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Financial Inclusion Impact on Small-Scale Tea Farmers in Nyeri County, Kenya

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Small scale tea farmers in Kenya have been targeted by financial inclusion initiatives because of their major contribution in the country's economy. The outcome of these initiatives and their impact is not well known. The study aimed to bridge the gap in empirical literature on the impact of formal financial services on small scale tea farmers. The study sought to find out the level of financial inclusion in terms of access and usage and its impact on small scale tea farmers in Nyeri County, Kenya. The relationship between gender and age on the demand and use of financial services was also investigated using the Pearson Chi square method. The findings reveal that the level of inclusion is high and usage in terms of credit access is also high. In terms of financial literacy the farmers are not receiving adequate financial education which is a component of financial inclusion. The relationship between gender and age on the demand and use of financial services under the Pearson's Chi square method yielded inconclusive results. The study recommends that financial counseling and education should be offered to the farmers to enable them to appropriately use the financial products and services offered through financial inclusion initiatives.

Field of Research: Banking

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1. Introduction

Around the world agriculture is and will continue to be a major building block in the achievement of the Millennium Development Goals (MDGs). Recent statistics show that agricultural production needs to increase by 70 percent by 2050 in order to feed the world, while demographic growth, climate change, and urbanization put pressure on available cultivable land (IFC, 2011). In Kenya, agriculture is the largest economic sector and remains the best opportunity for economic growth and poverty alleviation. Agriculture is practiced by both large and small scale farmers. Most of the small farmers have little education and limited exposure to modern financial instruments. Further, many of these small farmers have little or no experience in financial management. Therefore, this brings new attention to the issue of banking sector outreach or financial inclusion in the agricultural sector on small scale rural farmers.

Financial inclusion or banking sector outreach is the process of availing a range of required financial services, at a fair price, at the right place, form and time, through formal means and without any form of discrimination to the populace. Financing small holder farming has been one of the major concerns of Kenya's development efforts. Smallholders are known to be resource poor and, operate below their potentials (Nyikal, 2000 as cited in Nyikal, 2007). Access to financial services by

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small scale farmers has a potential to make a difference in agricultural productivity, food security and poverty reduction. However, a well-organized, sustainable, tailor made and widely accessible rural agricultural financial system remains a major development challenge in Kenya (Kibaara, 2006). Many credit programs have evolved over the years in Kenya but with dismal performance probably due to lack of financial counseling and financial management skills.

Financial Management is the process of managing the financial resources, including accounting and financial reporting, budgeting, collecting accounts receivable, risk management, and insurance for a business. Financial management and bank products and services knowledge can be acquired through effective and efficient information flow. Information is an economic resource, and "information poverty" is increasingly being recognized as one of the prime causes of underdevelopment (Chowdury 2006; Romer 1993 as cited by Mburu, Njuki and Kariuki (2012). Information is important as households whose access to information is either limited or very costly, may be unaware of other resources available to them, may fail to allocate their resources efficiently, may forego income-enhancing opportunities, or may bear unnecessarily high levels of risk as stated by Mburu, Njuki and Kariuki (2012).

This generates the need to find out the level of banking outreach in the agricultural sector and factors that affect the use and demand of banking products with a view of providing information that will make agriculture viable and more competitive. This paper addresses these concerns by focusing on small scale tea farmers in Kenya.

This paper is organized in five parts, with introduction in part one, part two contains literature review and part three discusses the methodology. Part four presents the results and part five concludes with discussion of results and recommendations.

1.1 Kenya Tea

Tea was introduced in Kenya from India by an European settler G. W. Caine in the 19th century when a set of seeds from India were planted on a small farm in 1903 (UK Tea Council, 2010). These first Tea bushes have now grown into large trees, forming an historical feature on what is now Unilever's company, Mabroukie Tea Estate. Kenya has quadrupled its exports over the last decade (Kenya Tea Board Website, 2012). The Tea Industry in Kenya is comprised of two distinct sectors, the large scale sector and the small holder sector. The large scale sector is owned by large scale tea producers and companies while the small holders sector is owned by small scale growers. The small holder sector has registered more than half a million growers who are located across tea growing areas in the country. The small holder sector factories are managed by Kenya Tea Development Agency Ltd (KTDA).

Currently, Kenya prides itself as one of the world's leading black Tea producers. The main tea growing areas in Kenya are situated in and around the highland areas on both sides of the Great Rift Valley. Kenya's tea contributes 4% to the Gross Domestic Product. The industry contributed total earnings of Kshs.103 billion of which Kshs. 97 billion came from exports and Kshs. 6 billion was earned from the local market. The tea industry is also a source of employment to over 5 million Kenyans, including over 600,000 smallholder tea growers.

1.2 Objective

The main objective of the study was to empirically assess the current level of financial access and credit accessibility by small scale tea farmers in Kenya and their financial management practices. The specific objectives were: to determine the level of financial inclusion among small scale tea farmers in Nyeri County, determine the extent of credit access by the small scale tea farmers and to find out the level of awareness on financial management skills by the small scale tea farmers. The study also sought to find out the relationship between gender and age on the demand and use of financial products.

1.3 Statement of the Problem

Sanne (2008) notes that small farmers have a number of challenges since they are mostly price takers, have low level of organization and representation, get low farm gate prices, lack land rights or title deeds and additionally lack extension services leading to poor farm practices. They also lack access to financial services (Kibaara, 2006). The key to better performance in agriculture lies in boosting smallholder productivity (IFAD, 2011). Information is thus needed on how these problems facing the small scale farmers can be adequately addressed with an aim of alleviating them. Studies on the challenges facing small scale tea farmers in Kenya and intervention measures have been conducted （Kagira, Kimani & Githii, 2012) but studies on the impact of the interventions on the farmers are few to my knowledge. This study seeks to address this gap by finding out how financial inclusion interventions have impacted on the small-scale tea farmers. It will also study the relationship between age and gender on their demand and use of financial products. This study focuses on the demand side aspects as opposed to the supply side as most studies have done.

2. Literature Review

Promoting efficient, sustainable and widely accessible rural financial systems remains a major development challenge in most sub Saharan African countries. With about 73 percent of Africa’s population living in the rural areas and experiencing a high incidence of rural poverty, improved rural finance is crucial in achieving pro-poor growth and poverty reduction goals (Mburu, Njuki and Kariuki, 2012). About 79 per cent of Kenya’s population lives in rural areas and relies on agriculture for most of its income. Nearly half the country’s 40 million people are poor, or unable to meet their daily nutritional requirements. The rural economy depends mainly on smallholder subsistence agriculture, which produces 75 per cent of total agricultural output. Evidence shows that agriculture-led growth in Kenya is more than twice as effective in reducing poverty as growth led by industry.

2.1 Overview of the Banking Sector in Kenya

From independence to the late 1980s, the Government intervened significantly in the financial sector, through both regulation and direct participation in markets. During this period, the overall policy thrust was strongly oriented towards increasing access to finance by emergent Kenyan business, which a foreign bank dominated system was felt to serve poorly (Arora and Ferrand, 2008). Kenya has experienced banking problems since 1986 culminating in major bank failures (37 failed banks as at 1998) following the crises of; 1986 - 1989, 1993/1994 and 1998 (Kithinji and Waweru, 2007;

Ngugi, 2001 as cited by Waweru and Kalani, 2009). In the late 1990's, most mainstream commercial banks closed down some rural branches in order to cut costs and improve profits. The non-traditional financial institutions have emerged to fill the gap created by the mainstream banks which locked out low income and irregular earners (Kibaara, 2006).

A study by Argwings-Kodhek (2004) revealed that no institution in Kenya has really perfected lending to normal agriculture per se and most of their loans go to school fees, business development and building houses or commercial premises. The study noted that the typical agricultural portfolio in the range of Kenyan financial institutions is around 2 percent.

2.2 Policy Interventions

During the first two decades after independence, Kenya's economy grew on average by about 6% per year largely associated with the growth in agriculture. This was later followed by a decline then a negative economic growth. This led to need for policy formulation to revamp the economy (National Report on Kenya, 2006). In 2002, the government embarked on an Economic Recovery Strategy for Wealth and Employment Creation (ERS). In 2004 the Ministry of Agriculture launched the Strategy for Revitalizing Agriculture (SRA) which aims at reversing the declining trend in agricultural productivity by introducing new approaches based on a paradigm shift. It seeks to raise agricultural sector growth to an average of 3.1% during 2003-2007 and to 5.0% thereafter (Kibaara, 2006 and National Report on Kenya, 2006).

3. Methodologies and Activities

The study was a survey and descriptive in nature. The first step of the analysis was the ex-ante identification of the tea factories in region two. Two tea factories in from the region namely Iriaini and Chinga were selected. The choice of the two regions was due to their ease of access and small farm sizes of the members. This is a good fit for the financial inclusion target. A total of 165 structured questionnaires were issued where 133 were returned representing an 80.6% response rate. The questions had response categories that yielded nominal data thus use of the chi square for data analysis. The farmers were selected randomly through assistance from the tea collection factories which were the collection points. The sampled small scale farmers exhibited the following characteristics: have a land size smaller than 2 hectares and agriculture account for less than 60 percent of the household income. Data collection took a period of 5 days and data entry, coding and analysis 15 days. The data was analysed descriptively using frequencies whereas the association between characteristic of the respondents and their demand and use of financial services employed the chi square test. A similar study was done by Mburu, Njuki and Kariuki, (2012) on Intra-household access to livestock information and financial services in Kenya and used the probit model which deals with binary responses. This study employed use of multiple response nominal data to address responses that are in between binary responses.

4. Analysis and Presentation of Results

4.1 Characteristics of the Respondents

Of the respondents 64.7 % were male and 35.3 % were female. In terms of age distribution 1.5 % were between 18-24 years, 21.1% between 25- 34 years, 34.6% between 35-44 years 30.8 % between 45- 54 years, 10.5 % between 55 -64 years and 1.5 % between 65 years and above.

4.2 Availability and Use of Bank Account

93.8% of the farmers have a bank account with only 6.2% without. This is in agreement with a study by Argwings-Kodhek (2004) where 92 percent of households in the Central Highlands region have access to some form of a bank account. This is commendable since access to bank accounts is the basic measure of financial access and is a requirement for access to formal credit. Majority of the account holders had savings account, followed by those with current account and a minority had other accounts like saving and credit cooperative (SACCO) accounts. The accounts were actively used on a regular basis by 68%. Debit card through Automated Teller Machines (ATMs) were greatly (78.1%) used while a few (12.5%) accessed their accounts through mobile phones. This shows that presence of a bank increases access and technological innovation can be a channel of achieving financial inclusion.

4.3 Extent of Credit Access by the Small Scale Tea Farmers

4.3.1 Ease of Access to Loans

This is one measure of financial inclusion. 11% responded that it was very easy, 52% easy and 27% not so easy. Those who experienced difficultues were 5% (difficult) and 6% said it was very difficult. This is a big step toward financial inclusion and financial services providers should be encouraged.

4.3.2 Loan Providers

The following were the loan providers and their percentages; Banks 36.9%, SACCO 13.8 %, Merry-go-round 10.8%, Shylock or Money Lender 1.5% and Friend 3.1 % .No Loan 10.8 %. This shows that majority of tea farmers (50.7%) besides access to bank accounts use credit services. Use of informal services only was fairly high (15.4%) considering the high rate of financial inclusion which tends to advocate use of formal services.

4.3.3 Level of Informal Borrowing

When asked if they had engaged in informal borrowing 39% of the farmers had no informal loans, while 50% had borrowed informally. 2% were not sure while 9% declined to respond. This finding is in agreement with the findings of Dupas and Jonathan (2012); Ellis, Lemma and Rud (2010) with reference to Kenya: and Badiru (2011) on Nigeria.

4.3.4 Loan Value Disbursed

When asked if they got the loan value requested 13% of the farmers got above what they had requested for, 46% got exact amount with 34% getting below the requested amount. 7% of the farmers did not know.

4.3.5 Adequacy of the Loan Amount

When asked on whether the loan amount disbursed was adequate for their intended purpose most of the farmers who responded that they did not know whether the amount disbursed was what they wanted or not, still responded that they did not know whether it was adequate (9%) for the intended use. Majority (49%) of those who had responded that the amount borrowed was exactly what was disbursed responded that the loan amount was adequate for their needs.

4.3.6 Ability to Repay Loans

The farmers were able to repay the loans with varying ease. 31% had no difficulties in repayment, 46% repaid with occasional difficulties, and 9% repaid with constant struggle while 8% fell behind payments. Surprisingly none of them were completely unable to repay. 6% responded that they did not know.

4.3.7 Total Repayment Amount

The farmers were tested on their literacy on the costs of borrowing which specifically tested on insurance, interest and processing fee. Of the farmers who had acquired a loan facility from a financial institution, majority (55%) responded that they knew the total amount they would pay back, with 35% saying had no idea and a moderate 10% responded that they only knew the amount borrowed.

4.4 Financial Counseling

4.4.1 Professional Advice

When asked if in the last five years, they received any professional advice about personal finances planning 82% said yes while 18 % said no. 90% of those who answered yes got the information from banks representatives, salesmen and accountants while the remaining 10% got the information from informal sources like friends and relatives.

4.4.2 Loan Uptake Determinant

When asked to describe who influenced their decision to opt for the loan they took the responses were as follows: 23% acted entirely on recommendation by a professional adviser, 10% influenced by a professional adviser, 5% friends, relatives or someone else, 55% entirely personal decision and 6% mixture of influencers.

4.4.3 Clarity of Advice on Products' Pros and Cons

Responses on the degree of clarity on products' pros and cons were varied with 39% of the farmers saying that the advice was very clear, 31% fairly clear, 18% not very clear and 4% responded that it was not at all clear while 8% did not know. On further scrutiny those with post primary education responded that the information was clear.

4.4.4 Reading on Terms and Conditions

In response to whether they read the terms and conditions of the loan before signing the loan contract 66% responded that they read the terms and conditions carefully, 16% perused briefly and 19% did not read them at all.

4.4.5 Insurance Services

66% of the farmers responded that they have ever considered taking out an insurance policy for themselves with 32% saying no. 2 % of the farmers have never considered acquiring insurance products. 53% of the farmers as at the time of the study had an insurance policy, while 47 % did not have.

4.5 Financial Management Skills

The farmers were asked to rate their ability to record the tea production from their farms and 86% said they were able and 14% said they had no ability. On ability to record cost of all inputs involved in tea farming, 77% said that they could record and 23 % said they could not. The farmers were also questioned on their ability to record and calculate the amount of initial capital invested in their farming business with 69.2% said they could, 26.3% had no ability while 4.5% were not sure if they could.

The farmers further responded in terms of their ability to record and calculate the profit and loss in their tea production venture, 69.9 % could record and compute, 20.4 % could not and 9.8% were not sure if they could. 54.9% responded that they could create a good and effective financial accounting system, 31.6 % could not while 13.5% were not sure of their ability.

Response towards application of negotiation skills when purchasing financial products, 23.3% of the farmers responded that they always negotiated, 39.8% sometimes would negotiate,30.8% never negotiated while 6% were not sure if they negotiated for competitive interest rates, loan repayment terms and collateral requirements. 46.6% of the farmers responded that they sometimes established appropriate measures to control cash expenses in their farms , 33.1% always had control measures and never and don’t know was represented by 14.3% and 6 % of the farmers respectively.

Majority of the farmers (84.2%) expressed the necessity to have follow-up and continuous education to improve financial management skills while 4.5% were not sure whether they needed the follow up. Only 11.3% felt that it was not necessary for them as they had the required skills. This was probably due to the fact the 33.8% of farmers recognized that they did not have the necessary skills needed to effectively use financial and credit services from various sources while 55.6% thought they had the skills but would need more training for improvement. 10.5% of the farmers were not sure whether they needed follow up or not. 61.7% and 38.3% of the farmers responded that the money management education they are currently accessing from the government and tea companies was adequate and not adequate respectively. On sources of money management education the farmers revealed the following as sources of information: financial institutions 49%, 10% government, tea companies 45% while 9% got the information from others sources.

4.6 Relationship between Age and Demand for Financial Products

Finding from the study reveal insignificant difference between age and need for money management training (χ^2 = 3.847, df = 5, P = 0.572, n = 133), thus the null hypothesis that there is no difference between age and the need for money management training is inconclusive. These results are inconsistent with Mburu, Njuki and Kariuki (2012) who found a significant relationship between age and need for financial management training.

4.7 Gender and Demand and use of Financial Services

The findings on the relationship between gender and use of financial management advice revealed inconclusive results (χ^2 = .060, d.f = 1, P = .807, n =133) the study thus fails to reject the null hypothesis that there is no difference between gender and the use of financial management advice. On the relationship between gender and need for follow up on financial management training the results were inconclusive with a χ^2 = 3.647, d.f = 2 and P= .161. n=133. Findings on gender and need for money management training also revealed inconclusive results (χ^2 = .133, d.f= 1, P= .715, n= 133), thus failed to reject the null hypothesis that there is no difference between gender and need for money management training. These results are inconsistent (Mburu, Njuki and Kariuki 2012 and Galab and Rao 2003; Shicai and Jie 2009 as cited by Mburu, Njuki and Kariuki, 2012). This is probably because of the current initiatives by governmental and non governmental agencies to offer services exclusively for women and also reduce the previous hindrances on access to financial services by women.

4.8 Discussion and Recommendations

In Nyeri county, the level of financial inclusion as measured on the basis of ownership of a basic bank account is impressive at 94%. This is higher than that of the whole of Kenya in 2009 which stood at 73.2% (FinAccess, 2009). The study noted the low use of mobile telephony which is probably due to low user sensitization initiatives and mistrust on this new service delivery channel. Efforts should be made to make it more acceptable as it can greatly reduce operation costs of financial institutions which will in turn reduce the product/service final price to consumers.

In terms of access to credit, the level of access among the tea farmers was 50.7% which is laudable when compared to the national statistics of 2009 which stood at 36.9% in rural areas (FinAccess 2009). An issue that needs to be investigated in future studies is the prevalence of informal financial credit providers despite their exorbitant interest rates and punitive collection measure in case of default vis a vis the cheap and ‘easy’ access to credit as purported by financial inclusion policy interventions. This may help reduce the use of informal borrowing or adoption of the model into the formal sector.

Findings on financial literacy and management skills revealed that the farmers had adequate skills but on further engagement the farmers (84.2%) expressed the need for more education. This high level of education is not in tandem with the application of the knowledge by the farmers. Follow up of trained farmers should be encouraged to ensure maximum benefits from the training are achieved. The education should focus on basic accounting and preparation of farm accounts, budgeting and cost control, negotiation skills, consumer protection (insurance) and how to identify suitable financial products. This is more comprehensive as compared to what is recommended by Musiime and Atuha (2011) which does not include negotiation skills, consumer protection and how to identify suitable financial products especially at this era of multiple products from formal, semi formal and informal sources. Financial inclusion should be noted comprises of several items namely basic banking services, remittances, savings, loans, financial counseling and insurance (Sahrawat, 2010).

Another issue under financial management skills was on farmers having difficulties with loan repayments. The reason for this was not investigated but can be associated with the seasonal nature of farming income and can be solved by adjusting the loan repayment to suit the cyclical income flows of the farmers. Another cause would be giving the farmers a higher or lower loan value than what they actually requested. Financial counseling can go a long way in enabling the farmers compute the exact amount needed and learn how to renegotiate for the loan value needed incase what is offered is lower. Importance of hedging against risk needs to be inculcated in the farmers' financial behavior to cater for difficulty in repayment caused by natural crop failure.

Further research on what farmers are currently taught under financial literacy/ management classes needs to be investigated. A study on the impact of the education offered is important as it can shed light on the content offered, the causes for the low implementation and formulation of corrective measures.

The study recommends the urgent need to design a curriculum on financial management for small scale farmers. This can be done through the government and other organizations like educational institutions. This will lead to full realization of financial inclusion benefits. The curriculum will ensure comprehensive and standardized information delivered to farmers. Follow up and further counseling after availing financial inclusion services/products should be conducted to check on impact on the farmers' financial progress.

A limitation of the study was the small sample size and focus on only two tea factories out of the sixty two factories under KTDA. The study thus advocates for further studies with a larger sample size so as to reach conclusions on the relationship between age and gender on the demand and use of financial services as the results from this study are inconclusive.

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