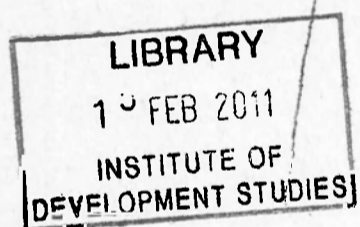INSTITUTE FOR DEVELOPMENT STUD

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SOCIO—ECONOMIC FACTORS INHIBITING LOAN
REPAYMENT ON SETTLEMENT SCHEMES

By

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REPAYMENT ON SETTLEMENT SCHEMES

Over the past few years an agricultural revolution has
been taking place in Kenya, first through the systematic consolidation and
registration of land ownership and secondly through the creation of more than
200 settlements providing for upwards of 35,000 farm families. The main thrust
of the resettlement programme has been through the million-acre scheme which
was completed in 1970; other smaller schemes are still in process of initiation
although the rate at which new settlements are being established has very
much slowed down under the current (1970-74) Development Plan. The present
study will be concerned exclusively with schemes within the million-acre
programme, and be focussed particularly on those of High Density.

The million acre scheme was designed to redistribute land previously
owned by European settlers to indigenous farmers. Farms were purchased from
their original owners, divided into smaller holdings and allocated to selected
applicants mainly on an individual basis, but with some exceptions. An infras-
tructure of services which included expert personnel were provided by Govern-
ment, who also gave loans for land purchase and farm inputs to the individuals
to whom the plots were allocated.

There were four main types of settlement: High Density, Low Density,
Yeoman and 100 acre Farms, and Cooperatives and Ranches. Most of the schemes
fell into the first two categories. The High Density schemes were for
individuals with no financial resources at all and were especially intended
for the landless and jobless; the Low Density Schemes were for farmers c.
others with some money to invest; the Yeoman and 100 acre Farms were for those
with more substantial financial resources at their disposal; and the Cooperatives
and Ranches were planned for those areas unsuitable for individual settlement
particularly on very poor land.

The selection of individuals for allocation of plots on High
Density Schemes was made by the respective Provincial Administrations, who
arranged for the interview of applicants by District level Committees composed
of representatives of the Departments of Agriculture and Settlement and the
D.O., on the basis that they were both landless and jobless. Some priority
was unofficially given to those who had previously worked on European farms.
It was in practice however difficult to check on the status of each applicant
and it is therefore probable that a number were in possession of land
or paid employment.

In the case of Low Density Schemes applicants, who were interviewed by Committees composed of representatives of the Ministries of Agriculture, and of Settlement, together with a representative of the Provincial Administration, were required to show that they came from the area in which the settlement farm was situated and had some farming experience.

The prospective settlers were not examined as to their creditworthyness although they were required to pay deposits of varying amounts in the case of Low Density and Yeoman schemes and the cost of land transfer (about 150/-) in case of the High Density schemes.

Specimen budgets were prepared by the Department of Lands and Settlement for each category of scheme which specified the target cash incomes for each farm, and loans were provided to each settler to cover the cost of the plot and various other inputs such as fencing, cows and so on, in accordance with the proposed farm plans. In the case of High Density Schemes the target cash income per year was £25, while loans totalled in the first instance 6200/- repayable @ 596/- annually in two equal instalments at 6 monthly intervals, (target incomes were exclusive of loan repayments). The Low Density schemes had a target income of £70 p.a. and the loans totalled 8500/- repayable @ 832/- p.a. in the same way. The initial deposit for each settler on the High Density Schemes was 140/- and on the Low Density Schemes 1180/-, whilst on the Yeoman Schemes it was 1360/-. Typical specimen budgets provided for a surplus of income over expenditure of 693/- and 1376/- respectively for the High and Low Density Schemes after payment of loan instalments. This assumed a certain level of production and certain prices for specific items of produce included in the farm plans as the main cash earners. No allowance was made for crop failures, for fluctuation in price of the main cash earning crop, or for expenses incurred in subsistence production, nor was any allowance made for the proportion of production of main cash-earning crops which might be consumed on the farm.

Initially no grace period was allowed before loan instalments fell due even when the main planned cash crop took some years to mature. However in 1967 this was amended and a grace

period of 2 years was introduced.

The million acre programme was started in 1962 and a persistent problem ever since has been that of poor rate of loan repayment. Whilst it is evident that this could be expected in the early days when no grace period was allowed, the persistence of the problem cannot still be accounted for in terms of the time necessary for a scheme to become fully productive. It is also the case that whilst there was a substantial improvement in the rate of repayment between 1963 and 1969 (from 48% to 79%), in subsequent years the rate of loan repayment has fallen back to around 50% and it is still the major problem in an otherwise apparently rosy picture of settlement development.

Whilst however the overall rate of loan repayment stands at about 50% (there are slight variations depending on the formula used to assess this), there is a wide range of variation between the lowest and highest rates of repayment for different settlements. In the case for instance of the 9 administrative areas into which all such schemes are grouped the collection ratio varied in 1972 from 25% to 70%. There is also a large disparity in rates of repayment between High and Low Density schemes the former /_ showing a much poorer performance. Nevertheless, even on those schemes with the highest collection ratio it would appear that there are a large minority of defaulters.

This study will therefore seek to determine the main factors causing the present poor rate of loan repayment on settlement schemes, with the primary objective of making recommendations for action to increase collections, and the secondary one of drawing a profile of the non-payer. It will concentrate on the High Density Schemes since this is where both the rate of repayment is generally lower and the problem appears most intractable. The data generated in the course of research may also serve to pinpoint other special problems of particular individual settlements, and to illuminate the broader aspects of settlement economy and its relation to the wider area in which it is situated, and thus to provide a basis on which to indicate remedies for the former and to suggest hypotheses in case of the latter.

There are several reasons which may be suggested
a priori for the present low rate of repayment. It may be simply
that the specimen budgets were over-optimistic and that settlers
do not have sufficient means to repay their loans. On the other
hand it may be that there is insufficient motivation to repay and
farmers use cash income to satisfy other needs. Both of these
apparently simple explanations however have other more complex
implications. If farmers are not achieving target incomes, why is
this so? And evidently some do have sufficient resources to repay.
And why is motivation low? Again some farmers are
highly motivated since a few repay fully even before loan repayments
fall due.

The Department of Settlement Reports for 1969 and 1970
also suggest possible factors. The following statements were
made in these years in respect to the three main settlement areas:

1. "Loan repayment position was not very impressive,
   <u>especially for the older schemes...</u>" (My italics)

2. "Loan repayment continued to be a most difficult problem, ..
   ... Although it was argued that settlers were not able
   to meet their loan repayment commitments and that the
   original budgets were too optimistic, there were
   settlers who actually made adequate profits and were
   even able to pay for the cost of their plots outright".

3. "Although loan repayment rate was expected to rise this
   year, the results were rather disappointing .... The
   fall in repayment rates was attributable to partial
   failure of short rains and poor marketing facilities
   for horticultural and other crops, coupled with the
   farmers' failure to comply with the advice of the extension
   staff about farming techniques and to follow the budget.

In the 1969 Report the following earlier comments had been made
for the same areas (in the same order):

4. "Response to loan repayment has been poor although it
   was anticipated that the marketing of maize crop would
   boost this."

5. "The rate of loan repayments dropped in nearly all schemes.
   This was mainly due to the long drought which affected
   most areas and resulted in less quantities of pyrethrum
   flowers being marketted".

6. "The... loan repayment rate fell during the year ......
The dry weather which unexpectedly hit the schemes
during the last half year ...... Consequently farmers
received less income and this automatically meant
less loan repayment".

In the first of the above six statements there is an
implication that the elder the scheme the poorer the rate of
repayment. This may further imply that motivation to pay gets
weaker as time passes and this in turn involves the whole concept
of motivation as a factor inhibiting loan repayment. The second
statement could also involve level of motivation, but also introduces
another factor, or complex of factors, i.e., levels of managerial
ability and acceptance of innovation and advice. Three other
statements use the weather as the reason for falling rates of
repayment. This in turn involves the first of the possible factors
mentioned i.e., the degree to which planning was at fault.
The final statement has a number of implications, among others
that motivation was poor, that the farmer's needs exceeded his
increase in income, that marketing was not as successful as was hoped,
or that for some reason insufficient maize came forward for
marketing.

Arising from the two primary factors mentioned and the
several subsidiary ones suggested above it is possible to enumerate
more systematically the independent variables which may significantly
affect levels of loan repayment. This is not to exclude other
possibilities which may emerge during phase I of the research
(to be detailed later), but to give direction and provide the frame-
work for pilot interviews and observation initially.

There are two levels of analysis. One to assess
the variables which may affect the settlement as the unit of
analysis and the other to assess the variables affecting the
individual farmer.

The variable factors to be evaluated are as follows:

i) Variable factors in relation to settlements:

  1. Physical characteristics: poor, average, or good
     soils and rainfall.

  2. Nature of main cash earner and of subsidiary crop and
     livestock mix: annual crop; perennial crop; or livestock.

3. <u>Tribal Admixture:</u> identity of main tribe, and whether there is only one tribe, one dominant tribe, or a number of fairly equal tribal groups on the scheme.

4. <u>Organization and Administration:</u> single farm versus cooperative.

ii) <u>Variable factors in relation to individual farms</u>

1. <u>Administration of loan repayment:</u> mechanics of obtaining and repaying loans.

2. <u>Farm Management:</u> mechanics of farm management including nature of decisions to be made, personnel involved and financial implications.

3. <u>Innovativeness:</u> acceptance of extension advice, indigenous innovations, degree to which yields and/or profits are maximised and comparison with planned farm budget.

4. <u>Perception:</u> traditional and current ideas about and attitudes towards borrowing. Comprehension present indebtedness.

5. <u>Attitudes and Motivation:</u> attitudes towards farming and towards economic activities in general. Other social attitudes, such as towards family responsibility, relevant to economic behaviour. Aims and ambitions; objectives in coming onto scheme and current objectives in relation to farm and in relation to life plan.

6. <u>Knowledge and Skills:</u> Level of education and degree of relevant experience as it affects ability to farm effectively and to handle financial transactions efficiently. Training in credit.

7. <u>Social Institutions:</u> Traditional and modern informal institutions for borrowing in cash and kind both in respect to the degree to which they may still be utilised and relate both to Perceptions about loans and constitute a current financial obligation.

8. <u>Social Obligations:</u> Nature of obligations to kin and others on and off the scheme which have direct financial implications; size of family in relation to comparative subsistence requirements; other social obligations with financial dimensions.

9. <u>Economic Status</u>: income from farm and instalments due
as proportion of actual income during same period;
existence of economic assets off the scheme; employment
of any farm family member, ownership of land or livestock,
or interest in any other income earning asset. Conversely
any economic commitments off the scheme such as debts
or contributions e.g., insurance policies.

10. <u>Leadership and Communication</u>: sources of information,
precepts or examples other than scheme staff, and the
nature of such information and advice especially that
relevant to loans.

For purposes of analysis it is also necessary to find
some means of both quantifying and qualifying the nature of
indebtedness, both at settlement and at individual farm levels.
It is anticipated that specific repayment patterns may be demons-
trable at both levels and that such patterns may be related to
particular variables or complex of interdependent variables.
Thus categories which signify the nature of the repayment pattern,
rather than mathematical formulae will be used to describe differences
in rates of loan repayment. To be more specific individual farmers
will be categorised as follows:*

Recent: fell behind over not more than last 3 instalments
due.

Spasmodic: occasional lapses at intervals

Variable: consistent wide variations in amounts paid

Deteriorating: gradual lowering of payment performance over
period of time

Improving: gradual improvement of payment performance over
period of time

Persistant: persistent poor rate of payment

Incorrigible: continuous very poor rate of payment i.e.,
less than 50% of every instalment due.

In the case of settlements the categories will be the same.

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* These categories are subject to modification when more
information is available on the indebtedness of both settlements
and individual farmers, and other patterns may become evident.

Methodology.

Interviews will first be carried out with key personnel in the Department of Lands and Settlement, and then data will be obtained and collated from Department of Settlement records relevant to loan repayment and the first /four variables listed. Arising from this 3 settlements will be selected according to the first four variable factors. Interviews will be carried out with administrative staff on these settlements and information obtained from settlement records especially on loan repayment performance of individual settlers, and any other independent data which may be available on their farms and on the settlement economy as a whole, including crop performance, marketing, methods of extension and particular problems experienced. Twenty five farms will then be selected which will be representative of the ratio of good to poor loan repayers on the settlement as a whole in accordance with the categories listed above, and whose farms as far as possible will be contiguous to facilitate participant obersation. Each farmer will be interviewed using open ended questions according to a schedule whose outline is given in the appendix to this proposal. The schedule will however be used only as a guide and is not intended to cover all questions which may be asked. These formal interviews will be followed by informal discussions and observation of the farmers. It is intended to spend three months on each settlement, which will comprise Phase I of the study. As much independent data will be collected as possible relating to the finances of each farm studied to support the information given by each farmer about his farm. It is further intended to continue to collect data having bearing on the financial status of each farm in the Phase I sample until completion of Phase II through return visits and the utilisation of both farm diaries and other available independent records, e.g., sales through co operatives, veterinary records of A.I. etc.

The data thus collected will then be analysed and hypotheses formulated which will be tested through questionnaire survey of 1000 farmers. The sample of 1000 will be made up of all the farmers on the original 3 settlements (including the 25 initially studied) plus all farmers on a further number of settlement also selected according to the same criteria as the first three. Analysis of Phase I data and preparation of questionnaire is expected to take 2 months and survey interviews 6 weeks.

APPENDIX I.

<u>Schedule of questions:</u>

i) Personal data: Name, age, education, marital status/
children, job experience, assets (land and other property).

ii) Family Data: household composition, members nuclear family
living elsewhere, occupations, sources of income, other
kin for whom school fees are paid or other financial assistance
given, other social obligations over previous year to kin

friends e.g., wedding, social obligations of others to
informants.

iii) Farm data: size, crops, livestock, implements, problems with
farm, problems with loan repayment, marketing, labour
organisation, allocation output susbsistence/market, purchases
for farm and household over past year, usual regular
purchases, sources of information, advice on farming, nature
of extension assistance.

iv) Social data: traditional forms of borrowing, ideas about
borrowing particularly present loan, traditional farming
methods, views on present methods, views about settlement,
aims in life, plans for farm, other economic plans, past
experience with loans, future financial needs, decision
making on farm.