

ABSTRACT

This paper makes a synthesis of empirical studies carried out in parts of Africa, and in Kenya to derive lessons on financial inclusion among smallholder farmers in rural and peri-urban areas. The derived lessons point at a steadily growing expansion of financial services to rural/peri-urban poor traditionally characterised by high idiosyncratic risks and huge information asymmetry. This category of households seems to have made the African continent sustain itself in the midst of financial crisis in 2008/09 when the rest of the world including the Asian tigers and the American capitalists faced serious setbacks in their financial sector growth. During this period, Africa experienced steady growth that started in 2000 at below 3% and peaked at about 4.8% by 2009-2015. The contribution of the transformation of the financial sector experienced in Kenya is one of the reasons for this growth. The paper elucidates the key determinants of access to the reformed financial services by the rural poor, access to targeted training on financial services beyond the formal education, participation of female-headed households in collective frameworks and creditworthiness as exhibited by multiple borrowing points. The impact of such inclusion is exhibited by significant changes in purchasing power of households through income and diversified investment in farm assets. In all these successes, ICT through mobile money transfer played a significant role, as exhibited in studies across the region. Despite the successes, the key challenges include high fungibility of targeted funding, showing a need to provide an array of financial services to the poor including credit for consumption, school fees, medical cover and emergency loans found among the savings and credit cooperatives. Also, the inequality and raising the poorest of the poor is still a challenge, one reason being the instrumental role of ICT through mobile money transfer system which some of the poorest farmers have no access to. Mobile banking services such as M-Shwari product is something that extension personnel could take as part of their advice to small farmers in accessing short-term loans and as means of savings funds between USD 1 - 100. These kinds of funds are useful in particular in bridging financial gaps along the agribusiness value chains. The funds can be borrowed to transport produce to the market, and make payments in time to enable farmers to capitalise on their input purchases. On participation of smallholder farmers in mobile banking type, and in particular saving and immediate credit service is still limited. This is an area for immediate uptake by all stakeholders including policymakers and the financial sector.

Keywords

Smallholder Farmers, Financial Inclusion, Collective Liability