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Factors Affecting Lending By Agricultural Based Financial Institutions: A Case Study of Agricultural Finance Corporation

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Abstract:
The purpose of the study is to assess factors affecting lending by agricultural based financial institutions. The objective of the study is to establish how transaction costs affect lending by agricultural based financial institutions. It investigates how appraisal process affects lending. It explores the type of collateral required by agricultural based financial institutions and how they affect lending. It seeks to find out how whether the location of formal institution effects lending by agricultural based financial institutions. It suggests possible answer on how these factors can be integrated to improve lending.
The agricultural finance corporation (AFC) was used as the case study. This study is useful to financial institutions dealing with agriculture, in that they will appreciate the effect of transaction costs; appraisal process collateral type and the location affect their lending. Hence it suggests what can be done by the intuitions to improve their client numbers. The literature review discusses the theory of transaction cost as well as other theories related to the topic of the study. It also looks at the empirical literature before drawing a conclusion. The research is a case study and used descriptive research design. The target population is 548 staff members of AFC. A sample size of 100 staff members was used as representative of the population. Data was collected using questionnaires, policy manuals and publications. It will then be captured and analyzed using the Statistical Package for Social Sciences.

1. Introduction

1.1. Background

Agricultural financing is a very important factor in growth and performance of agriculture, Shepherd, et al (2007) noted that one of the most difficult problems in the new ventures and especially, the small scale farmers is obtaining financing. For the entrepreneur available financing needs to be considered from the perspective of debts versus equity and using external versus external funds. The concern of this study is debt financing or external credit facilities.

The external finances or credit facilities is the type of finance that is obtained from persons other than the actual owners of the company, that is creditors to the company, Manasseh(2004).Manasseh also noted that, credit facilities can be any in any of the of the following forms; loans debentures ,overdrafts, lease finance ,trade creditors, etc.

The main focus of the study is on loan facilities offer by the financial institutions as credit to the small scale farmers. Manasseh (2004) found out those financial institutions such as banks offer finances to businesses which are mostly short term in nature. This is because the deposits made with them are demand deposits, which cannot be lent on long term basis. Due to this fact, the financing role of commercial banks is limited to short term loans exceeding four years. Short term loans range from three months to a maximum of four years and are given to established customers of the banks who have the necessary security. These are expensive as the customers will have to only pay interest on them, but also the insurance of the security, Manasseh (2004).

Lending has been a main focus of many Research work in Agricultural finance. To some credit is all in all for a farmer to produce (productive input) while others hold different opinions. Whichever way it is looked at, credit is an important instrument in the development of Agriculture (Odhiambo, 2007).

The concept of credit can be traced back in history and it was not appreciated until and after the Second World War, when it was largely appreciated in Europe and later to Africa (Kiiru, 2004). Banks in USA gave credit to customers with high interest rates, which sometimes discouraged borrowers hence the concept of credit didn’t become popular until the economic boom in USA in 1885 when the banks had excess liquidity and wanted to lend the excess cash (Ditcher, 2003). In Africa the concept of credit was largely appreciated in the 50’s when most banks started opening the credit sections and departments to give loans to white settlers.

In Kenya credit was initially given to the rich people and big companies and was not popular to the poor. In 1990s loans given to customers did not perform which called for an intervention. Most suggestions were for the evaluation of customer’s ability to repay

the loan, but this didn't work as loan defaults continued (Modurch, 1999). The concept of credit management became widely appreciated by Microfinance Institutions (MFI's) in the late 90s, but again this did not stop loan defaults to this date (Modurch, 1999).

The agricultural sector is still the backbone of Kenya's economy contributing about 25% of GDP. The sector continues to be dominant in the Kenyan, economy and a major contributor to economic growth. The sector also generates 60% of the country's foreign exchange and provides employment to about 70% of the total population. The sector also provides nearly all the food requirements of the nation and bulk of raw materials in the industrial sector. The growth of this sector in recent times has been too slow compared to the first two decades of independent Kenya. One of the major constraints to agricultural growth has been inaccessibility of credit by farmers, especially the small-scale farmers that accounts for 75% of the total agricultural output and 70% of the marketed produce. The existing literature shows that many commercial banks avoid this sector as they term it more risky venture. Report from AFC also confirms the low access of credit by farmers.

According to (Yaron, 1992), the smallholder, already caught in the quagmire of the vicious cycle of poverty, requires not only labor or land but an injection of capital to extricate it from that cobweb. This argument in favour of credit in agricultural development is not the same as assigning it a position of *primus inter pares.* When a farmer is granted loan, so many other things must go with it before the loan can turn out as a productive instrument. Apart from the fact that agriculture is constrained by natural forces, farmer's attitude with respect to the use of loan is also an important factor. (Okigbo,1981).

Until recently, the African agricultural landscape was characterized by sluggish growth, low factor productivity, declining terms of trade, and often also by practices that aggravated environmental problems. Since the late 1970s to mid 1980s, many African countries have implemented macroeconomic, sectoral and institutional reforms aimed at ensuring high and sustainable economic growth, food security and poverty reduction. Some recent agricultural growth accelerations notwithstanding, the sector's growth remained insufficient to adequately address poverty, attain food security, and lead to sustained GDP growth on the continent (Dessy, 2006 and World Bank, 2008).

East African countries are an agriculture-based economy, meaning agriculture is the backbone of these economies. Agriculture is dominated by smallholder farmers who occupy the majority of land and produce most of the crop and livestock products. The key long-standing challenge of the smallholder farmers is low productivity stemming from the lack of access to markets, credit, and technology, in recent years compounded by the volatile food and energy prices and very recently by the global financial crisis. Despite the number of sound agricultural policies adopted by countries, implementation has been lagging (Hossain, 1988).Moreover; growing disenchantment of some donors with the sector amplified the gap between policy formulation and implementation. Continued involvement of a few donors, including the African Development Bank (AfDB), notwithstanding, investment in agriculture has suffered from a declining trend in several decades before the crisis. The recent surge in food prices as well as the need for greater diversification towards domestic-oriented production brought about by the financial crisis could serve as a wakeup call for the sector to receive due attention, given its importance and untapped potential (World Bank, 2008). African smallholder farmers can be categorized on the basis of the agro-ecological zones in which they operate; the type and composition of their farm portfolio and landholding; or on the basis of annual revenue they generate from farming activities.

In areas with high population densities, smallholder farmers usually cultivate less than one hectare of land, which may increase up to 10 ha or more in sparsely populated semi-arid areas, sometimes in combination with livestock of up to 10 animals (Dixon, 2003). On the basis of farm revenue, smallholder farmers range from those producing crops only for family consumption to those in developed countries earning as much as USD 50,000 a year (Dixon, 2003). Most smallholder operations occur in farming systems with the family as the centre of planning, decision-making and implementation, operating within a network of relations at the community level. 3 In this study, smallholder farmers, defined on the basis of land and livestock holdings, cultivate less than two hectares of land and own only a few heads of livestock.

The agricultural sector is the backbone of Kenya's economy and the means of livelihood for most of the population. Sustained agricultural growth is critical to uplifting the living standards of the people as well as generating rapid economic growth. However, in spite of the importance of the agricultural sector, farming in Kenya has for many years been predominantly small scale, rain fed and poorly mechanized. In addition, institutional support and infrastructure have been inadequate. (MOA, 2010).

The growth of national economy is highly correlated to growth and development in agriculture. In the first two decades after independence, the agricultural sector, and in turn the national economy, recorded the most impressive growth in sub-Saharan Africa at average rates of 6 per cent per annum for agriculture and 7 per cent for the national economy. During this period, small-scale agriculture grew rapidly as the population rallied around the call by the first president of the republic of *rudini mashambani* (return to the farms). This growth was spurred by expansion because there was ample land and better use of technology. Moreover, agricultural extension and research were supported by the Government. (Ministry of Agriculture, 2010).

1.1.1. Concepts and Issues in Agricultural Credit

There are three major nodes in the financial intermediation system – saving, intermediation and borrowing. Saving is the part of income reserved for future use, that is, future production and consumption. In the absence of saving, there cannot be a buildup of capital stock to increase production of goods and services. However, savings in a society does not become an investment in capital until it is borrowed and utilized. The savers generally do not know those willing to borrow to increase production (Okigbo, 1981). Similarly, potential borrowers also do not know where to obtain the required funds from. The passage of savings from mere idle and sterile funds into borrows and productive instrument is affected by financial intermediaries. These consist of formal and informal institutions (Besley, 1994).

According to (Stiglitz J. and A. Weiss, 1981). financial intermediaries are an integral part of the broader concept of rural financial markets, which embrace all rural institutions (the rules and regulations of the society) which affect accumulation and use of savings, the allocation of investment capital, the flow and holding of funds and indeed, the integration of rural financial markets with national and international capital markets (Okigbo, 1981). The intermediation process is a reversible flow of funds from savers to users through intermediaries. The borrower must of necessity provide evidence of a debt obligation to the intermediary for the loan. In the same process, the intermediary provides savers a range of products and opportunities for further investments. It is obvious; therefore, that financial intermediation has a key role in channeling funds to agriculture (Weiss. (1981).

The financial sector in Kenya at independence was unable to serve the interest of African farmers and businessmen, or provide adequate long term capital to finance economic growth. This was largely due to the inherent weak structure of the sector at the time (Gupta, and Shroff, 1987). In response, the Government of Kenya took a deliberate effort to set up various DFIs with the responsibility to provide enterprises and projects with equity and long-term loans that commercial banks were unable or unwilling to supply (Popiel, 1994).

1.1.2. Problems of Agricultural Credit in Kenya

In spite of the achievements of the various agricultural credit programmes, it is clear, as noted earlier, that more problems of agricultural credit have evolved in the last fifteen years. As objective assessment of the credit programmes is that, while the known achievements have been modest, the problems encountered have demonstrated to policy makers and those involved in policy implementation the direction in which the various agricultural credit policies should move in future(Assefa, 1987). For a better understanding of the adjustments which are necessary, the problems of the various credit programme should be briefly examined. The most obvious ones are: inadequate number of beneficiaries, interest rate problem; uneven distribution of agricultural credit; inadequate monitoring and evaluation; underdeveloped production base; weak agricultural policies; high default rate; and uncoordinated credit policies, (Odhiambo, 2007).

There is no doubt, as we noted earlier, that a good number of farmers have benefited from current credit programmes as against the pre-1970 situation. That measure of success has however to be discounted by the large number of prospective credit users who cannot be accommodated within the present credit programmes. (Odhiambo, 2007).

Viewed as a whole, it may be correct to state that most farmers who employ modern techniques and show some degree of commitment can now obtain one form of credit or another. The same cannot be said of the majority of smallholders who are responsible for about 98 per cent of total agricultural production in the country. (Aryeetey, 1996). Denied of access to credit and hence access to the use of essential inputs, the predominant smallholder subsector can hardly make any visible impact on total agricultural production. Definitely, whatever impact the current agricultural credit programmes have made, has been isolated and not comprehensive as implied in credit policy objective. The state of affairs is largely due to the continued poor status of the agricultural sector and the minimum impact made on that status by the adopted agricultural policy framework (Hossain, 1988).

The DFIs were expected to spearhead the Kenyanisation process by enhancing local participation in economic development. The development objective of the government was to integrate the marginalized citizens into the productive activities. The Industrial and Commercial Development Corporation (ICDC), for example, was established to lend to small businessmen, especially those acquiring businesses from non-citizens and those wishing to expand their trading activities. Further, under the Small Industrial Loans Scheme (SILS), Kenyans were assisted in acquiring enterprises dealing with saw milling, woodwork, shoe making, leather processing and clothing. The Agricultural Development Corporation (ADC), through its subsidiary called Lands Limited, was responsible for purchasing large-scale farms from British farmers and leasing them to citizen farmers, Yaron, 1992). Agricultural Finance Corporation (AFC) was to provide long-term credit to individuals and groups to purchase farms and to finance farm improvement, as well as seasonal credit for production. By providing suppliers with credit, cooperative societies also supported farmers (Yaron, 1992).

The Government established and supported many agricultural institutions such as farmer cooperatives and those for agricultural inputs, marketing, credit and agro processing. Budgetary allocation to the agricultural sector during this period was at an average of 13 per cent of the national budget (Assefa, 1987).

However, this growth was not sustained. Between 1980 and 1990 the sector recorded an average annual growth rate of 3.5 per cent that reduced to 1.3 per cent in the 1990s. During this period, Kenya compared badly with Tanzania (3.2 per cent), Uganda (3.7 per cent), China (4.1 per cent), India (3.2 per cent) and Vietnam (4.8 per cent), which had all been performing badly in the previous decades. The main reasons for this decline were low investment in the sector, mismanagement, virtual collapse of agricultural institutions and, more importantly, negligence of agricultural extension and research. It was also during this period that the Government was implementing structural adjustment programmes prescribed by the Breton Woods institutions, which encouraged poorly sequenced privatization in the sector. Investment in the sector was at its lowest during this time with budgetary allocation declining to as low as 2 per cent or less of the national budget (Gupta, and Shroff, 1987).

These organizations have been mismanaged and run down and are no longer important sources of finance for agriculture. Indeed, a large number almost collapsed. Today, farmers get credit mainly from cooperatives, NGOs and community-based lending institutions which are also faced with numerous challenges as risks associated with agriculture financing, the land laws and tenure systems in Kenya, political interference, the character of the borrowers, poor financial records on the side of the farmers, effects of credit bureau scores, competition, cost of credit and location of the institution I relation to the agricultural areas (Mayer, 1989)

1.2. Statement of the problem

Business growth is predicated upon many factors among these, is the ability of the business people to access credit facilities. Ninety percent of all small and micro enterprise collapse in their first year of start up, due to lack of financial resources, Daily Nation(Tuesday,3rd feb,2009). Although many financial institutions have been vigorously marketing their credit facilities, few SME's have been accessing them. Therefore there is a reason for the poor accessibility for these facilities. In view of these there is a need for a study to establish the factors that affect the small scale traders in acquiring the credit facilities

Farmers are important contributors to the Kenyan economy. Farming as a sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country (Republic of Kenya, 1994), accounting for 12–14% of GDP. Agriculture sector has a high potential for contributing to rural development. Yet the majority of people in this sector are considered un-creditworthy by most formal credit institutions. Most formal institutions deny the farmers in this sector access to their credit services.

Although informal credit institutions have proved relatively successful in meeting the credit needs of small enterprises, their limited resources restrict the extent to which they can effectively and sustainably satisfy the credit need for farmers (Nappon and Huddlestone, 1993). This is because as agriculture microenterprises expand in size, the characteristics of loans they require become increasingly difficult for informal credit sources to satisfy, yet they still remain too small for the formal lenders (Aryeetey, 1996).

Improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy (ROK, 1994). Despite this emphasis, the effects of existing institutional problems, transaction cost, collateral type, credit risk and appraisal are deemed to affect lending. These factors have not been adequately addressed. Financial institutions dealing with Agriculture industry has often been faced by cash flow problem and very few client numbers, yet agriculture is the back bone of the Kenya's Economy.

The financial institutions have also not helped farmers because the terms and conditions for accessing loans are not conducive. There are collateral-related challenges, interest rates are high (in some cases over 100% per annum) and there is mistrust between institutions and farmers, as well as many other obstacles. Studies indicate that commercial banks consider lending to agriculture very risky business because it's largely rain-fed (over 90% of agriculture in developing countries is rain-fed and small-scale).

This raises curiosity and hence the need to investigate the institutional lending factors is the cause of few clients accessing credit for agricultural purposes hence financial constraint and low profitability for these institutions. In addition, there is no comprehensive study indicating the effects of transaction costs, type of collateral, credit risks and appraisal process to lending by both formal and informal Agriculture based financial institutions in alleviating problems of access to credit. Knowledge in this area, especially investigation of the effects of the above factors on lending is sparse and hence the choice of credit sources by farmers is wanting.

1.3. Research objectives

1.3.1. General Objective

The general objective of the study is to assess the factors affecting lending by Agriculture based financial institutions in Kenya.

1.3.2. Specific Objectives

The specific objectives of the study are:

i. To establish how transaction costs affects lending by agricultural based financial institutions.
ii. To investigate how client appraisal process affect lending by agricultural based financial institutions.
iii. To explain how collateral type affect lending by agricultural based financial institutions.
iv. To find out whether the location affect lending by agricultural based financial institutions.

1.4. Research Questions

i. How does transaction cost affect lending by agricultural based financial institutions?
ii. Is appraisal process appropriate for lending in agricultural based financial institutions?
iii. What type of collateral is required and how does the collateral type required by agricultural financial institution affect lending?
iv. Does the location affect lending by agricultural based financial institutions?

1.5. The Significance and Justification of the Study

In the recent times the g.o.k has started a number of loan schemes for various social groups. Among them is the Youth Enterprise Fund (Y.E.F). The Women Enterprise Fund (W.E.F). There is need to monitor these funds to find out factors that may form may form hindrances to their uptake. The factors may affect accessibility of the funds and consequently the performance of the enteprise by which they are funded. Therefore the survey is of significance to the government of Kenya, for the purpose of increasing borrowing of the credit, among its beneficiaries to increase business growth and the consequent social standard improvement.

Knowledge is cumulative. Important information can be acquired about a research topic from similar work done, on the same area of research by future researchers. Therefore the survey is much significance to the research institutions, students and other researchers who would get the findings useful in their investigation in the area of study.

There has been increased activity from financial institutions on loan facilities targeted at small traders. Many banks for instance have started projects and put a lot of resources, their aim being to attract these traders. The result of the survey would therefore be of so

much significance to these institutions since they would know from the results of the study the constraints faced by the borrowers of credit and reduce them, to increase the lending.
There is need for agricultural loans in Kenya to be readily available to the small scale farmers. This is because they can help expand the farm in terms of purchasing more land, buying better farming equipment, fertilizers and chemicals for the farm, starting processing plants for meat, fruits and vegetables among other reasons. With the imperative need to a food sufficient country the farmers especially the small scale farmers who form the larger part of farmers in Kenya need financial credit to upgrade their farming practices. This study will be useful to financial institutions dealing with agriculture to understand the effects of the appraisal transaction costs, appraisal process, type of collateral required and the location of the institution affect the volume on lending. The study will enable the financial institutions to review the lending policies to align with the need of the small scale farmers who are the main clients in agriculture. The work will seek to explain why agriculture is not adequately funded by formal institutions in Kenya.

1.6. Scope of the Study

1.6.1. Conceptual Scope
The cost of transaction, appraisal process, type of collateral required and the location of the financial institution will be the independent variable. The dependent variable will be the volume of lending.

1.6.2. Geographical Scope
This study used agricultural finance corporation (AFC) as the case study. Its suitability is based on the fact that it has been giving credit to farmers since 1960s. The study will the regions to which the AFC operates, but limited to the boundaries of Kenya. It has staff of 548 and approximately ten thousand clients. It has 45 branches which are well spread in almost every county in Kenya.

1.7. Limitations of the Study

1.7.1. Validity of the Data
Qualitative research often depends on the individual judgment of the researcher and is heavily dependent on the researcher's interpretation (for example, in the analysis of interview data or case study information). Although this fact allows for research to reflect the complexity of a particular situation or the knowledge of the researcher, it can also allow the researcher's subjective opinions to bias the information presented or the conclusion drawn. In such cases, the study becomes more reflective of the researcher's opinions than of the actual data, presenting issues with validity.

1.7.2. Generalized Results
One significant limitation of this research is generalization of results to other populations. Because being a qualitative research, it is exploratory and often tailored to the needs of one population (as when a researcher adapts an interview question to a participant's prior knowledge, or when case-study analysis is specific to the person or situation under study), it is difficult to extrapolate findings to more broad populations or to draw general or far-reaching conclusions from the findings of the study.

1.7.3. Reliability
Because the research heavily depended on the researcher's knowledge and interpretation, it can be questionable to another researcher, replicating a qualitative study, would achieve the same results. The researcher might make different decisions about interpretation, might ask interview questions in a different way, or might even change the design halfway through the study, based on perceptions of the participants' needs. This variation can radically change the results of a study and can make study results inconsistent even if two studies have the same approach

2. Literature Review

2.1. Introduction
This chapter will take a look at previous studies done by various scholars that are related to the topic of the study. It will first discuss the various theories that will aid in meeting the objectives of the study. This is then followed by empirical studies relating to the same. The conceptual framework behind the topic of study is then looked at before a conclusion and a research gap is drawn.

2.2. Theoretical Framework
This section discusses the various theories related to the topic as well as the objectives of the study

2.2.1. The Transaction Cost Theory
Goods and services are obtained by transforming a set of inputs. The latter can enter the manufacturing process in different combinations and proportions, depending on the technologies which have been adopted. A different perspective focuses on how firms ensure the supply of inputs on the one hand and reach the final consumer on the other hand: rather than production functions, firms are regarded here as governance structures (Williamson, 1985). Transaction cost theory concentrates on the relative efficiency of different exchange processes. If for the firm-as-a-production-function view the internalization of one or more stages of production might

generate technological economies (that is savings on the costs of physical inputs), for the firm-as-organization view it could lead also to transactional economies (that is savings on the costs of exchange inputs, when reduced amounts of resources are required to get the intermediate inputs). An intermediate step between pure market exchange and vertical integration is the use of short term and long term contracts. The decision to enter durable contractual relationships by signing long term contracts and the alternative vertical integration strategy share the same motivation: the choice among these options is then a matter of degree. Unfortunately, this implies that it is difficult to distinguish between them empirically (Tirole, 1988) .

Following the transaction cost theory (Coase, 1937), firms evaluate the relative costs of alternative governance structures (spot market transactions, short term contracts, long-term contracts, vertical integration) for managing transactions. Transaction costs could be defined as the costs of acquiring and handling the information about the quality of inputs, the relevant prices, the supplier's reputation, and so on. Contractual agreements are costly: costs have to be borne in order to negotiate and write the terms of the arrangements, to monitor the performance of the contracting party, to enforce the contracts. Firms emerge as a way of economizing on transaction costs in a world of uncertainty, where contractual arrangements are too expensive. The basic framework was enriched by (Williamson, 1971) with the introduction of two concepts: bounded rationality (Simon, 1961) and opportunism. The former underlines that human beings have limited cognitive competencies; if it is not possible to foresee each future contingency, all contracts turn out to be in some way incomplete. The latter is defined as self interest with guile and is particularly important in small number bargaining situations. Where it is possible to choose among many firms, opportunism is not an important problem. If, on the other side, one contracting party has undertaken some specific investments in view of the future trade with a downstream or upstream firm, it is locked into that particular relationship: the ex-ante competitive situation shifts towards an ex-post bilateral monopoly. The firm which is not owning the specific asset may extract the so called quasi-rents (Klein, 1978) . Following Williamson, transaction costs are relevant when relationships are a) frequent, b) uncertain and c) if specific assets are involved.

The exchange relationship may be one-time, occasional or recurrent; a frequent transaction (especially in the presence of specific assets) is more likely to be internalized (Williamson, 1979), since expected damages from opportunistic behaviour are higher. As far as there is uncertainty, complete contracts cannot be foreseen and the firm making the specific investment is disadvantaged when future contingencies impose to re-negotiate the contract terms. This is known as the hold-up problem. Transaction cost theory individualizes two kinds of uncertainty: environmental uncertainty, that is unpredictability of future contingencies, and behavioural uncertainty, that is the possibility of monitoring the behaviour of the contracting party ; Different types of asset specificity have been detected: physical capital specificity (when some particular machinery, used to produce components specific to the buyer, cannot be converted without costs to manufacture inputs for alternative buyers), human capital specificity (when some workers of the upstream firms obtain a specific knowledge of the technology and of the productive process of the buyer), site specificity (when downstream plants are located close to upstream plants for lowering transportation costs or improving technical efficiency), dedicated assets (when some non-specific investments, made in view of the relationship, lead to excess capacity after the latter has been broken), brand name capital (when expensive investments are made in order to promote a brand characterized by vertical relationships with other firms), design specificity (when inputs are specifically designed for the particular manufactures of the downstream firm), temporal specificity (when timely performance is critical, and the failure to supply a particular input on schedule can cause interruptions of the production process).

While it is generally recognized that transaction costs are very important in determining the decision between make or buy or between sell or use, the theory lacks a satisfactory treatment of the disadvantages of vertical integration. Some explanations, such as the presence of managerial diseconomies, incentive disabilities, or the emergence of mistakes in allocating factors when firm's size and the number of inputs become large have been put forward, but the boundaries of the firm remain somehow not precisely defined. It is not clear why a firm, by using selective interventions, cannot continue to integrate forward and backward and perform better than decentralised competitors.

Grossman and Hart (1986) developed an alternative approach, the property rights theory, which is able, among other things, to solve the above puzzle. The property rights approach shares with transaction cost theory the assumptions that contracts are incomplete and that trading parties often end up with lock-in relationships. However, it introduces a precise definition of asset ownership. The owner is the one who has the residual rights of control over physical assets, that is 'the right to determine how the asset is used in circumstances not covered by existing contracts, customs, or the law' (Baker and Hubbard, 2001). Allocating ownership affects the investment incentives of agents: vertical integration might push firms to undertake an efficient level of specific investments without fearing that some agents would appropriate the quasi-rents. This theory may account also for diseconomies of vertical integration: "a firm that purchases its supplier, thereby removing residual rights of control from the manager of the supplying company, can distort the manager's incentive sufficiently to make common ownership harmful" (Hart, 1989) argues that vertical integration between independent firms which have complementary assets is beneficial, since it reduces the number of parties with hold-up power. Following this line of reasoning, which takes into account the incentives for managers and workers, forward and backward integration strategies have different effects. The firm which integrates backward or forward is also the one which acquires the ownership and the residual rights of control over the integrated assets. This in turn inevitably distorts the incentives of those employees who were previously working in a independent entity and now are constrained to use assets over which they have a restricted, if any, freedom of disposal (Hart and Moore, 1990).

In assessing the developments of transaction cost theory and the contribution of the property rights theory in understanding firms' boundaries, (Bolton and Scharfstein, 1998) recognize that Coase's insights have been refined and extended to a great extent, but argue that the literature still fails to consider the principal agent relationship between shareholders (who formally own companies' assets)

and managers (who control their use). When ownership is separated from control, vertical integration does not simply transfer the control between one owner (or one manager) to another. Instead, it brings the bargaining among managers (the managers of the acquired firm and, let us say, the managers of the division which had business relationships with the acquired firm) under the common umbrella of corporate headquarters, increasing centralization. Following this line of reasoning, a merger/acquisition may help managers to increase their control over assets, irrespective of shareholders' interests.

(Holmstrom and Roberts, 1998) look at some cases in which the presence of specific assets and contract incompleteness should have led to vertical integration, but firms have actually preferred other solutions to the hold-up problem: extensive use of subcontracting in Japan, inside contracting, alliance between independent firms. "Many of the hybrid organizations that are emerging are characterized by high degrees of uncertainty, frequency and asset specificity, yet they do not lead to integration. In fact, high degrees of frequency and mutual dependency seem to support, rather than hinder, ongoing cooperation across firm boundaries" (p.92). As an example, in Japan the auto industry is characterized with long term relationships with a relative few number of suppliers. Specific assets, as well as the design of the components, are owned by suppliers. Moreover, contracts are usually short and imprecise. In such circumstances, transaction cost theory would predict opportunistic behaviour on the part of the auto makers. However, moral hazard problems are overcome in the presence of the repeated interactions between downstream and upstream firms, because a good reputation is required in order to obtain future gains.

2.2.2. Interest Rates on Loans.

Every business needs financing, even though at first glance it might appear that funding is unnecessary. Its important that financing be as efficient as possible, Stutely(2003). Stutely , argues that the borrower should be able to put the cost of all financing on the same basis, comparing them and come up with the one that gives the lowest cost financing option.

Banks have often been criticized for having high interest rates charged on loans. But sometimes, there are factors beyond their control. For example the amount of interest payable on loans depend on interest rates charged, which is driven by the base lending rate of interest set by the Central Bank of Kenya. The amount of interest rate charged is sometimes, intertwined with the security of the loan, and the use for which it's to be used, or the nature of the business. That is the more secure loans are charged low interest rates due to, their low risks involved, Management (July, 2008). This leads the SME's to the micro finance institution, who lend unsustainable interests short term loans. The high interest rates, discourages the entrepreneurs in this sector from borrowing. Its because the interest payment come out of profit and can be reduced by the borrowing business if profit and trading conditions are unfavorable. A loan does not carry ownership right, if a trader is unable to meet the loan and the interest repayment, then bank or lender may decide to foreclose on the business and appoint a receiver to take day to a day running of the business. The receiver has to decide whether the business is able to continue trading under its guidance and generate enough cash to pay, the creditors or whether the business should be closed, the assets sold off and the cash generated used to pay the bank and the creditors. This may discourage business people who may fear such situations to happen to their businesses. Another contributing factor to discouraging interest rates, is the structural weakness inherent in Kenyan banks. They do not have a stable source of funding, they can only lend on short term basis. Apart from becoming a problem to SME's who seek funding over a number of years, the lending rate is high since the banks may lack stable financial source. All this contribute to the rate being a constraining factor in accessibility to credit among the SME's.

2.2.3. Collateral

Formal banking institutions, always demand collateral to act as a security on loans. This is often in the form of houses or deed to some immovable assets. This precondition plays a major part in the accessibility of loans among the SME's since majority of they cannot attain these requirements. The situation may be more complicated for women entrepreneurs, who may not have right of ownership to expensive property including land and houses.

In the site www.allbusiness.com, collateral is again highlighted as a major constraint to credit accessibility. In a survey conducted at the site 92% of the firms surveyed had applied for loans, and were rejected while others had decided not to apply since they 'knew' they would not be granted for lack of collateral. Therefore, while most of the entrepreneurs, in this study recognized the importance of loans in improving their businesses, they cited collateral as a major impediment to loan accessibility and therefore business growth. Almost all respondents started their businesses from their own savings or loans from relatives since they did not demand security.

Beaver (2002), explains that the historical development and the associated culture, of the banking system underpins the problem of the emphasis on the provision of collateral as a primary condition in lending. Banks have always adopted a risk averse stance towards small firms, with an accompanying inability to focus on the income generating potential of the venture, when analyzing the likelihood of loan repayment.

Therefore, although there has been a considerable progress in the lending to the SME's, banks remain cautious because many these businesses have neither, collateral nor, asset registers.

2.2.4. The Number of Lending Institutions

The number of financial institutions offering credit services to SME's is a constraint to the development of the sector. In a study conducted in the site, www.allafrica.com, by a non profit organization, World Women Banking providing credit access to poor women, fewer than 2% of low income entrepreneurs, world wide have access to credit facilities. It was further noted that the banking sector penetration in a typical sub-Saharan African country stands at 1% of GDP, far below far below a more advanced such as Brazil where penetration approaches 25% or industrialized nation where its 85%.

In Kenya, there are less than 50 commercial banks serving a population of 34 million people. Among the major commercial banks and other market share includes, Commercial bank(14.7%), Barclays (14.26%),and Standard Chartered(8.4%), there are also banks classified as small which as small banks which includes; Consolidated, Habib, Victoria, Equatorial Fidelity Bank among others.
Just 60% of Kenyans have access to banks or microfinance institutions with 30% of rural users having no access to banking services at all, according to the data by Financially Deepening Kenya (FSD), Business Daily(may 6 2009) this further shows shortage in supply of financial services including credit compared to demand.
Recently, this increase in demand for this services has lend to emergence of mobile telephone money transfer services with the introduction of the M-pesa and Zap services by mobile telephone companies, safaricom and Zain respectively. With over 6.1 million subscribers, the M-pesa is becoming an important financial transaction tool for SME's with the un banked even turning it into a banking institution. While the service has, it is currently, can not offer credit service the banks are adopting the system in order to attract the small entrepreneurs, who require micro finance products including loans. The growth of mobile money transactions shows the demand for formal financial services including credit services far outstrips the supply.
In Meru town, the concentration of banking services is even much lower with a few branches of the major banks operating. The other lending institutions operating include the micro finance companies.
Wanjohi and Mugure (2008), in acknowledging that credit sources remain a major challenge among the SME's, found out that, in the climaxing of the year 2008, money lenders in the name of 'pyramid schemes' came up promising hope among the small investors that they can make it to financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is to seek source of credit, which is not available among the formal financial institutions.

2.3. Empirical Literature
The economic importance of transaction costs is widely recognized. Transaction costs reflect the costs of economic organization both outside the firm and inside the firm and are one means by which one can measure the efficiency of different institutional designs in achieving economic outcomes in particular environments (Polski & Kearney, 2001).
Many financial institutions have tried to address the problems of high transaction costs (A.P.E.I.S, 2007). Therefore the existence of transaction costs in the loan market implies that financial institutions must become more actively involved in monitoring activities and strategic behaviour of firms because financial institutions invest substantial amounts of funds in business firms (Williamson, 1985).
Transaction costs refer to the cost of carrying out a transaction by means of an exchange on the open market and are associated to the division of work (Rotke and Gentgen, 2008). In empirical studies, transaction costs are not directly measured, but rather proxies such as uncertainty, transaction frequency, asset specificity, opportunism and so on are used instead. These are believed to critically affect the costs of transactions (Pessali, 2006).
Transaction costs in credit markets therefore are indirect financial costs generated by various processes, including the costs of searching and collecting relevant information. They are indirect costs caused by frictions in the flow of credit funds, preventing credit markets from reaching efficient market equilibrium (Nalukenge, 2003). Consequently transaction costs of lending consist of the costs of administering credit, coordination costs and the costs of the risk of default. It's further highlighted that administrative costs are those, which are directly attributable to the processing, delivering and administering of loans while coordination costs are those resources a financial institution dedicates to ensuring that clients adhere to terms stipulated in loan contracts (Saito & Villanueva, 1981). According to (Polski and Kearney 2001), banking activities generate two types of transaction costs, which are subject to different political and economic influences. They further note that one type of transaction costs, interest expense, reflects the costs of funds for banking activities and the second type, noninterest expense, reflects the costs of information and co-ordination. (Shankar, 2007) went further to break down transaction costs into indirect and direct. Direct transaction costs consisting of training costs, cost of direct administrative activities and cost of monitoring. He further noted that indirect transaction costs include allocated fixed costs of the branch office, regional office and head office, depreciation and taxation costs.
According to (Dyer, 1997), transaction cost analysis views the firm as a governance structure. However out of the many attributes describing transactions, the three main dimensions that are instructive to the study of commercial transactions are the frequency with which transactions recur, the uncertainty (disturbances) to which they are subject, and the condition of asset specificity (Williamson, 1998). Asset specificity refers to a condition where the physical or human resources invested to support a particular transaction cannot be easily redeployed to alternative uses without a significant loss in value (Husted and Folger, 2004; Zhao, Luo & Suh, 2004).
Additionally, asset specificity takes a variety of forms; physical assets, human assets, site specificity, dedicated assets, brand name, capital, temporal specificity and to which individuated governance structure responses accrue. Therefore transaction cost theory rest on the interplay of opportunism, asset specificity, transaction frequency and uncertainty dimensions (Rindfleisch & Heide, 1997; Williamson, 1981).
There are costs associated (costs of writing contracts) with constructing a governance structure or safe guard. The most prominent safeguard is the legal contract which specifies the obligations of each party and allows a transactor to go to a third party to sanction an opportunistic trading partner (Dyer, 1997). Therefore since high degrees of trust leads to lower levels of hierarchical governance (Williamson, 1985), then it can reduce transaction costs by eliminating both ex ante and ex post opportunism (Nalukenge, 2003).
Related to the contributions is the form of credits through which capital is channeled. Similar to other credit products, agricultural credit can be categorized into various time bands of short term, medium term, and long term credit. Short terms credit is usually meant for working capital and ensures adequate liquidity exists in the business. It is usually repaid at the end of a production season in anticipation of source of income, usually from a certain product (Mukwereza & Manzungu, 2003).

The past failures to expand financial services in the rural areas and the agricultural sector, in particular, have been attributed to the numerous failures in political, social, and economic endeavors. The political interference by the government is a cause for many of the failures in expanding financial markets in rural areas. Governments, in both developed and developing countries have been emphasizing the need for income transfers and extending subsidies to meet social objectives. In most developing countries, governments attempted to bring income transfer to the rural poor through loans. (FFTC, 2007). However, past endeavors ended up negatively affecting the credit culture and discipline of the rural population. As a result, financing agriculture through formal institutions becomes difficult. The past experiences of various institutions created myths, leading to the conclusion that the rural financial market is unfavorable to institutional operators. In addition to the obvious external factors that affect both the borrowers and lenders, such as natural disasters, poor markets and unsuitable land tenure system have enormous contributions to the thinning of the rural credit market. (Assefa, 1987).

As a remedial solution to the problem, there is a need to establish specialized banking and credit institutions dedicated for agriculture only that fits the specific and unique nature of the sector (FFTC, 2007). However, the idea has also been refuted on the grounds of inefficiency problems. Rather, the need to create innovative financial products and delivery mechanism to promote agricultural finance within the financial systems approach has been emphasized (Pearce, 2004). For instance, introducing flexible and more accessible saving facilities reduces risk of seasonal income loss. By the same fashion, credit culture and discipline can also be promoted through client education, use of group collateral, and close and regular monitoring of clients by loan officers.

Financing development without appropriate vehicles for mobilizing resources is a major challenge. A major concern in developing countries is mobilization of long-term capital, which is very crucial in the development process. Studies show that Europe was able to go through reconstruction and industrial development because it was able to access long-term capital from multilateral development institutions. The success saw the establishment of regional and national Development Finance Institutions (DFIs), which acted as catalysts in financial intermediation, extending long-term credit and contributing to economic development by removing credit shortage (Yaron, 1994).

From previous studies, it has been found that developing a sustainable farm credit system is not an easy task. It is even more difficult to develop and implement such systems in developing countries, where they are confronted with several complex issues. Some of these issues are internal to rural financing (Christen et al. 1995) and others are external issues, as their solutions depend on sectoral and macroeconomic policy and institutional framework (Jayarajah and Branson 1995). In an effort to create sustainable rural financing programs, innovative financial services are necessary for the development of the financial market.

According to (Stevens and Jabara, 2000) improvements in rural credit enable economic development in at least five ways. First, the rural financial markets provided by banks enable a greater mobility and flexibility in exchanges in rural areas. Farmers are able to make payments from distant locations without having to meet in person. Second, rural savings and loans enable improved resource allocation. This occurs when they mobilize excess cash from farmers with few, low-return investment opportunities and lend it to the farmers with higher return investment prospects. Third, loans allow farmers to better manage the inherent risks associated to the nature of the agricultural production (high variation in weather conditions and prices). Fourth, loans enable farmers to take on large investments. And fifth, loans ameliorate life-cycle problems, in which the young need to acquire farm and household assets often by borrowing from community members whom have accumulated savings (Adams, 1984; Stevens and Jabara 1988).

Many farmers are shifting from subsistence farming to the promotion of new export-oriented corps. However, the shift from subsistence agriculture to commercial agriculture, to production for the world market, has led to the division of tasks and specializations in agriculture. The fertilizers, new seed varieties, controlled irrigation, are no longer supplied by parastatals. The cereal farmers need to obtain supplies from various suppliers at remote locations, and market their own products. In adopting the different farm innovations, farmers need financial resources.

The structural changes in agriculture have increased the demand for farm loans. The increase in loan demand is due to the much greater returns to investment obtainable from the new, more productive farm technologies. It has been proven that easy access to credit facilitates the adaptation and use of new farm technologies and hence increases agricultural production. However, increasing loans to farmers requires the transformation of the rural credit system from limited informal, traditional, local savings and lending arrangements to an integrated formal, national savings and credit system. (Stevens and Jabara; 1988).

The theoretical literature has been amply discussed strategies to alleviate agricultural financing shortages in developing countries. Promoting rural finance in terms of institutional arrangements and provision of an enabling environment for the survival of such institutions have become part of financial management strategy for the alleviation of poverty in the rural setting of an economy. On the matter, we have the traditional agricultural credit projects approach and the new views on rural financial markets (Adams and Graham 1981).

The old consensus in the analytical literature on rural credit is one of the exploitative/evil informal moneylenders, who charged overly high interest rates to borrowers and thus gained large monopoly profits. Formal lenders were perceived as being overly risk-adverse, and often belonged to government regulated loan programs. Loans were considered as an input to agriculture. The farmers were labeled as being conservative. Another assumption was that poor rural borrowers did not have any incentive to save, and that the only way the farmers would adopt new technologies or invest in land improvements was if they had access to cheap loans. The old approach has now been replaced with a perception that interest rates are much less inflated, and money lenders as providing important and difficult services of consumption-smoothing, off-farm income generation and insurance.

All the same, borrowings from the informal market are characterized by high interest rates, and are often tied to a transaction in another market through interlinked contracts. Small borrowers are more concerned by high transaction costs involved in obtaining

loans than the interest rate compared with large borrowers, whose transaction costs are close to zero. Access of the poor to formal sources (banks and other financial institutions) is limited by their lack of collateral.

Usually large farmers and traders have better access to credit than the smallholders, who make up the majority of farmers in developing countries. (Poulton, 1998) studied smallholder cash-crop production in liberalized cotton and cashew markets in Ghana, Pakistan, and Tanzania. They investigated the difficulties farmers face in financing seasonal crop inputs and the mechanisms developed by private traders to supply seasonal credit. It emerged from the study that farmers' limited access to capital is a critical constraint on crop production. Also, the willingness and ability of the private sector to supply farmers with loans limited by the high risk of default on loan repayments and the high cost of information on potential borrowers. Such costs are too high to be recovered by the low returns on the normally small loans taken out by farmers. It was found that "interlocking transactions" had been developed. "Interlocking transactions" are where traders sell inputs or they buy outputs at the same time as providing credit to some farmers. The traders, thus simultaneously reduce the cost of obtaining financial information about their farmer customers and increase their volume of business – and consequently their profits. Findings suggest that interlocking contracts could become an increasingly effective way of helping smallholder farmers gain access to seasonal credit.

However, the system can be limited by a trader's lack of access to capital and if a farmer defaults on the loan repayments by selling his output to another trader instead of the one who lent him money in the first place. Moreover, where traders operate some form of monopoly, they may exploit the "interlocking" system at the farmers' expense. These following policy lessons have resulted from the study: Market structures should combine both competitive and cooperative elements to enable useful systems of credit, inputs, and produce markets to develop. The competitiveness will prevent monopolistic behavior in the sector. There must be some cooperation, as the informal lending is made mostly based on reputation. The higher the frequency of exchanges between traders and farmers, the better is the interlocking system.

Governments should encourage these structures to operate efficiently and equitably, rather than regulating them, by promoting good communication networks, stable macroeconomic conditions, and better access to formal sources of credit for traders and trader investment in crop processing. For a credit program to be successful, (Gordon, 1976) claimed that more than money is needed. There must be a new technology, markets that can supply additional inputs and absorb additional output, institutions willing to lend to small farmers on terms the farmers consider attractive and most important, the farmers willing to borrow, to invest and to repay loans.

Previous programs' focus has been the provision of credit and opportunity for saving mobilization in the rural areas that would enhance productivity and thus improve the social and economic welfare of the rural population. The place of credit in promoting enhanced productivity has been settled in the literature; however, the rural financial intermediation process poses its own peculiar problems. These include the suitability of the existing financial arrangements in the urban economy to rural financial needs. To be successful, (Yaron, 1994) postulates that rural financial institutions must fulfill two basic objectives. These are the objectives of financial self-sustainability and substantial outreach to the target rural population

2.4. Conceptual Frame work

The following conceptual frame work has been developed after review of existing literature will be used to investigate research questions. It will show the relationship between independent variables: high transaction costs, client appraisal process, type of Collateral used to secure credit, credit terms and credit risks, and dependent variable being the lending performance in terms portfolio size and quality.

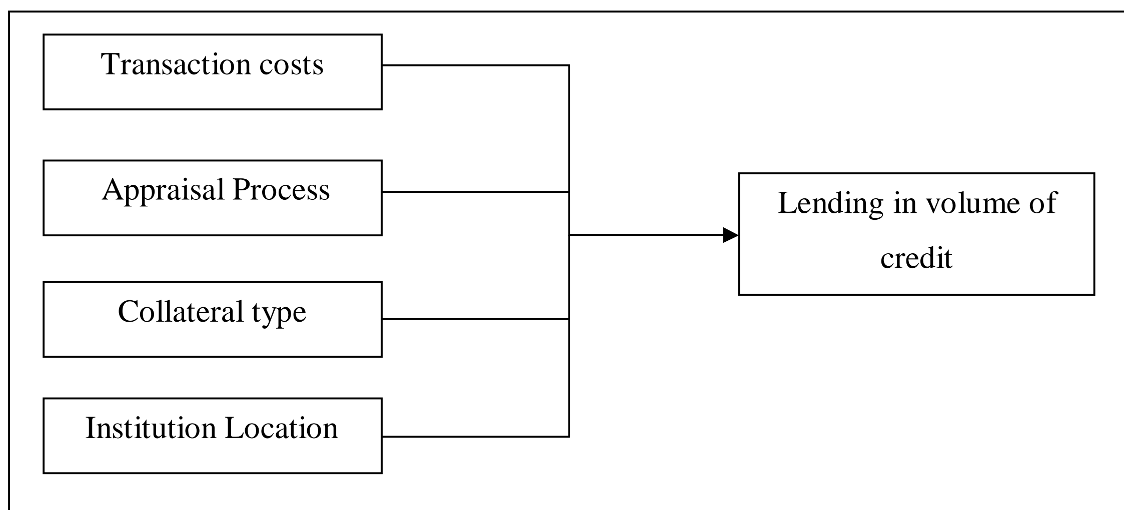

Figure 1: Conceptual Framework

2.4. Empirical Review of the Variables

2.4.1. Transaction Costs

The rate of interest rate charged on the credit determines the cost of the credit. The cost credit is the amount of money the borrower is obligated to pay above the principal sum of money lent.

Saleemi (2007), defined interest as the return on capital. Cost of credit can be classified as; gross interest and net interest. Gross interest is the total amount that the debtor to a creditor and the net interest means the part of interest that is for the use of capital only. The interest rate usually as a percentage of the borrowed amount, determines the amount of interest over duration, which may be a year. High interest rate therefore increases the cost of credit. High interest rate on credit may discourage SME from borrowing reducing the accessibility of credit among them.As a factor affecting accessibility of credit the interest rate charged, on loans ranks high. It also affects the rate of repayment of the loans leading to high rate of default on loans. banks have been criticized for overcharging their clients by setting high interest rates. Most of these interest rate range from 18-20%. With poor business performance worsened by the global economic depression, most businesses are not only unable to repay their current loans but are discouraged from accessing more credit.

Close monitoring of the lending institution by the central bank is required to avoid escalation of interest rates which discourages growth of the sector by reducing the accessibility of credit. The government should also increase competition in the lending sector by creating a fund exclusively for the micro finance institutions. And create a microfinance department within the central bank, instead of being lent by the commercial banks. This will enable them to borrow at competitive rates. It will enable them to; end at lower interest rates and increase available of loans as they pass the benefits to their clients.

2.4.2. Appraisal Process

Granting credit to customers is an important activity for any lending institution. Lenders must therefore ensure a thorough credit evaluation process to fore stalk default. A factor that may lead to the high levels of NPLs in the lending institutions includes; weak credit appraisal process. The purpose of this study was to analyze the credit evaluation process adopted by the financial intermediaries offering loans in Kenya. Further, the study conclude that encouraging movement of surplus money is the most important objective in credit policy and that credit risk manager are used in majority of the organizations in approving loans with very high approval limits ceiling. The study further established that credit period of funds do increase the level of loans defaults while credit appraisal through frequency of loan reviews and considerations made during credit approval do decrease the level of non performing loans of WEF. Moral hazard leading to defaults also happens when loans are not subjected to normal objective credit assessment before disbursement.

2.4.3. Collateral Type

Most banking institutions demand collateral as one of the requirements for the access to credit facilities. This becomes a constraint to SME's most of who may not have deeds to capital assets to present as security against the loans. This factor reduces accessibility of these loans. Furthermore, most lending institutions are more inclined to lending to the large scale businesses who have higher success rate, and repayment rate. The small scale farmers are relegated to the micro finance institutions(MFI's) and 'shylocks' whose lending requirements may further discourage them.

According to Wikipedia, in their definition of an SME, among other factors, lack of collateral is highlighted as one of the key elements, of the business in this sector. Due to this as well as a verifiable credit history, most are therefore unable to access credit.

The situation has led to the advent of micro credit in this sector, where minimal collateral is required as a basis for granting loans. The concept is considered an innovation of Grameen Bank in Bangladesh. In that country it has largely helped the sector to grow by accessing the credit with minimal security requirements. In Kenya, the concept is also developing and should be strengthened by encouraging the growth of the MFI's who finances SME's without collateral requirements.

2.4.4. Location of the Institution

The numbers of small scale traders are many, while the financial institutions with the services tailored to them are few. The loan requirements of the SME'S traders are different from those of the large businesses. This is due to fragile nature of the business among other considerations, such as size, management structure, the capital base etc. Therefore there is need to have many lending institutions whose lending policies are established with such factors in considerations. The few institutions with such considerations are faced by the many small scale traders whose financial demands they may not cater for. This reduces accessibility for those who cannot get credit.

The number of lending institutions and their network of branches is a challenge to the accessibility of loans among the SME's. a wide branch network enables a financial institution to have lower cost of funds. The cost of funds being the amount paid by the banks for its liabilities, including the loans it borrows from other financial institutions. Banks take loans from other financial institutions inn order to lend to the customers where their deposit base is insufficient to cover the amount lent. But a wide branch network bring with it , significant operating expenses in the forms staff costs and structures, Business Daily, may 18, 2009. The few available lending institutions are unable to channel the credit services widely due to the costs involved. To avoid this Central Bank has embarked on an effort that could see commercial banks allowed to use agents, a model that is popularly known as branchless banking

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2.4.5. Lending

Kenya’s commercial lending rates fell to a three-year low last month, with bankers projecting a further decline in coming months. Data from both the Central Bank of Kenya (CBK) and the Kenya National Bureau of Statistics (KNBS) show average lending rates hit 16.49 per cent last month — a rate last seen in June 2011— on the back of easing inflationary pressure, increased competition in the loans market and growth in the economy.

A continued decline in the yields on Treasury securities with the expected issuance of a Eurobond is further pushing down the cost of funds. The latest market perceptions survey by CBK shows borrowers in small banks continue to shoulder a high burden due to the relatively higher rates charged by these lenders compared with their larger counterparts.

Large banks, said the CBK survey, expect comparably lower average lending rates in the remainder of 2014 due to a comparatively lower cost of funds while small banks expect comparably higher lending rates due to a higher cost of funds. Executives in large banks expect lending rates to fall to 14.10 per cent in the coming months while those in medium-sized banks are projecting a drop to 16.39 per cent.

Comparatively, their smaller counterparts see lending rates rising to 17.31 per cent, a signal they are feeling the pinch of costly funds. This has pushed the average rates expectations from the overall banking sector to 16.48 per cent, lower than the 16.56 per cent projected in February, the last time such a survey was done. But cost of funds and increase in demand for loans to finance investments with the pick-up in economic activity could exert some pressure on interest rates to rise,” said CBK Governor Njuguna Ndung’u.

The drop in interest rates could put further pressure on small and middle level banks given that it squeezes their profit margins. Whereas the larger banks — KCB, Equity, Barclays, Co-operative, Standard Chartered and CFC — are able to attract and mobilise cheap deposits, smaller banks must offer attractive rates to attract depositors.

While the average interest rate charged by the banking industry is 16.48 per cent, big banks, middle-sized banks — National Bank, NIC, CBA — and small banks — like Jamii Bora and Fina Bank — charge an average base rate of 14, 16.39 and 17.31 per cent. Microfinance institutions, the majority which struggle to attract deposits, are charging about 19 per cent as their base rate.

Kenyan banks listed the cost of funds as the key determinant of their interest spread— the difference between the borrowing and lending rates— and consequently their lending rates. .. Banks perceive cost of funds, credit risk, liquidity risk, Treasury-bill rates and the Central Bank Rate as being among the most significant determinants of interest rates spreads,” said the CBK The decline in inflation expectations in the remainder of 2014 was attributed to stability in food and fuel prices; monetary policy measures in place; and a stable exchange rate,” said the CBK survey.

“However, the main risks to the inflation outlook were cited as uncertainty on the onset of the long rains, volatile international oil prices; and expected increase in demand with pick-up in economic activity.” The CBK surveyed all commercial banks in Kenya, all MFIs and at least 100 non-bank private sector. The drop in interest rates comes even as both the Competition Authority of Kenya and the CBK — which formed a joint committee with Treasury — to investigate the cause of the relatively high lending rates in the country.

2.5. Research Gap

The research gap is based on scanty of literature linking factors that affect the institutional lending performances of both formal and informal credit institutions in determining the active number of loans and use of credit facilities by small-scale farmers in Kenya.

Empirical investigations have shed light on the effects of the various factors enumerated above on agricultural credit supply and administration, for instance, employed econometric techniques to analyze the effect of credit policies on agricultural credit supply. It has also been assumed that the lending behaviour of financial institutions is influenced by credit allocation and interest rates policies, rural savings mobilization and available incentives such as guarantees and refinance facilities. This often created serious bottlenecks in availing credit to farmers.

Though research has previously been done on Agriculture credit, there is limited literature on Transaction costs, client appraisal process, type of collateral used and distance the financial institution is located and how they affect lending which is assumed to diminish the number of clients in the institutions. This has necessitated this study.

2.6. Summary

2.6.1. Transaction Costs

Transaction costs in credit markets therefore are indirect financial costs generated by various processes, including the costs of searching and collecting relevant information. They are indirect costs caused by frictions in the flow of credit funds, preventing credit markets from reaching efficient market equilibrium (Nalukenge, 2003). Consequently transaction costs of lending consist of the costs of administering credit, coordination costs and the costs of the risk of default. It’s further highlighted that administrative costs are those, which are directly attributable to the processing, delivering and administering of loans while coordination costs are those resources a financial institution dedicates to ensuring that clients adhere to terms stipulated in loan contracts (Saito & Villanueva, 1981). According to Polski and Kearney (2001), banking activities generate two types of transaction costs, which are subject to different political and economic influences. They further note that one type of transaction costs, interest expense, reflects the costs of funds for banking activities and the second type, noninterest expense, reflects the costs of information and co-ordination. Shankar

(2007) went further to break down transaction costs into indirect and direct. Direct transaction costs consisting of training costs, cost of direct administrative activities and cost of monitoring. He further noted that indirect transaction costs include allocated fixed costs of the branch office, regional office and head office, depreciation and taxation costs.

2.6.2. Credit Appraisal

Lending institutions need to measure the probability of default of borrowers. The ability to do this largely depends on the amount of information the financial institution has about the borrowers. At the retail level, much information needs to be collected internally or purchased from external credit agencies. At the wholesale level the information sources include publicly available information such as certified accounting statements, stock and bond prices and analysis reports. The availability of more information along with lower average cost of collecting such information allows financial institutions to use more sophisticated and usually more quantitive methods in assessing default probabilities for large borrowers compared to small borrowers. (Saunders, 2002).

According to Seyfried (2001) Credit appraisal process is a wholistic exercise which starts from the time a prospective borrower walks into the bank and ends in credit delivery and monitoring with the objective of ensuring and maintaining the quality of lending and managing credit risk within acceptable limits. The quality of credit appraisal processes depends on two factors namely, a transparent and comprehensive presentation of the risks when granting the loan on the one hand, and an adequate assessment of these risks on the other hand,(Seyfried, 2001). Furthermore the level of efficiency of the credit appraisal processes is an important rating element due to the considerable differences in the nature of various borrowers (private persons, listed companies)and the assets to be financed (residential real estates, production plants, machinery) as well as the large number of products and their complexity, there cannot be a uniform process to assess risks (Seyfried 2001).

2.6.3. Types Collateral

Loan collateral is required on most large loans. Land loans tend to be expensive because the price of a piece of land is high in most markets. You will need to give the lender some assurance you will not default on this large sum. Your credit score and income are part of the assurance you can provide. Aside from these items, collateral is the strongest guarantee you can offer a lender. Consider these sources of collateral.

- The Land Itself

It may go without saying that the land you are purchasing will be used as collateral on the loan. Compare a land loan to a mortgage loan. With a mortgage, you do not technically own a property until the debt is paid off. The mortgage lender holds the deed. Your name may be on the deed, but the lien will show it is property of the lender until paid. As you begin to pay the debt, you start taking over parts of ownership in the home. This is called your equity in the home, and you can even use this equity as collateral down the line. A land loan is very similar. You will not own the land outright if you buy it using debt. Instead, the debt holder will technically own the land until the debt is paid off. While this is the most common source of collateral, there are other options you can provide to additionally secure the loan.

- Properties

If you own a piece of property, you can use this property as collateral on essentially any other loan. This includes a home, car or office building. Any physical asset owned by you can have a lien added to it. A lien must be added officially, and the lender will typically take care of this step for you and charge you closing costs for doing so. The lender files the lien with the county registrar in the county where your property is owned and registered. If you intend to make changes to the property, such as selling it or using it as a lien on another loan, the registrar will verify this is allowable based on any current liens.

- Stock and Savings

Physical assets are not the only ones that can be mortgaged through liens. Investments and savings can also be used to secure a land loan. In this case, you will benefit by knowing interest is still being earned on the asset while it is held by the lender. In the example of a stock certificate, you may not want to liquidate the stock and surrender potential future earnings. As such, you can take a loan against it, and the stock certificate is only held by the lender for a short period of time. If the loan charges 5% interest and you gain 2% on the stock during that period of time, you will actually only be paying 3% interest on the loan. Savings accounts and other investment products can be used to secure loans under the same principles

2.6.4. Credit Risks

Credit risk management is the process of evaluating risk in an investment. When the risk has been identified, investment decisions can be made and the risk vis a vis return balance considered from a better position. Credit risk can be reduced by monitoring the behaviour of clients who intend to apply for credit in business. These clients may be businesses or individuals (Altman 2002).

Credit risk can be reduced by monitoring the behavior of clients who intend to apply for credit in the business. These clients may be businesses or individuals (Altman, 2002). It is the responsibility of management to set up a credit administration team to ensure that once credit is granted it is properly administered. Procedures for measuring a firm's overall exposure to credit risk as well as stringent internal rating system should be adequate. All companies that do not currently have independent risk management structures must immediately set up units that will concentrate fully on the risk management function. This risk management function within an institution should report directly to the board to ensure independence (Altman, 2002).

Lenders mitigate credit risk using various methods which include; risk based pricing, covenants, credit insurance and credit derivatives, credit tightening, diversification, credit insurance, factoring, debt collection, surety bonds and securitization and netting off(Stultz,1985).
According to Stanley (2006) corporates face a number of credit risk exposures that could be managed with credit derivatives. As applied to corporate finance, credit risk management is a technique for measuring, monitoring and controlling the financial or operational risk on a firm's balance sheet. Credit risk management literature focuses on identifying equilibrium scenarios in which a firm minimizes the total variability of its cash flows (Smith and Stultz, 1985) .The role of risk management is to mitigate the cost associated with cash flow volatility that result from capital market imperfections thus creating value for shareholders.

3. Research Methodology

3.1. Introduction

This chapter covers the research design plan for the project, the population, sampling frame, sample and sampling technique, instruments of data collection, area of study, target population and sampling design, data collection procedure to be used, data processing and analysis techniques to be used.

3.2. Research Design

The research was a case study and used descriptive research design. Descriptive research involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 1984). It often uses visual aids such as graphs and charts to aid the reader in understanding the data distribution. Descriptive research involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 1984). It often uses visual aids such as graphs and charts to aid the reader in understanding the data distribution. Three main purposes of research are to describe, explain, and validate findings. Description emerges following creative exploration, and serves to organize the findings in order to fit them with explanations, and then test or validate those explanations (Krathwohl, 1993).
A case study is an in-depth study of a particular research problem rather than a sweeping statistical survey. It has been used so as to narrow down this broad field of research of Agriculture financing into a few easily researchable variables. It was chosen as a design because not much was known about a phenomenon under study.

3.3. Target Population

The target population in this study referred to all the 500 staff members and farmers of agricultural finance Corporation within the 45 branch net work in Kenya. The farmer targeted by the research are those who have been borrowing from afc or those who may have intended to borrow and their loan were rejected because they were unable to meet the requirements. Due to financial and time constraints it is not possible to collect data from every staff member in the study. Therefore, a randomly selected sample size of 100 staff members was selected from across the 42 branches to maintain objectivity. The staff members so selected were representative enough of the study population to form the subject of the study.

3.4. Sampling Frame Work

Due to the fact that the staff member are widely distributed virtually in all 42 branches of Kenya and offering virtually similar products and services, simple random sampling was found to be more appropriate in obtaining data compared to other methods. In this a number was given to every member of interviewees because some questionnaires were administered orally subordinate staff. The questionnaires contained both open ended and closed ended type of questions. In the closed ended type of questions, all possible alternatives from which respondents selected the answer that best described the situation were provided. The open ended type gave the respondents the choice to respond in their own words.
Both methods were found to be advantageous. For closed ended questions they were easier to analyze since they are in an immediate usable form, economical and easier to administer. Open ended question also gave the respondent freedom to respond giving greater depth of response; it gave insight to the feelings of the response among other advantages. Therefore these instruments were very appropriate for the study3.5. Sample Size and Sampling Technique
The sample size of 50 staff members and 50 clients will be chosen as representative of the population. This was reached by applying Israel, Glen D. (1992) way of determining sample size.

$s = [X\ 2NP(1-P)] \div [d\ 2\ (N-1) + X\ 2P(1-P)]$

s = required sample size.
$X2$ = the table value of chi-square for 1 degree of freedom at the desired confidence level
(3.841).
N = the population size.
P = the population proportion (assumed to be .50 since this would provide the maximum
sample size).
d = the degree of accuracy expressed as a proportion (.05).
Simple Random sampling will be employed to sample both the staff and the farmers in the selected Business units which are also chosen randomly.

3.5. Data Collection Methods

Interview schedule was used to obtain data from the respondents. The method was preferred because the face to face encounter encouraged the respondents to be more co-operative in providing the information. Among other advantages included ability to obtain in-depth data than with the use of other methods, clarify and elaborate the purpose of research among others. In combination with this method questionnaires were also used. The questionnaires contained a list of simple, structured questions, chosen after considerable testing for the purpose of obtaining reliable information from the respondents. There was a need for using a combination of questionnaires and finally the data was presented in bar graphs and pie charts.

3.6. Data Analysis and Presentation

Statistical data analysis techniques such as Ms. Excel and SPSS were used in the analysis of the information obtained. Farther, both qualitative and quantitative data analysis techniques were used in order to help bring out the information clearly. These analysis enabled patterns and relationship to be formed which were not apparent in the raw data. A sampling frame of hundred staff members were obtained from afc human resource department. The staffs were allocated numbers. The numbers were then placed in container and were picked at random; the subjects responding to numbers picked were included in the sample. The subjects were then interviewed. Data was collected, captured in spreadsheets for data sorting and coding for analysis. Regression analysis, percentages and mean was used for data analysis. Descriptive statistics was used to compare independent and dependent variables. These were presented graphically and tabulated. Regression analysis was used in defining the model on the factors affecting lending by Agricultural Finance Corporation.

4. Research Findings and Discussions

4.1. Introduction

This chapter presents the study findings and interpretations followed by discussions on the findings. The purpose of the study was to assess factors affecting lending by agriculture financing institutions. This chapter focuses on data analysis, presentation, interpretations and discussions of the findings. We made use of frequency tables, charts, percentages to present the data. The targeted sample of 100 staff was from AFC was interviewed using questionnaires, responses were obtained. The targeted sample response rate was 100 percent.

Summary of the data analysis.

The distribution of the respondents according to the type of business follows; Salon and Berber shops;20.8%, Chemists, 16.6%, Agro business shops;16.6%, Hardware shops;12.5%,Hotels;10.4%Bars;8.3%, Supermarkets; 8.3% and Book shops;6.3%.

Majority of the respondents were males with a value of 54% . in terms of age those represented with highest percentage were at between the ages of 31-35 years at 29.2%. the ages between 36-40, 26-30, 20-25, and over 40years, had 20.8%, 16.7%, 14.7% and 18.7% respectively.

Out of all respondents, 35.5% had primary school level of education, 27.1% secondary school level, 20.1% had college and university level, while 16.6% had below primary school level f education.

The source of start up capital of the respondents varied; with 41.7% having been financed by family members, 33.3% from personal savings, 16.7% from bank loans and only 8.3% from other sources. Of these sources only 6.3% were of above ksh.250, 000, 33.3% were below kshs. 50,000 ,22.9% were between kshs.51,000-kshs.100,000, 16.7% between kshs.101,000-kshs.150,000, 12.5% between kshs.151,000-kshs.200,000, while 8.3% started with kshs.201,000-kshs.250,000.

Majority of the respondents (54.2%), were of the view that banks charged high interest rates. This was followed by, MFI's, SACCO's, and informal lenders at 41.2%, 35.7%, and 33.3% respectively.

Forty percent of the respondents would prefer personal savings to expand their businesses. Those who would source their expansion funds from MFI's were 21.%, while family sources, SACCOs and bank loans were 17%, 13% and 7% respectively.

Majority of the respondents had no professional business training (79.2%). The remaining had training skills in business management, book keeping, entrepreneurship, and accounting, represented by4.2%, 6.1%, 4.2% and 4.2% respectively. Those with other non business related training were only 1% of the total.

Fifty percent rarely read newspapers and other financial publications. Only 31.3% often read and 16.6% very often. Majority at 62.5% feared borrowing loans, while 37.5% did not. Also 58% of the respondents thought their educational background was constraint to application loans.

Majority did not own assets, as shown with a value of 72.9%. Those who owned land, house, vehicle and other assets were 12.5%, 8.3%, 4.2% and 2.1% of the total.

Fifty eight percent had at one time experienced a rejection of loan application due to lack of collateral, while 42% had not. Fifty eight of the respondents thought the number of institution offering loan facilities were few. Those who thought they were many and very many were 25% and 16.7% of the total. Sixty four percent of the respondents thought there need to license more financial institutions while 35.4% thought there no need.

The loan application process was also thought to be discouraging to the respondents. Majority said it was lengthy and complicated. Many of the respondents also were of the view that collateral demanded by the banks discouraged them from borrowing.

4.2. Response Rate

The researcher interviewed a total of 100 staff member who formed the sample population of the study. The response rate was 100%. This gave the results of the study and conclusions drawn be less biased. The conclusions drawn from the research from the sample represented the population adequately.

4.3. Background Characteristics

The respondents included staff member who were well trained and qualified to handle credit. They had credit experience ranging from three years to twenty years. All the staff respondents were from agriculture Finance Corporation. They range from credit officer who appraise the loans to senior managers who supervise the credit process and administration. The credit administration process deals with client recruitment, interview, farm visit, appraisal, credit disbursement, post disbursement verification and monitoring monthly repayments.

4.4 Demographic Characteristics

Gender	Frequency	Percent
Male	66	66.7
Female	33	33.3
Total	**100**	**100**

Table 1: Gender of AFC staff

Demographic characteristics of the respondents' were done. This was to establish the gender composition of the afc staff selected as sample to represent the population. The table 1 below shows that out the 100 respondents 66 were male which represent 66.7 percent of the sample. The female respondents were 33 which represent 33.3 percent of the sample. Majority of the respondents were males with a value of 66 percent.

Age (Years)	Frequency	Percent	Cumulative Percent
25 – 35	26	36.7	36.7
36 – 45	23	33.3	70
46 – 55	21	30	100
	Totals	**70**	**100**

Table 2: Age of the AFC Staff

Table 4.2 provides information on the age brackets of the respondents. The results were that 36.7% were of the age bracket of 25 – 35 years. They represented the highest number of the respondents. While 30% was of the age bracket of 46 – 55. This age group represented the lowest number. The age bracket of 36- 45 was 33%. The research shows that 70% of the afc staff members are below 46 years.

Length (Years)	Frequency	Percent	Cumulative Percent
Less than 1	8	26.7	26.7
1 - 2	11	36.7	63.3
3 - 5	6	20	83.3
6 – 10	4	13.3	96.7
Above 10	1	3.3	100
	Totals	**30**	**100**

Table 3: Length of borrowing (years)

From table 3 above the researcher sought to find out the duration which the clients have been borrowing from afc. The results were as follows: 26% were new clients. They had borrowed from afc for less than a year. It is clear that 36.7% of the clients had borrowed in afc for less than two year. While 20% have borrowed from afc between 3-5 years. Only 3.3% had been in afc for more than 10 years. And those who have long borrowing period are above 60 years of age.

4.4. Factors to consider when selecting institution to borrow from

The researcher sought to establish the factors that clients consider while choosing the financial institutions to get credit from. The table 4 below shows that 19.8% consider interest rate the institution charges, 15.4% consider other loan costs apart from the interest rate. The strength of the institution plays an important role with 12.1%. Quality of service offered and the stability of the institution had 9.9% role to play in choosing a fancier. Turnaround time, institutional reputation and past borrowing experience played only 8.8% in choosing the institution. The trustworthiness of the institution was the least factor important to client in choosing where to borrow, only 6.6%. Favorable interest rates on loans, favorable charges and strength of AFC brand were the factors that are highly considered.

The factors that are least considered include trustworthiness, reputation, past experience with AFC and turnaround time. This shows that whether the client is new or existing the most important factor is the cost of the loan.

Factor	Frequency	Percent
Strength of the Brand	11	12.1
Quality of service	9	9.9
Turnaround time	8	8.8
Favorable interest	18	19.8
Favorable loan charges	14	15.5
Reputation	8	8.8
Trustworthiness	6	6.6
Previous borrowing experience	8	8.8
Institution stability	9	9.9
Totals	**91**	**100**

Table 4: Cross tabulation of Aspects and time respondent has been AFC Client

From table 5 the researcher sought to find out whether the duration the client had borrowed from the institution had influence to the clients choice of the institution. The results were as follows: 10.2%, choose the institution based on the interest charged on the loan. It reveals that 8% choose the institution based on the other costs of the loan rather than interest. Quality of service and institutional stability played an important role in making the choice, with 5.1%. The least factors to consider are turnaround time, institutional reputation and past experience. It can be noted that majority of the clients are new customers who have been with AFC for period less than two years. Many clients considered financial aspect as opposed to non financial aspects.

Factors	Time AFC Client					Total	Percent
	Less than 1	**1-2**	**3-5**	**6-10**	**Above 10**		
Strength of its Brand	4	5	1	0	1	11	6.2
Quality of its customer	2	4	1	1	1	9	5.1
Turnaround time	3	3	0	1	1	8	4.5
Interest rates on loans	3	10	4	1	0	18	10.2
Favourable charges	6	4	3	1	0	14	8
Reputation	3	2	1	1	1	1	4.5
Trustworthiness	3	2	0	1	0	6	3.4
Past experience with institution	1	3	1	2	1	8	4.5
Stability of the institution	3	5	0	0	1	9	5.1
Total	**28**	**38**	**11**	**8**	**6**	**84**	

Table 5: Aspects Clients Consider in Selecting AFC to Finance them

From figure 2 below the researcher sought to find out how the respondents say about that cost of obtaining credit from afc. The majority (63.3%) of the respondents indicated that the cost of credit by AFC compared to other institutions is favorable. Still 30% indicated that the cost of credit is too high while 6.7 % indicated that the cost of the credit is moderately high. AFC offer subsidized credit facilities to farmers. The interest charged on the loans advanced to farmers is much lower than the interest by banking institutions. Government continuously intervenes in agriculture for reasons of food security, protect strategic export crops and ensure rural employment and incomes. It often does this through provision of credit facilities that are affordable to farmers and debt forgiveness.

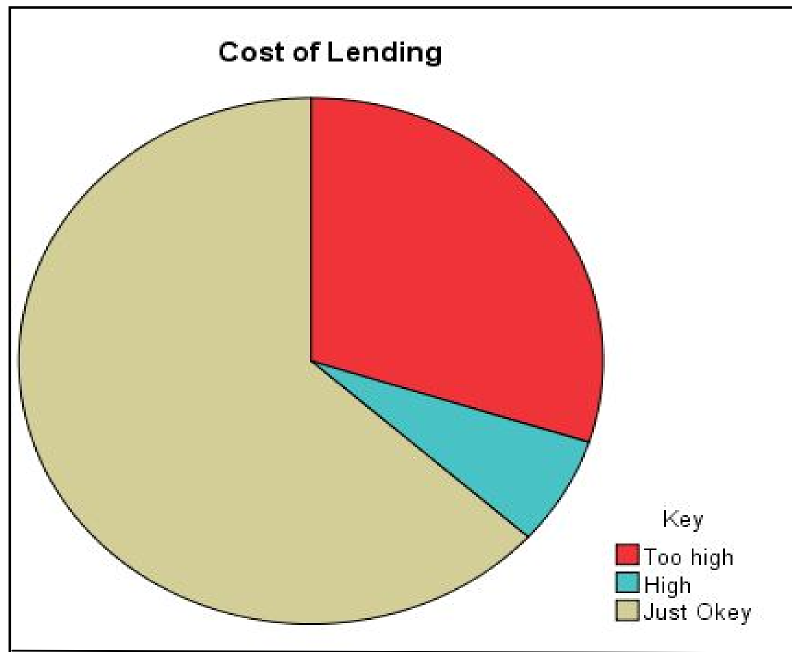


Figure 2: AFC Lending Cost Compared to Other Lending Institutions

Table 6 below the researcher sought to establish the order in the cost of credit affect clients' decision to borrow. The respondents' were asked to rate each of the costs based on the scale, 66.7% indicated that interest rate was favorable, 50% indicated that loan application fees was affordable and they had no problem with it, 43.3% indicated that loan commitment fees was okay and 36.7 indicated that conveyance fees was okay. On the other hand 16.7% responded that the interest was too high, 33% said loan application was high while 36.7% felt that legal fees was too high. However generally the cost of credit from afc was acceptable to both new and existing clients.

Level	Loan commitment Fee	Loan Application Fee	Interest Rate	Conveyance Fee
Too high	33.3	33.3	16.7	36.7
Moderate	23.3	16.7	16.7	26.7
Okay	43.3	50	66.7	36.7
Total	**100**	**100**	**100**	**100**

Table 6: Costs that Influence Clients Decision to Borrow

In table 7, the researcher sought to know which factor (cost) has the highest influence to the clients' decision in borrowing from AFC and the level of influence of each of the costs. These findings are summarized as below. Majority of the respondents (55%) are influenced by interest charged on the loan. They felt is affordable and favorable to them. 18% respondent that the loan application fees charged on loan is favorable, 16% responded that loan commitment fees is good and affordable while only 10% considered conveyance fees favorable compared to other institutions.

Cost	Frequency	Percent
Loan commitment fee	8	16
Loan Application Fee	9	18
Conveyance Fees	5	10
Interest Rate	27	55
Total	**49**	**100**

Table 7: Costs that Influence Clients Decision to Borrow

4.8. Transaction Costs in lending by Agricultural financial Institutions

The researcher provided list of costs charged by financial institutions and sought to know the ones which are charged by afc. The aim was to identify the most common transaction costs charged on credit. The respondents were asked to tick fees and charges that are loan related. A list of fees and charges was provided and they were to indicate all those relate to loan in their institution. The summary of the findings are presented in the Table 8 below: Respondents showed that transaction costs that are charged on agricultural loan

related include loan application fees 18%, discharge security fees 16.2%, legal fees 13.8%, processing and administration cost 12% and advance commitment fees 11.4%. All other costs were not significant in agriculture lending.

Charges/Fees	Frequency	Percent
Application Fees	30	18.0
Advance Commitment	19	11.4
Arrangement Fees	9	5.4
Processing Administration	20	12.
Loan Monitoring	12	7.2
Insurance Fee	10	6.0
Legal Fees	23	13.8
Stationary Fee	3	1.8
Discharge Security	27	16.2
Renewal Facility	3	1.8
Restructuring Facility	11	6.6
Total	**167**	**100.0**

Table 8: Loan related Charges and Fees

4.5. Appraisal Process

The Credit Apparaisal is a holistic exercise which starts from the time a prospective borrower walks into the branch and culminates in credit delivery and monitoring with the objective of ensuring and maintaining the quality of lending and managing credit risk.
The process of Credit Appraisal is multidimensional and includes- Management Appraisal, Technical Appraisal, Commercial Appraisal, Financial Appraisal and Economic Appraisal.
Management Appraisal has received lot of attention these days as it is one of the long term factors affecting the production of the concern.
The researcher sought to establish the aspects that AFC consider before availing credit to its customers, respondents were asked to indicate the level of importance of each of the aspect the following aspects: character, condition, commonsense, contribution, collateral, capacity and control. Respondents were to rate each aspect on a point scale where 1= very unimportant, 2 = somewhat unimportant, 3 = important, 4= somewhat important, 5= very Important. Data was analyzed through mean scores. The higher the mean score the greater the importance of the aspect and the lower the mean score the lesser important the aspect is. Results are shown in table 9 below: Character had mean score of 3.77, contribution had 3.57, collateral had a mean score of 3.47 and condition had 3.30. This implies that Character, contribution, collateral and condition were the aspects with the greatest scores. These factors that are most important which client were required to fulfill before being given a credit. Control, capacity and condition had the least mean score and in addition their mean score was below grand mean. They are least considered by AFC when availing credit to client.

Factor	Mean	Std. Deviation
Character	3.77	1.633
Condition	3.30	1.343
Commonsense	3.13	1.196
Contribution	3.57	1.278
Collateral	3.47	1.525
Capacity	3.07	1.552
Control	3.10	1.094
Grand Mean	**3.30**	

Table 9: Aspect that AFC consider before Availing credit to Clients

Both staff and clients were asked to describe the method of appraisal used. They were to describe if the process was qualitative or quantitative and if it was objective or subjective. From figure 10a and 10 below. it is clear that both qualitative and quantitative methods are used in loan appraisal. But in both case both staff and client indicated that the decision of the appraisal process is subjective other that objective.

a) Staff			
Method	**Objective**	**Subjective**	**Percent**
Qualitative	1	10	36.7
Quantitative	1	11	40
Other	0	7	23.3
Total	**2**	**28**	**100**

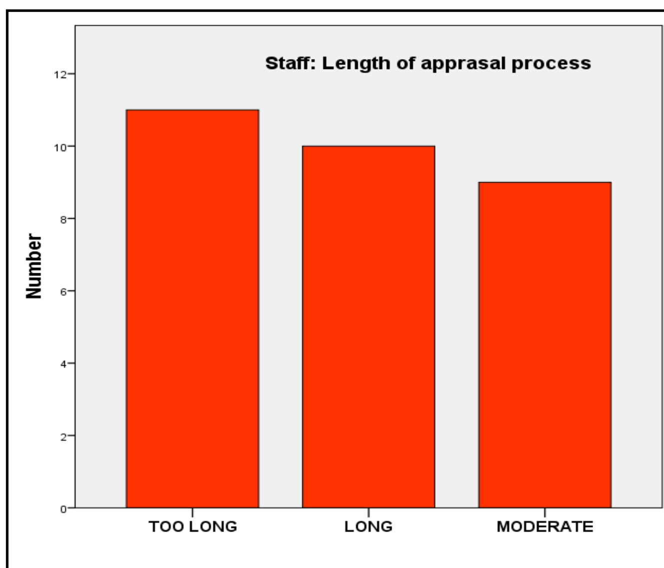
Table 10a: Methods of Appraisal

The results from table 10a, 40% of the staff described the appraisal process used is both quantitative and qualitative. They described it as demanding time consuming and subjective. It is one of the factor that act as deterrent to volume of client in afc.

b) Client			
Method	**Objective**	**Subjective**	**Percent**
Qualitative	0	1	3.3
Quantitative	0	17	56.7
Others	1	11	40
Total	**1**	**29**	**100**

Table 10b: Methods of Appraisal

From table 10b, 56.7% of the clients' respondent described the appraisal process as subjective. This means more than half of the clients are not comfortable with the appraisal process used.
In figure 3 the researcher sought to know from both staff and clients how prompt is the appraisal process. Results indicate that both respondents find loan appraisal processing takes too long. In addition client indicated that even after appraisal has been done and the approval is communicated it still take long time to disburse the loan amount as indicated below.



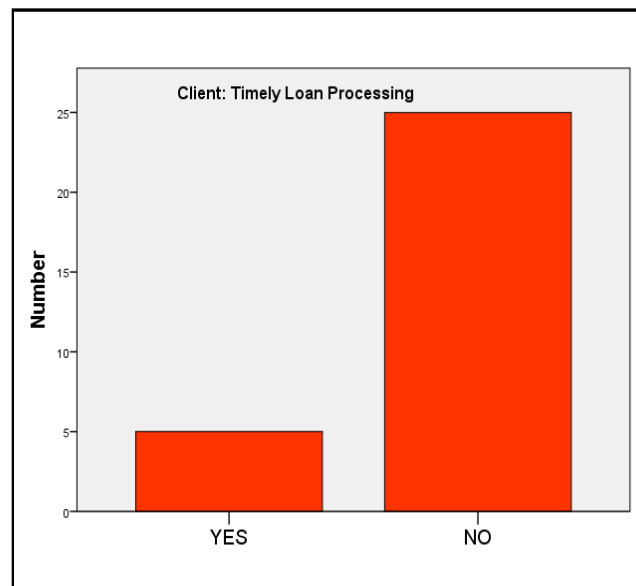


Figure 3: Finding on Time Appraisal Takes

Table 11 the researcher sought to know the length of appraisal process, 70% of the respondents described the process too slowly and does not adhere to the time frames of agriculture projects some of which are too seasonal. It is only 3.3% who consider the appraisal process as appropriate.

Appraisal	Frequency	Percent	Cumulative Percent
Too Slow	21	70.0	70.0
Moderate	8	26.7	96.7
Okay	1	3.3	100.0
Total	**30**	**100.0**	

Table: 11 Finding on Loan Disbursement

4.6. Collateral

In effort to establish collateral that that is commonly required by agricultural based institution respondents both staff and client were called for to indicate collateral commonly required by AFC and also indicate availability of the asset. Table 12 (a) the staff respondents 49.2% indicate that land is the most common collateral required, 25.4% movable assets such as motor vehicles, livestock and machinery are the second commonly collateral asked. Others like stock, saving are also required but not very significant. The summary of the respondents are as below:

(a) Client: Collateral Frequencies			
Collateral	**Number**	**Percent**	**Percent of Cases**
Land	29	49.2	96.7
Movable Asset	15	25.4	50.0
Stock	8	13.6	26.7
Saving	4	6.8	13.3
Others	3	5.1	10.0
Total	**59**	**100.0**	

Table 12a: Finding Collateral Commonly Required by Institutions

Table 12b the client were asked to rank the collateral in terms of the most commonly required to the least commonly require. The results were as below: 93.3% said land is the collateral commonly required to secure the loans advanced. Only 3.3% cited that moveable assets and savings are required as collateral for the loan. It is clear that land is the commonly required collateral, followed by movable assets. Saving and stock are least required collateral.

Collateral	Frequency	Percent	Cumulative Percent
Land	28	93.3	93.3
Movable Assets	1	3.3	96.7
Saving	1	3.3	100.0
Total	**30**	**100.0**	

Table 12b: Finding Collateral Commonly Required by Institutions

Table 13 the research sought to establish the most commonly available collateral among the ones required by the institutions. Savings scored 53.3%. While land scored 16.7% in availability yet it is the most required collateral. Land also score 60% as the hardly available collateral while stock scored 3.4% as the hardly available asset. The results from the table shows that saving and stocks are most available collaterals with 53.3% and 19.7% respectively while land and movable assets are hardly available collaterals with 60% and 31.7% as indicated in table 4.13 below. The commonly required collaterals are the least available and on the other hand the most available collateral is the least required. This indicates a disconnect between the most require collateral and the most available collateral. This gap may be locking out so many farmer who may wish borrow from the AFC to finance their agricultural project yet they lack the most required collateral.

Availability (percentage)	**Land**	**Movable Asset**	**Stock**	**Savings**
Most Available	16.7	15.0	19.7	53.3
Somewhat Available	3.3	16.7	46.6	20.0
Hardly Available	20.0	36.6	23.7	23.3
Very Hardly Available	60.0	31.7	10.0	3.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

Table 13: Finding on Availability of the Collateral

The researcher asked the respondents the source of their credit whether it is from formal or informal institutions. Table 4.14 shows 43% got from informal institutions while 37% get from formal institutions.

The researcher tried to establish the distance of the nearest formal institution. The results shows that 20% had no idea of the location of any formal institutions, 80% knew the location of formal institutions, out of the 80% only 49% had applied for credit, 51% had not applied . Only 23% had applied credit from formal institutions.

4.7. Discussion

In 2011 and 2012 Kenya experienced high inflation rates and many banking institution adjusted their interest upward. During that period AFC subsidized interest rate and thus remained low compared to the market rate. This could have precipitated influx of customer to AFC in the last two years.shown that 54.2% of the respondent's banks charged high interest rates followed by MFI's at 41.2%. SACCOS and Informal lenders charged 37.5% and 33.3% respectively.

4.2.7 Preferred source of finance for the expansion of business. The result from figure 4.8 shows that most of the SME's would prefer to use personal savings in expanding their businesses. This is shown by a value of 42%.The next best source would be the MFI's at 21%. Family members and SACCOS follow at 17% and 13% respectively. Bank loans would be preferred by the least number of respondents 7%. The information obtained shows that the majority of the respondents (62.5%) had a fear for borrowing loans, while 37.5% did not experience any fear when borrowing loans.

4.2.11 whether the education level, would affect the loan application request.

Source; Author (2009).

According to the results obtained many of the respondents did not have title of ownership of the assets indicated. This was shown by a value of 72.9%. Those owned either a house, vehicle, land, or other assets were represented by 8.3%, 4.2%, 12.5% and 2.1 percent respectively, which were small percentages.

Rejection of loan application

Source; Author (2009)

As indicated in fig 4.14 majority of the respondents had their loan application rejected at one time at one time. This is shown by a value of 58% of the respondents, with those whose loan application had not been rejected being 42% of the total.

14 the number of financial institutions offering credit facilities.

The respondents were also asked on the number institutions that they knew offering credit facilities. The results are shown in table 4.15

Table 4.15 the number of financial institutions offering financial services.

Opinion	frequency	Percent frequency
Very many	8	16.7
Many	12	25
Few	28	58.3
total	48	100

the number of financial institutions offering credit facilities

Source; Author (2009)

From fig 4.15 it can be shown that many of the respondents were of the view that there were few financial institutions offering credit facilities. This was found to be 58% of the total respondents. Those who there were 'many' or 'very many' were 25% and 16.7% respectively.

4.2.15 licensing of more financial institutions

The researcher sought to find out on the need for more financial institutions offering credit facilities to be licensed. The result were as shown in table4.16

Table 4.16 Licensing of more financial institutions.

Opinion	No. of respondents	Percent frequency.
Yes	31	64.6

the number of financial institutions offering credit facilities

Source; Author (2009)

From fig 4.15 it can be shown that many of the respondents were of the view that there were few financial institutions offering credit facilities. This was found to be 58% of the total respondents. Those who there were 'many' or 'very many' were 25% and 16.7% respectively.

4.2.15 licensing of more financial institutions

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Table 4.16 Licensing of more financial institutions.

Opinion	No. of respondents	Percent frequency.
Yes	31	64.6

2 Lack of understanding of the loan process.

Majority of the respondents expressed fear for borrowing of loans. The researcher investigated whether the loan application process was the reason. The respondents explained that the loan application process was lengthy, with a lot forms to fill, which discouraged them.

4.3.3 Explanation on how lack of collateral is a constraint to loan application.

The respondents were asked to explain how lack of collateral was constraint to loan accessibility. Majority of them thought it to be a major constraint. They explained that the financial institutions placed a lot emphasis on the requirement for collateral before a loan could be processed. Farther they did not have title of ownership for such assets as demanded by the financial institutions

5. Summary, Conclusion and Recommendations

5.1 Introduction

This chapter presents the summary, conclusions and recommendations drawn from the findings.
Majority of the respondents were discouraged by the loan application process, and thought it was and complicated.
Lack of collateral was a major issue with the majority of the respondents, as they thought it was a constraint to accessing of loans.
5.2 Answers to Research questions.
5.2.1 Does the interest rate charged on credit facilities affect the accessibility of credit?
Fifty four percent of the respondents were of the view that the banks charged high interest rate. This made many of the respondents (42%) to avoid bank loans and prefer personal savings if they would seek to expand their business. Clearly, the above data shows that the interest rates charged by banks on loans are high and have a negative effect on the accessibility of credit facilities to the SME's.
. Most institutions also insist on well written business proposals and business records which most could not keep because, of low levels of literacy. Also the lengthy loan application procedure could pose a challenge and discourage the less literate loan applicant. Because of the failure to understand the loan application process majority also expressed fear for loans.
5.2.3 Does the number of credit lending institutions affect the accessibility of loans?
It was clear also from the findings that the number of financial institutions, offering credit services was few, as attested by 58.3% of the respondents. Farther, 64.6% of the respondents thought there were need to license more financial institutions offering credit facilities. This shows there is a higher demand for credit facilities than supply. Therefore majority of the businesses are unable to access credit because the institutions offering these facilities are few compared to the need for the services. When the numbers of financial institutions offering these services, are few the business people resort to personal services, and family members as sources of finance this is shown by 42% of the respondents.
5.2.4 Does the demand for collateral by the financial institutions affect accessibility to credit?
This was shown to be one of the major factors affecting accessibility to credit facilities among the SME's. Seventy two percent of the respondents owned no respondents owned no land, vehicles or houses which are some of the major assets required by financial institutions as collateral. Due to this were unable to access credit facilities. And since 58% of the respondents had at one time experienced a rejection of loan application due to lack of collateral, the data showed clearly the demand for collateral was a major constraint to credit accessibility among the SME's.

5.2 Summary

The study sought to establish the effect of factors affecting lending by agriculture based financial institutions in Kenya. In specific it sought to establish how transaction cost, collateral type and client appraisal process affect lending by agriculture based institutions. On transaction cost the study found application fees, advance commitment, processing administration cost, legal fees and discharge security to be the costs that greatly affect Agricultural lending. These are the costs that significantly contribute towards the transaction cost. Generally the cost of borrowing from AFC is lower that cost of borrowing from other lending institutions.
Respondents were asked about the credit source nearest to them in terms of physical proximity. A total of 110 respondents (43%) mentioned informal sources, (37%) mentioned formal sources and 20% had no idea about the credit source nearest to them.
Despite the fact that only 20% of the respondents had no idea about the nearest credit source, while up to 80% knew where they could get credit, only (49%) had ever applied for credit from any of the sources. The remaining 51% had not applied. Out of those who had applied, a total of 37 (23%) had applied from formal sources while 67 (77%) had applied from informal sources.
The study revealed that, 9 percent of respondents pointed out cumbersome procedure and nearly 29 percent narrated that they do not need credit. The results were consistent with Carter, (1988); Carter and Weibe (1990). Stiglitz and Weiss (1981).These are issues that can be quite easily addressed by policy. For instance effective publicity coupled with further simplification of method especially security would help remove such constraints. This would increase wakefulness among the farmers and also reduce concealed operational costs.
There was a problem that was arising even if a loan was granted by an institution. The question asked to the respondents was whether the loan became available in time or there was the time lag. 75% of the respondents said the loan was not available time. This affected the eventual productivity of such loan especially where short run loans were concerned. A fertilizer loan, for example, if not made available on time would be useless to the farmer. The main reason for the delayed disbursement of loans was as non-cooperation and lengthy procedure. It was inferred from the analysis that most of loans were sanctioned and disbursed in a period of 1-3 months.
Appraisal process and disbursement were found to be taking too long. This could lead to farmers losing opportunities and thus lose confidence with the institution such that they would not borrow from AFC again or diverting the funds to other non agricultural activities and personal consumption which may pose a risk of default. Appraisal and disbursement greatly affect agricultural lending in terms of growing the book by AFC as well as increasing credit risk (risk of default)
On collateral requirement it was found that the commonly required collaterals are land and movable asset. On the other hand the most available collaterals are stocks and saving. This mismatch of the commonly required and most available collaterals could be locking out so many farmers especially small scale farmer who may which to finance their agriculture activities through AFC loan but they do not have the commonly required collateral. This calls for the AFC underwriting officer to negotiate with farmer on the collateral available to the farmer. Collateral affects agricultural lending.

Nearly 28 percent reported unacceptable or inadequate collateral, and 29 percent indicated no need and disliked borrowing (religious reasons) as the most important reasons. Nearly five percent stated that private (non institutional) sources were sufficient. The inadequate collateral also covered a large number of cases of unacceptable collateral. Land was the most readily acceptable form of collateral and this prevented a large number of tenants and land less people from participating in the formal credit markets. . The results were consistent with Boucher, et. al., (2005) and Zeller, et. al.(1997).
Education, health condition, fixed assets holding and distance from household to the financial institution bank were among the most important factors affecting credit activities. In the study, the distance of the formal institutions was measured in the form of kilometers from the clients' resident. It was found that the distance of the formal bank was more than 20 Kilometer from the residence of the borrower. The percentage of more than 20 Km was 81.3 percent which was clear indication of how distance is an important factor that affects financial institutions. The government must develop policies for these remote areas to exploit the resources and to increase productivity of agriculture sector.
The respondents were asked to state the most important reason for not applying for loan from a formal institution. Of the eight reasons listed, five were classified as reasons that affect the demand side, namely: i) do not need; ii) involves paying bribe; iii) inadequate collateral; iv) private sources sufficient; and v) do not want to pay interest.
The results showed that most enterprises (51%) had not used credit before. Out of those who had, the majority (67%) had used informal sources. The major reasons for not seeking credit were lack of information about credit and lack of required security. The use of specific credit sources, either formal or informal, was justified as the only source available. This may indicate the existence of only a limited range of options to choose from. In both formal and informal markets, personal savings was the dominant source of finance, especially for initial capital, which may point to the inability of the financial markets to meet the existing credit demand and reinforces the argument that small-scale rural based enterprises do not have access to the financial resources of the formal financial sector.

5.3 Conclusions

There is not one specific easy answer on how to make agriculture lending work in all regions for all clients in all locations and all of the time. There is however, general and specific ideas coming from this research and existing institutions that provide potential frameworks for analysis and practical examples for evaluation. This research and experience may be useful to organizations that are new to the area of agriculture lending (among other rural financial services) as well as those who are interested in improving their own effectiveness, outreach and impact with their rural clients. While there is still a definite need to continue the dialogue between policy makers, donors, governments and practitioners on agriculture credit and the wider topic of agriculture financing to ensure ongoing learning and effective project design, rural finance organizations by examining what is working and what has been learned in different regions can begin to determine what may make agriculture credit work in other areas of operation.
Agricultural financing is crucial for a country's food security, protection of key agricultural export and creation of jobs in the rural areas. Transaction cost, Appraisal process and collateral requirement impact on agricultural lending. AFC offers low interest rate loans but it need to reengineer its appraisal process and re look at its collateral requirements. Agriculture financing is part of the bigger picture to provide farmers with solutions to improve their income, livelihood and contribute to the country's economy as such financial innovation can therefore be a critical catalyst in endeavour to achieve this goal.
Demand for agriculture financing exists in rural areas and current finance technology can be adapted to provide services to rural clients, example Mshwari. Technology can help reduce the higher transportation and communication costs found in rural areas.
Flexible disbursement and repayment schedules are important for rural outreach but such flexible terms may increase default risk and present challenges for institutions in managing liquidity. Economies of scale are important in reducing costs of lending; this is where an institution can use group lending rather individual. Partnerships and alliances with existing institutions and infrastructure may facilitate increased outreach and provision of diverse services at reduced cost.
Institutions may need to offer financial products other than credit to achieve sustainability. Credit may not be the best first approach to reducing rural poverty. In some cases alternative models (savings, remittances, insurance) may be better suited to the local context. Access to remittance and deposit services can help both client and the Institution smooth seasonal cash flows and protect against risks. Institutions with rural coverage need to acknowledge that rural operations are expensive and risky, so cross subsidization with robust urban operations may be required.
Character–based lending techniques combined with technical criteria in selecting borrowers, setting loan terms, and enforcing repayments – e.g. combine group guarantees with knowledge of crop productions and markets in the region are the base of helping the challenges of agriculture financing.
Savings mechanisms are necessary – often with a greater level of utilization than the loan products. Portfolio risk should be highly diversified – institution lends to a wide variety of farming households engaged in different activities and thus are better protected against agricultural and natural risks.
Loan terms and conditions should be adjusted to accommodate cyclical cash flow and bulky investments – successful institutions track the cash flow cycles more closely.
Financial service delivery piggy backs on existing institutional infrastructure or is extended using technology – reduces transaction costs for both lenders and borrowers and creates potential for sustainable rural finance

5.4. Recommendations

This study recommends review of the transaction costs, processing specifically at appraisal stage and disbursement stage to ensure that transactions are promptly completed.The study recommends further study on factors affecting agricultural lending at the county level. Since different counties have different agricultural activities and different challenges.

The study recommends that agriculture loan repayments should not linked to loan use but rather the entire farming household should be treated as a single economic unit, with multiple income sources (farm and non farm) and financing needs.

Membership-based organizations can facilitate access to financial services and be viable in remote areas. Area based index insurance should be coupled with the loan facility so as to protect the borrower against the risks of agricultural lending - by providing payouts linked to regional levels of rainfall, commodity prices etc. Agricultural financing must be insulated from political interference. – it's difficult to survive government moratoriums on loan repayment.

Institutions need to diversify their portfolios with various types of rural and agricultural clients to reduce portfolio risk; there need to assess client demand using market research to design appropriate products and services for agriculture financing.

5.5. Area of further research

Financing Sectorial development of agriculture (Livestock, Agro-Industry and Industries) in Counties – Kenya.

The role of Credit in rural development and Land reforms in Kenya.

Criteria of defining small farmers and allocating Credit by Financial institutions.

Scope for defining lines of development in Agricultural Credit in Ke

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Appendix I:
Questionnaire

Dear respondent,(Staff)
I am a student at Jomo Kenyatta University of Agriculture and Technology (JKUAT) carrying out a research on "The factors affecting lending by agricultural based financial institutions". The research is meant for academic purpose only. Am requesting you to provide answers to these questions as honestly and precise as possible. The information provided will be kept confidential and will not be used for any other purpose outside this research.

Demographic Data
1. Gender: Male Female
2. Age 25 – 35 35- 45 46 – 55 above 55
3. According to you do all farmers obtain loans? Yes No.
4. Where do most farmers obtain their loans from? Bank friends NGOS AFC any other
5. What are the main reason(s) that deter farmers from borrowing?
____
6. In kilometers, how far is the nearest agricultural finance office from your residence?
1-2 5- 10 10 – 15 15 – 20 20 – 30 above 30
7. Does the distance from the formal institution affect farmers' decision to borrow?
Yes ( ) no ( )
How: ____

PART B
Please tick ( ) inside the boxes provided against your response
1. Do you find the AFC vital to farmers?
Yes No
1b. Explain your answer? ____________________________________
2. Does the loan borrowed by farmers used by agricultural activities
Yes No
What do think make many farmers to use the loan for other activities rather than agriculture?
____
____

TRANSACTION COSTS

4 List some of the transaction costs in lending? ___________________________
Tick the loan related charges present in your institution
Application fees ☐
Advance commitment fees
Arrangement fees ☐
Processing and administration fees ☐
Loan monitoring fees ☐
Insurance fees ☐
Legal fees
Stationery fees ☐
Discharge security documents fees ☐
Renewal facility fees
Restructuring facility fees ☐
Transaction frequency ☐
Please indicate by ticking the appropriate number in the statements below.
The average number of loan requests from borrowers is
Extremely low extremely high
Our Lending Interest rate depends on the transaction costs of the loans.
I agree ( ) strongly agree ( ) I disagree ( )
Our charges and interest rate on loans, increases if the costs involved in their Management rises.
I agree ( ) strongly agree ( ) I disagree ( )
5. How do you rate the costs of lending in your institution?
High Low Appropriate
a) In your opinion, does the transaction cost affect lending?

Yes No

Appraisal process

6. How would you rate appraisal process of AFC? Too long Long Moderate

6 b. Any other____

How would you classify the method used by the organization in the process of credit appraisal?

Qualitative ( ) Quantitative ( ) Any other (Specify)

Would you describe your credit appraisal process as objective or subjective?

Objective ( ) Subjective ( )

Which aspects among the following do you consider before availing credit?

Please tick appropriately

Levels of importance

	1	2	3	4	5
Character	{ }	{ }	{ }	{ }	{ }
Condition	{ }	{ }	{ }	{ }	{ }
Commonsense	{ }	{ }	{ }	{ }	{ }
Contribution	{ }	{ }	{ }	{ }	{ }
Collateral	{ }	{ }	{ }	{ }	{ }
Capacity	{ }	{ }	{ }	{ }	{ }
Control	{ }	{ }	{ }	{ }	{ }

Others, Specify ____

a) Do you think the appraisal process has any affect on lending?

Yes No

Collateral

1. Which type of collateral is commonly used by your institution?

Land ( ) Movable assets ( ) Stock ( ) saving ( )

How do you rate the security required?

Ok ( ) Burdensome ( ) Old fashioned ( ) Any other( )

2. Does the collateral type affect your lending decision?

Yes No

1b. Explain your answer_______________________________________

3.What are the risks involved in agricultural lending?(Give list) ________________

Does credit risk play a major role? Yes No

4.Which practices among the following does your organization consider when managing credit risk exposure?

Debt collection ( ) Netting off ( )

Factoring of debt ( ) Credit insurance ( )

Surety bonds and securitization ( ) Letters of credit ( )

Credit derivatives ( )

5.How does credit risks it affect lending? ___________________________

6.How do you mitigate with the risks involved in lending? ______________________

Interview Guide

Dear respondent, (Clients)

I am a student at Jomo Kenyatta University of Agriculture and Technology (JKUAT) carrying out a research on *"The factors affecting lending by agricultural based financial institutions". The* research is meant for academic purpose only. Am requesting you to provide answers to these questions as honestly and precise as possible. The information provided will be kept confidential and will not be used for any other purpose outside this research.

1. How long have you been borrowing from AFC? (Years).
   a) Less than 1
   b) 1 – 2
   c) 3 – 5
   d) 5 – 10
   e) Above 10

What aspects did you base on when selecting afc?

Strength of its Brand or Image in the communities	( )
Quality of its customer care	( )
Turnaround time	( )
Favorable Interest rates on Loans	( )
Favorable charges	( )
Reputation	( )
Trustworthiness	

Past experience with the institution ( )
Stability of the institution ( )
2. How is the cost of loan compared to other non- agricultural institutions?
a) Too high
b) High
c) It just ok

Any other____

Indicate which of the following affect your decision your decision to borrow in AFC?
Loan commitment fees ( )
Loan application fees ( )
Conveyance fees ( )
Interest rate. ( )

Comment about the following fees as applied to loan application in AFC.
A)Loan commitment fees
Too high ( ) Moderate ( ) Ok ( )
B)loan application fees
Too high ( ) Moderate ( ) Ok ( )
C)Interest rate
Too high ( ) Moderate ( ) Ok ( )
D)Conveyance fees
Too high ( ) Moderate ( ) Ok ( )

3. Do these costs of the loan affect your borrowing? Yes ( ) No. ( )
If yes how? ____

How would you classify the method used by the organization in the process of credit appraisal?
Qualitative ( ) Quantitative ( ) Any other (Specify)
Would you describe your credit appraisal process as objective or subjective?
Objective ( ) Subjective ( )
Does your organization processes our loans within the time you need it.
Yes No
How would you rate the period between loan application and cheque release?
Too slow ( ) slow ( ) Moderate ( ) Ok ( ) Fast ( )
b) Does the process affect your borrowing?
____

5. What type of collateral is commonly required by your institution?
Land ( ) Movable assets ( ) Stock ( ) saving ( ) any other _________________________
Which one is commonly used?____
Is it readily available to you? Yes No
List the above collaterals in order of their availability (From least available to most available).
____

Does the collateral type affect your borrowing?
Yes No
How ____
What are the risks involved in agricultural borrowing? _______________________________
How does it affect your borrowing? ____
How does AFC mitigate credit risks involved in borrowing for you?__________________________
Are satisfied with the mitigation methods?
Yes No
Which other way of mitigating against risks would you suggest? (List)
____

Thank you for sharing your thoughts with us