricultural sector growth for those households in the lower deciles of the expenditure distribution, *i.e.*, the poorer segments of the population. They find the opposite result for richer households, *i.e.* that the expenditure elasticity non-agricultural growth is much higher than for agricultural growth leading them to conclude that their findings are consistent with claims that agricultural sector growth is pro-poor.

Christiaensen and Demery (2007) point out that the contribution of economic growth to poverty reduction might differ across sectors because the benefits of growth might be easier for poor people to obtain if growth occurs where they are located. This reasoning implicitly assumes that transferring income generated in one economic sector or geographic location to another sector or location is difficult because of market segmentations or considerations of political economy. They too find that growth originating in agriculture is on average significantly more poverty reducing than growth originating outside agriculture. While most empirical studies show that

agricultural growth is relatively more important than growth in other sectors there are exceptions, underscoring the existence of potentially important differences in the sectoral GDP elasticities of poverty across countries, depending on the structure and institutional organization of their economies. A common finding is that the poverty reducing powers of agriculture declines as countries get richer (Christiaensen and Demery, 2007. Gardner (2000), for example, found that gains in income from off-farm sources was the main reason rural poverty declined in the US from the 1960s.

Ravallion and Datt (2002) found that the elasticity of rural headcount poverty with respect to agricultural growth in India is less than half that for non-agricultural sector growth. They speculate that the latter occurs because of rapid growth in the informal sector of the Indian economy. Interestingly, using a similar method of analysis for China Ravallion and Chen (2007) estimate that agricultural growth had four times greater impact on poverty reduction than growth in the secondary and tertiary sectors. Previous research suggests that agricultural income growth is more effective in reducing poverty than growth in other sectors because: 1) the incidence of poverty tends to be higher in agricultural and rural populations than elsewhere, and 2) most of the poor live in rural areas and a large share of them depend on agriculture for a living (World Bank, 2008) .

2.3.0 Risks in agricultural sectors

Risk is uncertainty that affects an individual's welfare, and is often associated with adversity and loss (Bodie and Merton, 2005) .Farming is a risky business. Crops may fail, weather influences the productivity and sale prices fluctuate and are difficult to predict when the crops are planted. If productivity is lower than expected, farmers may not be able to repay loans. These risks and many other aspects of agricultural risk will need to be identified, measured and actively managed in order to stop lending institutions turning away from this clientele. According to Harwood and Heifner (1999), there are five main categories of risks in agriculture.

2.3.1 Production or Yield Risk

According to Richard Heifner, (1999), production risk occurs because agriculture is affected by many uncontrollable events that are often related to weather, including excessive or insufficient rainfall, extreme temperatures, hail, insects, and diseases. Technology plays a key role in production risk in farming. The rapid introduction of new crop varieties and production techniques often offers the potential for improved efficiency, but may at times yield poor results, particularly in the short term. In contrast, the threat of obsolescence exists with certain practices such as using machinery for which parts are no longer available.

2.3.2 Price or Market Risk

Price risk reflects risks associated with changes in the price of output or of inputs that may occur after the commitment to production has begun. In agriculture, production generally is a lengthy process. Livestock production, for example, typically requires ongoing investments in feed and equipment that may not produce returns for several months or years. Because markets are generally complex and involve both domestic and international considerations, producer returns may be dramatically affected by events in far-removed regions of the world. While informational asymmetries limit the ability to insure against price risk, yield risk cannot be fully covered without attenuating incentives. In general, the ability of farmers to share risk is extremely limited (Newbery and Stiglitz, 1993).

2.3.3 Institutional Risk

This are risks which results from changes in policies and regulations that affect agriculture. This type of risk is generally manifested as unanticipated production constraints or price changes for inputs or for output. For example, changes in government rules regarding the use of pesticides (for crops) or drugs (for livestock) may alter the cost of production or a foreign country's decision to limit imports of a certain crop may reduce that crop's price. Other institutional risks may arise from changes in policies affecting the disposal of animal manure, restrictions in conservation practices or land use, or changes in income tax policy or credit policy (Ligon and Sadoulet, 2008)

2.3.4 Human or Personal Risks

Human risks are disruptive changes which may result from such events as death, divorce, injury, or the poor health of a principal in the firm. In addition, the changing objectives of individuals involved in the farming enterprise may have significant effects on the long run performance of the operation. Asset risk is also common to all businesses and involves theft, fire, or other loss or damage to equipment, buildings, and livestock. A type of risk that appears to be of growing importance is contracting risk, which involves opportunistic behaviour and the reliability of contracting partners (Loayza and Raddatz, 2006).

Political interference in agricultural markets is a common feature to be found in many developing countries. Price intervention is popular for example, as low food prices are in the interest of urban consumers. Abolishing price ceilings for basic food products in former socialist states led to severe social unrest. Accordingly, stabilizing these prices has been a common feature of political interventions in many countries (Christiaensen and Demery, 2007). On the other hand, fixed prices for agricultural produce are also frequently used by governments to ensure a certain level of income for small farmers. Changes in policy and state interventions can have a severely damaging impact on rural financial markets. Agricultural lending has, in fact, a long-standing history of political intervention and distortion, which has significantly contributed to the lack of interest from commercial banks in lending to farmers. Promising debt cancellation is a common feature of populist political campaigns and is enormously damaging to financial service providers. Even well-intentioned credit programmes for specific target groups and regions can also substantially distort prudent agricultural lending activities.

2.3.5 Financial Risk

Financial risks result from the way the firm's capital is obtained and financed. A farmer may be subject to fluctuations in interest rates on borrowed capital, or face cash flow difficulties if there are insufficient funds to repay creditors. The use of borrowed funds means that a share of the returns from the business must be allocated to meeting debt payments. Even when a farm is 100-percent owner financed, the operator's capital is still exposed to the probability of losing equity or net worth.

2.4 Agricultural Finance

According to Murray (1953), agricultural finance is an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture. Agricultural finance is a branch of agricultural economics, which deals with and financial resources related to individual farm units (Tandon and Dhondyal, 1962). It refers to financial services ranging from short, medium and long-term loans, to leasing, to crop and livestock insurance, covering the entire agricultural value chain - input supply, production and distribution, wholesaling, processing and marketing.

2.5 Types of Agricultural Loans

Agricultural loans are categorized as short-term, intermediate-term or long-term, depending on their maturity, Ellinger and Barry, (2012). Lenders often describe loans by the purpose or terms of the loan. For example short-term loans are often used for operating expenses. Loan maturity usually matches the length of the agricultural production cycle hence a short-term loan. However, this may be described as line-of-credit financing under a credit commitment, which specifies the amount and timing of the disbursements and payments of the loan. The line-of-credit may be a single disbursement due at a specified future date or a revolving line-of-credit in which the borrower may borrow and repay as needed during a specified time period, usually subject to a maximum borrowing level. On a non revolving line-of-credit, a borrower is entitled to a specified amount of funds, and repayment does not allow the borrower to draw those funds again. A non revolving line-of-credit is sometimes referred to as a draw note.

Intermediate-term loans are used to finance depreciable assets such as machinery, equipment, breeding livestock and improvements. In addition, intermediate-term loans are sometimes used to restructure a borrower's balance sheet to provided additional working capital. Lenders often describe them as capital, or instalment, loans. Loans usually range from 18 months to 10 years.

Long-term loans are used to acquire, construct and develop land and buildings, and usually are amortized over periods longer than 10 years. Lenders may describe them as real estate mortgages because they are usually secured by real estate. Long-term loans are sometimes referred to as contract financing, in which case a seller provides financing directly to a buyer.

2.6 Sources of Agricultural Finance

Investment in agriculture is a key determinant of productivity growth and is essential to meet growing demands on the sector (Cramon & Taubadel, 2009). The sources of agricultural finance are broadly classified into two categories: Non-institutional Credit Agencies or informal sources, and Institutional Credit Agencies or Formal Sources. Non-institutional Credit Agencies includes Traders and Commission Agents, landlords, money lenders and friends and relatives. Institutional Credit Agencies include Government, Cooperative Credit Societies, Micro finance institutions and Commercial Banks.

2.7.0 Challenges of Agricultural Financing

The challenges of Agriculture financing can be customer related, agricultural activity related, loan related or borrowing costs related.

2.7.1 Customer Related Challenges

The customer related challenges include customer's financial situation, customer's character and literacy level.

2.7.1.1 Customer Financial Situation

An assessment of the businesses cash flow will be of prime focus in any lending submission. Banks need to understand that you have the ability to service and repay the debt sought. They will be keen to ensure that both you and they understand your cash flow and not just your profit. Naturally a positive or negative cash flow holds different implications in respect of growth. The lender will look at the historical business margins. Net profit margin, expenses as a percentage of revenue (cost income ratio) will be of interest to them. (Ravallion and Chen, 2007).

The lender will be interested to know what are the business forecasts moving forward and if these forecasts are linked to a strategic business plan. The historical earnings from the business for sale, a profit and loss statement from an accountant and cash flow projections for the next three years (assuming loan receipt) are the best basis upon which to determine the applicants' repayment ability. Cash flow projections, if backed by a rock-solid business plan, are considered

the basis for determining repayment when there is a change in the circumstances affecting the business.

2.7.1.2 Customer Character

Financiers will typically look at the individual borrower but this will not be the only character assessment that they will consider. Character assessment is all about willingness to repay the loan. The bank will almost certainly want to know and assess the incumbent Business owner/s, as well as any key partners or directors. In 'assessing character' the financier is interested in knowing what is the background of these individuals with regard to experience in the industry. The bank wants to know whether the borrower is considered to be people of integrity with a good personal reputation. Customers of high reputation in the society are also seen to have a social security. Most lenders will lend their money where the perceived risk is lower. (Kevin Dowd, 2009)

Banks like to make a face to face assessment of the borrower and key individuals to assess their attitude and openness. They are seeking the comfort that will allow them to lend to the person. Character assessment usually arises from the inherent moral hazard. Moral hazard is where one party is responsible for the interests of another, but has an incentive to put his or her own interests first. In any lender-borrower relationship, there is a general problem of moral hazard that is the result of specific personal characteristics and decisions of each individual borrower. In this regard, farmers do not differ from any other borrower group in terms of information, incentives, monitoring and enforcement problems associated with the lending process. (Stiglitz, 1993)

Firstly, it is obvious that the lender does not have the same information as the borrower. The latter knows exactly what his/her own management capacity is and how the loan will be used. The lender does not know the potential borrower to such an extent. In rural financial markets, information about low income loan applicants is particularly difficult to obtain. Secondly, even if the loan applicant frankly shares all relevant information for the credit decision, his/her future actions cannot be fully predicted. Therefore, it is crucial for financial institutions to apply incentives so that borrowers behave in such a way that repayment is assured. Thirdly, the farmer

may decide to change his/her economic behaviour, invest the money elsewhere or simply move to another part of the country. Many subsidized agricultural credit programmes tried to manage this risk by imposing very costly regular monitoring of the borrower. Finding cost efficient methods of monitoring borrowers is a particular challenge in agricultural lending. However, there are other risks beyond the general behavioural risks of a borrower. This second category of loan loss risks is associated with the agricultural sector or agricultural production. It refers to factors external to the farmer's repayment attitude.

2.7.1.3 Customer Literacy Level

Greenspan (2002) argues that financial literacy helps to inculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions. Proper application of that knowledge helps households to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility. Hilgert, Hogarth, & Beverly, (2003) asserts that financial knowledge appears to be directly correlated with self-beneficial financial behaviour. However, Sceptics (Lyons,Palmer, Jayaratne, & Scherpf, 2006) question the effectiveness of financial education in improving financial literacy.

Van Rooij, Lusardi, and Alessie, (2007) in a study of Dutch adults, established that households with low levels of financial literacy are more likely than others to base their behaviour on financial advice from friends and are less likely to invest in stocks. Since the literacy levels among the small scale traders are low they may not access the information. Others may have general literacy but are not well informed, on the effect of credit facilities on business growth, and therefore may fail to ask for the services. The literacy level may therefore be a constraining factor in the accessibility of credit, among traders

2.7.1.4 Gender

Women entrepreneurs are key contributors to private enterprise development, job creation and economic growth worldwide. As underlined by the World Economic Forum's Global Gender Gap Report, there is a strong correlation between gender equality and a country's prosperity and economic competitiveness (Hausmann 2010). It is thus important to mainstream women in

broader enterprise support policies and programmes such as women's enterprise centres, coaching and mentoring programmes and financing initiatives. In addition to such support measures, literature demonstrates that there is a strong and positive relationship between the expansion of the financial sector, economic growth and development.

Lending practices of banks in many countries may also build on non-legal institutional barriers. For instance, policies require women to include their husband as a co-signer, even if he lacks financial resources or is not involved in the woman's business, as part of a perceived effort to ensure that the woman's activities do not interfere with the wishes of her family or her husband (Chamlou, 2008). Debt financing is the principal external source of financing for entrepreneurs. Lack of sufficient collateral is considered a key obstacle for accessing finance. Although women are legally allowed to own property, in practice their husbands may own house deeds. As a result, women often do not have the collateral necessary to access commercial loans.

2.7.2 Agricultural Activity Related Challenges

The agricultural activity includes the type of the agricultural activity that the borrower is engaged in, the scale of production and the level of experience.

2.7.2.1 Type of Agricultural Activity

The type of agricultural activity influences the lending decision. Some sectors such as tea farming have historically been found to be less risky than other sectors. The earnings have been rising gradually and the market has been consistent. The marketing is also very well organised and it's done through Kenya Tea Development Agency. They tend to keep proper books of account than small scale farmers. The type of the agricultural activity therefore influences the accessibility for finances for financing agricultural sectors, (Tybout, 1984)

2.7.2.2 Scale of Production

The scale of production influences the cash flow projection. Agricultural ventures can either be small scale or large. Most large scale producers are likely to qualify for bank loans as opposed to small scale producers. According to Theodore Schultz, (1979), the large scale producers are more organised in their activities, tend to keep good production records, utilise the services of experts in their activities and also adopts the latest technology in their activities. Technology

plays a key role in production. The rapid introduction of new crop varieties and production techniques often offers the potential for improved efficiency, but may at times yield poor results, particularly in the short term. In contrast, the threat of obsolescence exists with certain agricultural practices for example, using machinery for which spare parts are no longer available.

2.7.2.3 Customer Level of Experience

Most commercial banks will not finance start-up entities. The borrowers in the agricultural sectors are required to have been in the production for at least one season. This helps to ensure that the borrower has a good understanding of the agricultural activity such as the crop cycle, high and low seasons, inputs required as well as the expected output levels. The borrower is therefore able to carry out some basic cashflow projection to match the projected income with the projected expenses. (Stiglitz, 1994).

2.7.3 Loan Related Challenges

The type of loan depends on the purpose of the loan, loan tenure and Loan repayment record.

2.7.3.1 Purpose of the Loan Borrowed

Moral hazard in financial markets occurs when the lender is subjected to the hazard that the borrower has an incentive to engage in activities that are undesirable from the lender's point of view. If the borrower does not have enough incentives to manage as well as possible the capital resources for particular purposes, or may change the purpose for which a loan is granted, this may lead to an increase in the risk of the borrower's ability to repay the loan. These are respectively called the moral hazards of the choice of effort and choice of purpose. Depending on the lender's capability to monitor the borrower's activities, credit rationing may result (Harris and Raviv, 1979)

Lenders always want to understand the exact purpose for which the loan is applied. The lenders want to be sure that they do not over finance or under finance the borrower. Over financing may lead to loan default since the borrower may be strained to meet the instalment amount. Under financing means that the loan borrowed may not be sufficient for the purpose and therefore the borrower may have to seek fund from other sources which may lead to multi borrowing. The

main purposes for borrowers in the agricultural sector are for consumption, purchase of assets, farm inputs and farm development.

There are four main types of loan based on the purpose. The first category is farm input loans which are loans which are advanced for the purpose of purchasing various farm inputs. These may include purchase of fertilizer, seeds, chemicals and animal feeds. The second category is consumer loans which are loans that are advanced for purchase of house hold assets such as furniture and electronic appliances. They can also be used for payment of hospital bills, school fees and other immediate household needs. Thirdly we have development loans which are loans advanced for farm and long-term developments. They can be used for construction of houses and other buildings. The last category is asset finance loans which are loans advanced for purchase of fixed assets such as vehicles, farm and industrial machinery. The assets financed are used as the security for the loan. They have a longer repayment period mostly more than three years.

2.7.3.2 Loan Tenure

Loans advanced to agricultural sector can either be short-term or long-term . Borrowers usually prefer longer-term debt contracts due to the liquidity (insurance) effects they implicitly provide. The use of short-term debt contracts confronts them with risks of credit rationing, increased interest rates and further transaction costs. However, the lenders willingness to provide long-term contracts depends directly on the durability and suitability of the underlying assets and collateral (Hart and Moore, 1994). The use of short -term debt provides the lender with the opportunity to observe the borrower, thereby minimising the adverse project selection problem, before the renewal of the debt contract.

Short-term debt enables a borrower with private information about the project to signal the 'good' information to the lender, and at the same time, it exposes a borrower with 'bad' information by forcing them to reveal their risk to the lender (Dowd, 1992). Additionally, the use of short-term funds increases the lenders liquidity and reduces agency problems. Having to continually return for credit restricts the borrower's ability to slack off or otherwise benefit through diversion of excess funds (Jensen, 1986; Hart and Moore, 1993). The continual rolling over and renewal of debt also forces the borrower to provide the lender with additional useful

information, reducing many of the asymmetric information problems discussed above (Chang, 1990). Thus the optimal debt maturity structure is a trade-off between many conflicting factors and agency costs, with even 'good' borrowers tending towards longer contracts due to liquid constraints and transaction costs (Dowd, 1992).

2.7.3.3 Customer Loan Repayment Record

Lenders have to screen different loan applications to determine who is more likely to repay; lenders also have to monitor the use of funds to ensure that they are used to increase the likelihood of repayment (Von Pischke, 1991). The previous loan repayment record by the client is important in determining the future borrowing. A client with a good credit history is better considered than a client whose repayment record is not very good. Currently, the central bank of Kenya requires all commercial banks to share information of loan defaulters through the Credit Reference Bureaus (CRBs). Credit reporting allows lenders to evaluate the borrowing capacity of clients. And it lets good borrowers benefit from more and cheaper lending (World Bank, Doing Business 2008). A credit bureau or consumer reporting agency (United States), or credit reference agency (United Kingdom) is a company that collects information from various sources and provides consumer credit information on individual consumers for a variety of uses. It is an organization providing information on individuals' borrowing and bill-paying habits.

Credit information such as a person's previous loan performance is a powerful tool to predict his future behaviour. Such credit information institutions reduce the effect of asymmetric information between borrowers and lenders, and alleviate problems of adverse selection and moral hazard. For example, adequate credit information could facilitate lenders in screening and monitoring borrowers as well as avoid giving loans to high risk individuals. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan. Interest rates are not the same for everyone, but instead can be based on risk-based pricing, a form of price discrimination based on the different expected risks of different borrowers, as set out in their credit rating (de Meza and Webb, 1992). Consumers with poor credit repayment histories or court adjudicated debt obligations like tax liens or bankruptcies will pay a higher annual interest rate than consumers who don't have these factors. Those clients that are adversely listed with CRB have lower chances of qualifying for loans in future. Additionally,

decision-makers in areas unrelated to consumer credit, including employment screening and underwriting of property and casualty insurance, increasingly depend on credit records, as studies have shown that such records have predictive value. At the same time, consumers also benefit from a good credit information system because it reduces the effect of credit monopoly from banks, and it provides incentives for borrowers to repay their loans on time.

2.7.4 Borrowing Costs Related Challenges

The borrowing costs depends on the type of collateral offered, interest rates charged and loan appraisal costs

2.7.4.1 Type of Collateral Offered

Collateral refers to the assets pledged as security in a loan transaction. The lenders willingness to provide long-term contracts depends directly on the durability and suitability of the underlying assets and collateral (Hart and Moore, 1994). Once the financier is comfortable with your character and sustainability of the businesses cash flow to service the lending requirement they will then assess the collateral (or security) that will support the debt. In assessing the level to which they will lend, the Banks will look at valuations and will almost certainly stress test these to create a buffer for 'uncertainty'. They will be interested in debt to equity ratios, repayment strategies and surprisingly to some borrowers they will make an assessment of any succession plans or estate planning that you have in place. Should anything unforeseen happen to the borrower, they will be seeking comfort that the value of the business won't disappear overnight and they most certainly will not want to be running the practice themselves.

The legal documents representing a lender's interest in collateral include a mortgage or deed of trust in the case of farm real estate loans and a security agreement for operating and intermediate-term loans. Most banking institutions demand collateral as one of the requirements for the access to credit facilities. This factor reduces accessibility of these loans. Furthermore, most lending institutions are more inclined to lending to the large scale businesses that have higher success rate, and repayment rate.

According to Rizov, (1996) bankers accept about 80% of the market value of fixed assets in urban areas and 60% in rural areas as collateral. This increases the required capital for loan collateral. There are different types of collateral which can be used as loan security. They are classified in two broad categories either as formal and informal security. Nearly all farm real estate loans are secured by a mortgage or deed of trust on a tract of land. Operating loans and intermediate-term loans may be secured or unsecured, although secured loans are more common. Unsecured loans generally involve smaller loans to financially strong borrowers who usually are long-term customers of the lending institution.

Intermediate-term loans generally are secured by the asset being purchased. Examples are tractors, combines, equipment, facilities and breeding livestock. Operating loans usually are secured by current assets and sometimes by intermediate assets as well. Examples of collateral for operating loans are farm supplies, crop and livestock inventories, growing crops, government payments and deposit accounts. A blanket filing may be used on a line-of-credit financing so that the security agreement applies to essentially all of the current and intermediate assets and, if stipulated, to property acquired in the future as well.

A security agreement usually includes covenants about selling, insuring and/or maintaining collateral. Many security agreements for real estate purposes now include provisions regarding the storage and disposal of hazardous wastes. A borrower should be aware of the procedures and notifications that need to be made upon selling or modifying assets used as collateral. A borrower should also be aware of the lender's right to collateral upon default. A security agreement or mortgage will specifically outline the lender's and borrower's rights upon default. The borrowing costs related to the collateral are legal fees, valuation fees and insurance costs. Legal fees are charged by lawyers during the security perfection process. The process may involve preparation of legal charge and the fees depend on the value of charge. Valuation fees are the fees charged by property valuers either for land valuation or motor vehicle valuation. The fees also depend on the value of the property valued. Insurance cost is the cost for the insurance cover over properties pledged as securities for loans from a financial institution. The costs add to the total cost of the loan. (Ravallion and Chen, 2007).

2.7.4.2 Interest Rate Charged

Generally, interest rates are prices. They are the price paid for the use of money for a period of time and are expressed as a percentage of the total outstanding balance that is either fixed or variable. There are two ways by which interest rates can be defined: first, from the point of view of a borrower, it is the cost of borrowing money (borrowing rate); and second, from a lender's point of view, it is the fee charged for lending money (lending rate). The interest rates charged on borrowed funds are generally classified according to the tenor or the maturity period: short-term (less than one year); medium-term (more than one year but less than five years); and long-term (more than five years). Interest rates differ, depending on the type of instruments (e.g., traditional deposit instruments like savings deposit, time deposit, and some demand or current accounts, and investment instruments like bonds, securities) and on the tenor of investment.

As a result of informational imperfections, credit markets often do not seem to function well. Credit markets are often characterised by credit rationing, meaning that some individuals or groups cannot obtain loans at any interest rate. For example, farmers in some regions or in some time periods may have only limited or no access to credit, even if some of them might propose good investments to the financial institutions (or lenders in general). To understand why credit rationing occurs remember the aim of the lender is to maximise his expected profits. Thus lenders will only raise interest rates if they lead to increased expected profits. Yet expected profits are not only dependent upon interest payments but also the probability of default. Increased interest rates will lead to higher promised returns, but may also increase the probability of default. If the latter is large enough it can lead to decreased expected profits. Thus it is often in the best interests of the banks, not to raise interest rates, but to limit the amount of available credit (Stiglitz and Weiss, 1981).

2.7.4.3 Loan Appraisal Costs

Lending to small farmers can be a costly business (Swinnen and. Gow, 1997). Clients are often widely dispersed, and long distances have to be travelled by loan officers and/or customers. Providing small loans is also more costly than lending large amounts, as the costs of loan appraisal, monitoring and follow up do not decrease with the size of the loan. Lending costs are mainly fixed costs. The key factors in determining lending costs are the need to collect detailed

information about the potential borrower and to be able to do close monitoring. Information is vital in assessing and managing risk.

Good client information can serve as a partial substitute for lack of real collateral and as a means to counter moral hazard. However, in rural settings it is often particularly difficult to obtain good information. Transaction costs of credit use as serious deterrents to borrowing (World Bank, 1997). Despite these constraints, they have little incentive to change the credit delivery system and are motivated to use the high borrower transaction costs associated with the credit delivery system to help ration credit by raising borrowing costs to non-preferred clients while simultaneously lowering lenders costs.

2.8 Conceptual Framework

The challenges facing the accessibility of credit from commercial banks for financing the agricultural sectors can be categorised in for broad categories, i.e. customer related challenges, agricultural activity related challenges, loan related challenges and borrowing costs related challenges. The four broad challenges are in this paper are referred to as independent variables. Customer related challenges include borrower's financial situation, borrower's character and literacy level. Agricultural activity related challenges include the type of agricultural activity, scale of production and the level of experience. The loan related challenges include the loan purpose, loan tenure and the previous loan repayment record. The borrowing costs related challenges include the type of collateral offered, interest rate charged and the loan appraisal costs.

The interrelationship of these factors leads to a complex evaluation process which is commonly referred to as the loan appraisal process. The process is however influenced by some other external factors referred to as intervening variable. In agricultural financing, these factors may include political factors, ecological factors and international factors. Political factors include Government regulation which may require a financial institution to dedicate a certain proportion of its resources to agricultural financing. Other political factors may include pressure to finance and empower the local communities where the financial institutions are located. Ecological or environmental factors may include adverse weather conditions which may discourage lending to

agricultural sectors due to the uncertainties in the weather patterns. Agricultural ventures in areas prone to harsh weather conditions face hardships in obtaining financing. International factors include the bilateral trade agreements between different countries which affects the level of exports and imports between the various countries. The international trade also requires the agricultural products which are for export to be produced and delivered in specified conditions and standards. Countries which do not meet these standards are not allowed to sell their products in the international market. Commercial banks will finance Agricultural products which have ready international market such as tea. The loan appraisal process leads to the decision by the financial institution on whether to lend or not to lend to the prospective borrower which in this paper is the dependent variable. These variables are summarised below in figure 2.1 referred to as the conceptual framework.

Independent variables

Customer related challenges

- Customer's financial situation
- Customer's character
- Customer's Literacy level
- Customer's Gender
- Customer's Age

Agricultural activity related challenges

- Type of agricultural activity
- Scale of production
- Level of experience

Loan related challenges

- Purpose of the loan
- Loan Tenure
- Loan repayment record

Borrowing costs related challenges

- Type of collateral offered
- Interest rate charged
- Loan appraisal costs

Dependent variables

Accessibility of credit from commercial banks for financing Agricultural sectors

Intervening variables

- Political factors
- Ecological factors
- International factors

Source: Researcher (2013)

Figure 2.1: conceptual framework

CHAPTER THREE

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter focuses on how the study was conducted. It focuses on the research design, target population, sample size and sampling technique, data collection, data analysis and data presentation.

3.2 Research design

The research adopted a descriptive survey research design. Orodho, (2003) defines research design as the scheme, outline or plan that is used to generate answers to research problems. Some of the main advantages of using descriptive survey designs to collect primary raw data from respondents are ability to accommodate large sample sizes' generalizability of results, ability to distinguish small differences between diverse samples groups, ease of administering and recording questions and answers; increased capabilities of using advanced statistical analysis, and abilities of tapping into latent factors and relationships. In contrast, the main disadvantages of survey research designs tends to focus on potential difficulties of developing accurate survey instruments, inaccuracies in construct and scale measurements of factors, and limits to the depth of the data structures. In addition, researchers can lack control over long time frames and potentially low response rates, among other problems.

3.3 Target Population

The target population was the Commercial Banks staffs operating in the Nyeri County. According to The Central Bank of Kenya Report (2012), there are a total of forty three (43) Commercial Banks in Kenya. (Appendix III). In Nyeri County, there are a total of eleven Commercial Banks (11). (Appendix IV). The eleven commercial banks have a total of twenty five (25) branches in the County. As at 31st December 2012, the twenty five branches had a total population of three hundred and seventy five (375) employees. Out of this, the survey targeted the staffs who are involved in credit processes in their respective institutions. These staffs include Branch managers, Credit managers, Operations managers and credit officers. The 25 branches had 25 branch managers, 20 Operations managers, 17 Credit manager and 94 credit

officers. The study therefore had a target population of one hundred and fifty six (156) banks staffs.

3.4 Sampling Technique

The study adopted Stratified random sampling technique. According to Kombo and Tromp, (2006), a stratified random sampling involves dividing the population into homogeneous subgroups and then taking a simple random sample in each subgroup. The sample will be taken in such a way as to ensure that certain subgroups in the population are represented in the sample in proportion to their number in the population. The method not only represents the overall population but also key subgroups of the population. The method generally has more statistical precision than the simple random sampling. By the use of stratified random sampling technique, all the staffs sampled were drawn from all the four categories of branch managers, operations managers, credit managers and credit officers. Staffs from each category were sampled separately.

3.5 Sample size

According to Mugenda and Mugenda (2008), 30% of the population is a representative sample. The study sampled 30% of all the one hundred and fifty six (156) targeted population and therefore, forty seven (47) staffs were sampled.

Table 3.1 Sampling table

Position	Population	Sample (33% of population)
Branch Managers	25	8
Operation Managers	20	6
Credit Managers	17	5
Credit Officers	94	28
Total	156	47

Source: (Human resource Department, 2013)

3.6 Data collection

The study used primary data sources. Questionnaires were used as the main tool for data collection. The questionnaires had closed ended questions to get specific information and open ended questions to facilitate individual opinion. Kombo and Tromp, (2006), noted that questionnaires gather data of large sample, saves time, confidentiality is upheld and there is no opportunity for interview bias. The questionnaires were distributed to respondents randomly. The questionnaires were administered using drop and later pick method.

3.7 Validity

According to Borg and Gall (1989), validity shows whether the items measure what they are designed to measure. They noted that two to three cases are sufficient for some pilot studies. In the study, the researcher used ten percent of the respondents to do a pre-testing. Pre-testing assists in determining the accuracy, clarity and suitability of the research instrument. It assists the researcher to identify the items which may be inadequate so as to make the necessary

corrections, examine responses and determine the level of ambiguity of the questions and determine the percentage of responses.

3.8 Reliability

Reliability refers to the consistency of the research and the extent to which studies can be replicated (Wiersma, 1986). This was achieved through pilot study carried out through administering the questionnaire to ten percent of the respondents. The pilot study enabled the researcher to assess the clarity of the questionnaire items so that those found to be inadequate or vague could be modified to improve the quality of the research instrument thus increasing validity and reliability.

3.9 Data analysis

The data collected was both quantitative and qualitative. Quantitative data was analysed using descriptive statistic such as mean, mode median, regression analysis and correlation analysis. Qualitative data was analyzed using content analysis.

3.10 Data presentation

Quantitative data has been presented using percentages, tables, graphs and charts. Qualitative data has been analysed manually by coding and sorting out into themes and put into means and tables. This has been reported by descriptive narrative and the results of the study compared with literature review.

CHAPTER FOUR

4.0 DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter provides details of the results obtained from the respondents. The questionnaires were administered to the bank staffs who directly deal with agricultural financing decisions. The staffs included branch managers, operation managers, credit managers and credit officers. The questions were the same for all the three categories of staff. The use of tables and charts will enhance the level of understanding and interpretation of the research findings.

4.2 Response Rate

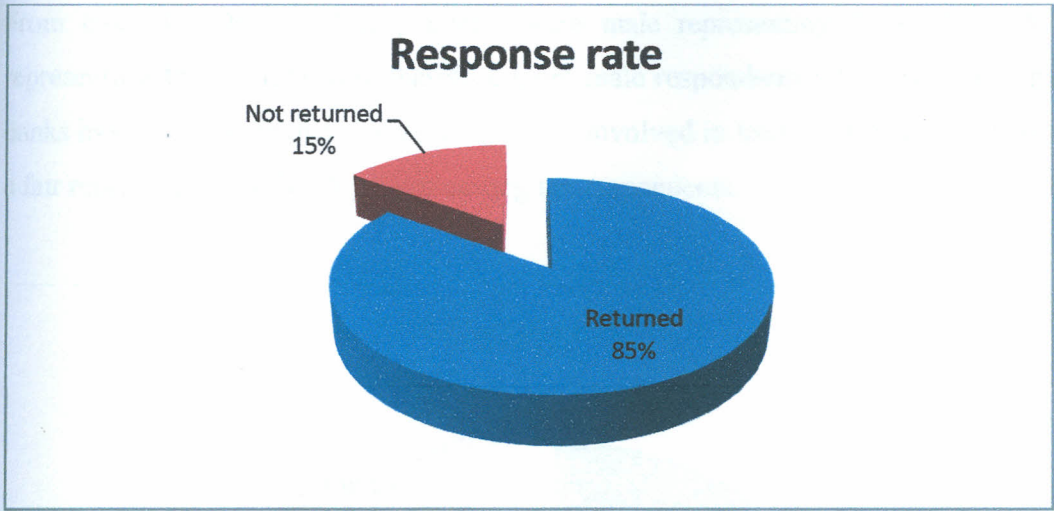
The response rate was examined where the findings have been summarised in the table 4.1 below.

Table 4.1: Response rate

	Targeted population	Studied population	Percentage rate
Branch Managers	8	6	75.0%
Operations Managers	6	4	66.7%
Credit Managers	5	5	100%
Credit Officers	28	25	89.3%
Total	47	40	85.1%

Source: (Researcher, 2013)

From the table 4.1 above, 6 out of 8 branch managers, 4 out of 6 operation managers, all the 5 credit managers and 25 out of the 28 credit officers provided the required feedback. In total 40 out of 47 respondents gave back their duly completed questionnaires for processing. This constituted 85.1% response rate. There was a fair distribution of respondents for all the staff categories.



Source: (Researcher, 2013)

Fig. 4.1: Response rate

4.3 Background information of respondents

The researcher sought to find out the gender, age, position held in the bank, level of education, and the years the respondent has worked in their respective bank.

4.3.1 Gender

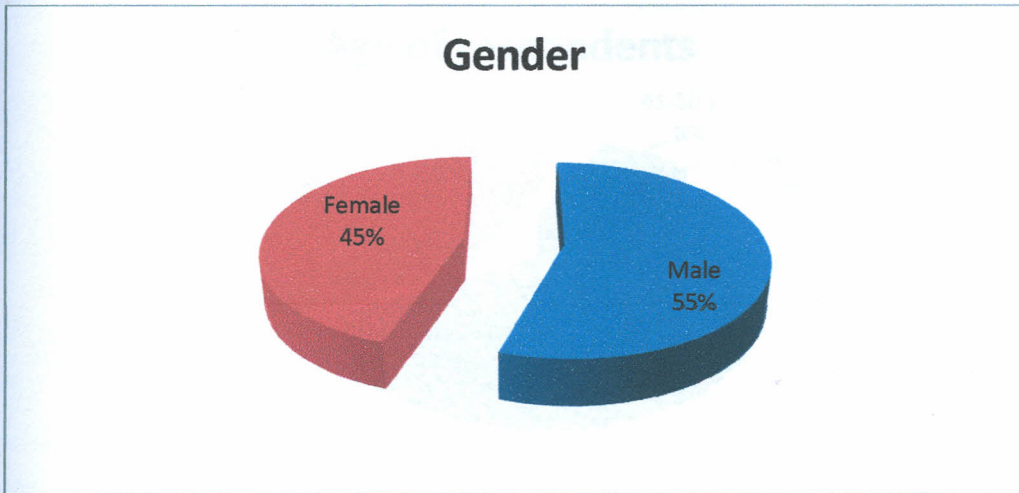
The study examined the gender of the various respondents and the findings summarised in the table 4.2 below.

Table 4.2: Gender of respondents

	Number	Percentage
Male	22	55%
Female	18	45%
Total	40	100%

Source: (Researcher, 2013)

From table 4.2 above, 22 respondents were male representing 55% while 18 were female representing 45%. There were therefore more male respondents which we can conclude that the banks have more male than female employees involved in lending decisions. There was however a fair representation of both gender among the respondents.



Source: (Researcher, 2013)

Fig. 4.2: Gender of respondents

4.3.2 Age of respondents

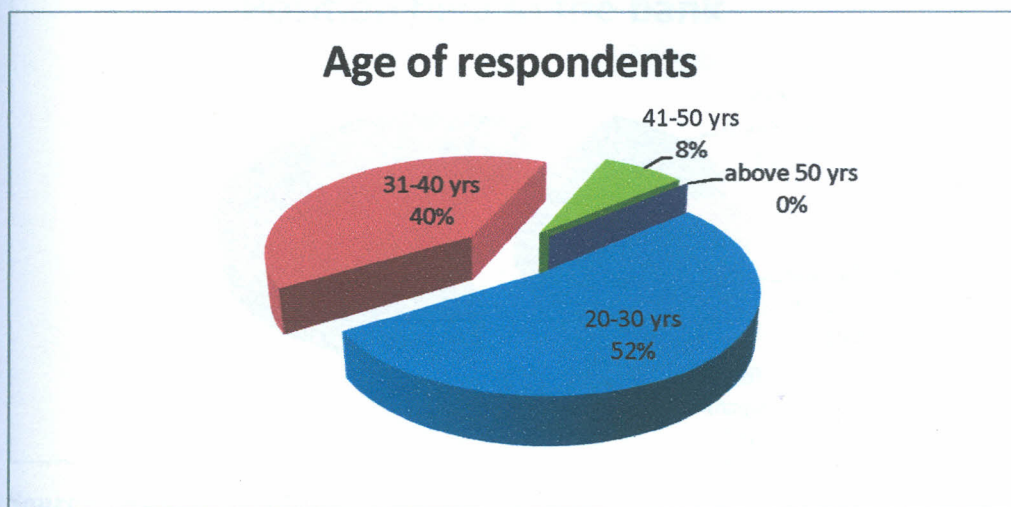
The study examined the age of the respondents and the findings summarised in the table 4.3 below.

Table 4.3: Age of respondents

Age category	number	percentage
20-30 years	21	52.5%
31-40 years	16	40%
41-50 years	3	7.5%
Above 50 years	0	0
Total	40	100%

Source: (Researcher, 2013)

From table 4.3 above, 21 respondents were between the ages of 20-30 years representing 52.5%, 16 were between 31-40 years representing 40%, 3 were between 41-50 years representing 7.5% while none was above 50 years. We can therefore conclude that most of the employees in the banks are below 40 years which was 92.5%.



Source: (Researcher, 2013)

Fig. 4.3: Age of respondents

4.3.3 Position held in the bank

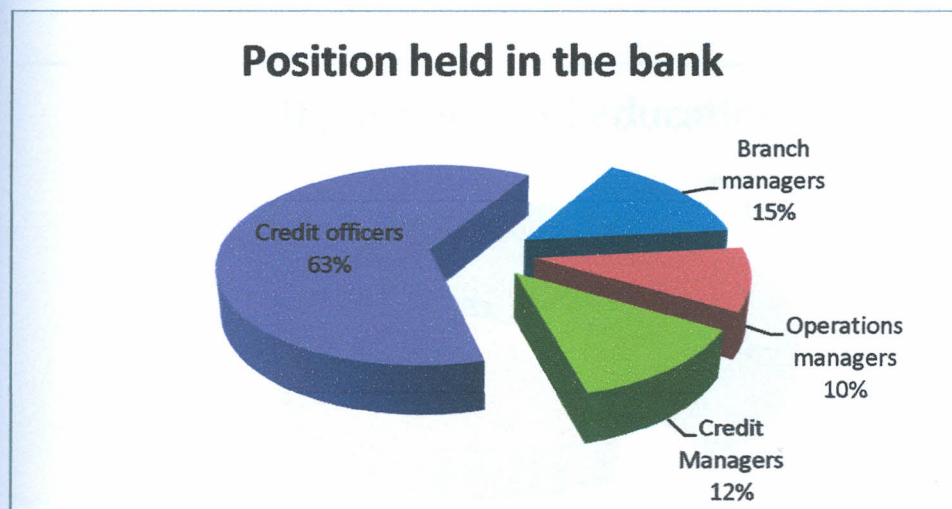
The study examined the positions held in the bank by the various respondents and the findings summarised in the table 4.4 below.

Table 4.4: Position held in the bank

Position held	number	percentage
Branch Managers	6	15%
Operations Managers	4	10%
Credit Managers	5	12.5%
Credit Officers	25	62.5%
Total	40	100%

Source: (Researcher, 2013)

From table 4.4 above, 6 respondents were branch managers representing 15% of the sample, 4 were operations managers representing 10%, 5 were credit managers representing 12.5% while 25 were credit officers representing 62.5%.



Source: (Researcher, 2013)

Fig. 4.4: Position held in the bank

4.3.4 Highest Level of education

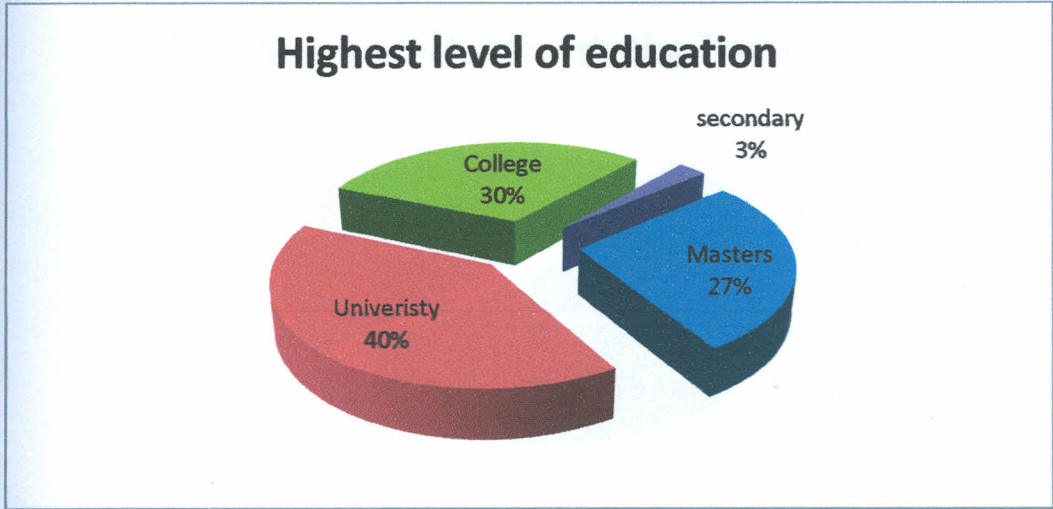
The study examined the level of education of the staff involved in the lending decisions in the various banks and the findings summarised in the table 4.5 below.

Table 4.5: Highest level of education

level of education	number	percentage
Masters level	11	27.5%
University degree	16	40%
College level	12	30%
Secondary level	1	2.5%
Total	40	100%

Source: (Researcher, 2013)

From table 4.5 above, 11 respondents had masters' degree representing 27%, 16 had university degree representing 40%, 12 were college level representing 30% while 1 attained secondary level representing 3%. Majority of the bank employees therefore had university qualifications and were therefore knowledgeable enough in their areas.



Source: (Researcher, 2013)

Fig. 4.5: Highest level of education

4.3.5 Years worked with the bank

The study examined for how long those involved in the study worked with the current bank and the findings summarised in the table 4.6 below.

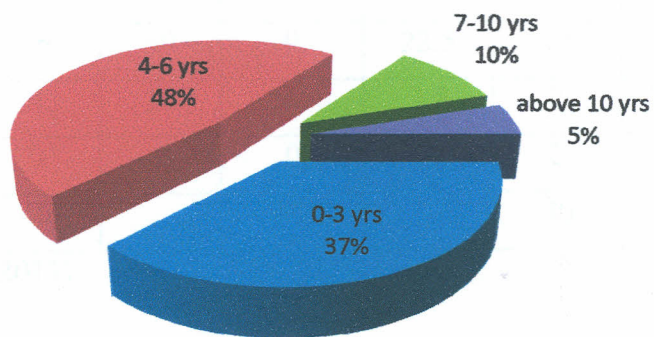
Table 4.6: Length of service with the bank

Length of service	number	percentage
0-3 years	15	37.5%
4-6 years	19	47.5%
7-10 years	4	10%
Above 10 years	2	5%
Total	40	100%

Source: (Researcher, 2013)

From table 4.6 above, 15 respondents had served with the current bank between 0-3 years representing 37% of the respondents, 19 were between 4-6 years representing 48%, 4 were between 7-10 years representing 10% and 2 were above 10 years representing 5%. 62% of the respondents were above 4 years in the banks and were therefore well experienced in their areas.

Years worked with the bank



Source: (Researcher, 2013)

Fig. 4.6: Years worked with the bank

4.4 Challenges facing accessibility of credit

The study sought to find out how customer related challenges, agricultural activity related challenges, loan related challenges and borrowing costs related challenges influences the accessibility of credit from commercial banks for financing the agricultural sectors in Kenya.

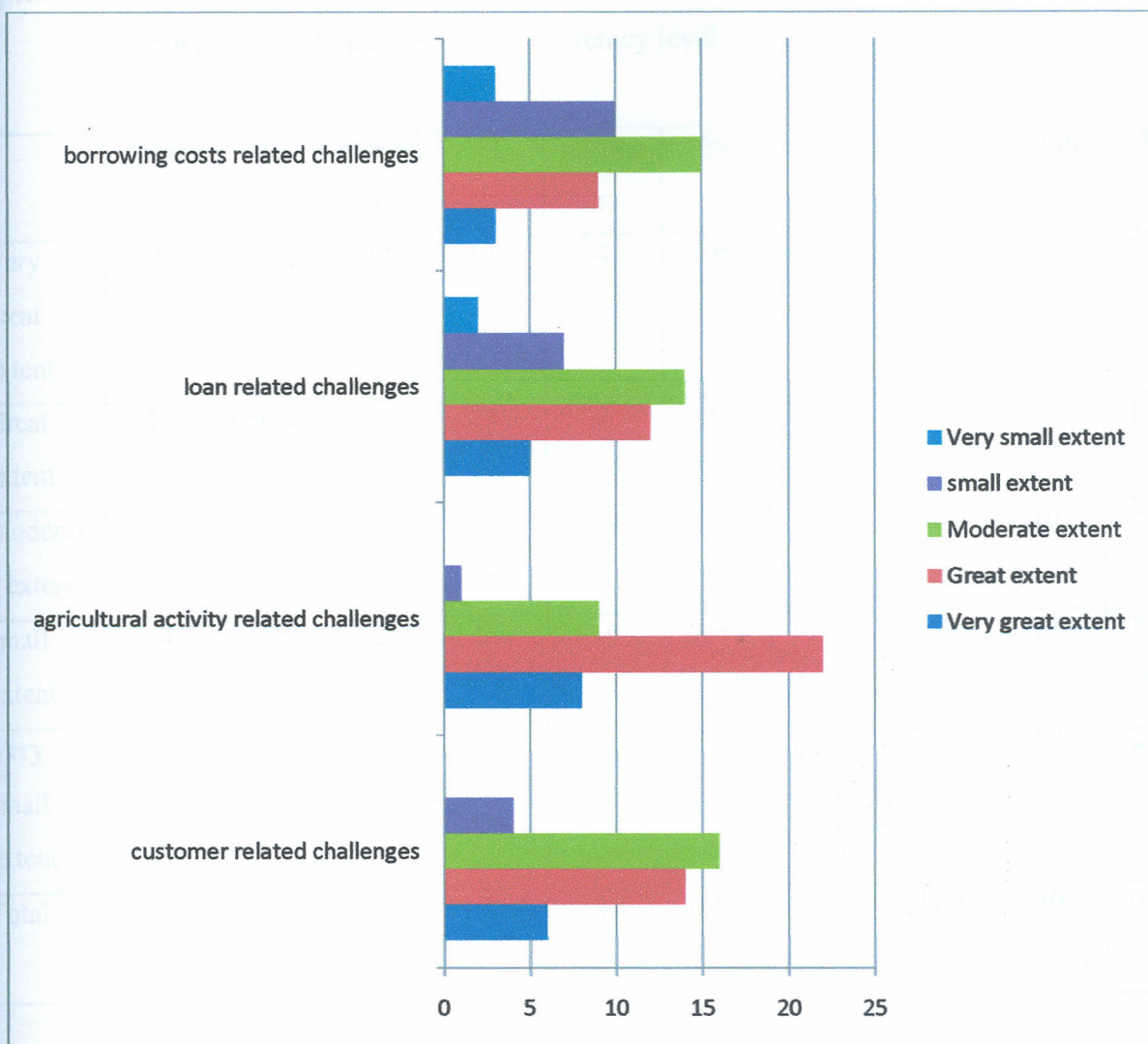
The findings of the study are summarised in table 4.7 below;

Table 4.7: Extent to which various challenges influences accessibility of credit

extent	customer related challenges		agricultural activity related challenges		loan related challenges		borrowing costs related challenges	
	number	%	number	%	number	%	number	%
Very great extent	6	15	8	20	5	12.5	3	7.5
Great extent	14	35	22	55	12	3	9	22.5
Moderate extent	16	40	9	22.5	14	35	15	37.5
small extent	4	10	1	2.5	7	17.5	10	25
Very small extent	0	0	0	0	2	5	3	7.5
Total	40		40		40		40	

Source: (Researcher, 2013)

From table 4.7 above, 50% of the respondents rated customer related challenges as influencing access to credit to a great extent, 75% rated agricultural activity related challenge as influencing access to credit to a great extent, 15.5% rated loan related challenge as influencing access to credit to a great extent while 20% rated borrowing costs related challenges as influencing access to credit to a great extent. We can therefore conclude that agricultural activity related challenges followed by customer related challenges have the greatest influence while loan related challenges have the least influence on accessibility of credit from commercial banks for financing agricultural sectors in Kenya.



Source: (Researcher, 2013)

Fig. 4.7: Extent to which various challenges influences accessibility of credit

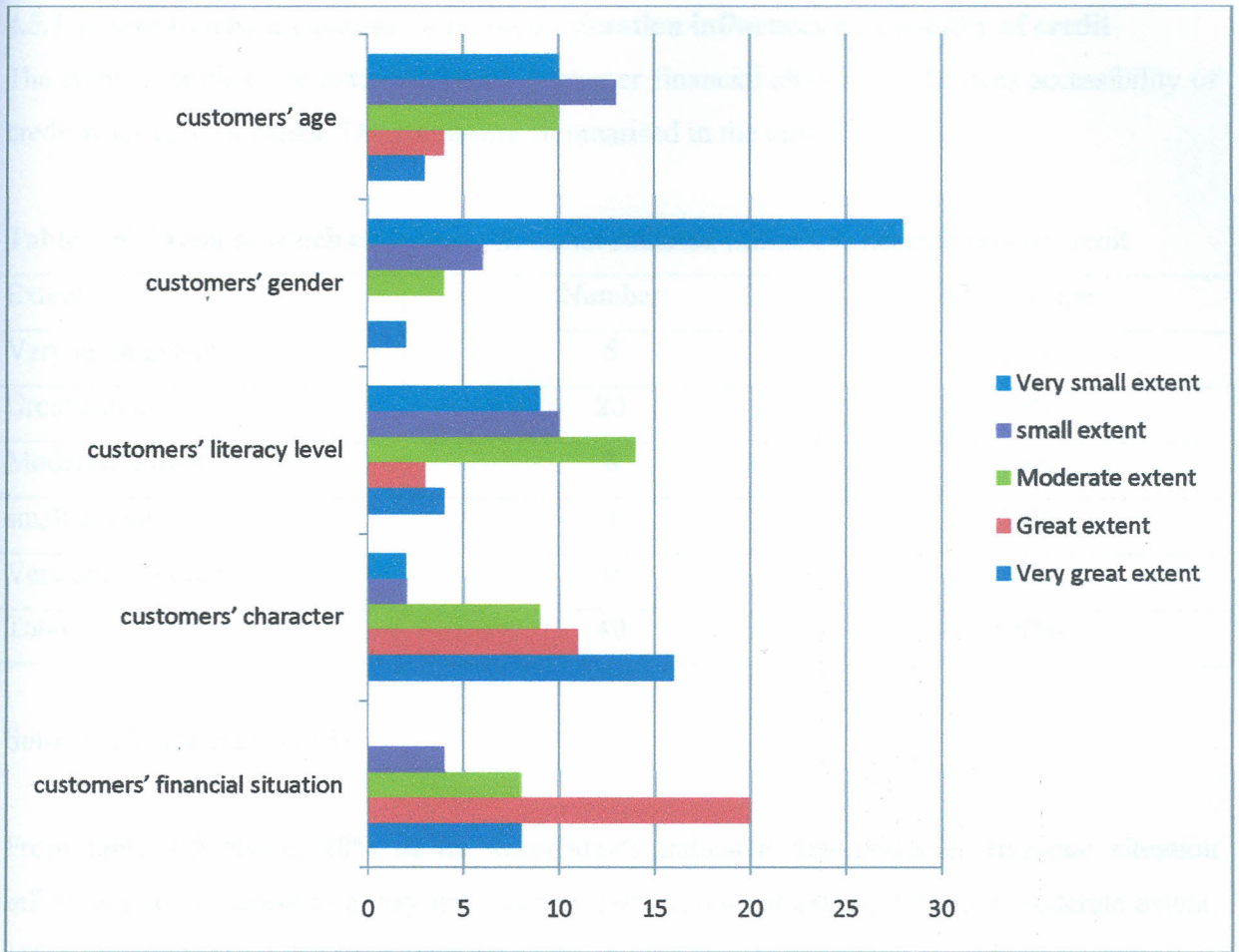
4.5.0 Extent to which various customer related challenges influences accessibility of credit

The study explored the extent to which customers' financial situation, customers' character, customers' literacy level, customers' gender and customers' age influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the Table 4.8 below

Table 4.8: Extent to which various customer related challenges influences accessibility of credit

Extent	customer's financial situation		customers' character		customers' literacy level		customers' gender		customers' age	
	number	%	number	%	number	%	number	%	number	%
Very great extent	8	20%	16	40%	4	10%	2	5%	3	7.5%
Great extent	20	50%	11	27.5%	3	7.5%	0	0	4	10%
Moderate extent	8	20%	9	22.5%	14	35%	4	10%	10	25%
small extent	4	10%	2	5%	10	25%	6	15%	13	32.5%
Very small extent	0	0	2	5%	9	22.5%	28	70%	10	25%
Total	40	100%	40	100%	40	100%	40	100%	40	100%

From table 4.8 above, 70% of the respondents rated customers financial situation as influencing access to credit to a great extent, 67.5% rated customers character as influencing access to credit to a great extent, 17.5% rated customers literacy level as influencing access to credit to a great extent, 5% rated customers gender as influencing access to credit to a great extent while 17.5% rated customers age as influencing access to credit to a great extent. We can therefore conclude that customer's financial situation has the greatest influence while customers' gender has the least influence on accessibility of credit from commercial banks for financing agricultural sectors in Kenya.



Source: (Researcher, 2013)

Fig. 4.8 Extent to which various customers' related challenges influences accessibility of credit

4.5.1 Extent to which customer's financial situation influences accessibility of credit

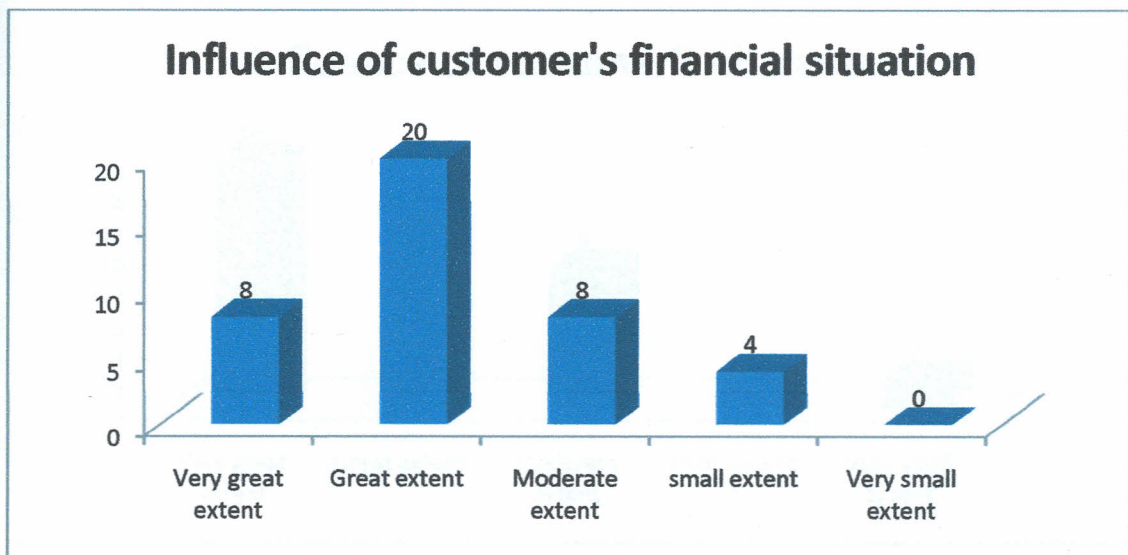
The study examined the extent to which customer financial situation influences accessibility of credit from various banks. The results are summarised in the table 4.9 below.

Table 4.9: Extent to which customer's financial situation influences accessibility of credit

Extent	Number	Percentage
Very great extent	8	20%
Great extent	20	50%
Moderate extent	8	20%
small extent	4	10%
Very small extent	0	0
Total	40	100%

Source: (Researcher, 2013)

From table 4.9 above, 20% of the respondents indicated that customer financial situation influences credit access to a very great extent, 50% to a great extent, 20% to a moderate extent, 10% to a small extent while none indicated that the influence is to a very small extent.



Source: (Researcher, 2013)

Fig. 4.9: Extent to which customer's financial situation influences accessibility of credit

4.5.2 Extent to which customer's character influences accessibility of credit

The study examined the extent to which customer character influences accessibility of credit from various banks. The results are summarised in the table 4.10 below.

Table 4.10: Extent to which customer's character influences accessibility of credit

Extent	Number	Percentage
Very great extent	16	40%
Great extent	11	27.5%
Moderate extent	9	22.5%
small extent	2	5%
Very small extent	2	5%
Total	40	100%

Source: (Researcher, 2013)

From table 4.10 above, 40% of the respondents indicated that customers character influences credit access to a very great extent, 27.5% to a great extent, 22.5% to a moderate extent, 5% to a small extent and 5% indicated that the influence is to a very small extent.



Source: (Researcher, 2013)

Fig. 4.10: Extent to which customer's character influences accessibility of credit

4.5.3 Extent to which customer’s literacy level influences accessibility of credit

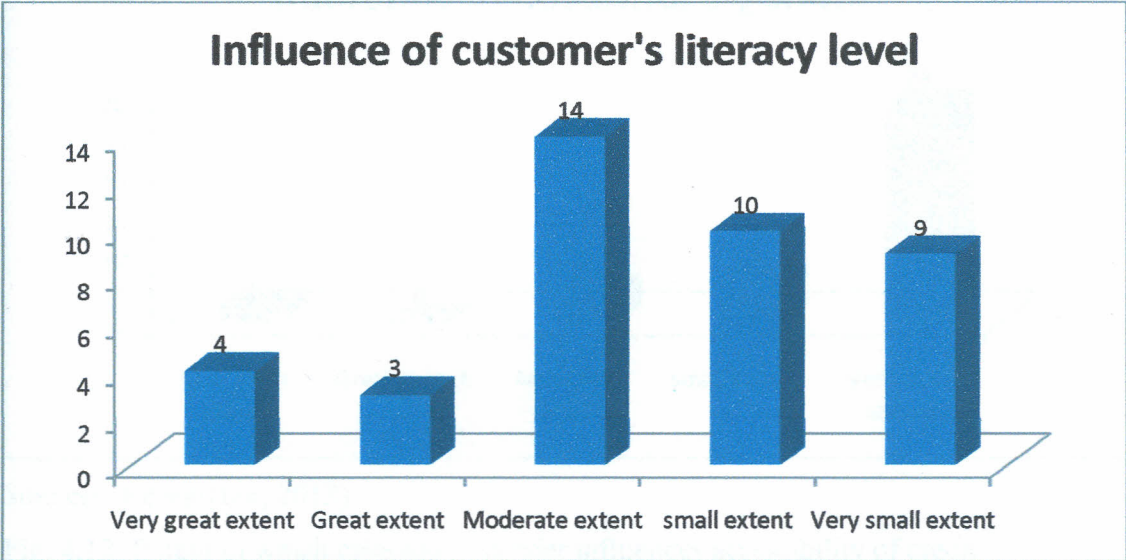
The study examined the extent to which customer’s literacy level influences accessibility of credit from various banks. The results are summarised in the table 4.11 below.

Table 4.11: Extent to which customer’s literacy level influences accessibility of credit

Extent	Number	Percentage
Very great extent	4	10%
Great extent	3	7.5%
Moderate extent	14	35%
small extent	10	25%
Very small extent	9	22.5%
Total	40	100%

Source: (Researcher, 2013)

From table 4.11 above, 10% of the respondents indicated that customers literacy level influences credit access to a very great extent, 7.5% to a great extent, 35% to a moderate extent, 25% to a small extent and 22.5% indicated that the influence is to a very small extent.



Source: (Researcher, 2013)

Fig. 4.11: Extent to which customer’s literacy level influences accessibility of credit

4.5.4 Extent to which customer's gender influences accessibility of credit

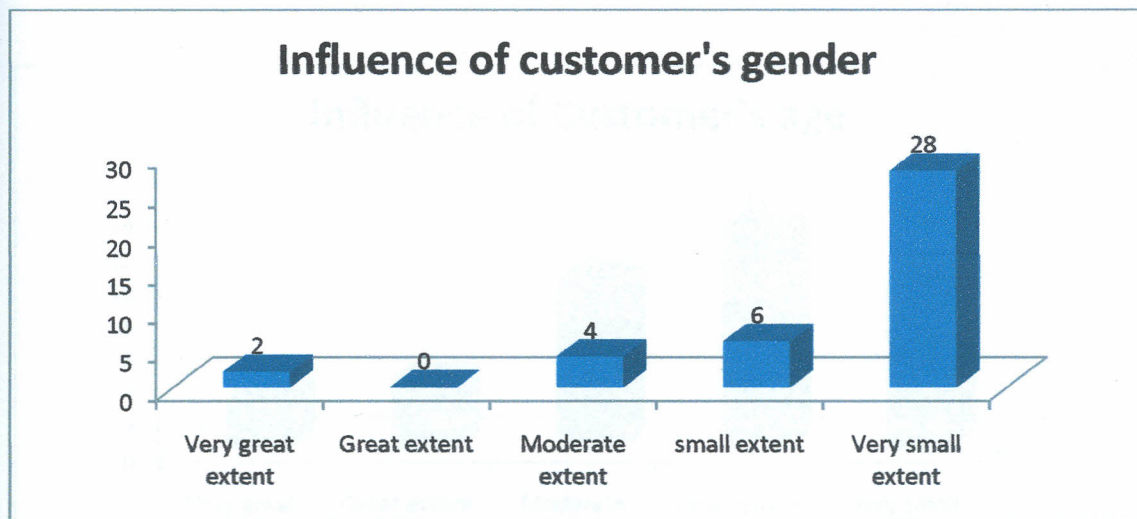
The study examined the extent to which customer gender influences accessibility of credit from various banks. The results are summarised in the table 4.12 below.

Table 4.12: Extent to which customer's gender influences accessibility of credit

Extent	Number	Percentage
Very great extent	2	5%
Great extent	0	0
Moderate extent	4	10%
small extent	6	15%
Very small extent	28	70%
Total	40	100%

Source: (Researcher, 2013)

From table 4.12 above, 5% of the respondents indicated that customers gender influences credit access to a very great extent, none indicated to a great extent, 10% to a moderate extent, 15% to a small extent and 70% indicated that the influence is to a very small extent.



Source: (Researcher, 2013)

Fig. 4.12: Extent to which customer's gender influences accessibility of credit

4.5.5 Extent to which customer's age influences accessibility of credit

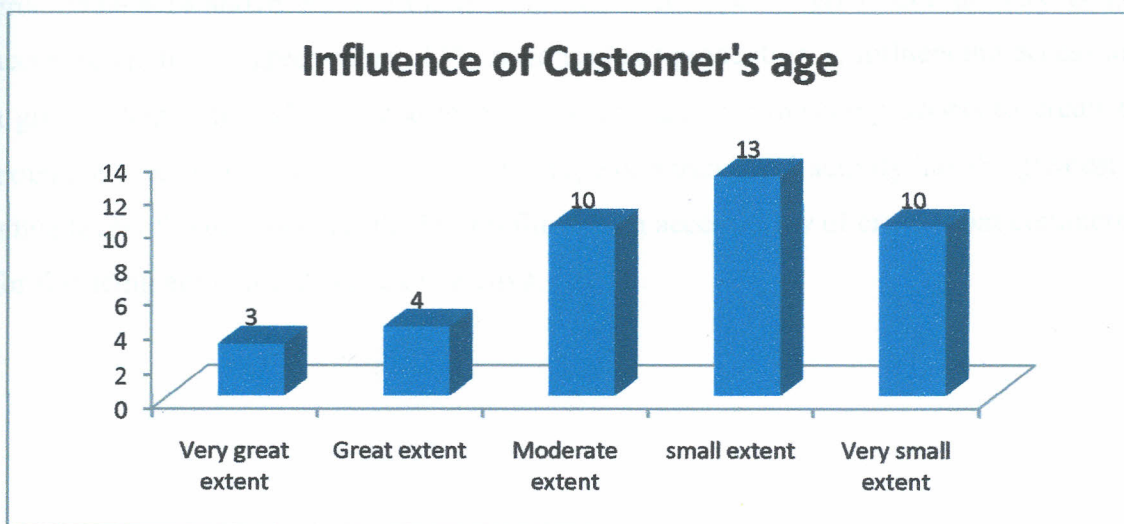
The study examined the extent to which customer's age influences accessibility of credit from various banks. The results are summarised in the table 4.13 below.

Table 4.13: Extent to which customer's age influences accessibility of credit

Extent	Number	Percentage
Very great extent	3	7.5%
Great extent	4	10%
Moderate extent	10	25%
small extent	13	32.5%
Very small extent	10	25%
Total	40	100%

Source: (Researcher, 2013)

From table 4.13 above, 7.5% of the respondents indicated that customers age influences credit access to a very great extent, 10% to a great extent, 25% to a moderate extent, 32.5% to a small extent and 25% indicated that the influence is to a very small extent.



Source: (Researcher, 2013)

Fig. 4.13: Extent to which customer's age influences accessibility of credit

4.6.0 Extent to which various agricultural activity related challenges influences accessibility of credit

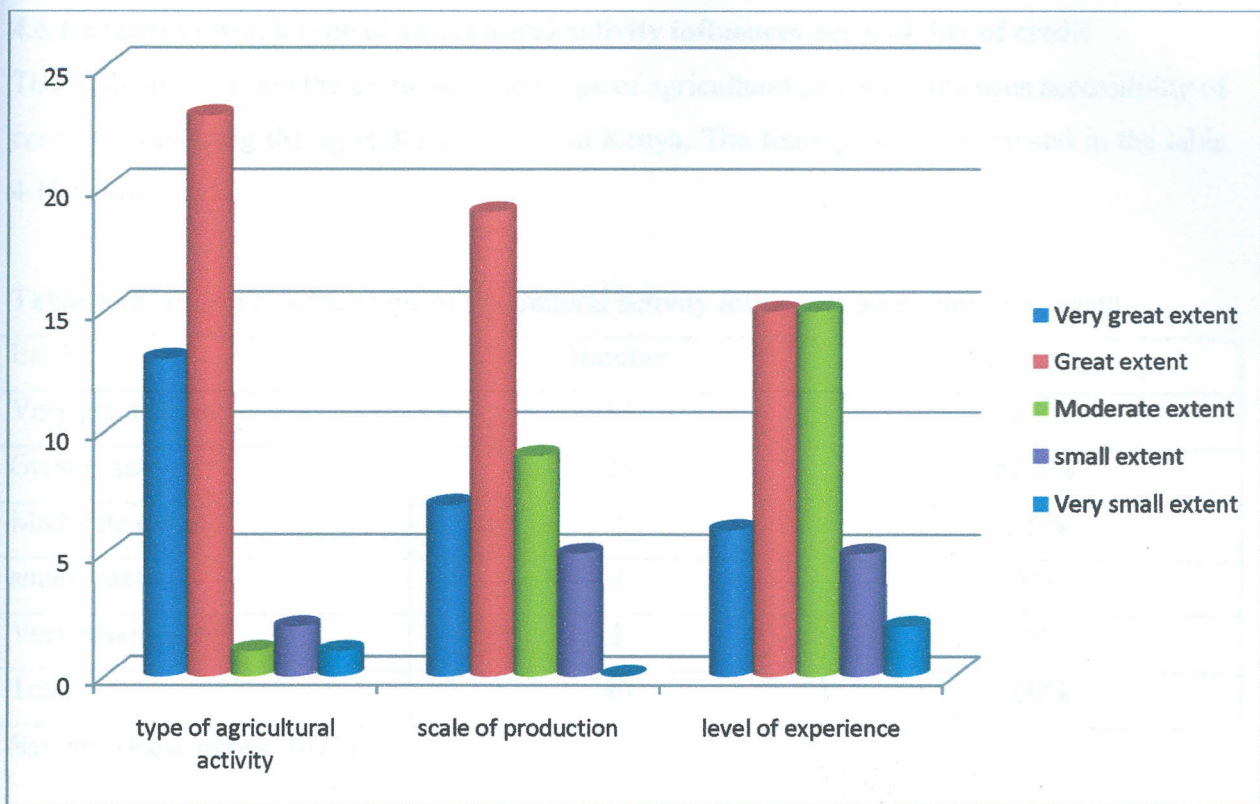
The study explored the extent to which type of agricultural activity, scale of production and level of experience influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.14 below.

Table 4.14: Extent to which agricultural activity related challenges influences accessibility of credit

extent	type of agricultural activity		scale of production		level of experience	
	number	%	number	%	number	%
Very great extent	13	32.5	7	17.5	6	15
Great extent	23	57.5	19	47.5	15	37.5
Moderate extent	1	2.5	9	22.5	12	30
small extent	2	5	5	12.5	5	12.5
Very small extent	1	2.5	0	0	2	5
Total	40		40		40	

Source: (Researcher, 2013)

From table 4.14 above, 80% of the respondents rated type of agricultural activity as influencing access to credit to a great extent, 65% rated scale of production as influencing access to credit to a great extent while 52.5% rated level of experience as influencing access to credit to a great extent. We can therefore conclude that the type of agricultural activity has the greatest influence while level of experience has the least influence on accessibility of credit from commercial banks for financing agricultural sectors in Kenya.



Source: (Researcher, 2013)

Fig. 4.14 Extent to which agricultural activity related challenges influences accessibility of credit

4.6.1 Extent to which type of agricultural activity influences accessibility of credit

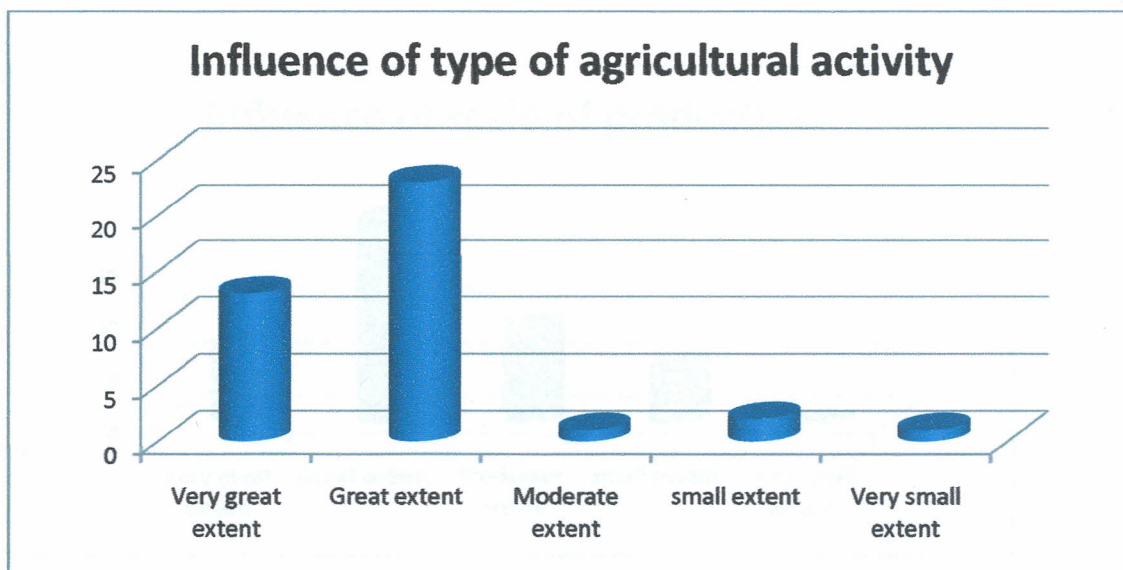
The study investigated the extent to which type of agricultural activity influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.15 below.

Table 4.15: Extent to which type of agricultural activity influences accessibility of credit

Extent	Number	Percentage
Very great extent	13	32.5%
Great extent	23	57.5%
Moderate extent	1	2.5%
small extent	2	5%
Very small extent	1	2.5%
Total	40	100%

Source: (Researcher, 2013)

From table 4.15 above, 32.5% of the respondents indicated that type of agricultural activity influences credit access to a very great extent, 57.5% to a great extent, 2.5% to a moderate extent, 5% to a small extent and 2.5% indicated that the influence is to a very small extent.



Source: (Researcher, 2013)

Fig. 4.15: Extent to which type of agricultural activity influences accessibility of credit

4.6.2 Extent to which scale of production influences accessibility of credit

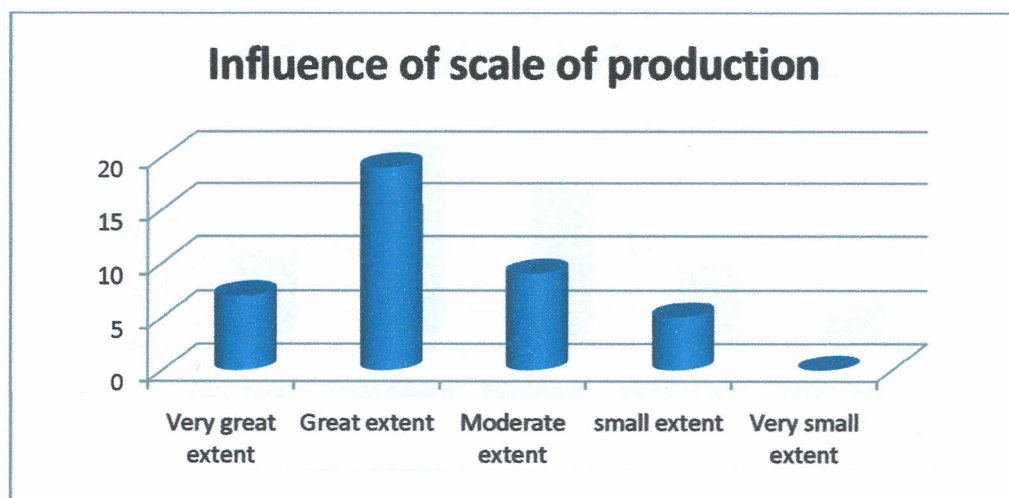
The study investigated the extent to which scale of production influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.16 below.

Table 4.16: Extent to which scale of production influences accessibility of credit

Extent	Number	Percentage
Very great extent	7	17.5%
Great extent	19	47.5%
Moderate extent	9	22.5%
small extent	5	12.5%
Very small extent	0	0%
Total	40	100%

Source: (Researcher, 2013)

From table 4.16 above, 17.5% of the respondents indicated that scale of production influences credit access to a very great extent, 47.5% to a great extent, 22.5% to a moderate extent and 12.5% to a small.



Source: (Researcher, 2013)

Fig. 4.16: Extent to which scale of production influences accessibility of credit

4.6.3 Extent to which level of experience influences accessibility of credit

The study investigated the extent to which level of experience influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.17 below.

Table 4.17: Extent to which level of experience influences accessibility of credit

Extent	Number	Percentage
Very great extent	6	15%
Great extent	15	37.5%
Moderate extent	12	30%
small extent	5	12.5%
Very small extent	2	5%
Total	40	100%

Source: (Researcher, 2013)

From table 4.17 above, 15% of the respondents indicated that level of experience influences credit access to a very great extent, 37.5% to a great extent, 30% to a moderate extent, 12.5% to a small extent and 5% indicated that the influence is to a very small extent.



Source: (Researcher, 2013)

Fig. 4.17: Extent to which level of experience influences accessibility of credit

4.7.0 Extent to which various loan related challenges influences accessibility of credit

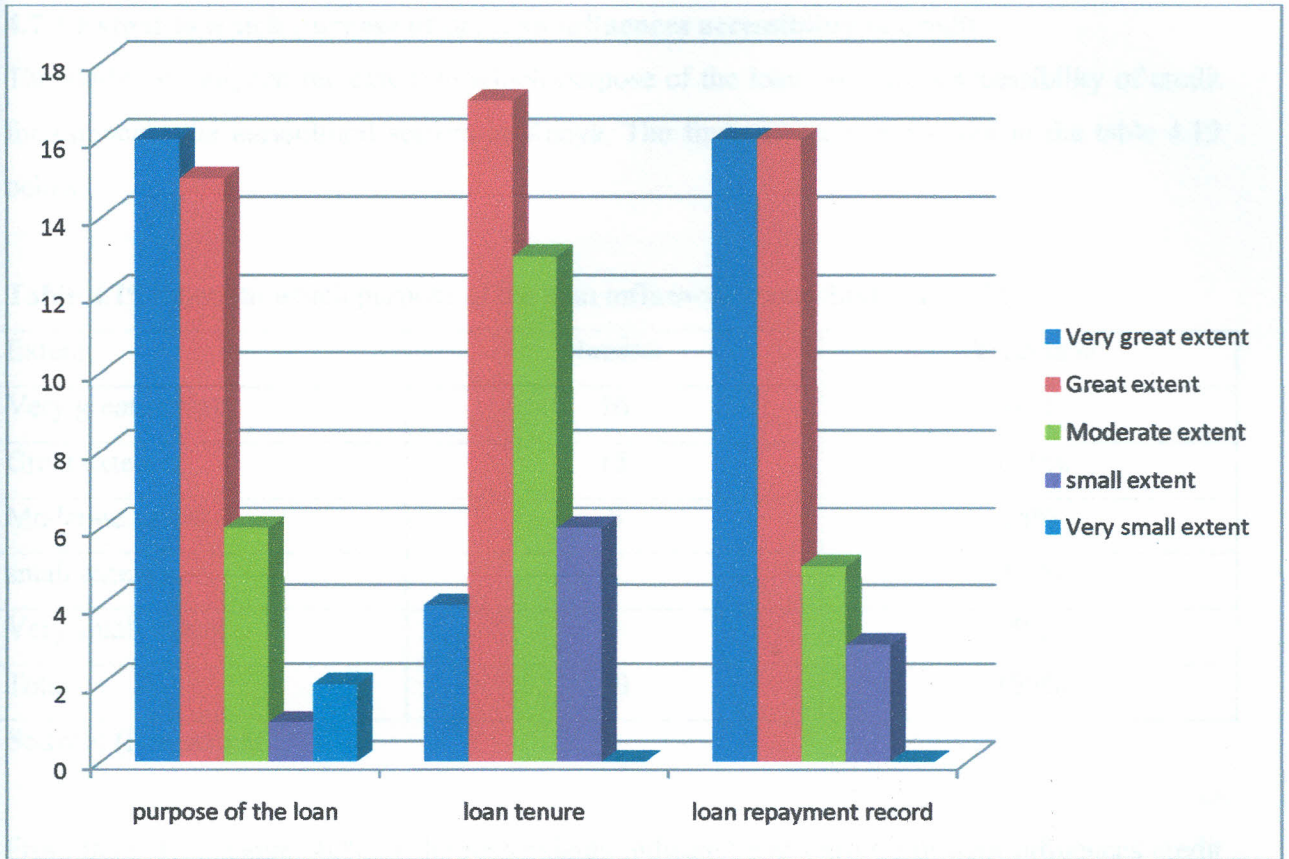
The study explored the extent to which purpose of the loan, loan tenure and loan repayment record influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.18 below.

Table 4.18: Extent to which loan related challenges influences accessibility of credit

extent	purpose of the loan		loan tenure		loan repayment record	
	number	%	number	%	number	%
Very great extent	16	40	4	10	16	40
Great extent	15	37.5	17	42.5	16	40
Moderate extent	6	15	13	32.5	5	12.5
small extent	1	2.5	6	16	3	7.5
Very small extent	2	5	0	0	0	0
Total	40		40		40	

Source: (Researcher, 2013)

From table 4.18 above, 77.5% of the respondents rated purpose of loan as influencing access to credit to a great extent, 52.5% rated loan tenure as influencing access to credit to a great extent while 80% rated loan repayment record as influencing access to credit to a great extent. We can therefore conclude that customer's loan repayment record has the greatest influence while loan tenure has the least influence on accessibility of credit from commercial banks for financing agricultural sectors in Kenya.



Source: (Researcher, 2013)

Fig. 4.18: Extent to which loan related challenges influences accessibility of credit

4.7.1 Extent to which purpose of the loan influences accessibility of credit

The study investigated the extent to which purpose of the loan influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.19 below.

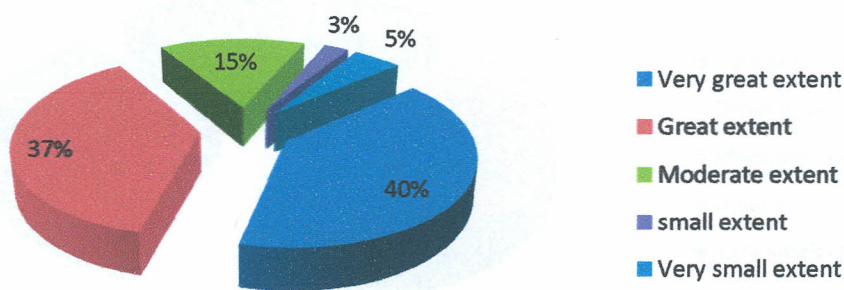
Table 4.19 Extent to which purpose of the loan influences accessibility of credit

Extent	Number	Percentage
Very great extent	16	40%
Great extent	15	37.5%
Moderate extent	6	15%
small extent	1	2.5%
Very small extent	2	5%
Total	40	100%

Source: (Researcher, 2013)

From table 4.19 above, 40% of the respondents indicated that purpose of loan influences credit access to a very great extent, 37.5% to a great extent, 15% to a moderate extent, 2.5% to a small extent and 5% indicated that the influence is to a very small extent.

Influence of purpose of the loan



Source: (Researcher, 2013)

Fig. 4.19: Extent to which purpose of the loan influences accessibility of credit

4.7.2 Extent to which the loan tenure influences accessibility of credit

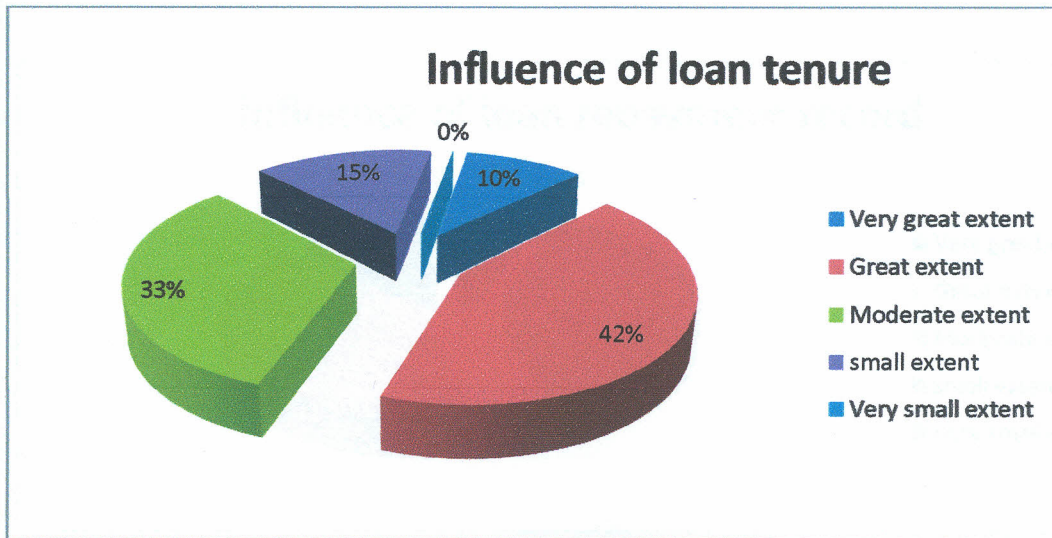
The study investigated the extent to which the loan tenure influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.20 below.

Table 4.20: Extent to which the loan tenure influences accessibility of credit

Extent	Number	Percentage
Very great extent	4	10%
Great extent	17	42%
Moderate extent	13	33%
small extent	6	15%
Very small extent	0	0%
Total	40	100%

Source: (Researcher, 2013)

From table 4.20 above, 10% of the respondents indicated that loan tenure influences credit access to a very great extent, 42% to a great extent, 33% to a moderate extent and 15% to a small extent.



Source: (Researcher, 2013)

Fig. 4.20: Extent to which the loan tenure influences accessibility of credit

4.7.3 Extent to which loan repayment record influences accessibility of credit

The study investigated the extent to which loan repayment record influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.21 below.

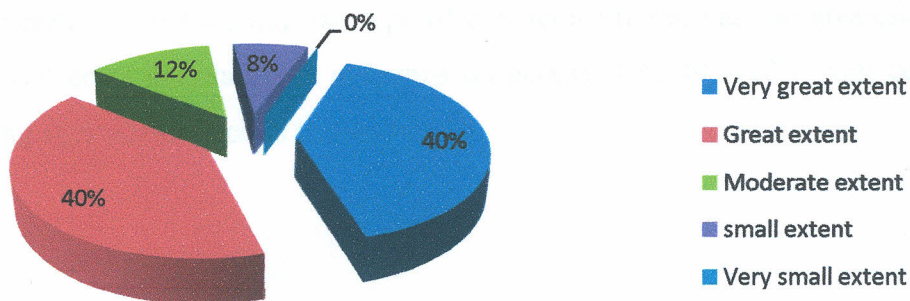
Table 4.21: Extent to which loan repayment record influences accessibility of credit

Extent	Number	Percentage
Very great extent	16	40%
Great extent	16	40%
Moderate extent	5	12%
small extent	3	8%
Very small extent	0	0%
Total	40	100%

Source: (Researcher, 2013)

From table 4.21 above, 40% of the respondents indicated that loan repayment record influences credit access to a very great extent, 40% to a great extent, 12% to a moderate extent and 8% to a small extent.

Influence of loan repayment record



Source: (Researcher, 2013)

Fig. 4.21: Extent to which loan repayment record influences accessibility of credit

4.8.0 Extent to which various borrowing costs related challenges influences accessibility of credit

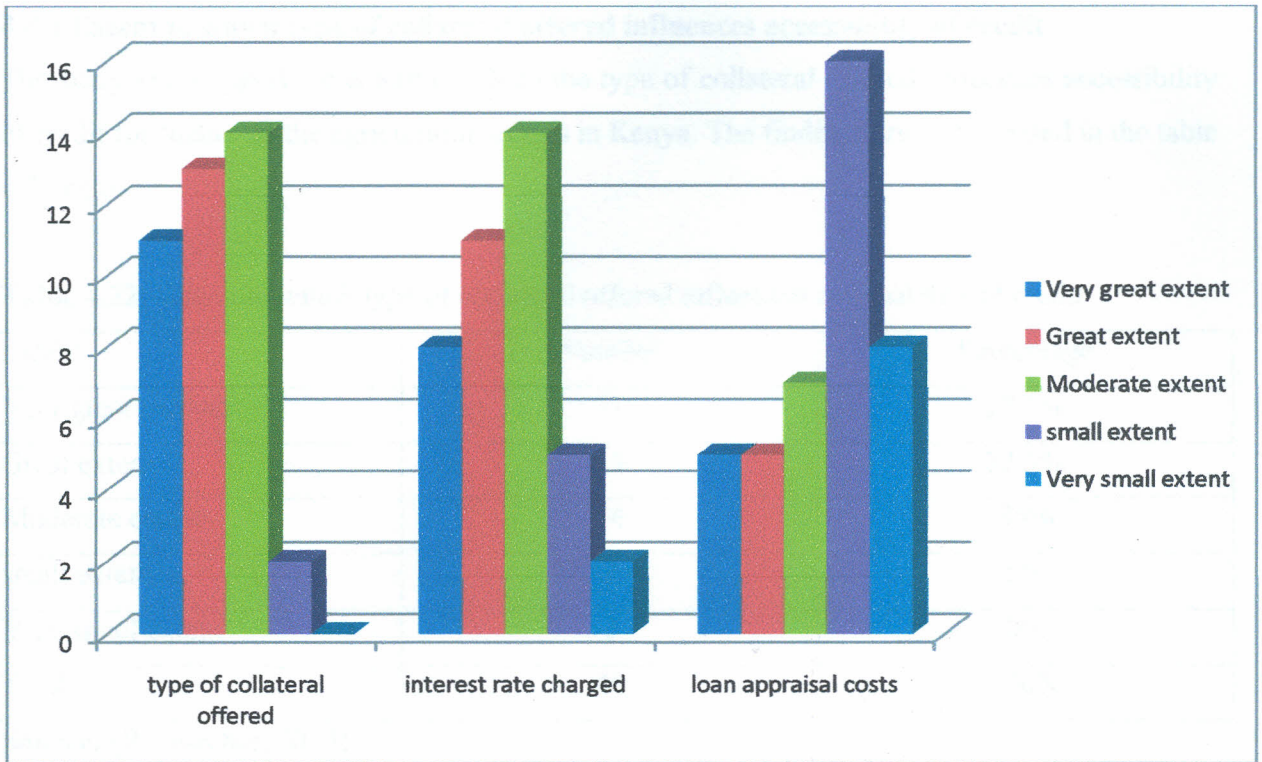
The study explored the extent to which type of collateral offered, interest rate charged and loan appraisal costs influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.22 below.

Table 4.22: Extent to which borrowing costs related challenges influences accessibility of credit

extent	type of collateral offered		interest rate charged		loan appraisal costs	
	number	%	number	%	number	%
Very great extent	11	27.5	8	20	5	12.5
Great extent	13	32.5	11	27.5	4	10
Moderate extent	14	35	14	35	7	17.5
small extent	2	5	5	12.5	16	40
Very small extent	0	0	2	5	8	20
Total	40		40		40	

Source: (Researcher, 2013)

From table 4.22 above, 60% of the respondents rated type of collateral offered as influencing access to credit to a great extent, 47.5% rated interest rate charged as influencing access to credit to a great extent while 22.5% rated loan appraisal costs as influencing access to credit to a great extent. We can therefore conclude that the type of collateral offered has the greatest influence while loan appraisal costs has the least influence on accessibility of credit from commercial banks for financing agricultural sectors in Kenya.



Source: (Researcher, 2013)

Fig. 4.22: Extent to which loan related challenges influences accessibility of credit

4.8.1 Extent to which type of collateral offered influences accessibility of credit

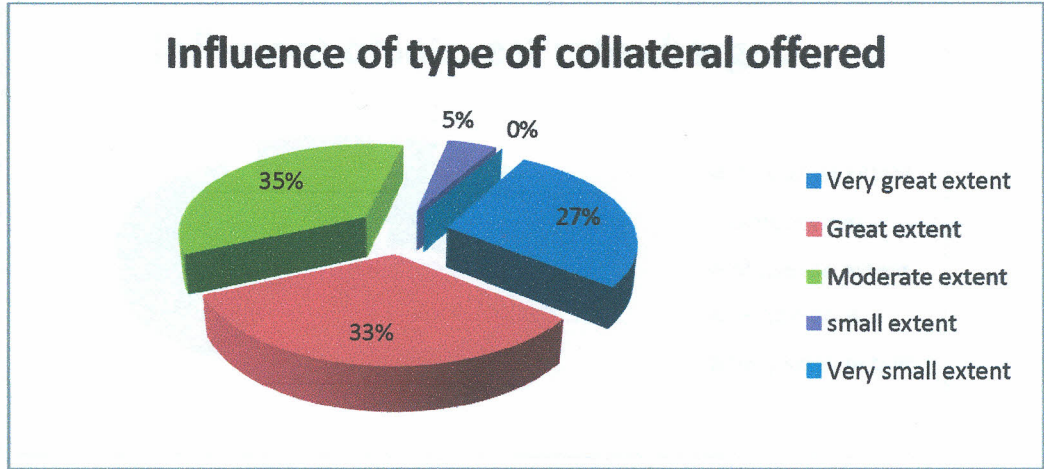
The study investigated the extent to which the type of collateral offered influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.23 below.

Table 4.22: Extent to which type of collateral offered influences accessibility of credit

Extent	Number	Percentage
Very great extent	11	27.5%
Great extent	13	32.5%
Moderate extent	14	35%
small extent	2	5%
Very small extent	0	0%
Total	40	100%

Source: (Researcher, 2013)

From table 4.23 above, 27.5% of the respondents indicated that type of collateral offered influences credit access to a very great extent, 32.5% to a great extent, 35% to a moderate extent and 5% to a small extent.



Source: (Researcher, 2013)

Fig. 4.23: Extent to which type of collateral offered influences accessibility of credit

4.8.2 Extent to which interest rate charged influences accessibility of credit

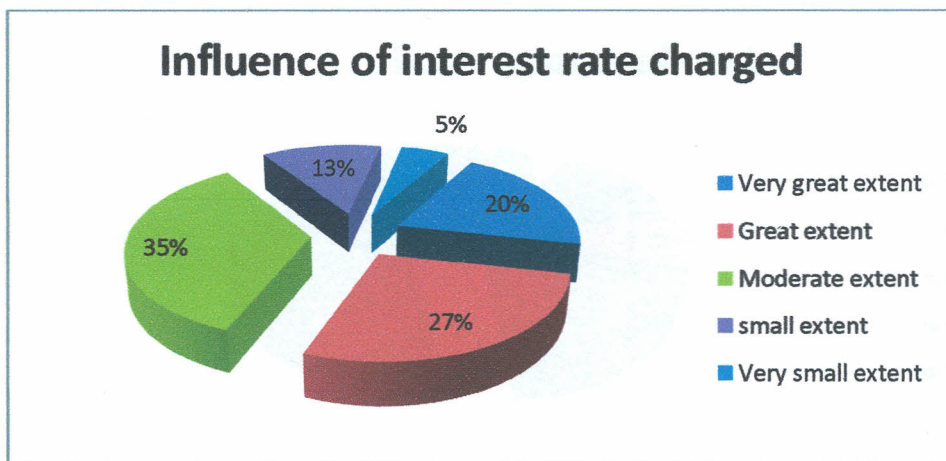
The study investigated the extent to which the interest rate charged influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.24 below.

Table 4.24: Extent to which interest rate charged influences accessibility of credit

Extent	Number	Percentage
Very great extent	8	20%
Great extent	11	27.5%
Moderate extent	14	35%
small extent	5	12.5%
Very small extent	2	5%
Total	40	100%

Source: (Researcher, 2013)

From table 4.24 above, 20% of the respondents indicated that interest rate charged influences credit access to a very great extent, 27.5% to a great extent, 35% to a moderate extent, 12.5% to a small extent and 5% indicated that the influence is to a very small extent.



Source: (Researcher, 2013)

Fig. 4.24: Extent to which interest rate charged influences accessibility of credit

4.8.3 Extent to which loan appraisal costs influences accessibility of credit

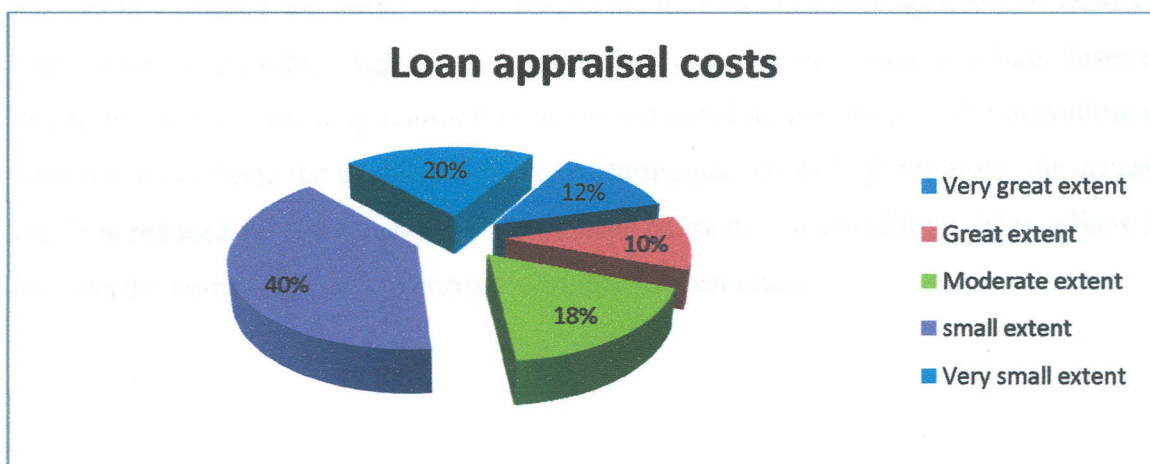
The study investigated the extent to which the loan appraisal costs influences accessibility of credit for financing the agricultural sectors in Kenya. The findings are summarised in the table 4.25 below.

Table 4.25: Extent to which loan appraisal costs influences accessibility of credit

Extent	Number	Percentage
Very great extent	5	12.5%
Great extent	4	10%
Moderate extent	7	17.5%
small extent	16	40%
Very small extent	8	20%
Total	40	100%

Source: (Researcher, 2013)

From table 4.25 above, 12.5% of the respondents indicated loan appraisal costs influences credit access to a very great extent, 10% to a great extent, 17.5% to a moderate extent, 40% to a small extent and 20% indicated that the influence is to a very small extent.



Source: (Researcher, 2013)

Fig. 4.25: Extent to which loan appraisal costs influences accessibility of credit

4.9 Qualitative Analysis and Results

The study had some open ended questions on the questionnaires where the respondents were expected to give their opinions, views, ideas, or perceptions about various aspects related to challenges influencing accessibility of credit for financing agricultural sectors in Kenya. When asked what were the two most important considerations in their respective banks when financing the Agricultural sectors, most of the respondents identified customer character, type of farming and borrower's ability to repay. Customer's character is assessed by the level of honesty and openness the potential borrower is showing during loan application process. The financier wants to mitigate the potential risk of default. The borrower should be both willing and able to repay the loan facility. The borrower's ability to repay is assessed by the cash flows generated in the agricultural venture. The activity should have sufficient returns to both meet the production expenses as well as meet the loan instalment. The type of farming means that the agricultural activity carried out has lower perceived risks. The financial institutions want to venture in the areas where the risks are lower and mitigation measures are identified. The level of experience of the borrower in the agricultural activity therefore plays a major role in risk mitigation measures. The respondents were also asked what other challenges face the accessibility of credit from commercial banks for financing Agricultural sectors in Kenya. The respondents noted government policies, weather and the prevailing economic conditions. There was also lack of market and price fluctuations being noted as the challenges facing accessibility of credit. These are external factors influence the availability of credit to agricultural sectors. The government has a policy where it encourages the financial institutions to finance agricultural sectors due to its contribution to the GDP. Agricultural products may lack market leading to huge loses especially due to the fact that most agricultural products are perishable in nature. The prevailing economic situation also affects the agriculture sectors. During periods of high inflation, the accessibility of credit is reduced in order to reduce the amount of money in circulation. This affects the sector because the borrowers have to borrow at higher interest rates.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the final findings, conclusions and recommendations are presented. The findings were derived from the data captured from the respondents using the questionnaires. The conclusions were drawn from the findings in line with the specific objectives of the study. From the outcome and output of the study, some important recommendations were developed in relation to what was covered.

5.2 Summary of the Major Findings

This section discusses the research findings on the challenges influencing accessibility of credit from commercial banks for financing Agricultural sectors in Kenya.

5.2.1 Findings on background information of respondents

Responses were obtained from the branch managers, operations managers, credit managers and the credit officers of the various banks who are involved in the lending decisions in the banks. The study found that various banks have employed both male and female employees in all positions. There was therefore some form of gender balance which was observed though the percentage of male respondents was 55% while the female was 45%. Majority of the respondents had considerable level of education because many had first degrees, master's degrees and diploma qualifications. This ensured that the respondents are knowledgeable and thus gave appropriate feedback. The length of service for the respondents with banks ranged from one year to above ten years and thus the level of experience was diverse.

5.2.2 Customer related challenges

It was established that customer related challenges influences the accessibility of credit from commercial banks for financing Agricultural sectors in Kenya. These customer related challenges includes customers' financial situation, customers' character, customers' literacy level, customers' gender and customers' age. 70% of the respondents indicated that to a great extent, customers' financial situation influences the accessibility of credit from commercial banks.

Borrower's character was found to be a key consideration when advancing credit by commercial banks. 67.5% of the respondents indicated that these influence the accessibility of credit to a very great extent. It was also established that customer's literacy level is not a major challenge in agricultural finance as only 17.5% of respondents indicated that its influence is of great extent. The gender of the borrowers was found to influence credit accessibility to a very small extent as indicated by 70% of the respondents. The age of the borrower was found to influence the accessibility of credit from commercial banks to a small extent. This was indicated by 53% of the respondents.

5.2.3 Agricultural activity related challenges

The type of agricultural activity influences the accessibility of credit from commercial banks to a great extent. This was confirmed by 90% of the respondents who indicated the same. The scale of production also influences the accessibility of credit to a great extent. This was indicated by 63% of the respondents. The level of experience is also a key challenge influencing accessibility of credit. 52% of the respondents indicated that the level of experience influences credit accessibility to a great extent.

5.2.3 Loan related challenges

The loan repayment record was found to be the greatest challenge influencing accessibility of credit from commercial banks for financing agricultural sectors. 80% of the respondents indicated that loan repayment record influences accessibility of credit to a great extent. The financial institutions also consider the purpose of the loan as an important consideration in making financing decisions. 77% of the respondents indicated that the purpose of the loan influences the lending decision to a great extent. It was also noted that 52% of the respondents indicated that the loan tenure influences the accessibility of the loan to a great extent.

5.2.4 Borrowing costs related challenges

It was found that the type of collateral offered is a major factor influencing accessibility of credit. 60% of the respondents indicated that the type of collateral influences credit accessibility to a large extent. The interest rate was found to influence accessibility of credit to a moderate extent. 35% of the respondents indicated that interest rate influences the availability of credit to a

moderate extent while 27% indicated that the influence is to a great extent. The loan appraisal costs influences the availability of credit to a small extent as indicated by 40% of the respondents.

5.3 Conclusions

From the findings, we can conclude that agricultural activity related challenges have the greatest influence. The second greatest challenge is customer related challenges followed by borrowing costs related challenges while loan related challenges have the least influence on accessibility of credit from commercial banks for financing agricultural sectors in Kenya. It was clear that of all the challenges influencing credit accessibility, the type of agricultural activity was rated the greatest challenge by the respondent. This therefore means that most of the borrowers are disadvantaged by the agricultural activity that they are involved in.

We also find out that loan repayment record is the second greatest challenge in accessibility to credit. Most of the borrowers who have previous negative record with the financial institutions are likely to face a bigger challenge in accessing credit in future. The third greatest challenge was purpose of the loan which means that the borrower's credit application is likely to be successful depending on what the borrower intends to do with the money requested. The fourth greatest challenge in accessibility of credit was found to be the customer's financial situation. The borrowers therefore need to be in a good financial position in order to access credit facilities from commercial banks. The borrowers' character was found to influence credit accessibility to a great extent. The financial institutions therefore require to be sure that the borrower is giving the correct information on their credit request. Borrowers who do not give correct information are unlikely to qualify for credit. The borrowers' scale of production and type of collateral offered also influence credit accessibility to a great extent.

The least influential challenge in credit accessibility was found to be borrowers' gender, followed by borrower's age, borrowers' literacy levels, loan appraisal costs and interest rate charged in that order. All these were found to influence accessibility of credit to a small extent.

5.4 Recommendations

From the research study, a number of recommendations were drawn based on the findings and conclusions of the study. First, it was found out that the type of agricultural activity is the greatest challenge influencing credit accessibility. It is therefore recommended that government to formulate policies to support specific agricultural activities. It was noted that some agricultural activities may not be supported by commercial banks as they are perceived to be very risky. The borrowers should also seek to diversify their activities so that they can develop. It was noted that the scale of production also influences the accessibility of credit to a great extent. It is recommended that technological advancement be encouraged by all the players in the agricultural sectors. The government should subsidise farm inputs, trainings should be done and also the financial institutions should be encouraged to finance value addition.

The level of experience in the agricultural activity was also found to be a key challenge influencing accessibility of credit. The youth in particular should be trained and encouraged on patience as they progress. Financial institutions should also seek ways to finance viable start ups. The government should also support the upcoming and new ventures. The financial institutions should come up with diverse products to meet the different needs of customers. It was found out that the purpose of the loan is a major consideration from the commercial banks in lending decision. The various loans should also have different loan tenure so that the borrowers can pay the loans comfortably depending on the purpose.

On loan repayment record, the banks need to advise its borrowers on the effect of loan default to future borrowing. The type of collateral offered was found to influence the accessibility of credit to a great extent. The financial institutions should come up with different loan products whose collateral requirements will vary. Interest rate was found to influence accessibility of credit to a moderate extent while the loan appraisal costs influences the availability of credit to a small extent.

Financial education need to be carried out by the various commercial banks and the government to the borrowers in the agricultural sectors. These will help the farmers to maintain financial records and improve their overall financial situation. They may be trained on various aspects in finance such as record keeping and budgeting. Though customer's literacy level was not found to be a major challenge in agricultural finance, it will have an influence on financial records and the application of technology in production. The borrowers will also be trained on the importance of

being honest when submitting their loan proposals. The lenders may not approve the facility if they realise some aspects of dishonesty. Financial education will also help the borrowers to understand the best ways to present their loan proposals based on the purpose of the loan and the ability to repay the same. It will also help the borrowers to adapt to the latest production technologies thereby improving on their efficiencies leading to higher returns. These will improve their financial situation and help them expand their scale of production.

The gender of the borrowers was found to influence credit accessibility to a very small extent. The borrowers' gender will however determine other factors such as availability of collateral for the loans especially being a major challenge to women borrowers. Alternative collateral should be considered so as to enable the borrowers to access the loans. The same applies to the age of borrowers which was also found to influence the accessibility of credit from commercial banks to a small extent. Most of the young people lack formal collateral and therefore alternative collateral need to be considered.

5.5 Areas for Further Research

It is proposed that the following areas may be researched by other researchers and scholars.

- (i) How to increase financial accessibility for the agricultural sectors in Nyeri county
- (ii) Challenges facing women entrepreneurs in accessibility of credit
- (iii) Impact of financial literacy on accessibility of credit from commercial banks
- (iv) The role of financial sector in development of agricultural sectors

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APPENDICES

Appendix I: Letter to respondents

Peter N. Karumbi
Kenyatta University
P.O.Box 2343-10100
Nyeri

Dear Respondent,

**RE: CHALLENGES FACING ACCESSIBILITY OF CREDIT FROM
COMMERCIAL BANKS FOR FINANCING AGRICULTURAL SECTORS
IN KENYA: (A SURVEY OF COMMERCIAL BANKS IN NYERI COUNTY)**

I am a post graduate student of Kenyatta University. I am carrying out a study challenges influencing the accessibility of credit from commercial banks for financing Agricultural sectors in Nyeri County. I kindly request your assistance and participation in this study by responding to all questions on this questionnaire as guided. Please be as truthful as possible. The information required is confidential and you need not to identify yourself in any way. The information you give will be treated with utmost confidentiality and used strictly for the purpose of this research study only. Kindly ensure that you do not write your name on the questionnaire.

Thank you all for your consideration of this request.

Yours Faithfully,

Peter Karumbi

Appendix II: Questionnaire

Please fill the following questionnaire by answering all the questions given as instructed. The information generated shall be used for academic purposes only. Please do not indicate your name anywhere in the questionnaire.

Section A: Background Information

1. Gender male female

2. Age in yrs 20 - 30 31-40 41-50 above 50

3. Position Branch manager Operations Manager Credit Manager Credit officer

4. Highest level of education Masters University College Secondary

5. Duration of Work (in yrs) 0-3 4-6 7-10 above 10

6. How would you rate financing of agriculture sectors in your organisation?

Excellent Good fair Poor

7. In your own view, what are the two most important considerations when financing the agriculture sector?

a)..... b).....

Section B:

(i) Customer's related challenges

8. To what extent does customer related challenges influence the accessibility of credit for financing the agricultural sectors in Nyeri County?

Very great extent Great extent Moderate extent small extent very small extent

9. To what extent do the following key components customer related challenges influence the accessibility of credit for financing the agricultural sectors in Nyeri County?

Key component	Very great extent	Great extent	Moderate extent	small extent	very small extent
Customer's financial situation					
Customer's character					
Customer's literacy level					
Customer's gender					
Customer's age					

(ii) Agricultural activity related challenges

10. To what extent does agricultural activity related challenges influence the accessibility of credit for financing the agricultural sectors in Nyeri County?

Very great extent Great extent Moderate extent small extent very small extent

11. To what extent do the following key components of agricultural activity related challenges influence the accessibility of credit for financing the agricultural sectors in Nyeri County?

Key component	Very great extent	Great extent	Moderate extent	small extent	very small extent
Type of agricultural activity					
Scale of production					
Level of experience					

(iii) Loan related challenges

12. To what extent does loan related challenges influence the accessibility of credit for financing the agricultural sectors in Nyeri County?

Very great extent Great extent Moderate extent small extent very small extent

13. To what extent do the following key components of loan related challenges influence the accessibility of credit for financing the agricultural sectors in Nyeri County?

Key component	Very great extent	Great extent	Moderate extent	small extent	very small extent
Purpose of the loan					
Loan tenure					
Loan repayment record					

(iv) Borrowing costs related challenges

14. To what extent do borrowing costs related challenges influence the accessibility of credit for financing the agricultural sectors in Nyeri County?

Very great extent Great extent Moderate extent small extent very small extent

15. To what extent do the following key components of borrowing costs related challenges influence the accessibility of credit for financing the agricultural sectors in Nyeri County?

Key component	Very great extent	Great extent	Moderate extent	small extent	very small extent
Type of collateral offered					
Interest rate charged					
Loan appraisal costs					

16. In your own view, what other challenges face the accessibility of credit from commercial banks for financing agricultural sectors in Kenya?

a)..... b).....

Appendix III: list of all the licensed commercial banks and mortgage finance company in Kenya

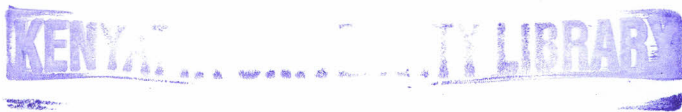
1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. CFC Stanbic Bank
7. Charter house bank limited (Under statutory management)
8. Chase Bank (Kenya)
9. Citibank
10. Commercial Bank of Africa
11. Consolidated Bank of Kenya
12. Cooperative Bank of Kenya
13. Credit Bank
14. Development Bank of Kenya
15. Diamond Trust Bank
16. Dubai Bank Kenya
17. Ecobank
18. Equatorial Commercial Bank
19. Equity Bank
20. Family Bank
21. Fidelity Commercial Bank Limited
22. Fina Bank
23. First Community Bank
24. Giro Commercial Bank
25. Guardian Bank
26. Gulf African Bank
27. Habib Bank
28. Habib Bank AG Zurich

29. I&M Bank
30. Imperial Bank Kenya
31. Jamii Bora Bank
32. Kenya Commercial Bank
33. K-Rep Bank
34. Middle East Bank Kenya
35. National Bank of Kenya
36. NIC Bank
37. Oriental Commercial Bank
38. Paramount Universal Bank
39. Prime Bank (Kenya)
40. Standard Chartered Kenya
41. Trans National Bank Kenya
42. United Bank for Africa
43. Victoria Commercial Bank

Mortgage finance company:

1. Housing finance Limited

Source: Central Bank of Kenya Annual report, (2012)



Appendix VI: Financial Budget

ITEM	AMOUNT
Transport	2,000
Stationary	5,000
Meals and refreshments	2,000
Printing and binding	8,000
Miscellaneous	3,000
Total expenditure	20,000

Appendix V: Time Schedule

ACTIVITY	DURATION	MONTH/YEAR	PARTICIPANTS
Research proposal development	2 weeks	October 2012	Researcher assisted by supervisor
Data collection	2 weeks	November 2012	Researcher
Report writing	3 weeks	January 2013	Researcher assisted by supervisor
Proposal presentation	1 day	February 2013	Researcher
Pre-testing	1 week	March 2013	Researcher
Data collection	2 weeks	March 2013	Researcher
Data analysis and presentation	2 weeks	April 2013	Researcher
Report writing	2 weeks	April 2013	Researcher assisted by supervisor
Submission of final project		May 2013	Researcher

Appendix IV: List of the commercial banks in Nyeri county

1. Kenya Commercial bank limited
2. National bank limited
3. Equity bank limited
4. Cooperative bank limited
5. Ecobank limited
6. Standard chartered bank limited
7. Consolidated bank limited
8. K- Rep bank limited
9. Jamii Bora bank
10. Barclays bank Limited
11. Family bank limited

Source: Researcher (2013)