

## Women's Access to Agricultural Finance in Kenya

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### Introduction

Agriculture plays a critical role in the Kenyan economy. The sector contributes approximately 34.2 per cent of the country's Gross Domestic Product and employs over 60 per cent of the population of which 70 per cent are living in rural areas. The sector is also one of the key drivers of the 10 per cent annual economic growth envisaged in the Kenya Vision 2030. The blueprint envisions an innovative, commercially oriented and modern agricultural sector.

Limited access to affordable agricultural finance has been identified as one of the major challenges leading to low agricultural productivity in the country (MTP III). Other constraints include limited access to appropriate and affordable technology, limited access to markets, lack of access to quality inputs, climate change, and poor infrastructure. Poor access to agricultural finance is often attributable to lack of collateral, inadequate savings culture, and the practice of agriculture for subsistence purposes as opposed to agri-business. The situation is aggravated by reliance on 'traditional' forms of collateral such as title deeds, and lack of appropriate credit packages for the base of the pyramid agriculture actors such as smallholder farmers and traders.

The situation is worse for women despite the significant role they play in agriculture. According to the International Labour Organization, ILOSTAT database (2019), women account for approximately 75 per cent of the agricultural labour force in Kenya compared to 51 per cent for Kenyan men. In addition, women manage approximately 40 per cent of the small-scale farms and

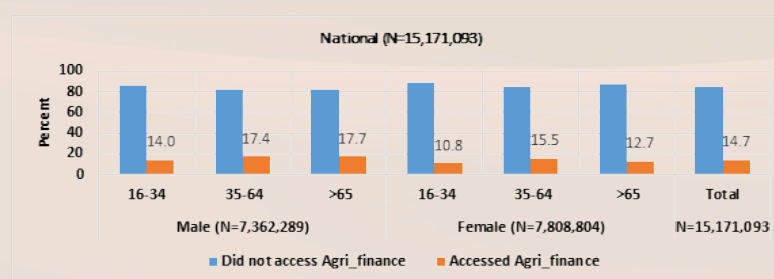
therefore play a major role in storage and preparation of food.

It is important to have a deep understanding of challenges faced by women in accessing agricultural finance in Kenya to: guide in developing an effective and coherent strategy in programming of interventions by financial providers, National and County governments and other partners; set a reference point for later comparison and measurement of achievements of set interventions; devise appropriate M&E tool; galvanize and catalyze discussion on means of addressing the challenges and build on the identified success stories; and provide information that can be used to assess broader agricultural financial access issues.

### Status of Access to Agricultural Finance

Access to agri-finance is generally lower for both women and men across the country. However, women are the most disadvantaged as far as access is concerned. In all, 14.66% of the agricultural population has access to agri-finance (formal and informal sources). Only 9.61 per cent of the agricultural population accesses agri-finance through formal prudential sources. 0.53 per cent of the agricultural population obtain agri-finance from "excluded sources" comprising of social networks and individual arrangements while 84.81 per cent of the agricultural population do not use any form of agricultural finance. Assessing access to agri-finance by gender across various age groups indicates access is relative lower for women (Figure 1).

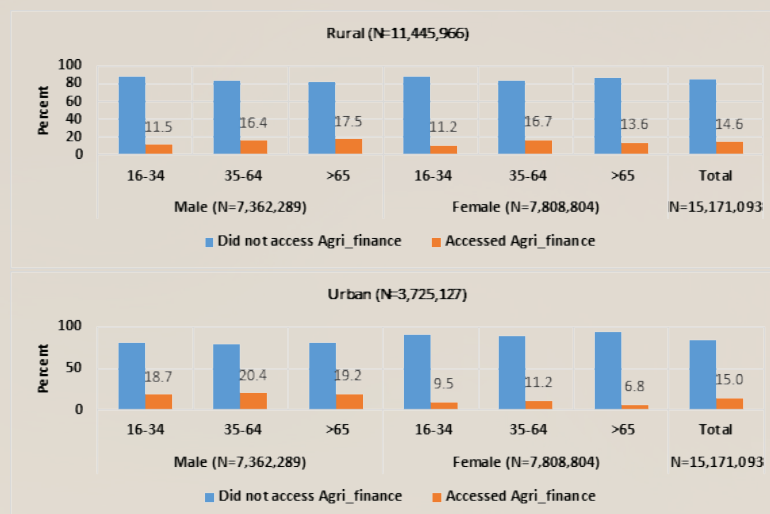
Figure 1: Proportion of people who have access to agri-finance by gender-age cohorts: National Level



Data Source: 2019 FinAccess household Survey

Women in rural areas are observed to have higher access to agri-finance than their counterparts in urban areas.

Figure 2: Proportion of people who have access to agri-finance by gender-age cohorts: Rural and urban areas

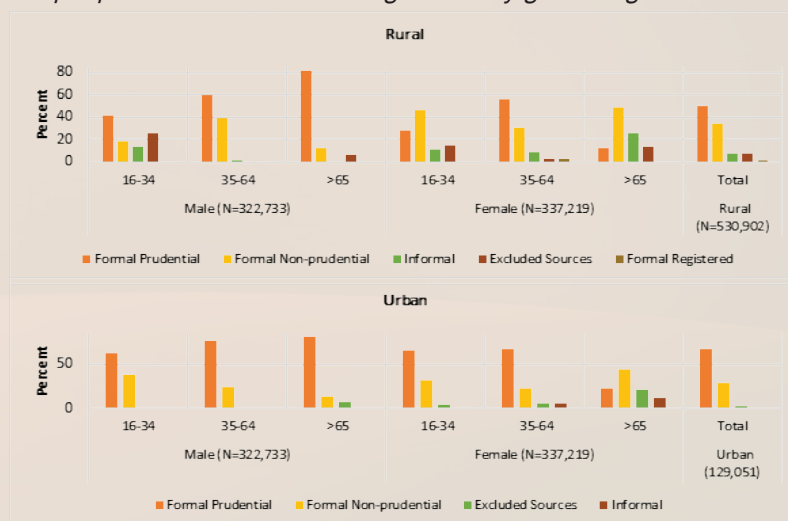


Data Source: 2019 FinAccess household Survey

## Access to Agricultural Credit, Savings and Insurance

An assessment of the various facets of finance among the population with access to agri-finance reveals that women have higher access to formal non-prudential sources of credit in rural areas, and formal prudential sources in urban areas. Men tend to favour formal prudential sources of credit in both rural and urban areas. There are also more women accessing loans from informal sources in the rural areas compared to women in the urban areas and to men in general (Figure 3).

Figure 3 Proportion of people who have access to agri-loans by gender-age cohorts: Rural and urban areas

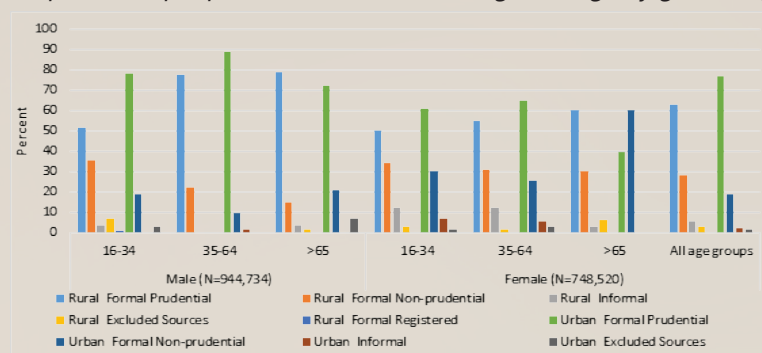


Data Source: 2019 FinAccess household Survey

Access to savings is another key element of agricultural finance. Nationally, 92.4 per cent of the agricultural population save through formal sources of finance (Figure 4). Men primarily save through formal prudential sources with the highest being among men of 35-64 years in urban areas (88.9%). Women utilize a mix of both formal and formal non-prudential sources to save. Women are also observed to utilize informal sources of finance to save than men do with the highest proportion being among women of ages 16-34 years in rural areas (12.5%).

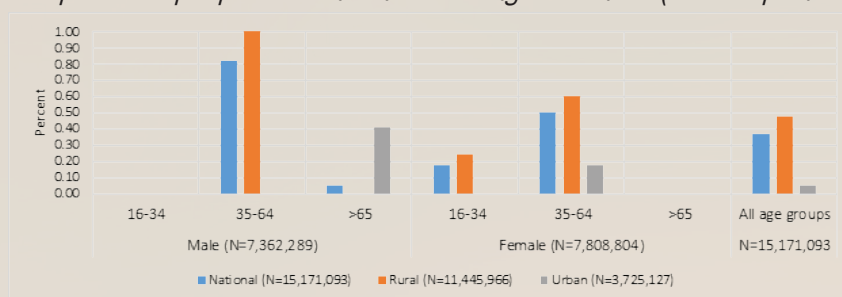
The assessment on access to agricultural insurance reveals that the uptake of insurance is generally low for both women and men at less than 1 per cent of the total agricultural population. Despite the low numbers, the uptake of agri-insurance is relatively higher among men as shown in Figure 5.

Figure 4: Proportion of people who have access to agri-savings by gender-age cohorts



Data Source: 2019 FinAccess household Survey

Figure 5: Proportion of people who have access to agri-insurance (both crops and livestock)



Data Source: 2019 FinAccess Household Survey

## Forms of collateral used

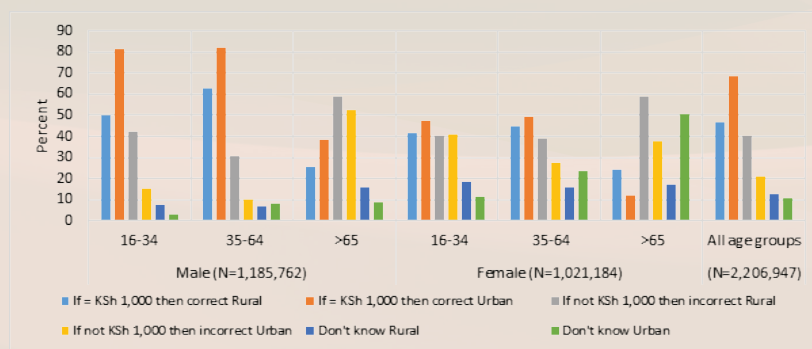
The form of collateral used varies depending on the source of finance as observed using the 2019 FinAccess dataset. Guarantors are the most popular form of collateral used by women when accessing banks. About 65 per cent and 32 per cent of women youth (16-34 years) and women of ages 35-64 years, respectively, who accessed agri-finance from banks used guarantors as collateral. Men predominantly use salary/income as collateral when accessing finance from banks with 44, 33 and 43 per cent of men of ages 16-34, 35-64 and 65 years and above, respectively, using this form of security for their bank loans. Land /title deed as collateral for borrowing in banks is more common among men of ages 35-64 years (26%). Guarantors are, however, the most popular form of collateral used by both women and men when accessing finance from SACCOs.

A mix of collateral is used when accessing credit from MFIs across gender and age cohorts. While women use a mix of household assets, salary/income, movable assets as collateral and guarantors as collateral, men predominantly use group collateral, movable assets and guarantors. The above findings highlight the need for financial institutions to recognize the possibility of multiple alternatives of collateral and the lack of some types of collateral across gender and age groups.

## Status of financial literacy and access to agri-finance information

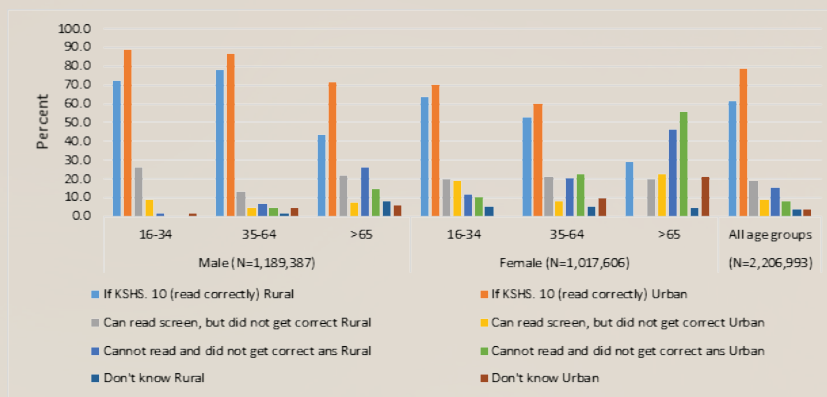
Financial literacy is assessed by the ability to compute simple interest rates and ability to identify transaction costs. Overall, men exhibited a higher ability to compute interest rates and identify transaction costs correctly compared to women.

Figure 6: Proportion of people who have accessed agri-finance and have the ability to compute interest paid on loans



Data Source: 2019 FinAccess Household Survey

Figure 7: Proportion of population who have accessed agri-finance and have ability to assess transaction costs on finances



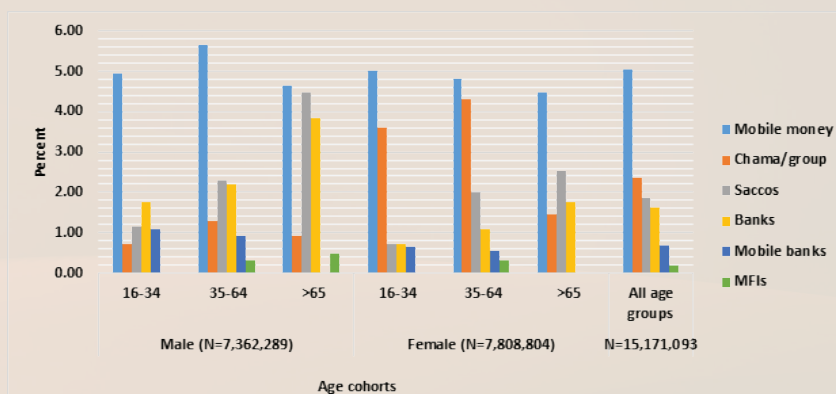
Data Source: 2019 FinAccess Household Survey

The analysis shows that beyond enhancing access to financial products, there is need to support the development of women’s skills and knowledge in finance, beyond the traditional information availed when accessing finance especially in the rural areas.

### Usage of various agri-finance channels

An analysis of usage of agri-finance channels reveals that mobile money is the most popular channel of accessing agri-finance, with 5.1% usage at the national level. Among women, mobile money usage declines with age, with 5, 4.8 and 4.5 per cent usage among women of ages 16-34, 35-64 and 65 and above, respectively. Usage of *chama*/groups is also popular among women of ages 16-34 (3.6%) and 35-64 (4.3%) years. Usage of mobile money is slightly higher for men compared to women at 4.9, 5.7 and 4.7 per cent for ages 16-34, 35-64 and 65 and above, respectively. *Chamas*/groups are, however, not very popular with men. A higher share of men of ages 65 years and above use SACCOs (4.5%) and banks (3.8%) compared to the other none mobile money categories.

Figure 8: Awareness/usage of different agri-finance channels/sources: Nationally

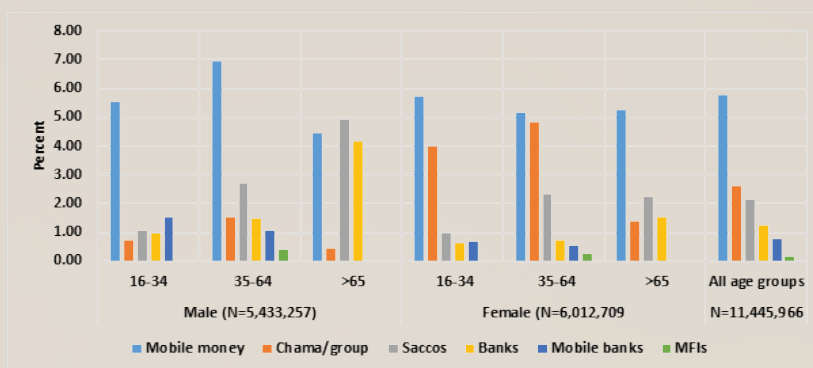


Data Source: 2019 FinAccess Household Survey

At the rural level, mobile money is the most popular channel of accessing agri-finance with 5.8 per cent usage (Figure 9). Among women, higher levels of mobile money usage are seen compared to the national level with 5.7%, 5.1% and 5.2% usage among women of ages 16-34, 35-64 and 65 and above respectively. Usage of *chamas*/groups is also slightly higher among women of ages 16-34 (4%) and 35-64 (4.8%) years. Among men, usage of mobile money ranks highest compared to other channels at 5.5, 6.9 and 4.4 per cent for ages 16-34, 35-64 and 65 and above, respectively. As observed at the national level, a higher share of men of ages 65 years and above use SACCOs (4.9%) and banks (4.2%) compared to the other categories.

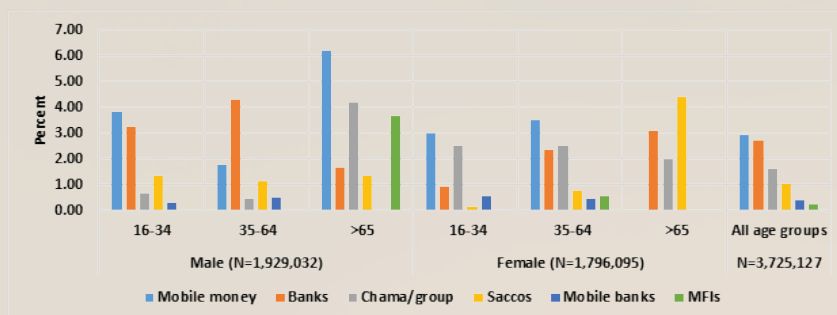
The distribution of channels in urban areas reveals a fair mix in usage among the various categories (Figure 10). Majority of women of ages 16-34 (3%), and 35-64 (3.5%) use mobile money while those of age 65 and above use SACCOs more (4.4%). Use of banks is also popular among women of ages 35-64 and 65 and above years at 2.4 per cent and 3.1 per cent, respectively. Among men, while majority of the youth (3.8%) and men of age 65 and above (6.2%) use mobile money, those of age 35-64 years mainly use banks (4.3%). Banks are, however, also popular with men of ages 16-34 years (3.3%).

Figure 9: Awareness/usage of different agri-finance channels/sources: Rural areas



Data Source: 2019 FinAccess household Survey

Figure 10: Awareness/usage of different agri-finance channels/sources: Urban areas

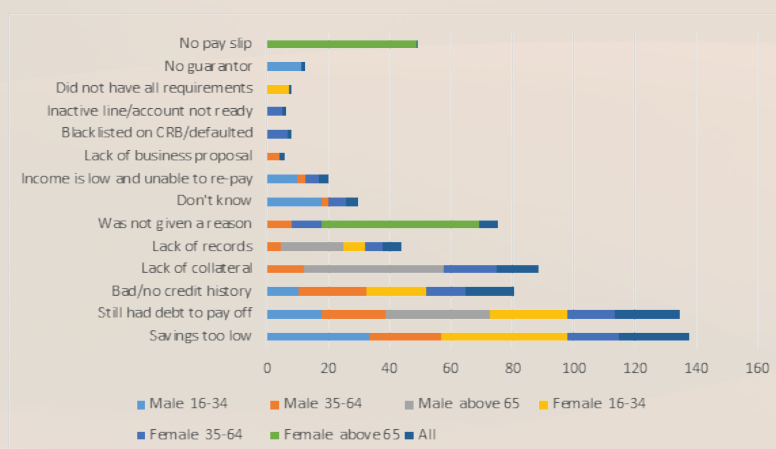


Data Source: 2019 FinAccess Household Survey

## Challenges faced in accessing Agri-finance

Women are mainly denied credit from financial institutions due to low savings, existing debts, lack of collateral, and bad credit history. From the 2019 FinAccess data analysis, women in rural areas are mainly denied credit because they have low savings (40.8% for ages 16-34 years), have existing debts (25.5% for ages 16-34 years), have bad credit history (19.5% for ages 16-34 years) and lack collateral (17.4% for ages 35-64 years). Men in rural areas are denied credit for almost similar reasons but in addition they lack records (20.6% for ages 64 years and above). The above challenges are more pronounced among the youth, with the female youth being most affected.

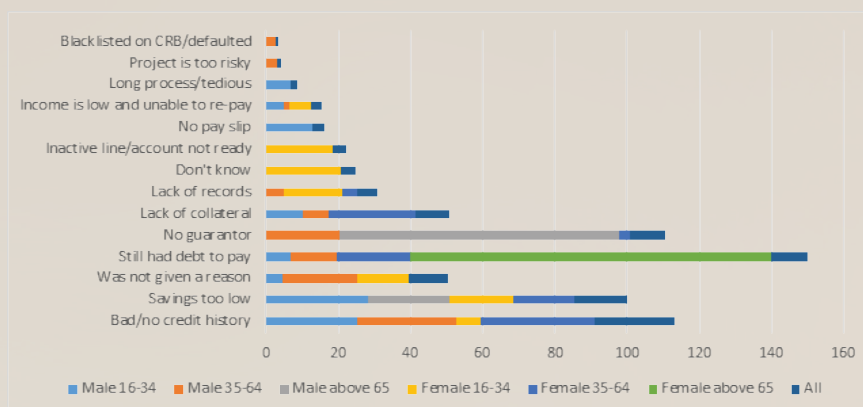
Figure 11: Reasons for credit denial in rural areas



Data Source: 2019 FinAccess Household Survey

In urban areas, women are denied credit mainly because they have bad credit history (31.7% for ages 35-64 years), lack collateral (24% for ages 35-64 years) and due to existing debts (20.3% for ages 35-64 years). Men in urban areas are denied credit mainly because they lack guarantors (77.54% for ages 65 and above years), savings too low (28.4% for ages 16-34 years) and due to bad credit history (25.2% for ages 16-34 years).

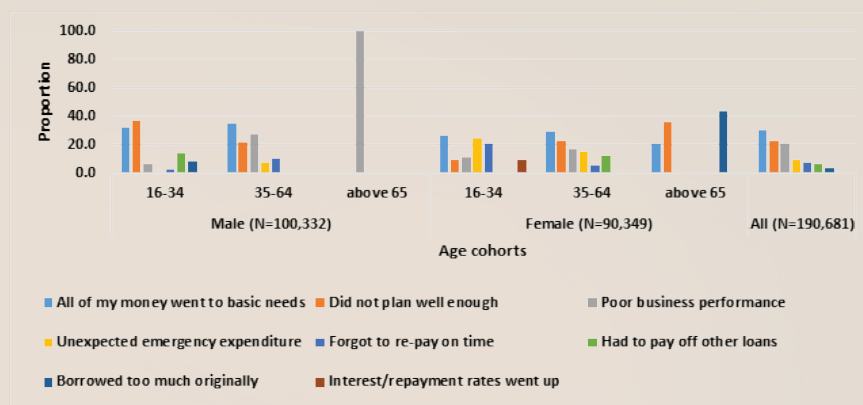
Figure 12: Reasons for credit denial in urban areas



Data Source: 2019 FinAccess Household Survey

Defaulting on loans is a key constraint to sustainable access to finance. Women of ages 16-34 years mainly default on loans due to basic needs demands (26.6%), similar to those of ages 35-64 years (29.6%), while those of 65 years and above default mainly because they had borrowed too much originally (43.9%). In the case of men, the youth (16-34 years) mainly default on loans due to lack of planning well (37%), those of ages 35-64 years default due to basic needs (35%), while those of 65 years and above default mainly because of poor business performance.

Figure 13: Reasons for loan defaults among those who accessed agri-finance



Data Source: 2019 FinAccess Household Survey

Extreme consequences of loan defaults among women include forced recovery, which may lead to separation and abuse particularly from spouses and in-laws.

## Policy implications

Women mainly source finance for agricultural operations from non-prudential sources and informal sources such as family and friends. This could be explained by lack of control over assets that could be used as collateral in accessing credit from formal sources. There is a wide acceptance of social/reputation and loose collateral by the informal sources that are easily accessible or owned by women. However, reliance on informal sources of finance is an impediment to vibrancy and modernization of the agricultural sector.

It is imperative therefore that specific Government institutions and initiatives focusing on access to agricultural finance refocuses their lending approaches to reach out more to women and men in agriculture. Alternatively, the informal sources of agri-finance for women such as groups could be transformed to formal or quasi-formal structures to leverage on the existing uptake and stated preference of the informal sources and take advantage of fintech solutions, digital banking and mobile money innovations. This means that financial sector policies and regulations would need to be reviewed to cater to the scale and style of operation of informal sources of finance.

Given collateral is identified as a key barrier in securing loans from formal financial institutions, there is need for financial institutions to operationalization of the provisions in the Movable Property Security Rights Act 2017. The Act enables persons who do not own real (immovable) property to secure credit by facilitating borrowing against their various types of movable assets whether tangible or intangible, including future assets. The Act also defines a tangible asset to mean all types of goods, which include: motor vehicles, crops, machineries and livestock whereas intangible assets include: receivables, deposit accounts, electronic securities and intellectual property rights.

Mobile money platforms and *chamas* (groups) are the most popular saving instruments among women in both rural and urban areas. Efforts towards financial inclusion should focus on developing laws and policies that could endear women to formal financial institutions for saving. While mobile money providers and *chamas* are popular across all groups, it is critical to explore mechanisms of ensuring that the interests of women are protected through legal and regulatory measures.

Improved access to insurance would go a long way in availing agricultural credit to farmers, including women farmers. The uncertainties associated with relying on rain-fed agriculture with the changing climate bring with them the potential for agricultural insurance. With usage of insurance, the financial burden and loss from risks in production and marketing of agricultural products are likely to reduce.

It is of policy importance that agricultural finance providers include financial products that cater for all the needs of women in agriculture. In many instances, women divert borrowed agricultural credit to cater for other pressing household needs such as education fees, medical expenses and home improvement. This has adverse effects on their agricultural activities and productivity across the value chain. A variety of financial products that are oriented to women in agriculture and mobilize deposits can be conceived. Experimentation, innovation and adoption of new financial technologies and products that make use of the existing informal sources of finance that women rely on can further improve women's access to agricultural finance.

Profitability of farming is imperative for agricultural finance. Various factors that impede the profitability of farming by women include low scale of operation, lack of access to farm inputs, low prices, poor access to markets and inadequate production practices, among others. It is incumbent on the National and County Government to put in place measures for the removal of pricing and supply distortions in agricultural products. This would ensure that women's agricultural activities that benefit from agricultural finance receive adequate remuneration to cover the debt and support their incomes. The National and County Governments would need to provide non-financial incentives such as essential rural infrastructure and support services such as roads, markets, agricultural research and extension services.

Lastly, agricultural finance falls within the spheres of macro-economic policy, agricultural sector policy, and the financial sector policy. Policies in these sectors have a bearing on provision of cost-effective and sustainable agricultural credit services. As such, agricultural finance is often perceived as a "policy orphan." Kenya does not have distinctive agricultural finance policy, and this acts as a possible gap in access to agricultural finance by women. It is important to define an agricultural finance policy to secure the availability of appropriate and affordable financial services to rural households. The agricultural finance policy would ensure provision of demand-led financial services with specified provision for women and youth.

## Recommendations for affirmative financing programmes targeting women in agriculture in Kenya

Affirmative financing programmes targeting women, should consider the following recommendations:

1. Access to finance needs to be viewed beyond credit and more focus be placed on expansion of accessible products, ease and timeliness of access, and quality of the products to drive long term transformation of smallholder farmers and agri-based SMEs. For financial institutions, emphasis needs to shift from credit-only products to provision of bundled packages that include different aspects such as financial management, insurance, among others.
2. While interest rates are important determinants of agricultural credit facilities, focus group discussion reports indicate that service delivery is preferred. A good agricultural credit facility should not only encompass interest rate considerations but should pay attention to service delivery as well. Preference is for a product that is customer-centric with a friendly and responsive workforce providing services.
3. A good financial product should encompass other agri-finance attributes such as capacity building and sensitization of women on other aspects of agriculture.
4. Emphasis on hard collateral such as title deeds as a basis for advancing credit to women in agriculture is a barrier hindering access. A good financial product should be aimed at navigating such stringent conditions. Because of group dynamics, women increasingly prefer social collateral as opposed to hard collateral. Use of household items and farm produce or livestock can also be considered. There is need for enough information disclosure on any financial product to build trust amongst clientele and facilitate decision making.
5. Where possible in coming up with a financial programme for women in agriculture, institutions such as banks, SACCOs, and mobile phone service providers should partner with each other to enable penetration and reach through the other channels of finance well known to women. This is in appreciation of the fact that no one financial provider has presence in all corners of the country.
6. A good financial product should be blended with adequate financial education programmes to facilitate and enhance financial literacy among women. This enhances trust, decision making and sustainability of the programme in terms of timely repayments.
7. Use of technology solutions, such as mobile money, should be incorporated as an important alternative delivery channel for financial products and services.

This policy brief is based on 'Women's Access to Agricultural Finance in Kenya: Baseline Report 2019', by Kihui, E., Laibuni, N., Gachanja, J., Kyalo, D., Njuguna, E., Musamali, R., Nato, J. and Odhiambo, P. The study was supported by the Economics of Land Degradation (ELD) research project funded by the Agriculture Finance Cooperation, KIPPRA, UN Women, Food and Agricultural Organization of the United Nations (FAO), and the European Union (EU).

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KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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