THE FUTURE OF AN AGRICULTURAL BANK IN KENYA

BY

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D61/P/9134/01

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.

SEPTEMBER 2007

DECLARATION

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

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This project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This paper is dedicated to my wife, Grace our children, Kibet, Kipkoech, Jepkemei, Jeptum and Jemutai who have untiringly supported my endeavors.

ACKNOWLEDGEMENT

I am greatly indebted to all the banking fraternity and the institutions in the Agricultural sector, and the interested parties who shared their views and opinions with me, offering guidance and shedding light on all the areas that have been reported herein.

Sincere gratitude goes to Mrs. Angela Kithinji, Lecturer, Faculty of Commerce, School of Business, University of Nairobi for her continued guidance, support, encouragement and scripture criticism as well as suggestions throughout the project.

I would also thank my family and friends for the support they have offered over the period I have undertaken the MBA programme. Thank you for your understanding and patience.

ABSTRACT

This study set out to determine the factors necessary for the establishment of an Agricultural Bank in Kenya and to identify the challenges of operating an Agricultural Bank in Kenya.

A cross-sectional survey was conducted by means of a questionnaire and views of the Central Bank of Kenya, Commercial banks, Agricultural Finance Corporation and nine Agricultural Sector institutions were obtained as they were expected to determine the factors necessary for the establishment of an Agricultural Bank in Kenya as well as able to identify the challenges of operating on agricultural Bank in Kenya.

An overall analysis showed that the factors necessary for an establishment of an Agricultural Bank in Kenya exist. Equally, the analysis showed that challenges of operating an Agricultural Bank exist. Further, the factors necessary for the establishment of an Agricultural Bank also were identified as the need, the location, characteristics and the regulatory requirements. The challenges of operating an Agricultural Bank were also identified as the Government controls, risks and the likely poor performance.

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ABBREVIATIONS

1.	ADB	-	Agricultural Development Bank
2.	A.F.C.	-	Agricultural Finance Corporation
3.	ATM's	-	Automatic Teller Machines
4.	CAAB	-	Central Agricultural Advisory Board
5.	CBK	-	Central Bank of Kenya
6.	CSFC	-	Cereals & Sugar Finance Corporation
7.	ERS	-	Economic Recovery Strategy
8.	GAAP	-	Generally Accepted Accounting Principles
9.	GDP	-	Gross Domestic Product
10.	NACM	-	Nominal Annual Compounded Monthly
11.	NSE	-	Nairobi Stock Exchange
12.	SAPS	-	Structural Adjustment Programmes
13.	WOCCU	-	World Council of Credit Unions

CHAPTER ONE - INTRODUCTION

1.1 Background

Banks are institutions that carry out the business of lending and accepting deposits. The banking business mainly involves the accepting from members of the public money on deposit repayable on demand or at the expiry of a fixed period or after notice and the accepting from members of public money and payment on and acceptance of cheques (*The Banking Act* CAP 488, 1989). Banking further involves employing of money held on deposit or current account, or any part of the money, by lending, investment or in any other manner for the account and at the risk of the person so employing the money (The Banking Act Cap 488,1989).

Kenyan banks consist of Commercial banks, the Post Office Savings Bank for medium and long-term loans and the Co-operative Bank of Kenya Limited, which is extensively linked to Savings and Credit Co-operative Organizations (SACCO's). Banks do not include the Central Bank of Kenya (*The Banking Act* CAP 488, 1989).

There are various public financial institutions that promote and finance investments in agriculture. They include Agricultural Finance Corporation, Agricultural Development Corporation, National Housing Corporation of Kenya, Housing Finance Limited and the mainstream commercial banks such as Kenya Commercial Bank, Barclays Bank, Standard Chartered Bank and Co-operative Bank.

Banks play a very important role in the well being of an economy for they assist in the provision of payments systems for the exchange of goods and services; provide a mechanism for aggregating funds to embark on large-scale indivisible ventures and provide a means of transferring economic resources through time and across geographic regions by using various instruments. Further, they provide a means of managing risks, provide price information for purposes of coordinating decision-making in various sectors of the economy, and reduce the costs of asymmetric information problems between corporate insiders and outsiders (Hickman, 1996).

Banks therefore bring together, through transactions in the financial markets, the savings surplus units and the savings deficit units so that the savings can be distributed into their most productive uses. Without these intermediaries and the processes of financial intermediation, the allocation of savings into real investment would be limited by whatever the distribution of savings happened to be (Weston, 1992).

The Government activities usually have influences on the financial markets. Similarly, the Government policies have major influences on the state of the economy on the money supply and on the accounts and types of financial instruments outstanding (Weston, 1992). The Central Bank regulates the functions of commercial banks through the Banking Act Cap 488.

The Central Bank as regulator in the banking sector issues guidelines to banks and the other concerned stakeholders on the required banking regulations. They are the need to observe the required financial regulations that include; allocation controls that are meant to direct investments towards certain desired services of the economy and structural controls meant to determine the structure of the institutions. They are also required to observe prudential regulations in order to comply with the accepted practices of operations aimed at reducing the risk of systematic failure and avoid disruptions caused by financial collapse. Others include organizational controls and protective controls.

1.2 Bank and Non Bank Depository Institutions

1.2.1 Bank Depository Institutions

Depository institutions are financial institutions that emphasize on deposits. Their primary financial liability institutions include commercial banks, savings banks, savings and loan associations and credit unions financial institutions that exist to acquire and use financial assets so that the value of their benefits exceeds their costs (Gardner et al 2000).

1.2.2 Non-Bank Depository Institutions

Savings and Loans; Savings and loans were established originally to provide a source of mortgage credit to households. Savings and loans can be organized on either a mutual or stock basis. Mutual savings and loans are legally owned by the depositors who receive dividends based on their deposit levels. Stock savings and loans issue stock so that stockholders are the legal owners and depositors are creditors of the savings and loans. The majority of savings and loans are organized on a stock basis. Their asset choices were greatly restricted by regulations to mortgage related until 1980's. Further, they are prohibited from investing in corporate stocks (Gardner, et al 1988).

Savings Banks; They resemble savings and loans but have a more diversified asset base. They were initially to tap savings deposits from workers because commercial banks were not willing to do so and over the years have been conservatively managed. They could issue demand deposits and make commercial loans in limited amounts, as well as invest in corporate stock. They obtain their funds from automatic transfer Service accounts, transaction deposits, money market deposit accounts and negotiable order of withdrawal accounts, passbook savings accounts and time deposits. These banks allocate a major portion of their funds to mortgages though they have more flexibility to hold corporate and equity than savings and loans.

They are subject to Central Bank imposed reserve requirements on transactions and other reservable deposits (Cargill, 1991). Both savings and loan and savings banks may invest up to 10% of their assets in commercial loans and may issue traditional demand deposits in limited amounts (Gardner, 1988).

Credit Unions; Their services are available only to members who must have some common bond representing the basis for forming the union. These institutions are largely non-profit organizations. Often they are savings and credit societies (Cargill 1991).

Finance Companies; This is the second category of financial institutions. These institutions are similar to depositories in the financial assets they hold. However, they specialize in loans to businesses and consumers. Their financial liabilities are obtained by calling commercial paper and bonds.

Contractual Intermediaries; They consist of insurance companies (both life insurers and property and casualty insurers) and pension funds. They are considered contractual because of the formal agreements with policyholders or pensioners who entrust their funds to these firms. Life insurers because of their commitments to customers are long-term, have traditionally held an asset portfolio structure quite different from the property and casualty insurers, who offer shorter term policies such as automobile and house coverage.

Pension funds generally are designed to collect funds from employers and sometimes employees and to repay these funds, along with investment returns, after employees have retired or become disabled (Gardner, 1988).

1.3 Statement of the Problem

The Kenyan economy is agriculture based and its growth depends largely on the growth of agricultural sector as agriculture accounts for 80% of the country's GDP. Over the years a growth in GDP has been accompanied by a higher growth in the Agricultural sub sector and conversely a much lower growth in the agriculture when there is a drop in GDP. About 16% of the country's land is arable and favorable for agriculture. This area hosts 75% of the country's rural population (Ministry of Agriculture, 2004; Ministry of Finance, 2001). Through the Kenya Economic Recovery Strategy for Wealth and Employment Creation (ERS) for the period 2003-7 the government recognizes that empowerment of the people would make them responsible for their destiny.

This fact is important for the overall development of the economy. ERS mentions the creation of income earning opportunities as one means of achieving this goal. It attributes the decline in the growth of the agricultural sector to poor access to farm credit.

Kenya does not have an Agricultural Bank. However the nearest the country went to having one was the creation of the Agricultural Finance Corporation (A.F.C.), a financial institution created through an Act of Parliament (CAP 323) in 1963 for the development of Agriculture in the country. The A.F.C. has more than once presented the need to operate as an Agricultural Bank. In this regard the A.F.C. following the Government Development plans had stated the need and plans to convert the institution into a bank in 1982. Consequently the institution drafted a bill to the Government through The Attorney General's Chambers to establish an Agricultural Bank. Though this request was made, no feedback was received from the government (A.F.C., 1982).

During the last 15 years to the year 2003 the A.F.C. had not been discharging its mandate to the satisfaction of the Government of Kenya due to unavailability of adequate loanable funds. This has made it have over 90% of its entire loan portfolio becoming none-performing (A.F.C. financial accounts). This state of affairs threatened its future. With this gloomy picture, the future of agricultural lending in Kenya has not been certain.

In looking at the roles of Agricultural banks, there is need to look into the issues such as the usefulness of an agricultural bank, the role it will play in the economy, regulatory and institutional frameworks and the products they may offer and their sustainability.

In view of the above, the question begged to ask is whether an Agricultural Bank in Kenya has a future? What entails setting up such a bank and are these conditions present?

1.4 Objectives of the study

The objectives of the study are to:-

1. To determine the factors necessary for the establishment of an agricultural bank in Kenya.

2. Identify the challenges of operating an agricultural bank in Kenya.

1.5 Importance of the Study

This study is expected to be of great importance to the following groups.

Central Bank of Kenya

As the regulatory arm of banks, it is charged with the responsibility of establishments and regulations of banks. This study should highlight issues on the regulatory and legislative framework of banks which may contradict existing legislation or which may be inadequate with regard to existing objectives.

Agricultural Finance Corporation

The study may inspire A.F.C. review its role in the agricultural sector. In particular it may inspire the institution to review its strategic direction including considering it to be allowed to have an agricultural bank or abandon the idea all together.

Commercial Banks

It would be of interest to the mainstream commercial banks to assess the possible linkages, scope of competition and challenges if such an institution were established.

Farmers

The country is agriculturally based. Farmers as individual stakeholders in the agricultural sector may be potential debtors, creditor or equity holders. The study would highlight issues that may affect the direction of investment in the sector.

Institutions

There are many institutions both public and private dealing in agriculture and doing agribusiness in Kenya. They may be investors, customers or creditors. The study will assist them understand better the role of an agricultural bank and how it may impact on them.

Others

These include academicians; the governments, the general public and any other party interested in the future of an agricultural bank in Kenya. The study may impart knowledge and add value to the sector.

CHAPTER TWO - LITERATURE REVIEW

2.1 Types of Banking Institutions

2.1.1 Savings Banks

They raise funds using deposits and were initially suppliers of mortgage loans. In this respect, they are progressively expanding their activities to include investments in long-term securities, bonds, consumer loans and commercial loans (Edmister, 1986). The Kenya Post Office Savings Bank is an example.

2.1.2 Commercial Banks

The commercial banks undertake the banking businesses in accordance with the Banking Act CAP 488. In Kenya there were 44 commercial banks as at January 2005 (The Monthly Economic Review, 2005).

Commercial banks were introduced in East Africa in the 20th Century as British banks under one monetary union. Until then the banking systems of the three countries had close connections among themselves and all of them were largely dependent on the Kenya branches of British banks. In 1965 the three ex-British East African countries dissolved the monetary union under the East African Currency Board.
This decision had its bearing on the structure and functions of their commercial banking system (Giordano, 1971).

Subsequently, the Banking activities in Kenya have been governed by the banking Act that came into force on 3rd June 1969 and replaced an earlier Act that had been introduced in 1956. The new law was designed especially to strengthen safeguards for depositors and fit bank activities into monetary and credit policy by aligning them with the aims and functions of the Central Bank and making them subject to supervision by the later (Giordano,1971).

2.1.3 Investment Banks

They provide a means through which small savers can pool funds to invest in a variety of financial instruments. Through scale economies the banks offer investors the benefits of professional portfolio management, reduced transaction costs and the lower risk exposure of a large diversified portfolio. Such banks assist customers with purchasing and selling stocks bonds and other financial assets (Gardner, 1988).

2.1.4 Industrial Banks

They advance for the purchase of consumer durables under hire purchase and credit sale agreements, provision of finance for Agricultural and Industrial plants, machinery and equipment by way of hire-purchase and conditional sale, as well as financing of fleets of motor vehicles under contract hire arrangements.

They also undertake leasing of capital equipment for industry and commerce as well as providing personal loans to consumers and the activities of a banking kind.

2.2 The role of banks in the agricultural activities

The impact banks play in the agricultural sector is in the provision of the various banking services key among them is the provision of payment systems for the exchange of goods and services. Others include the provision of credit.

In this respect, the total credit extended by the 44 banks in Kenya stood at Kshs.380 billion as December 2005 (The Monthly Economic Review, 2005) of this credit the banks extended agricultural loan amounting to Kshs.33.7 billion.

In absolute terms state linked institutions lent Kshs.14.4 billion, local private institutions lent Kshs.6.1 billion, while foreign owned banks lent Kshs.11.2 billion. A large part of this total lending goes to the highly commercialized crops such as tea, sugar, tobacco and to various types of horticulture and is delivered via commodity based credit schemes **(Ministry of Finance, 2006)**

2.3 Agricultural Banks

The definition of an agricultural bank is rather arbitrary. Generally an agricultural bank is identified as a commercial bank whose ratio of agricultural loans to total loans is greater than the un-weighted mean for all commercial banks (Kliesen et al, 1996).

There are a few Agricultural Banks in existence in Africa. In the Sub-Sahara region, for example there is The Land Bank of South Africa, Agribank of Namibia, Agricultural Development Bank of Ghana and Agricultural Development Bank of Zimbabwe.

Similarly Kenya had a Land Bank up to 1969 when it was abolished and part of its functions taken over by the Agricultural Finance Corporation. Currently, there is no Agricultural Bank in any of the East African countries. In contrast, in the United States of America, the most developed country in the world, it had about 3,530 Agricultural Banks in 1994 (Kliensen et al, 1996).

Agriculture is vital for rural economic development and important source of business for rural financial institutions. Rural financial institutions operating in areas with commercially viable agricultural production can build from a solid customer base. In this respect Agricultural banks support both developing and established commercial farmers and assist in transformation of the rural economies. These banks tend to be clustered in areas/regions where agricultural production represents a significant percentage of the country or region's economy.

The agricultural sub sector has a tendency of longer-term loan requirements. Further, modern agriculture is capital intensive. Also investments in equipment, land and crops like coffee, tea or fruits require long-term financing, and face longer start-up capital (Fries, 2004). Further, these banks tend to hold lower percentages of their assets in cash than their non-agricultural counter parts.
They also hold higher percentages of their assets in securities and lower percentages in loans (Kliesen et al, 1996).

These banks tend to have a cyclical cash flow pattern. A large number of producers require cash at the same time mainly during planting and harvesting seasons. Savings are mobilized cyclically as well, mostly when crops are marketed.

Where secure saving facilities are not available, farmers save in illiquid and often non profitable forms, buying jewelry or livestock at the time of the year when they are most in demand, for example selling them at the same time as most of their neighbors (Yaron et al, 1996).

A number of constrains limit the growth and efficiency of rural financial services. Some apply specifically to the rural sector, its physical and economic conditions, particular attributes of agriculture, and shortcomings of institutions historically delivering rural financial services.

Many Agricultural banks use normal year projections as a basis for loan size and repayment capacity, even though agriculture is more vulnerable than other sectors to the vagaries of nature (Pischke, 1994). To the extent that large numbers of producers are growing the same crops, there is a covariant risk. The forces of nature do not distinguish significantly between farmers. Few insurance programs exist because actuarial data yields are usually insufficient to price insurance rationally.

In many areas the sector operates under inefficient production units, often you will find many farmers operate on small plots. The subsistence farmers often would lack the cash flow to pay back a loan. Consequently small - scale producers, lack effective marketing cooperatives and farmer organizations, enjoy few economies of scale (Binswanger et al, 1986). In the sub-Saharan region there has been small scale and dispersed clients. This increases relative administrative costs of Agricultural Banks. Further, limited infrastructure increases costs, retards business activity and limits sources of information.

2.4 Experiences of Agricultural Banks

In sub-Sahara Africa, the countries that have agricultural banks did establish such institutions at different times. Further, the mandates of such institutions have been evolving over time.

This has largely been so due to varying needs of the various countries. Below is a brief historical perspective of a few of such agricultural banks in the region.

2.4.1 Land Bank (South Africa)

The Land Bank of South Africa has been the leading agricultural financier in South Africa since its inception in 1912. The Bank is a specialist agricultural bank guided by a government mandate to provide financial services to the commercial farming sector and to agri-businesses and make available new, appropriate designed financial products that would facilitate access to finance by new entrants to agriculture from historically disadvantaged backgrounds. (AFRACA - Workshop, 2004).

The bank does not receive any financial subsidy from the government but gets its money from the money markets. It competes with other financial institutions in the markets to lend money, which is then on-lent to clients at market related interest rates. Since the Land Bank does not pay tax to the government it uses the money that could have been used in those instances to support development.

In 1995, the government constituted the *Strauss Commission* on Rural Finance. The purpose of the commission mainly was to look into the transformation of the Land Bank with a view to making it more accessible to all South Africans. The findings made the bank to develop unique products to provide good services and deliver them at competitive rates. Today the bank is a finance institution that serves all farmers equally.

2.4.2 Agricultural Development Bank (Ghana).

The Agricultural Development Bank of Ghana was set up in 1965 by the Ghana's Act of Parliament (286) originally under the name Agricultural Credit and Co-operative bank to promote and modernize the agricultural sector and allied economic activities through appropriate financial intermediation.

In 1967 it was changed into a Bank and called Agricultural Development Bank (ADB) through the passage of NLC Decree 182. In 1989 the bank took advantage of a new Banking Law (PNDC Law 225) to broaden its corporate mission to undertake the entire range of financial intermediation without sacrificing its primary role of promoting and modernizing the agricultural sector.

2.4.3 Agricultural Bank of Zimbabwe

Agricultural Bank of Zimbabwe was established in 1924 under the name Land Bank in the then Southern Rhodesia. In 1971, Land bank was merged with the Land Board to form the Agricultural Finance Corporation (AFC) through an Act of parliament under the Zimbabwean government's ministry of Lands, Agriculture and Rural Resettlement. In 1979, the small farm credit scheme was established. In this regard; the AFC was mandated to extend loans to small scale and communal farmers. In 1981, the Resettlement Credit Scheme was established, and the AFC's additional role was to extend loans to resettled farmers. In 1991, with the advent of the World Bank's Structural Adjustment Programmes (SAPs), AFC was requested to prepare for commercialization in order to reduce its dependence on the exchequer.

In 1999, the AFC was converted to a fully-fledged commercial bank, the Agricultural Bank of Zimbabwe. The development wing of the parastatal dealt with smallholder credit and was constituted into a fund, the Agricultural Development Assistance Fund. It was then incorporated as a "soft window" of the bank.

2.4.4 Agribank of Namibia

The Land and Agricultural Bank of South West Africa was established under the Land Bank Amendment Proclamation, 1922 (Proclamation No. 10 of 1992) and the then Land and Agricultural Bank of South Africa ceased its operation in the territory (Land Bank, 2004).

The Land Bank carried out an Amendment vide Act No. 31 of 1969 in order to provide for the transfer of the assets, rights, liabilities and obligations of the Land and Agricultural Bank of South Africa in the territory.
The Bank then became a branch of the then Land and Agricultural Bank of South Africa. It was then operated under the South African Land Bank Act (Act No. 13 of 1944).

In 1979 (by Proclamation No. 147 of 1979) the Land and Agricultural Bank again became an autonomous institution when the Administrator General of South West Africa took control of the country.

All this time the Land and Agricultural Bank only catered for the needs of the white commercial farmers while financing or subsidies to the communal farmers was made solely the function of the Government. In 1980 through the Proclamation AG 8/ 1980 most of the ethnic groups in the second tier Government started to finance their own people excluding the locals. These functions were transferred back to the Bank in 1991 (Act 27/1991) with the closure of the Second tier Government in Namibia.

After independence various workshops were undertaken to re-examine and study the mandate of the Bank. Major shortfalls were uncovered and the Board was dedicated to eliminating the backlog in its critical areas (Land Bank, 2004).

The Bank previously only catered for the financial needs of the commercial farmers and for this reason business was only from Windhoek. However, the process of restructuring the Bank started on 1 October 1995 and the branches became fully operational on 1 January 1996.

2.4.5 Land and Agricultural Bank (Kenya)

The Land and Agricultural Bank of Kenya was established in 1931 by the white settlers to consolidate and increase settlement on the land and assist in the provision of the agriculture credit to the largely white settler community in the country (Okoth-Ogendo, 1991). The bank was set up as a parastatal under the management of a board appointed by the colonial governor. The sources of funds of the Land and Agriculture Bank included grants voted by the Legislative Council, Loans from local and overseas sources and overdrafts from private banks.
Initially it operated side by side with Central Agricultural Advances Board (CAAB) of the settler government but by 1933 it was largely independent. Like the CAAB all advances were made against the security of a first ranking mortgage on the land in order to facilitate recovery and prevent further indebtedness by the farmer.

The funds advanced were to be used for agricultural or pastoral purposes, establishment of the purchase price or stand premium by farmers holding land from the crown, construction of cattle dips, water tanks, fencing and discharge of onerous mortgages (Heyer, 1976). As the Bank become fully operational, it was no longer necessary for the CAAB to continue to exist alongside it. Thus steps were taken to merge the management of the two bodies in 1933 and thereafter the bank was appointed the sole agent of the Government for the administration of all advances made to the farmers.

With increased responsibility, it is estimated that by 1938 the Bank's loan portfolio was above British Pound £835,000. This figure systematically grew with time. Although it had a lot of power at its disposal, the Bank was not able to fully and freely exercise these powers due to political interference and Government bureaucracy.
In this regard, recovery was therefore at times difficult and the Bank had to write off loans regularly (Okoth -Ogendo, 1991).

After Kenya's independence, it was noted that the bank largely served the white settler community who were then the main landowners in the country. The new government however felt that the bank was not serving the indigenous farmers adequately. A.F.C. was therefore created to operate alongside the bank. The Bank operated largely with the mandate of a bank until 1969 when it was abolished and its assets and liabilities taken as well part of its functions taken over by the AFC (Okoth-Ogendo 1991).

2.5 Products and Services Offered by Agricultural Banks

Agricultural banking largely focuses on rural financing. Rural populace, investors, creditors and other stakeholders by their nature demand a diverse array of financial services. These financial services support wider real goods sector production, contributing to employment, economic growth and income generation (Buchenau, 2003).

To be able to adequately tap this sector, Agricultural banks need to assess the demand of rural clients for multiple financial services, identify and examine all income sources and expenses up to the mundane levels; and assess environmental credit risks associated with production and market cycles.

Agricultural Banks invest in various products and services that include loans, savings, bonds, Treasury bills and other services (Edmister,1986). Loans comprise of commercial loans and consumer loans. The commercial loans are largely term loans that comprise of long-term loans, medium term loans and short-term loans (Gardner, et al, 2000).

2.5.1 Term Loans

As stated above these are broken down into long term, medium term and short-term loans (A.F.C. 2005).

Long-term loans are for capital expenditure for corporate clients who use this loan for the purchase of land, the purchase and installation of machinery and equipment, fixed assets improvements and water projects schemes. These loans are also for the establishment of perennial crops and are also referred to as establishment loans. Similarly these loans are used for establishing sugar cane plantations, coffee, tea, citrus fruits, timber plantations and floriculture farming.

These need to be available to both large scale and small-scale farmers (A.F.C. - 2005).

The Security for such loans consists of mortgage bonds over fixed and movable assets; covering bonds over fixed and movable assets; cession of debtors; cession of unpaid share capital (co-operatives); cession over insurance policies and suretyship.

Interest and costs of these loans are such that interest rates are quoted Nominal Annual Compounded Monthly; interest rates may be fixed or can be adjusted from time to time over the term of the loan, based on the fluctuations in the money and capital markets. Further, there may be transaction costs or not.

The term of these loans and repayment are negotiable usually between 5 and 15 years and repayment is either in annual, semi annually, quarterly or monthly installments and those installments can be calculated on an actuarial or “straight-line” basis (Gardner, et al 2000).

Medium term loan on the other hand are loans in the form of cash or credit accounts and largely in support of working capital. Further, they may also be for purchase of Agricultural Machinery and equipment for irrigation equipment, livestock and fisheries development, cash crops such as tea, coffee, sugarcane, cashew nuts, citrus and mangoes.

Security of such loans consist of covering bonds over fixed and movable assets, cession of debtors, cession over insurance policies and cession of unpaid share capital (A.F.C. 2005).

Interest and costs of these types of loans are quoted Nominal Annual Compounded Monthly, or may be fixed or can be adjusted from time to time over the term of the loan, based on the fluctuations in the capital markets. Further, there may be transaction costs or not. Additionally structured repayment conditions apply. The term of medium-term loans and repayment is negotiable. They are usually for 3 to 8 years (Land Bank, 2004).

Short-term loans are used for financing immediate agricultural activities. They include Seasonal Crop loans or working capital loans. The crops financed with these loans include maize, wheat, barley, beans, potatoes, sunflower, cotton, Soya, groundnuts and castor (A.F.C., 2005). Short term loans need be tailored to meet important financing needs in the agricultural cycle including the provision of advances against crop intakes, production requirements, production credit and other related services that includes the handling, manufacturing, packing, processing, storage, transport and marketing of agricultural products (Thygerson, 1995).

Interest and costs of these loans are that interest rates may be quoted Nominal Annual Compounded Monthly, and may be fixed or can be adjusted from time to time over the term of the loan, based on the fluctuations in the money and capital markets. They need not have fixed terms of repayment. Drawdowns and repayments are regulated by the value of assets (stock and debtors) financed. The term of the short-term loans is linked to the season, usually a maximum of 18 months. Often these term loans face several challenges because agricultural lending especially in Africa requires greater effort to assess and design loans than in urban lending. Further, challenges include lending against warehouse receipts, group based lending and buyer and supplier credit (Bucheneau, 2003;Pearce, 2003).

2.5.2 Consumer Loans

These are loans given to individuals for various purposes including loanee improvements, car purchases, educational expenses and credit card charges. They are generally short-term loans ranging from a few months to three years. To cover proportionally high administrative costs for these small loans and their high potential bad debt losses, rates charged on consumer loans, particularly credit card loans are often higher than those on other loans (Ritter 1998).

2.5.3 Real Estate Loans

These loans are secured by real property and generally have long-term maturities. The long maturities of real estate loans create a problem with interest rate risk and expose lenders to market value risks (Thygerson, 1995).

2.5.4 Guarantees

The bank may issue guarantees for the purpose of guaranteeing the meeting of corporate clients' obligations in connection with their agriculture related activities. This service is mainly for the purpose of agriculture related activities and insurance premium guarantees. Rates for issuing guarantees need to reflect competitiveness of the market. In this regard there need not be fixed terms and a cancellation clause be negotiable (Land bank, 2004).

2.5.5 Treasury Bills

These are borrowings made by the governments from the public of a short-term nature. These are short-term securities that can easily be sold with little or no loss of value to meet future deposit withdrawals and loan demands. They are traded at market rates between financial institutions. Given that they hold a higher percentage of their assets in securities and that their cash flows are cyclical, this service is very ideal (Kliensen et al, 1996; Edmister, 1986; A.F.C., 2005). These services are often provided from overnight to a year and are guaranteed by the Government through its Central Bank.

Interest rates are begged on the market rates between financial institutions e.g. the average Treasury bill rate was 8.3% in January 2006 (Central Bank Economic Review, 2006).

2.5.6 Bonds

These are borrowings by the Government, municipalities' local authorities and private companies to raise funds for use in the medium term. An Agricultural Bank may invest in these products as a means of diversifying on its range of products (Gardner et al, 2000).

2.5.7 Deposit Taking

In Africa, millions of rural people continue to lack access to safe, reliable and convenient savings services. Savings deposits provide a relatively stable source of funds that can enable an institution to become a sustainable and self-reliant financial intermediary. Savings mobilization increases the supply of internally generated funds that can be reinvested by banks. This type of service is usually designed to balance the trade-off between liquidity and return. They are also tailored to the needs of particular market niche. For example farmers who save in large blocks often after a harvest do withdraw savings gradually during the remainder of the year. Products may be designed in such a way that they are tailored to the purpose for which clients save (WOCCU, 2003; Boomgard et al, 1994).

Deposit taking for clients need therefore be provided. Call deposits may be made available to particular clients preferably corporate clients. Typically they include deposits that provide unlimited withdrawal opportunities, no minimum deposit level or payment upon notification.

Interest and costs are such that interest rates need be quoted Nominal Annual Compounded Monthly and are not fixed and can be adjusted from time to time, based on the fluctuations in the money and capital markets. Further, there may be transaction costs or not. Similarly, no minimum or maximum term applies (Land Bank, 2004).

2.5.8 Other Products

In addition to the above products an agricultural bank can provide various payment systems as auxiliary services (Kallberg, 1993). They include;

Paper Based Systems - This is mainly cheque based and is the main non-cash payments. Others include payments through drafts.

Electronic payment systems - These are automatic exchange electronic funds transfer instructions between banks. They comprise of direct deposit of payroll; pre authorized debits, taxes, and insurance premiums, mortgage payments; pre authorized credits such as annuities, travel advances; pension retirement funds payments and stock dividends payments.

Fedwire - These are wire transfer of funds and are usually used by companies to fund disbursements and payroll at banks other than the company's concentration bank or banks. Fed wire is the bank-to-bank payment system.

SWIFT (Society For Worldwide Inter bank Financial Telecommunication) - It is an international communication network for the exchange of bank information.

2.6 Institutional and Regulatory Framework

Governments regulate financial institutions for several reasons, including ensuring stability in the financial market place by maintaining safety and soundness, protecting consumers, preventing fraud and misrepresentation in sales of financial products, promoting efficiency in the operations of financial institutions and markets, providing efficiency and liquidity in the payment systems and promoting social policies such as enhancing the welfare of under privileged groups (Gardner et al, 2000).

The regulatory requirements on licensing, branching, reserve requirements, access to the discount window, supervision and consumer protection are issues outside the scope of this study would depend on the nature of its legislation adopted.

Different countries in the sub-Saharan countries have established the various banks using legislations suiting the respective countries. The following are examples: -

2.6.1 Land Bank of South Africa

Is a parastatal that has working relations with the Ministry of Agriculture and Land Affairs. Its board of directors report to the Minister of Agriculture and Land Affairs that governs the bank. The financial statements of the bank are reviewed annually by the country's Auditor General and presented to parliament by the minister.

2.6.2 Agricultural Development Bank of Ghana

The bank was set up in 1965 by the Act of parliament (Act 286) under the name of Agricultural Credit and Co-operative bank to promote and modernize the agricultural sector and allied economic activities. In 1967 it was changed into a bank through the passenger of NLC Decree 182. In 1989 it broadened its mission to undertake full range financial intermediation through a new banking law (PNDC Law 225).

2.6.3 Agricultural Development Bank of Zimbabwe

In 1924 The Land Bank was established. However, in 1971 it was merged with the Land Board to form Agricultural Finance Corporation (AFC) as a parastatal through the Act of Parliament under the Zimbabwean government's Ministry of Lands, Agriculture and Rural Resettlement.

In 1991 with the advent of SAPs, A.F.C. like other parastatals was requested to prepare for commercialization to reduce its dependence on the exchequer. In 1999 A.F.C. was converted to a fully-fledged commercial bank. In 2003 it was again turned into an Agricultural Development Bank. It will be noted that in the sub-Saharan region there are a few agricultural banks. In fact for those countries that have, they often have just one agricultural bank in the particular country.

In the cases studied, most of the countries established their agricultural banks through enacting specific legislations so that they operate outside the banking Act for example Land Bank of South Africa, Agricultural Development Bank of Zimbabwe and Agricultural Development Bank of Ghana. In the advent of liberalization and open market systems, it may be necessary to open this window by subjecting them to the open market competitions.

Hierarchical organizational structure and centralized decision-making process was common for commercial banks. Most of the banks involved in rural and micro finance have a decentralized decision making process at a functional level which expedite service delivery to their customers. Studies also found that mainstream bank staff were not familiar with agricultural and rural sector and tended to concentrate on corporate clients (AFRACA news, 2002).

The banks studied offer standard products with the exception of a few. In the United States of America, for example, the country had about 3,530 Agricultural Banks in 1994 largely operating under the states banking laws (Kliensen et al, 1996).

The institutional and regulatory framework of an agricultural bank varies and may depend on the region, the level of financial deepening of the country or region or the political consideration of the time.

2.7 Characteristics of Agricultural Banks

Agricultural Banks possess certain characteristics. The main ones include: -

Location; Agricultural Banks tend to be clustered in regions where agricultural production represents a significant percentage of a country's economy (Kliensen, 1996).

Balance Sheet Characteristics; Agricultural Banks tend to hold lower percentages of their assets than their non-agricultural counterparts. They also hold higher percentages of their assets in securities and lower percentages in loans. This is due to the limited opportunities to diversify the credit risk of their loan portfolios.
Not withstanding this, during the 1980's many agricultural banks in America experienced serious financial problems. This arose as a result of deterioration in the farm economy (Kliensen, et al, 1996; Gilbert et al, 1995; Belongia et al, 1990).

Diversification Of Credit Risk; Many agricultural banks have continued to invest very high percentages of their loans in agriculture. Despite the high percentage, since 1970 there has been a large drop in the number of banks with high ratios of agricultural loans to their total loans.

Limiting Risk Through Capital Requirements; The task of dealing with the lack of diversification of the credit risk falls to the bank supervisors. Often supervisors limit the risk inherent in specialization in agricultural lending by requiring those banks with the highest percentages of their assets invested in agricultural loans to maintain higher ratios of equity to total assets. Such institutions tend to incur high transaction costs often they serve dispersed and small farm household clients (Belongia et al, 1990; Gilbert et al, 1995; Kliensen et al, 1996; AFRACA, 2000).

Agricultural Credit; Governments of the sub-Saharan regions have used the Agricultural credit as a tool for achieving wider development objectives such as self-sufficiency in food production and poverty alleviation instead of facilitating the financing of any viable rural investments. Even when a specific policy on Agricultural Finance did exist, the main focus in most cases was on increasing the access of small farmers to agricultural credit, often at subsidized interest rates and without requiring loan collateral (AFRACA, 2000).

2.8 Constraints on the Development of Agricultural Banks

It is generally recognized that providing financial services to rural people is more costly and difficult than serving urban customers.

In fact, agricultural finance has unique features and faces specific problems; they include high transaction costs that financial institution incur when they serve dispersed and small farm household clients, close integration between the farm and the family household with respect to the generation of income and the decisions regarding the allocation of income resources for production, consumption and emergency purposes. They have prevalence of large differences in management skills between small farmers and the absence of small farm records, the uncertain and low profitability of farming and the high covariant risk exposure in agricultural lending (pests, price and climate), which makes it necessary that farm-lending institutions diversify their loan portfolio, the term structure of agricultural loans and seasonality in agricultural income. Others include the lack of conventional collateral that small farmers can offer to financial institutions; and occasional presence of politically driven loans. In this respect instead of facilitating the financing of viable rural investments agricultural credit has been used often by governments as a tool for achieving wider development objectives such as self-sufficiency in food production and poverty alleviation often at subsidized interest rates and without requiring loan collateral (AFRACA News, 2000).

Many banks often face financial difficulties. Although the causes of financial difficulties are numerous, many failures are attributable either directly or indirectly to management. Usually, non-financial problems lead to losses, which in turn lead to financial strain and eventual failure. Very seldom is one bad decision the cause of the institutions difficulties. Often the cause is a series of errors and the difficulty evolves gradually (Van Harne, 1983).

2.9 Benefits and Challenges of Agricultural Banks

2.9.1 Benefits of Agricultural Banks

Benefits can be at a macro or micro levels. At the macro level the benefits include: -

Firstly, agriculture is largely rural. Such a bank provides an avenue for revenue mobilization for the under banked or un-banked rural savers.

Secondly, consequent to the above they provide an avenue for efficient allocation of resources thus leading to investment indigenization for transferring resources to the locals. Thirdly, it provides a means for privatizing and commercialization of the initially Government owned institutions like Agricultural Finance Corporation (AFC Cap 323).

At the micro level, the agricultural bank provides for diversified ownership of such an institution through floatation of shares at the Stock Exchanges in the long run, sourcing of new funds from the public and allows the use of strict reporting requirements.

2.9.2 Challenges of operating an Agricultural Bank

There are shortcomings of operating agricultural banks at both macro and micro levels. At macro level, challenges are that governments all over the world tend to subsidize agricultural production. In this regard they tend to lend at subsidized or low interest rates and selective debt recovery mechanisms. This creates moral hazards. In addition, inadequate infrastructure such as poor or inadequate accounting and lack of transparency leading to liquidity and insolvency.

Further, governments often own or have controlling interest in such banks/financial institutions. In such situations politicians may give political loans to finance political parties and defectors. This may lead to moral hazards on the part of those who are given the loans.

At the micro level the challenges are that Agricultural products are often affected by weather patterns especially in sub-Sahara Africa. If an agricultural bank adopts weak strategies and operational procedures these may lead to financial crisis within the bank. These banks tend to have poor credit assessment, and are characterized by concentrated and connected lendings. Sometimes the banks undertake new and unknown activities requiring huge expenses, which at time translate to financial crisis (AFRACA news, 2002).

2.10 Sustainability of Agricultural Banks

The future of a bank involves an understanding as to whether such an institution is sustainable both in the short run and in the long run. In this regard an understanding of the sustainability entails among others the understanding of the traditional approaches the Agricultural credit institutions or banks played and reasons for their past poor performances. It also involves understanding the causes of agricultural bank failures and by extension how to overcome them (Fries, 2004).

2.10.1 Traditional Approaches

Banks and Agricultural credit institutions with the assistance of their respective governments over time used these approaches to sustain agricultural sector. Under this approach most of Agricultural credit programmes established state-owned, specialized agricultural banks that received concessional credits funded by grants or low cost borrowed funds to be on -lent at below-market interest rates to targeted farmers for specific types of agricultural investments (AFRACA news, 2000).

The performance of these institutions has principally been assessed by the volume of loans disbursed. Similarly, alleged gains in agricultural production have tended to be the most important yardstick used to evaluate their performances.

However, these effects have been short-lived due to increasing programme unsustainability. Strong emphasis on disbursements has tended to neglect other concerns that include; portfolio quality, non-farm rural development, and the efficiency of markets for real goods and of financial markets (Fries, 2004).

Often the institutions were discouraged from mobilizing deposits. Due to this, they are unable to realize the multiplier effects that arise when borrowers deposit with the institution part of the loan proceeds or the net cash flow from undertaking the projects. In this way these institutions have functioned less like financial intermediaries and more like "intermediaries of economic loss", inefficiently allocating resources to enterprises with low expected returns (Fries, 2004).

Governments have tended to employ price controls thus denying the institutions the freedom to price the perceived risks thus distorting the allocation of resources. Further, increases in transaction costs due to legal and regulatory constraints reduce the demand for and supply of loans and deposit services.

They provide supervised credit. The credit supervision and technical involvement with borrowers is a consequence of loans aimed at increasing output of commodities/enterprises or at transforming farm technology. The additional expenses associated with supervision and extension services are usually associated with preventing credit diversion to unapproved uses and of educating farmers in the use of new technology. These are often costly and futile exercises (A.F.C., 2004).
Less emphasis is put on attracting staff that are technically proficient in banking or finance and little attention is paid to staff contributions to financial self-sustainability. Performance based individual and group incentives are only rarely applied. Lending costs, loan delinquency and defaults are largely ignored until a financial crisis emerges. Even then, the expectation that the government will continue funding may not instill the financial discipline necessary to maintain the institution as a going concern.

Cases have been noted where certain institutions have increased their interest rates paid on deposits to maintain liquidity in the face of insolvency (A.F.C., 2004). Many of these institutions were created through specific legislations through an act of parliament of the respective countries. These legislations did not include the banking law. Consequently these banks have been controlled and overseen by the Ministry of Agriculture and not by the Central Bank, with poor results. In the absence of adequate regulation and supervision, such institutions end up distorting scarce resources to loss-making enterprise (Afraca, 2000).

2.10.2 Agricultural Banks Failures

The second issue on understanding of sustainability of Agricultural Banks is the understanding the causes of Agricultural Bank failures. Various studies have been done in the past to explain the pattern of agricultural bank failures.
In the studies there have been arguments that farm economic conditions that are declined in aggregate farm incomes were the primary cause of Agricultural bank failures. In this regard, a more pronounced geographic clustering of bank failures in such areas has not supported this argument (Belongia et al, 1990). Further, many healthy agricultural banks have continued to operate in regions where other banks have failed.

Causes of bank failures have been identified as;

The Agricultural Banks that failed have had significantly higher rations of loans to assets than surviving banks in the same regions. Indeed most Agricultural Banks located in regions where agricultural banks failed remain in sound financial condition (Belongia et al, 1990). The bank failures reflect the risk assumed through portfolio decisions made before the onset of adverse agricultural developments. Failures tend to be related to decisions of bank managers to assume relatively high risk (Belongia et al, 1990).

The ratio of primary capital to total assets is correlated to bank failures. Primary capital serves as a cushion to absorb losses. In this case the probability of failure will be lower if the bank has a higher ratio of capital to assets. If a bank has a loss that exceeds its capital, the only alternatives are closure (by its chartering agency) or an injection of capital by its shareholders. Further, when lower and coupled with a greater percentage of total assets allocated to farm loans have been associated with a higher degree of failure.

After incurring losses bank supervisor as well as shareholders do make decisions. After the supervisors discover or realize that the net worth of a bank is zero or negative, they may decide that the bank needs not fall. Pursuant to this, the shareholders may choose to inject the funds necessary to re-capitalize the bank. Without capital injection however, supervisors respond by closing the bank (Belongia et al, 1990).

Banks with relatively high percentages of their loans to insiders (bank officers and directors) also have higher loss rates. Quality of bank management and the degree of involvement by Boards of Directors are correlated to bank failures. Bank failures often are at least partly the result of fraud and poor management. Although bank supervisors make qualitative judgments of the management of banks, they do not generally make those evaluations available to assist in decision-making.

Banks tended to have lower probabilities of failure if they were subsidiaries of multinational holding companies (Belongia et al, 1990). In United States of America, Agricultural Banks have reduced their vulnerability to a potential future crisis in the agricultural sector by limiting the percentages of their loans to firms in that one sector (Kliesen et al, 1996). In order to limit the vulnerability of agricultural banks to failure in the event of a downturn in the agricultural sector, supervisory organs may require banks with higher ratios of agricultural loans to total assets to maintain high capital ratios (Kielsen el al, 1996).

The question then is an agricultural bank sustainable in Kenya?

2.10.3 The Possible New Approaches

To ensure the sustainability of an agricultural bank in Kenya, the institution may need to adopt a pragmatic, market-based strategy in order to be sustainable. In this regard the foregoing would be relevant.

2.10.3.1 Promote the legal and regulatory environment and fundamental financial practices needed for a sustainable institution.

Legal and regulatory framework affect the financial sector in general, but recognizing their effects in the countryside is crucial in developing an effective program that broadens rural access to financial services that are crucial for success of agro-enterprises (Fries, 2004).

In order to deliver effective agricultural financial services a more uniform and effective commercial code need to be put in place. An effective legislation establishing rules for sale of goods and services and cost effective mechanisms to resolve contract disputes and reinforce the sanctity of contracts is mandatory.

In addition, have laws, procedures and registries for titling and establishing liens on land, equipment, machinery, crops and other chattels. Further, accepted routine and cost-effective processes of foreclosure need to be in place.

There is need to adopt prudential regulations, that is, complying with international accounting standards to ensure transparent and consistent presentation of solvency profitability and liquidity, satisfy capital and deposit requirements and appointment of reputable managers.

Adopting international banking standards to comply with The Banking Act CAP 488 is necessary. These are arrived at promoting and maintaining soundness and efficiency of the institution.

In the Kenyan context, there is need to integrate the legal requirements by incorporating the Banking Act CAP 488 and Agricultural Finance Corporation Act CAP 323. Details of these are beyond the scope of this study.

2.10.3.2 Promote fundamental practices central to the sustainability of any financial institution.

The institution needs to possess an independent, commercial outlook and a capacity to risk its capital in making basic decision on funding, pricing, loans and other services. Further, there is need to employ effective screening methods based on five basic criteria; the borrower's character, financial capacity, contribution, capacity to repayment and collateral.

In addition, integrate economic incentives into products, services and contracts by incorporating competitive cost structures, interest rates that cover costs; providing adequate security arrangements; loan sizes and terms conducive to repayment and disbursement and collection schedules consistent with the demands of the activities being financed and effective monitoring and enforcement of their contracts and agreements (Fries, 2004).

2.10.3.3 Foster the growth and development of strengthening the institution

The institutional strengthening efforts include attention to management information systems, internal controls, prudential finance discipline, loan decision-making practices, financial analysis and management tools skills and professional staff, corporate governance structures and the policies and practices that promote the safety and soundness of depository intermediaries (WOCCU, 2003).

2.10.3.4 Encouragement of financial services and products

The financial services and products should be aimed at reducing transaction costs and facilitating participation in rural financial markets.

Mobilizing loanable funds, for example, by taking deposits for the benefit of rural depositors, producers and enterprises; and expanding the ability to secure transactions by using real and personal property, receivables and other assets as collateral.

CHAPTER THREE - RESEARCH METHODOLOGY

3.1 Research Design

The study is a cross sectional survey.

3.2 Population of the Study

The population of the study included all banks, the Central Bank of Kenya, the Agricultural Finance Corporation, and institutions in the agricultural sector. The sampling framework of the institutions is on the basis of those affiliated with the Agricultural Society of Kenya.

It may have been worthwhile to also collect the opinions of the individual farmers as stakeholders in this sector but this was not possible due to the fact that the country is 80% reliant on agriculture and with a population of over thirty (30) million people, it is difficult to sample and cover the whole country. The study however assumes that the selected groups of respondents to a large extent represent the views on an agricultural bank.

The respondents are those in operation as at 31st December 2005.

3.3 Sampling

The following table shows the representative sample chosen as a percentage of the total population.

Institutions operating as at 31st December 2005	**No.**	**Percentage of Population**
Central Bank of Kenya (regulator)	1	3%
Commercial Banks	11	33%
Agricultural Finance Corporation	1	3%
Agricultural Sector institutions	20	61%
TOTAL	**33**	**100%**

The Central Bank of Kenya is chosen because it is the regulator, A.F.C. for its role as the institution financing the agricultural sector on behalf of the government while institutions affiliated to agricultural sector were obtained from the Agricultural Society of Kenya. For a detailed list of these respondents and their addresses, please see appendix B.

Judgmental sampling method was used in this study. The sample included the Central Bank of Kenya and A.F.C. which is the financial institution that has been mandated by the government to develop the agricultural sector, eleven commercial banks and twenty institutions affiliated to the agricultural sector.

Banks

There were forty four (44) banks in Kenya (Central Bank; 2006) as at 31st December 2006. Eleven (11) banks representing 25% were included in this study and were considered representative.

In this regard the following categories were included in the sample.

Banks	No.	Category
1. Government	2	Public
2. Private local	2	Private
3. Private foreign	2	Private
4. Development bank	2	Public and private
5. Co-operative	1	Private
6. Small	2	Private
TOTAL	**11**	

The sample frame is marked Appendix B (I).

Other Institutions

From the institutions affiliated to the A.S.K. the researcher sampled twenty(20) institutions to represent the population of the study. This sample represents 60% of the sample population. The study however assumes that the sample to a large extent represent the views of the institutions in the agricultural sector.

The sample frame is marked Appendix B (2).

3.3 Data Collection

Primary data was used in this study. A semi-structured questionnaire was used and issued to chief executive officers of the respondent institutions in this study and was administered using the drop and pick later method approach.

3.4 Data Analysis

The data for analysis was categorized into two main groups. The data was analyzed using descriptive statistics such as means and percentages indicating the perception and preferences of the different market players on the various issues raised in the questionnaire. The researcher has used tables and charts for easier interpretations drawing of conclusions and formulations of appropriate recommendations. The analyzed data derived from the questionnaire was used to form opinions on whether the conditions necessary for the establishment of an agricultural bank exist in Kenya as well as to assess the challenges that would face the establishment of such a bank.

3.5 Factor Analysis

Factor analysis was used to identify the factors necessary for the establishment of an Agricultural Bank in Kenya. The focus was largely on the need for an Agricultural Bank and what is exhibited of them; the locations, regulations framework and agricultural lending practices.

The challenges were analyzed in respect to government controls or interferences on interest rates and loans. Further, analysis was done on the risks of operating in the sector, credit supervision and its performance.

CHAPTER FOUR - RESEARCH FINDINGS

4.1 Response Rate

The study included the representative sample chosen and the responses were as follows: -

Table 1 Response Rate

INSTITUTIONS	QUESTIONNAIRES DISTRIBUTED	NUMBER RESPONDED	RESPONSE RATE
Central Bank	1	1	100%
Banks	11	6	55%
Agricultural Finance Corporation	1	1	100%
Institutions in the Agricultural Sector	20	9	45%
TOTAL	**33**	**17**	**52%**

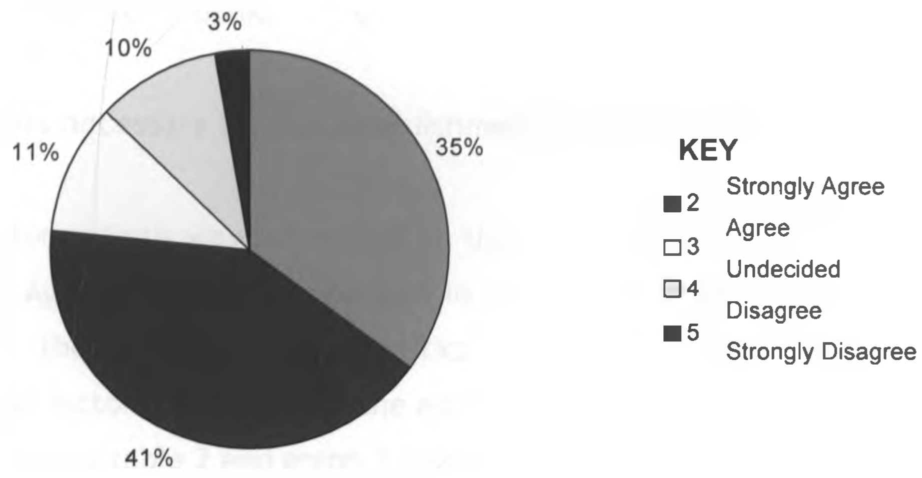
Source: Research Data.

Out of the 33 questionnaires distributed, only 17 (52%) were received despite active follow up and use of personal contacts. Several non-respondents cited questionnaire fatigue and chose not to participate in the research. This response rate is however considered adequate to form the basis for analysis.

Of the responses received 35% strongly agree while 41% agree that it is necessary to establish an Agricultural Bank and did indicate that factors necessary for the establishment of an Agricultural Bank in Kenya already exist. This implies that in overall 76% are positive that factors necessary for the establishment of an Agricultural Bank in Kenya already exist, 11% were undecided while 13% felt that factors did not exist. These are as shown in the table and chart below;

Graph 1

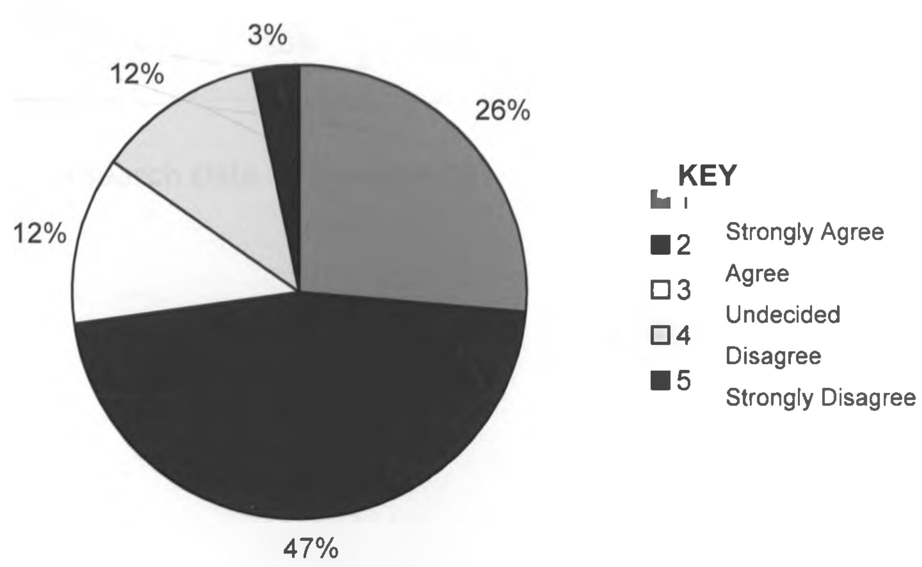
(Factors necessary for the establishment of an Agricultural Bank in Kenya)



Source: Research Data - Appendix D(I)

The majority of the respondents 67% stated that challenges exist, 12% were undecided and 15% felt that there were no challenges in operating an agricultural bank. These are as shown in the table and chart below;

Graph 2 ***Challenges of operating an Agricultural Bank***



Source: Research Data - Appendix D(II)

4.2 Factor Analysis

Many players in the financial sector had varied views on the factors necessary for establishment of an Agricultural Bank and the existence of the challenges of maintaining such a bank.

4.2.1 Factors necessary for the establishment of an Agricultural Bank in Kenya

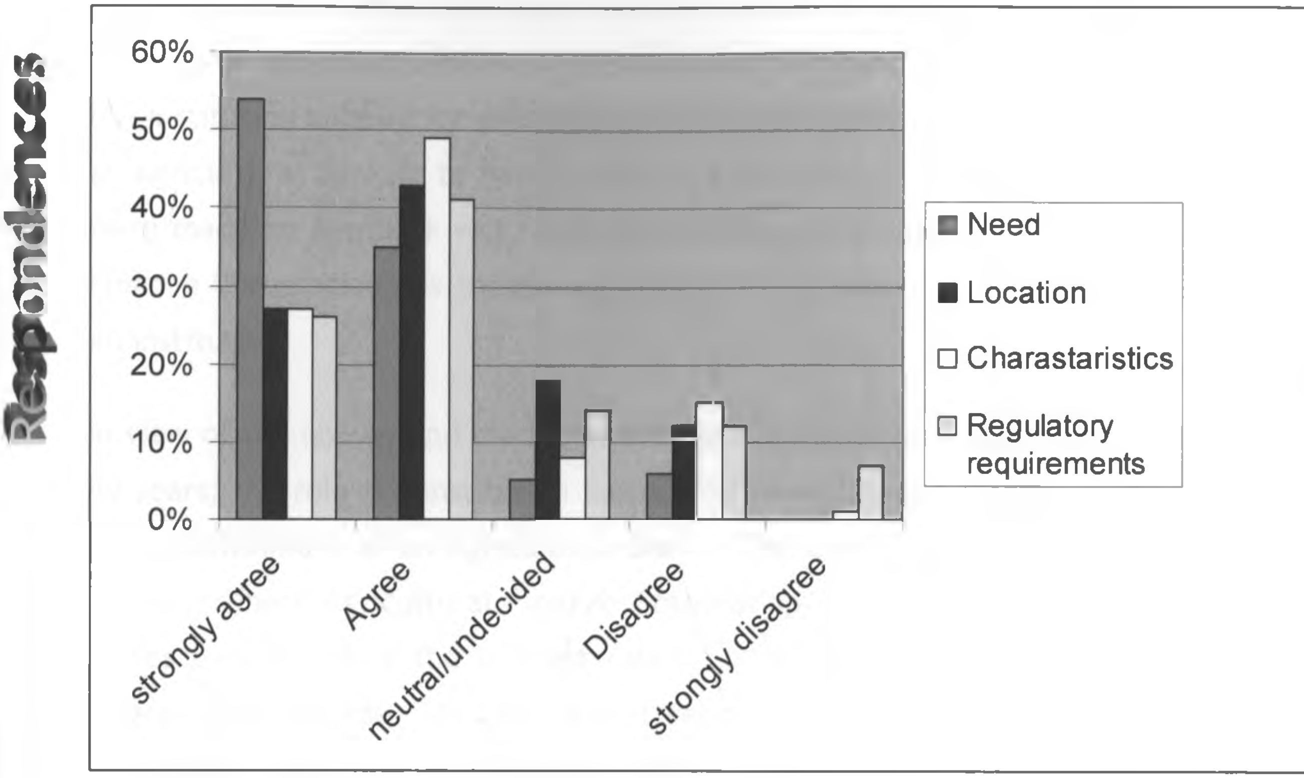
A factor analysis was carried out on the factors necessary for the establishment of an Agricultural Bank in Kenya. In this respect, respondents opined that the need, the location, characteristics and the regulatory requirements were critical factors necessary for the establishment of an Agricultural Bank in Kenya as shown in table 2 and graph 3 below.

Table 2 Factors necessary for the establishment of an Agricultural Bank in Kenya

TABLE	STRONGLY AGREE	AGREE	UN-DECIDED	DIS-AGREE	STRONGLY DISAGREE	TOTAL
Need	54%	35%	5%	6%	0%	100%
Location	27%	43%	18%	12%	0%	100%
Characteristics	27%	49%	8%	15%	1%	100%
Regulatory requirements	26%	41%	14%	12%	7%	100%

Source: Research Data - Appendix E(I)

Graph 3 *Factors Necessary for the establishment of an Agricultural Bank in Kenya*



Source: Research Data - Appendix E(I)

4.2.1.1 Need Analysis

Respondents (89%) were largely agreeable that there is need for an Agricultural Bank as it would encourage the growth of investments in the country particularly in the agricultural sector. Many players feel that it will act as a catalyst in promoting the financial services especially in the agricultural sector and that their services are long overdue.

There were however varied opinions on the need that they be concentrated in high potential areas. Many players in the market favour these banks to be located in rural areas largely for ease of access to credit majorly by farmers. One investor stated that the current state of the Kenya Economy largely require development of a savings culture expanded laterally and it is critical for this to be tapped in the rural areas. This would diversify ownership of such banks by involving the rural population as much as possible.

The Agricultural Finance Corporation was of the view that despite its role of providing credit to the agricultural sector it would still favour a scenario where there is an agricultural bank. The corporation disclosed that in 1982 and 1987 the institution applied for a license at the Central Bank of Kenya to operate as an Agricultural Bank or to have a bank as a subsidiary. Though these requests were made no feedback was received from the Government. The Agricultural Finance Corporation has therefore taken a firm decision on the need for such an institution.

In view of the above, and the experience of credit delivery that span well over 40 years, the role the institution has played strengthens the factors necessary for establishment of an Agricultural Bank. The Central Bank of Kenya sees a scenario where Agricultural Finance Corporation is just distorting the market forces by controlling the interest rates. Instead the regulator favours free interest rate regime. In this case it recommends that Agricultural Finance Corporation be wound up and its role be taken over by a bank.

4.2.1.2 Location analysis

70% of the respondents were agreeable that an Agricultural bank be located in high potential areas. Some had varied opinions that implied that the bank should be located both in the high potential areas as well as low potential areas, which are largely rural. They however strongly opined that there is need to have a presence of such an institution in the rural areas. They observed that this would easily strengthen participation in rural financial markets as well as allow diversified ownership.

4.2.1.3 Characteristics

70% of the respondents favour the following characteristics among others to be adopted. In this respect players largely favour the bank being self reliant in sourcing and lending its funds. A sizeable proportion were however undecided. Respondents had varied opinions as to whether an Agricultural Bank needs to maintain higher ratio of equity to total assets than Commercial Banks. This may indicate that their ratios should be in line with those of Commercial Banks.

Respondents were largely agreeable that Agricultural Banks have less diversified loans than commercial banks. This may be attributed to the narrow range of the products that a conventional Agricultural Bank would have. Respondents were of the opinion that Agricultural Banks need to be spread so as to have branches located in towns and in the rural areas.

4.2.1.4 Regulatory requirements

67% of the respondents were agreeable that the incorporation of an Agricultural bank to be under the banking Act but through a specific legislation, be exempt from paying corporation taxes and have good rules to govern it. There was no consensus on the need for a regulator. On the other hand respondents were largely of the opinion that the bank should not be a department of a commercial bank lending specifically to entities engaged in agriculture.

There was consensus on the need for the bank to be exempt from paying corporate tax in order to support developmental activities.

Respondents were unanimous on the need to have good legislation establishing rules for sale of goods and services and cost effective mechanisms to resolve contract disputes and reinforce sanctity of contracts, have laws, procedures and registries for titling and establishing lien on land, equipment, machines, crops and other chattels and that the institution should regularly strengthen its titling, management information systems, internal controls and prudent financial discipline and the need for adaptation of prudential regulations as well as a uniform and effective commercial code.

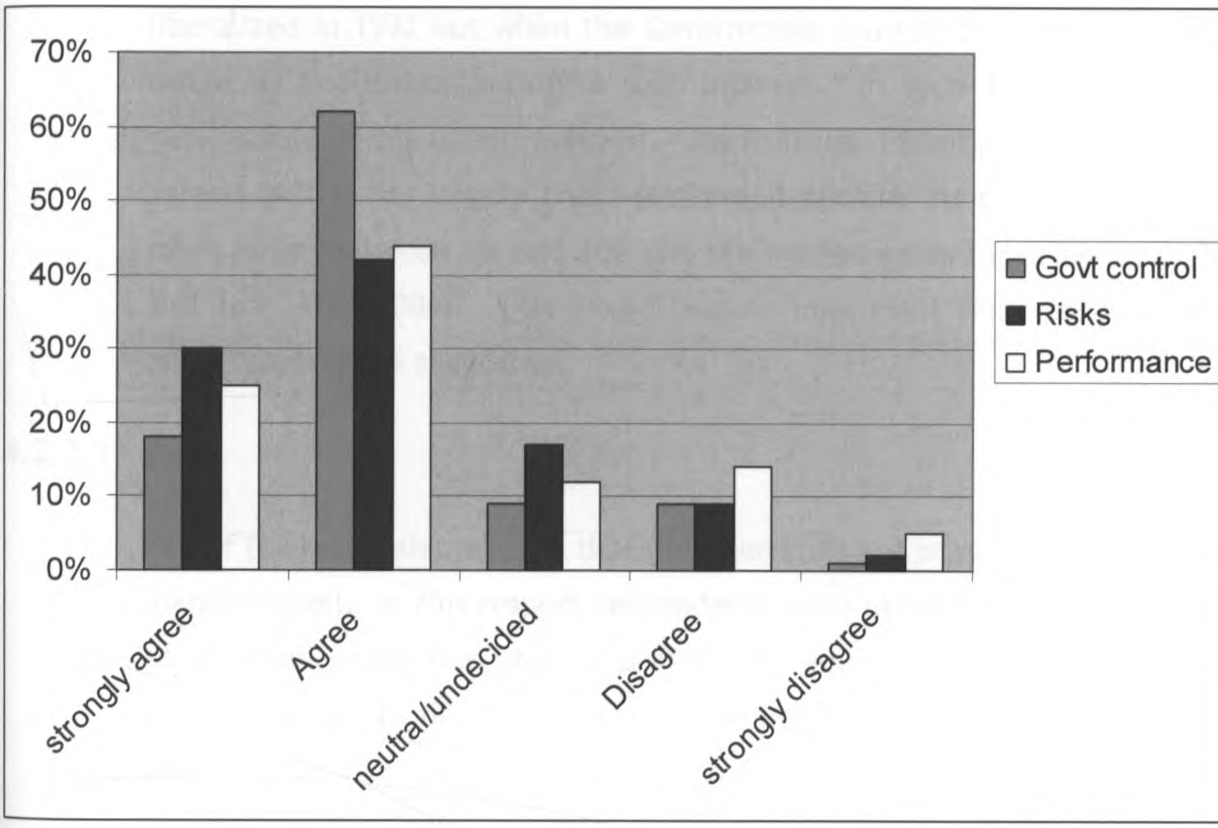
4.2.2 Challenges of operating an Agricultural Bank

The main challenges identified were government controls, risks and likely poor performance. These are further shown in table 3 and graph 4 below.

Table 3 Challenges of Operating an Agricultural Bank

TABLE	STRONGLY AGREE	AGREE	UN-DECIDED	DIS-AGREE	STRONGLY DISAGREE	TOTAL
Government controls	18%	62%	9%	9%	1%	100%
Risks	30%	42%	17%	9%	2%	100%
Performance challenges	25%	44%	12%	14%	5%	100%

Graph 4 Challenges of Operating an Agricultural Bank



Source: Research Data - Appendix E(II)

4.2.2.1 Government Controls

From the responses the stakeholders opine that the Government controls are not required. This implies that the need for such bank should be left to the free market economy. These were particularly in respect to interest rates as well as its involvement in granting political loans.

It was largely felt that where the Government controls the interest rate, for example, by subsidizing farmers to enable them enjoy low interest rate, then it should subsequently compensate such institutions.

Respondents largely agree that when the banks are government controlled, then there is a tendency for banks to offer subsidized interest rates thus distorting market forces. Further, it was unanimous that political loans are likely to be granted in government controlled financial institutions.

The Central Bank of Kenya opined that the interest rate regime was liberalized in 1992 but when the Government controls the interest rates it would by implication subsidize such interest. In such a situation such a bank would likely under perform. Agricultural Finance Corporation also agreed that it has largely under-performed because its controlled interest rates range between 5% and 10% yet the market rates range between 14% and 18% (AFC, 2006). This would lead to imprudent financial policies as many respondents suggested.

4.2.2.2 Risks

72% of the respondents opine that the cited risks are present and need to be managed well. In this respect respondents were agreeable on the presence of covariant risks that Agricultural Banks would face that the ordinary commercial banks do not face. Further the respondents largely observed that there is a tendency for agricultural banks to use normal year projections as a basis for loan size and repayment capacity despite the presence of vulnerability of the vagaries of nature. This may be compounded by the near lack of insurance programs for the agricultural products. The above were noted to be the greatest risks.

Agricultural Finance Corporation observed that due to the Government controls, political loans have been granted by the organization. Such loans do prevail during periods preceding general elections. This contributed to the inflationary pressures that the country witnessed in 1997. These experiences need to be avoided in the Agricultural Bank.

The Central Bank felt that Commercial Banks take public risk by receiving deposits from the entire public. By receiving deposits from the Agricultural sector only, an agricultural bank would be receiving deposits from within itself. This would not entail public risk and therefore compromises the role of the Central Bank of Kenya. In this regard the Central Bank would be cautious in licensing such an institution.

Further, the Agricultural Finance Corporation confirmed that there is no insurance cover for agricultural products in the country but the institution was working with the Ministry of Agriculture to introduce insurance products in the sector. Until this is done, it remains a challenge.

4.2.2.3 Likely Poor Performance

Due to competition and varied challenges faced by these banks, respondents felt that for fear of not overcoming these varied challenges, these banks are likely to drift from their core mandates to those of mainstream commercial banks. A few respondents did not share this view.

The respondents had varied opinions on the performances of the bank loan portfolio that it was being based on volumes of loans outstanding. However, it was agreeable that they should focus on portfolio quality. Maintenance of good portfolio quality would instead be the challenge.

The majority of respondents were of the view that the bank should continue to be involved in credit supervision and provide technical advisory services to borrowers despite the fact that this involves a lot of administrative costs.

Though technical staffs that are proficient in finance or banking were preferred, other views were that this might not be all that is required. Further, there were consensus that performance based services need be applied in its operations.

CHAPTER FIVE

5.0 SUMMARY AND CONCLUSIONS, RECOMMENDATIONS, LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FURTHER RESEARCH

This chapter presents the summary of the findings of the study on the factors necessary for the establishment of an agricultural bank and the challenges of operating an Agricultural Bank in Kenya. Based on the findings, recommendations are made on both areas.

5.1 Summary of Findings and Conclusions

The objective of the study was to identify the factors necessary for the establishment of an Agricultural bank in Kenya and to identify the challenges of operating an Agricultural Bank in Kenya.

In doing so a cross sectional survey was done using judgmental sampling method. 17 institutions out of the intended 33 institutions were included in the sample. A representative sample of the players, comprising of the Central Bank of Kenya, Commercial Banks, AFC and institutions in the agricultural sector, were selected. The main factors identified as necessary for the establishment of an Agricultural Bank were the need, location, characteristics and regulatory requirements and that the finding clearly indicate that these factors were present. However key players in the sector that include the Agricultural Finance Corporation and the Central Bank of Kenya have given key insights into the identified main factors. They have also identified strong challenges that need to be managed. On the other hand the challenges of operating an agricultural bank were identified as Government controls, risks and the likely poor performances. Similarly the findings indicate that the challenges were equally present and that it would be quite necessary to manage them.

5.2 Limitations of the Study

The study was a cross sectional analysis focusing on the players in the Agricultural Sector and Banking Industry.

These respondents were considered a representative sample of all players, however they vary in terms of experience and the likely role that they would play in an agricultural bank. There was also a limitation on the time for the study, which would have greatly restricted collection of the opinions of the respondents.

Out of the 33 institutional players approached, only 17 (52%) responded to the questionnaire. This was in spite of aggressive follow-up via telephone and personal visits, as well as use of personal contacts. Several players cited "questionnaire fatigue" and declined to participate in this research.

There was only one Agricultural Bank in Kenya upto 1969 and that none has been in East Africa since then. Many players do not have data to draw comparisons from. This has meant that historical data from Western Europe and America has to be relied upon.

5.3 Recommendations

The country had an Agricultural Bank between 1931 and 1969. The bank was abolished in 1969. However, given that the country is largely agriculturally based and to spur growth of financial services and country investments, the study shows that an Agricultural Bank is needed.

The study reveals further that such an institution should be located in the rural areas preferably in high potential areas. It is further recommended that to support developmental activities, the bank should be exempt from paying corporate taxes. Similarly, an Agricultural Bank need be free from Government Controls as much as possible so that the market forces regulate the institution and enable it compete effectively in the market place.

5.4 Suggestions for Further Research

The data collected indicates that an Agricultural bank is required. However an Agricultural Bank operated in Kenya between 1931 and 1969 and was abolished in 1969. At different times after independence some players in the industry have proposed to have an agricultural bank re-established. Such a bank has however not been established since. As such, the researcher feels that more research is needed in this area because of the role such an institution would play in the economy.

The researcher notes that the challenges of operating such a bank are equally strong. In this respect more research in this area is necessary to seek ways of addressing the challenges.

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APPENDIX A – REQUEST LETTER TO PARTICIPATE IN RESEARCH

FRANCIS K. MARITIM
P.O. BOX 30367 – 00100,
NAIROBI.

DATE:

ADDRESSEE

Dear Sir/Madam,

RE: REQUEST TO PARTICIPATE IN A RESEARCH ON THE FUTURE OF AN AGRICULTURAL BANK IN KENYA

I am a Post-graduate student at the University of Nairobi, pursuing a Masters of Business Administration degree, as Finance major. As part of the requirements of this degree, I am required to carry out a research on an approved research topic such as the above and present my findings to the School Board for the final approval.

I enclose a questionnaire for your kind attention and will appreciate your views on the future of an Agricultural Bank in Kenya.

This research will be useful to the Central Bank of Kenya the regulator, banks, farmers, institutions and the Agricultural Finance Corporation because it will point out the factors that are considered necessary for operation of an agricultural bank as well as challenges ahead in the industry. The findings of the research will be strictly used for academic purposes only. Your views will also be treated with utmost confidentiality and views of individual respondents will not be mentioned without their written consent.

If you require clarification on any part of the questionnaire please do not hesitate to contact me on telephone numbers (020) 240512 or 317199 during office hours or cell phone No. 0721 351304 . Once you have completed the questionnaire, please return it to me using the above address (a self addressed envelope is enclosed) or simply call me and I will arrange to collect it from your office.

Thanking you for your kind attention.

Yours faithfully,

FRANCIS K. MARITIM

Encl.

APPENDIX B(1) - AGRICULTURAL BANK STAKEHOLDERS AS AT 31ST DECEMBER 2005

1. Banks

NO.	Name & Physical Address	Tel. No.
1.	Manager, Barclays Bank Limited, P.O. Box 31020-00100 **NAIROBI.**	020-241270
2.	Stanbic Bank, P.O. Box 30550 – 00100, **NAIROBI.**	020-311997
3.	Co-operative Bank of Kenya Limited, P.O. Box 48231 – 00200, **NAIROBI.**	020-32076100
4.	Credit Bank limited, P.O. Box 61064 – 00200, **NAIROBI.**	020-220789
5.	Faulu Kenya Limited, P.O. Box 60240 – 00200, **NAIROBI.**	020-3877290
6.	National Bank of Kenya, P.O. Box 72866 – 00200, **NAIROBI.**	020-2828000
7.	Kenya Commercial Bank, P.O. Box 48400 – 00100, **NAIROBI.**	020-252879
8.	K-Rep Bank Limited, P.O. Box **NAIROBI.**	020-217299
9.	Oriental Commercial Bank Limited,	020-228461
10.	Post Bank, P.O. Bank 30313, **NAIROBI.**	020-229551
11.	Standard Chartered Bank (K) Limited, P.O. Box 30003 – 00100, **NAIROBI.**	320093000

2. **Appendix B (2) - Other Institutions**

1.	Investment Secretary, The Treasury, **NAIROBI.**	252299
2.	Permanent Secretary, Ministry of Co-operative Development & Marketing, NSSF Building Block A, 17th Floor, **NAIROBI.**	2731531
3.	Chief Executive Officer, Central Agricultural Board, Kilimo House, **NAIROBI.**	2718870
4.	Director of Livestock, Kilimo House, **NAIROBI.**	2718870
5.	Asst. Director of Agriculture, Kilimo House, **NAIROBI.**	2718870
6.	Ministry of Planning, The Treasury, **NAIROBI.**	252299
7.	Managing Director, Agricultural Development Corporation, Development House, P.O. Box 47101-00100, **NAIROBI.**	250695
8.	Managing Director, Kenya Seed Company, P.O. Box 553, **KITALE**	215066/215083
9.	Managing Director, National Cereal & Produce Board, Industrial Area, **NAIROBI.**	650709
10.	Deputy Managing Director, Pyrethrum Board of Kenya, P.O. Box 420, **NAKURU.**	051-211567/72
11.	Managing Director, National Irrigation Board, P.O. Box 30371, Off Lenana Road Opp. DOD, **NAIROBI.**	2711380

12.	Managing Director, Kenya Dairy Board, N.S.S.F. Building, 10th Floor, P.O. Box 30406 – 00100, **NAIROBI.**	310559
13.	Kerio Valley Development Authority, P.O. Box 2660, **ELDORET.**	2063361
14.	Kenya Farmers' Association, P.O. Box 35, **NAKURU.**	051-211081/21165
15.	General Manager, Kenya Co-operative Creameries, P.O. Box 30131 – 00100, **NAIROBI.** Dakar Road Industrial Area	552965/545338
16.	Chief Executive Officer, Cereal Growers Association, P.O. Box 27542 – 00506, Nyayo Stadium, Nairobi, Lower Hill Road – Upper Hill.	2720466
17.	Managing Director, Pyrethrum Board Of Kenya. P.O. Box 420 GPO **NAKURU.**	211567
18.	Bayer East Africa Limited, P.O. Box 30321 – 00100, **NAIROBI.**	860667 - 803906
19.	Unga Group Limited, P.O. Box 30386 – 00100, **NAIROBI.**	
20.	Ndume Limited, P.O. Box 62 – 20116, **GILGIL.**	050-4015250/1/2/3

3. APPENDIX B - Agricultural Finance Corporation and Central Bank of Kenya

1.	The Managing Director, Agricultural Finance Corporation, P.O. Box 30367 – 00200, **NAIROBI.**	317199
2.	The Director, Financial Institutions, Central Bank of Kenya, P.O. Box 60000, **NAIROBI.**	2860000

APPENDIX C - QUESTIONNAIRE

THE FUTURE OF AN AGRICULTURAL BANK IN KENYA

Organization ....

Postal Address...

Name of Officer..

Position of Officer..

This questionnaire has been classified into two broad areas first, to determine the factors necessary for the establishment of an Agricultural Bank in Kenya. The other area is on to identify the challenges of operating an agricultural bank.

A. Factors necessary for the establishment of an Agricultural Bank.

This section shows the characteristics, benefits, products, institutional and regulatory structures being the factors necessary for the establishment of an agricultural bank in Kenya.

		Strongly Agree	Agree	Neutral or undecided	Disagree	Strongly disagree
1.	An agricultural bank should promote financial services to the agricultural sector and allied economic activity.	5	4	3	2	1
2.	As an Agricultural country, an Agricultural Bank needs to have been one of the first and well developed Banks.	5	4	3	2	1
3.	Agricultural banks play a pivotal role in the rural economic development of any country.	5	4	3	2	1
4.	The introduction of an agricultural bank will encourage the growth of domestic investment in Kenya.	5	4	3	2	1
5.	The bank should be self reliant in sourcing and lending its funds.	5	4	3	2	1
6.	Institutions or farmers who engage in agricultural production have a tendency of cyclical cash flow pattern.	5	4	3	2	1
7.	Agricultural Banks would mobilize savings cyclically as well just like farmers.	5	4	3	2	1
8.	Agricultural banks are expected to be concentrated in high potential areas.	5	4	3	2	1
9.	Out of their total assets Agricultural banks are expected to maintain higher ratios of equity to total assets than commercial banks.	5	4	3	2	1
10.	It is expected that when the state of the farm economy is under performing consequently the agricultural bank would under perform.	5	4	3	2	1
11.	It is expected that there would be more diversification of loans in commercial banks than agricultural banks.	5	4	3	2	1
12.	Small farmers lack credit often because they may not have collateral to offer to banks.	5	4	3	2	1

Please tick the appropriate box below. There is no right or wrong answer. The scaling is from 1 to 5. With 1 representing strongly disagree and 5 representing s.

13.	Primary capital serves as a cushion to absorb losses hence the ratio of primary capital to total assets is correlated to agricultural bank failures.	5	4	3	2	1
14.	An agricultural bank needs to be situated in the rural area for ease of access of credit.	5	4	3	2	1
15.	Agricultural Banks are useful in broadening and deepening the Kenyan financial system	5	4	3	2	1
16.	Selling of farm produce often is done in herds largely depending on demand by the market and perishability.	5	4	3	2	1
17	An agricultural bank when close to the rural areas would easily allow diversified ownership involving the rural populace	5	4	3	2	1
18.	Agricultural banks are expected to invest a greater percentage of their loan in agriculture.	5	4	3	2	1
19.	Other products including guarantees, Treasury bills and bonds should be offered by the bank.	5	4	3	2	1
20.	Where banks are not available farmers save in illiquid occasionally in non-profitable forms.	5	4	3	2	1
21.	Banks should encourage financial services and products aimed at reducing transaction costs.	5	4	3	2	1
22.	Agricultural Banks should strengthen participation in rural financial markets.	5	4	3	2	1
23.	Agricultural Banks should encourage the development of insurance products for the sub sector.	5	4	3	2	1
24.	One of its main products should include deposit taking.	5	4	3	2	1
25.	Where many farmers operate in small and disbursed uneconomical production units. This increases administrative costs of agricultural banks. Despite this, the bank should still lend to such units.	5	4	3	2	1
26.	In order that their services are optimized, Agricultural banks need to be spread so as to have branches located in town and sub-branches in rural areas.	5	4	3	2	1

Please tick the appropriate box below. There is no right or wrong answer. The scaling is from 1 to 5. With 1 representing strongly disagree and 5 representing s.

27.	An agricultural bank should be incorporated under the banking system through a specific legislation.	5	4	3	2	1
28.	An agricultural bank should have a separate regulator in view of its unique role.	5	4	3	2	1
29.	Agricultural banks may alternatively be departments of banks and lend specifically to agriculture.	5	4	3	2	1
30.	There is need to merge the banking Act (CAP 488) and A.F.C. Act (CAP 323) to serve the new institution better.	5	4	3	2	1
31.	An agricultural bank requires an effective legislation establishing rules for sale of goods and services and cost effective mechanisms to resolve contract disputes and reinforce sanctity of contracts.	5	4	3	2	1
32.	It should have laws, procedure and registries for titling and establishing lien on land, equipment, machines, crops and other chattels.	5	4	3	2	1
33.	Considering its role the bank should be exempt from paying corporate taxes in order to support developmental activities.	5	4	3	2	1
34.	To foster growth the institution should regularly strengthen its management information systems, internal controls, and prudential financial discipline and loan decision-making processes.	5	4	3	2	1
35.	There is need to adopt prudential regulations.	5	4	3	2	1
36.	To be able to deliver effective financial services a uniform and effective commercial code is needed.	5	4	3	2	1

Please suggest any other pertinent issues that may not have been covered above:

B. The challenges of operating an Agricultural Bank

This section gives the challenges of operating and sustaining an Agricultural Bank. Please tick the appropriate box below. There is no right or wrong answer. The scaling is from 1 to 5. With 1 representing strongly disagree and 5 representing strongly agree.

		Strongly Agree	**Agree**	**Neutral or undecided**	**Disagree**	**Strongly disagree**
1	When they are government controlled there is a tendency for such Banks to offer subsidized interest rates.	5	4	3	2	1
2	It is likely that political loans can be given when the bank is government controlled than when independent.	5	4	3	2	1
3.	Agricultural banks have more covariant risks than commercial banks.	5	4	3	2	1
4.	Even though agriculture is more vulnerable to vagaries of nature, there is a tendency for agricultural banks to use normal year projections as a basis for loan size and repayment capacity.	5	4	3	2	1
5.	Few insurance programs exist on agricultural products thus actuarial data yields are insufficient to price insurance rationally.	5	4	3	2	1
6.	With the increased competition, Agricultural Banks may drift from its core mandate to those of mainstream commercial banks	5	4	3	2	1
7.	Small farmers lack credit often because they may not have collateral to offer to banks.	5	4	3	2	1
8.	Occasionally certain institutions resort to increase their interest rates on deposits so as to maintain liquidity in the face of insolvency.	5	4	3	2	1
9.	African governments have tended to discourage agricultural banks growth by encouraging imprudent financial policies.	5	4	3	2	1
10.	Banks with relatively high percentages of their loans to insiders are associated with higher loss rates.	5	4	3	2	1
11.	Due to the nature of the sector, it would serve; the interest rates could be controlled.					

12.	Where agricultural banks receive subsidized credit and funded by governments at low cost borrowed funds they should be compensated.	5	4	3	2	1
13.	Agricultural Banks performance need to avoid being based on volume of loans outstanding.	5	4	3	2	1
14.	Agricultural Banks performance should focus on portfolio quality.	5	4	3	2	1
15.	The earlier approaches tend to encourage governments to employ price controls. These increases transaction costs and reduce demand for services and therefore should be avoided.	5	4	3	2	1
16.	Agricultural Banks should avoid engaging in credit supervision and technical advisory services with borrowers.	5	4	3	2	1
17.	Emphasis need be given to technical staff that is proficient in banking or finance.	5	4	3	2	1
18.	Declines in aggregate farm incomes have not been the primary cause of agricultural bank failures	5	4	3	2	1
19.	Performance based individuals or group incentives have rarely been applied.	5	4	3	2	1
20.	The institution needs to possess an independent commercial outlook and capacity to risk its capital in making basic decisions in its operations.	5	4	3	2	1

Please suggest any other pertinent issues that may not have been covered above:

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____

____

FACTORS NECESSARY FOR THE ESTABLISHMENT OF AN AGRICULTURAL BANK

Sno.	Strongly agree	Agree	Neutral/ undecided	Disagree	Strongly disagree
1.	16	1	0	0	0
2.	11	3	0	3	0
3.	7	10	0	0	0
4.	3	10	2	2	0
5.	6	7	3	1	0
6.	8	6	1	2	0
7.	4	8	3	2	0
8.	2	7	2	5	1
9.	3	3	9	2	0
10.	3	8	2	4	0
11.	4	9	1	3	0
12.	5	10	1	0	1
13.	2	9	4	2	0
14.	3	11	0	3	0
15.	9	6	2	0	0
16.	4	10	2	1	0
17.	3	9	2	3	0
18.	11	5	1	0	0
19.	4	11	1	1	0
20.	4	7	1	5	0
21.	9	6	2	0	0
22.	9	6	0	2	0
23.	7	9	1	0	0
24.	8	8	1	0	0
25.	5	6	4	2	0
26.	6	8	3	0	0
27.	5	8	0	2	2
28.	2	5	4	4	2
29.	1	4	4	4	4
30.	3	8	2	2	2
31.	4	6	2	3	2
32.	4	6	5	1	1
33.	5	5	2	3	2
34.	12	5	0	0	0
35.	9	7	1	0	0
36.	6	9	1	1	0
	207	**256**	**69**	**63**	**17**

APPENDIX D(II)

CHALLENGES OF OPERATING AN AGRICULTURAL BANK

Sno.	Strongly agree	Agree	Neutral/ undecided	Disagree	Strongly disagree	
1	2	11	0	4	0	17
2	6	10	1	0	0	17
3	6	8	0	3	0	17
4	5	9	2	1	0	17
5	4	10	2	0	1	17
6	6	7	2	1	1	17
7	7	9	0	0	1	17
8	6	9	2	0	0	17
9	3	2	8	3	1	17
10	6	5	3	2	0	16
11	1	11	3	1	1	17
12	5	7	1	4	0	17
13	2	8	3	2	2	17
14	5	9	1	2	0	17
15	3	11	2	1	0	17
16	1	5	1	8	2	17
17	6	5	2	2	2	17
18	4	6	3	4	0	17
19	4	7	6	0	0	17
20	5	12	0	0	0	17
	87	**161**	**42**	**38**	**11**	• **339**

APPENDIX E(I)

FACTORS NECESSARY FOR THE ESTABLISHMENT OF AN AGRICULTURAL BANK

Sno.	Strongly agree	Agree	Neutral/ undecided	Disagree	Strongly disagree
NEED					
1	16	1	0	0	0
2	11	3	0	3	0
3	7	10	0	0	0
4	3	10	2	2	0
15	9	6	2	0	0
	46	**30**	**4**	**5**	**0**
	54%	**35%**	**5%**	**6%**	**0%**
CHARACTERISTICS					
6	8	6	1	2	0
7	4	8	3	2	0
9	3	3	9	2	0
10	3	8	2	4	0
11	4	9	1	3	0
13	2	9	4	2	0
24	8	8	1	0	0
	32	**51**	**21**	**15**	**0**
	27%	**43%**	**18%**	**12%**	**0%**
LOCATION					
8	2	7	2	5	1
14	3	11	0	3	0
17	3	9	2	3	0
22	9	6	0	2	0
26	6	8	3	0	0
	23	**41**	**7**	**13**	**1**
	27%	**49%**	**8%**	**15%**	**1%**
REGULATORY REQUIREMENTS					
26	6	9	2	0	0
28	2	5	4	4	2
30	3	8	2	2	2
31	4	6	2	3	2
32	4	7	4	1	1
33	6	5	2	3	1
35	6	9	1	1	0
	31	**49**	**17**	**14**	**8**
	26%	**41%**	**14%**	**12%**	**7%**

APPENDIX E(II)

CHALLENGES OF OPERATING AN AGRICULTURAL BANK

Sno.	Strongly agree	Agree	Neutral/ undecided	Disagree	Strongly disagree
GOVERNMENT CONTROL					
1	2	11	0	4	0
2	6	10	1	0	0
11	1	11	3	1	1
15	3	11	2	1	0
	12	43	6	6	1
	18%	62%	9%	9%	1%
RISKS					
3	6	8	0	3	0
4	5	9	2	1	0
5	4	10	2	0	1
8	6	9	2	0	0
9	3	2	8	3	1
10	6	5	3	2	0
	30	43	17	9	2
	30%	42%	17%	9%	2%
PERFORMANCES					
6	6	7	2	1	1
12	5	7	1	4	0
13	2	8	3	2	2
14	5	9	1	2	0
16	1	5	1	8	2
17	6	5	2	2	2
19	4	7	6	0	0
20	5	12	0	0	0
	34	60	16	19	7
	25%	44%	12%	14%	5%