

FACTORS EXPLAINING AGRICULTURAL CREDIT DEFAULT AMONG SMALL SCALE
FARMERS IN KENYA: A CASE STUDY OF SMALL SCALE FARMERS IN KANGEMA
DIVISION, MURANGA DISTRICT, KENYA

BY

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ABSTRACT

The focus of this study was to investigate factors explaining Agricultural Credit default among small scale farmers in Kenya. This was on observation that while small scale farmers in Kenya have continued to appreciate loan facilities, repayment in most cases has been a problem. It was thus necessary to investigate the issue.

Available literature on the causes of Agricultural Credit default was reviewed. The purpose was to identify what is known so far, what is not known and what has not been agreed upon. Available literature indicated that default occurs because of poor loan expenditure, low farm output, poor institutional process of loan administration, social economic factors and social attitude. However, these factors could not stand scientifically as explanations because:

- o They were largely based on armchair theorising, lacking empirical data. Where data had been provided, it was inadequate.
- o There was no overall consensus on these factors.
- o There was a problem of generality as most studies had been carried out in different social settings and also time passage could have invalidated the postulated relationship.

A need to investigate further how the postulated factors relate to default was thus identified.

A study area (Kangema Division) was identified where it was possible to locate small scale farmers who had borrowed for a variety of activities and also from different financial institutions. This was to provide a comparative analysis on how farmers react to different types of credit between and within institutions.

Study instruments which consisted of a formal interview schedule, informal interview schedule, informal group discussion guide and observation checklist were designed. These were pretested and adopted for the study.

Field work took three months aided by two research assistants. Respondents were selected through random and non random sampling methods depending on appropriateness. Quantitative data was analysed statistically and related to qualitative data which had been obtained through use of informal guides.

The study findings indicated that there exists a meaningful relationship between institutional procedures of loan administration and loan repayment. However, there exists no meaningful relationship between loan expenditure pattern, amount of farm output, loatee social economic status and loan repayment. It was also observed that there exists no meaningful relationship between centre of household decision making process and loan expenditure pattern. The most crucial aspects of loan administration which were found to influence loan repayment were:

- o Procedures relating to loan use.
- o Procedures relating to loan repayment.

Institutions which put emphasis on the two determinants experienced better repayment pattern.

It has therefore been recommended that, for Agricultural loaning institutions to attain their goal, they would need to enforce strict loan use and or collection procedures. Failure to implement either of these strategies will lead to persistent and ever-expanding agricultural loan recovery problems.