Food and Agriculture Organization of the United Nations

INTERNATIONAL YEAR OF ARTISANAL FISHERIES AND AQUACULTURE 2022

Financing small-scale fisheries in Kenya

afraca
(Since 1977)
Empowering Rural Africa

Contents

Cover photograph: ©AFRACA

Financing small-scale fisheries in Kenya

©AFRACA

This policy brief presents a snapshot of financial service provision for small-scale fisheries in Kenya. The purpose is to show pathways for financial service providers and other stakeholders to support fisheries on the Kenyan coast. The information in this policy brief has been collected in the wake of a joint project by the Food and Agriculture Organization of the United Nations (FAO) and the African Rural and Agricultural Credit Association (AFRACA).

Key findings

76 percent of small-scale fishers use mobile money services.

Digital channels should be developed further.

The surveyed small-scale fishing vessels in Kilifi, Mombasa and Kwale counties are (on average) profitable.

Less than 10 percent of small-scale fishers access loans from formal financial service providers.

The biggest obstacles for financial service providers when lending to small-scale fishers are inadequate collateral and a lack of well-functioning fisherfolk organizations or NGOs to facilitate and secure lending.

©AFRACA

The state of financial service provision to small-scale fishers in Kenya

The project team designed three questionnaires targeting three different groups – financial service providers (FSPs), fisherfolk organizations and individual fishers – to examine the status of financial service provision to fishers along the Kenyan coast.

Branches on the coast exist

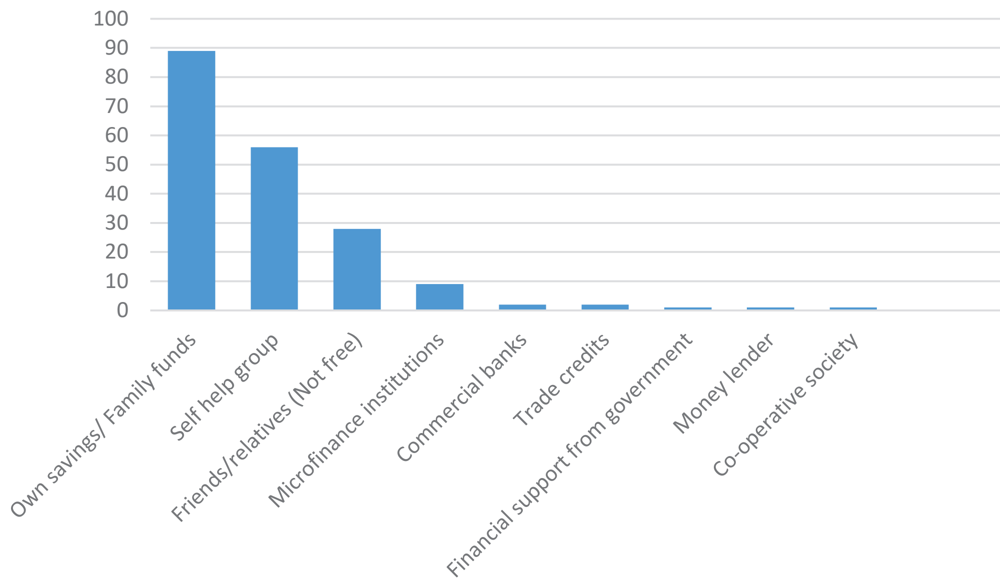
Most of the FSPs surveyed operate a wide network of branches, and some have several branches along the coast, through which they can serve fishers. Providers offer a wide range of services but report that consumer appetite is highest for short-term loans. Long-term loans are theoretically on offer, but the uptake of long-term financing is scant, particularly among fishers. Other widely available services include checking and savings accounts.

Fishers on the Kenyan coast do not make much use of formal finance

Despite the positive findings on the general availability of financial services on the Kenyan coast, small-scale fishers make only limited use of these services. Less than 1 percent of loans from the FSPs surveyed go to fishers. What is more, there are no specialized products for the fisheries sector, which is usually served with general agriculture products. The overall provision of credit schemes from FSPs to the fisheries sector is therefore half-hearted at best.

Fishers usually finance their business with their own savings, family funds and self-help groups. Less than 10 percent of the fishers surveyed access loans from formal financial service providers (see Figure 1). Participants mentioned high interest rates and complicated procedures as the main factors that inhibited borrowing from financial institutions. Besides, less than 10 percent of respondents claimed to have insurance for their fishing equipment (if they own any at all).

Figure 1. Primary sources of finance for fishing operations of the respondents (multiple answers possible)



Based on survey participants' responses, multiple answers possible.
Source: Result of the survey conducted by the project team.

Financial institutions generally believe in the sector

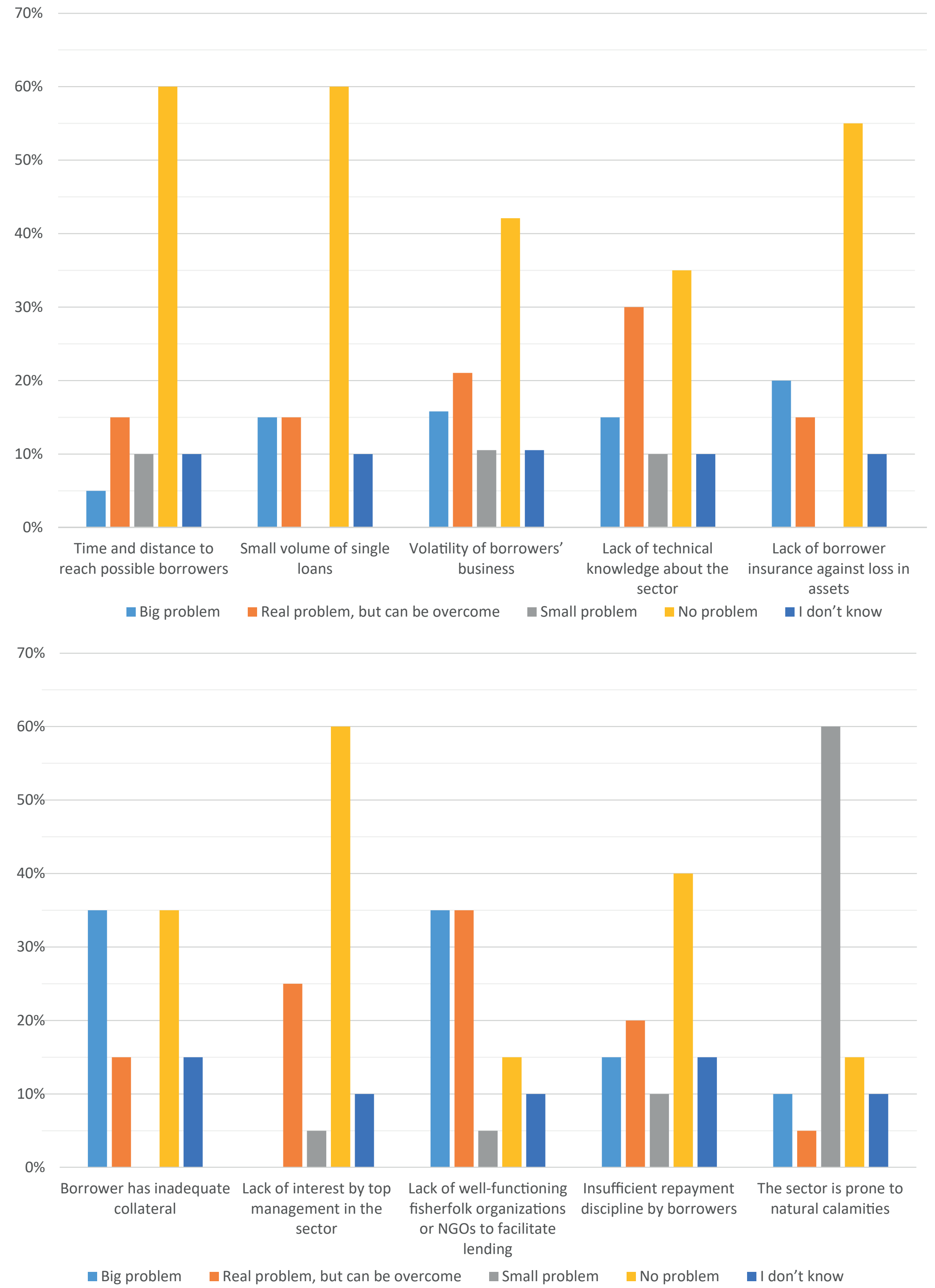
The survey asked FSPs about their perception of the fisheries sector and found that 90 percent of financial service providers agreed that lending to the sector can be profitable. Close to 50 percent disagreed that lending to it was riskier than other types of agricultural loans. The survey did, however, demonstrate that almost all FPSs see the need for specialized technical knowledge to support the sector properly, and this is often not available.

Why not lend to small-scale fishers?

Asking financial institutions about the problems they encounter when lending to small-scale fishers revealed some interesting and unexpected patterns (see Figure 2). The time and distance required to the reach fishers were not the major problems and could be overcome. The size of small loans was not seen as a big problem either, as FSPs have facilities that can accommodate small loans. The fact that fishing is prone to natural calamities is also not unfamiliar to FSPs, but it was only seen as a minor problem.

The most pressing concern that FSPs had when considering lending to small-scale fishers was inadequate collateral and – most of all – a lack of well-functioning fisherfolk organizations or NGOs to facilitate and secure the lending. Without such institutions in the middle, many FSPs are seemingly unwilling to lend to small-scale fishers directly.

Figure 2. The main problems financial service providers report when lending to the fisheries sector

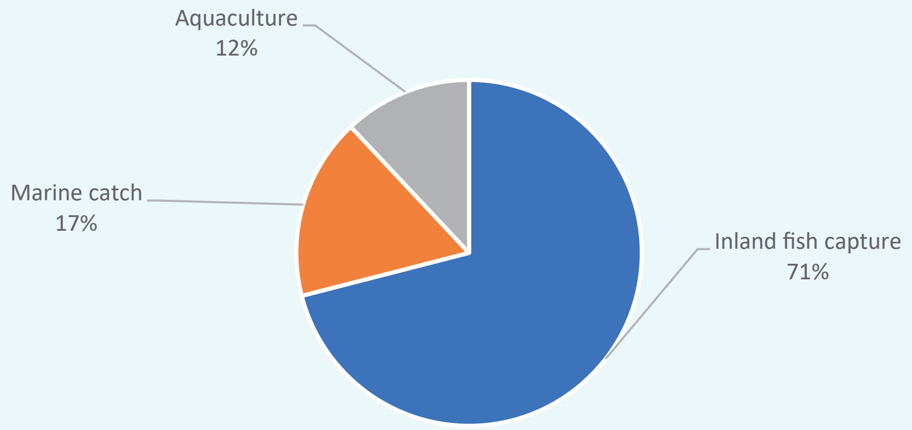


Source: Result of the survey analyzed by FAO and AFRACA.

Kenya’s fishing industry

Kenya is endowed with rich fishing resources in several inland water bodies and along the shores of the Indian Ocean.

The country’s fisheries sector is a vital part of its economy and contributed approximately 0.5 percent (USD 419 million) to the country’s gross domestic product (GDP) in 2018 (KNBS, 2021). It generates about 2 percent of national export earnings. The industry employs over 60 000 fishers directly, in addition to an estimated 1.2 million people directly and indirectly across the whole fishing, production and the supply chain (Kimani, Okemwa and Aura, 2020). Lake Victoria in the west of the country is the most important source of fish, accounting for approximately 65 percent of the total annual fish production of Kenya (mostly Nile perch, tilapia and freshwater sardine).



Source Kenya’s total annual fish production. Annually (approx. 140 000–150 000 tonnes). FAO, 2020. The State of World Fisheries and Aquaculture. Sustainability in action. Rome, FAO. doi.org/10.4060/ca9229en

Kenya’s fishing industry consists almost entirely of small-scale artisanal fishers and producers. This also explains why, despite its 640 km coastline, landings of approximately 24 000 tonnes from marine fisheries are well below the estimated capacity (at least 150 000 tonnes). Marine fishing further from the shore is dominated by fleets from distant-water fishing nations (DWFNs), which target skipjack, yellowfin and bigeye tuna with no obligation to land catch in Kenya (KMFRI, 2021).

Assessment of the small-scale fleet

The project team undertook an assessment of the fleet used by small-scale fishers. The current marine fishing fleet in the three coastal counties surveyed (Kilifi, Kwale and Mombasa) is composed mainly of small-scale wooden hull vessels, the majority of which are not motorized. The vessels are of various traditional types, and their lengths range from 4 to 15 metres. Onboard ice and fish storage facilities are rare. The fishers normally carry out day trips and fish for an average of 140 days per year. The main fishing season runs from September to April. The average investment in a 12-metre wooden vessel with an outboard motor, including equipment, is USD 6 000–17 000, depending on the location of sale and the exact type of boat. A 7-metre fibreglass boat and its equipment in Mombasa costs around USD 20 000. An undecked fibreglass-reinforced plastic vessel of 7–9 metres which can fish further out on the open sea – with an outboard motor of 75 horsepower, ice boxes, and modern navigation, communication and safety equipment – requires an investment of approximately USD 30 000–40 000. Labour costs constitute the highest share of operating costs except in cases where a lot of family labour is used (which is not remunerated directly). The vessel owners interviewed for the fleet assessment did not have any outstanding loans to finance their vessels. Fishing vessels are assumed to depreciate over a period of 10–20 years depending on hull material and the vessel maintenance.

The in-reef and nearshore resources in Kenya are overexploited. The simple technologies in use result in lower-than-possible catches, low quality of fish and accidents at sea. Nevertheless, the assessment found that the operation of small-scale fishing vessels in Kilifi, Mombasa and Kwale counties were (on average) profitable, which in principle opens the road for further investments and improvements in the sector.

Beach Management Units (BMUs) and their members – an entry point to financing SSF

Beach Management Units (BMUs) in Kenya are registered by the State Department for Fisheries, Aquaculture and the Blue Economy, and help FSPs address the need for fishers to be better organised. These units provide a range of services that include the sharing of information among members, the maintenance of fish landing sites, and negotiating with government on behalf of members. To some extent, BMUs also support their members to buy and sell fish. Their major sources of funds are the levies deducted from the catch sold through them, and membership fees.

A promising entry point

As a result of their restricted mandate, BMUs cannot access finance from financial institutions themselves. However, the four BMUs that participated in the survey have 155, 300, 468 and 779 members respectively. The members are skippers, captains of fishing vessels, crew members and fish traders, as well as vessel owners and boat builders. About 20 percent of the members are women (usually involved in the trade of the catch). This diverse set of members offers an interesting entry point into the market for financial institutions. BMUs work closely with many of their members and know about their business. This proximity makes BMUs an excellent interlocutor for FSPs that want to try and venture into the fishing value chain. Currently, there is still a disconnect between BMUs and FSPs: the BMUs' perception of FSPs is that they prefer to work with other agricultural value chains but not the fisheries sector.

Vision 2030

In the 1990s, the responsibility for sustainable fisheries management and development in Kenya lay with government departments. In 2010, the policy shifted from a government-centred to a stakeholder-based (co-management) approach. This new approach ensures that fishers are involved in fisheries management and decision-making.

The Kenyan Government's economic blueprint, Vision 2030, has also identified fisheries as a sector with significant potential to spur national economic growth. The government is therefore exploring ways to gain economic benefits from underexploited stocks. These include the Lake Turkana fisheries, which has an estimated potential of 30 000 tonnes, and the country's exclusive economic zone (EEZ), which has an estimated potential of 150 000–300 000 tonnes.

A major target in the Blue Economy agenda is to increase national fish consumption per capita from the current 4.7 kg (an estimate which is well below the international average of about 20 kg) to 10 kg per year (KMFRI, 2018). Implementing Vision 2030 will clearly require considerable investment. This is a chance for financial service providers to become involved in the sector.

Things to consider when lending to small-scale fishers on the Kenyan coast

The survey reached out to 118 small-scale fishers, traders and processors of fish. The women who responded to the survey (39 percent) were usually fishmongers.

Most of the fishers surveyed were between 45 and 55 years old. Only 3 percent of respondents were under the age of 26, meaning that fishers had often been in the business for a long time. The majority of fishers surveyed (67 percent) had left education after primary school.

Financial institutions should not only look at fishing activities but try and understand the overall household income of fishers. Almost all of the small-scale fishers had additional sources of income besides fishing. In fact, for about 65 percent, fishing generated only half of household income.

Multiple ownership of fishing vessels and associated equipment remains a real issue for the sector and financial institutions. Over 50 percent of fishers surveyed reported not owning any equipment at all. While this figure includes many fishmongers, it also reveals that much of the equipment in the sector is either owned by multiple people or borrowed; this complicates the use of such assets as collateral. Indeed, before accepting equipment as collateral, financial institutions must carefully assess ownership.

The study team noticed that many fishers had reservations about sharing their level of income. In fact, most small-scale fishers stated that their annual incomes were insufficient to take care of their household's needs. Reported incomes are usually well below the national average of USD 7 500 (CEIC, 2022).[1] While this may be true for many of the respondents, the project team found evidence that small-scale fishers tend to understate their income for various reasons (e.g. possibly fear of taxation). The notion that small-scale fishers understate their income may also result in them not being seen as viable customers by FSPs, and a diminished ability to obtain financial services. The above finding – that most of the fishing businesses are actually profitable – seems to support the idea that fishers' cashflows could allow for a mutually profitable FSP–SSF relationship in more cases than expected. Nevertheless, it must be stated that, barring a few exceptions, the fishers in the survey are unlikely to start borrowing from formal financial institutions with large loan volumes.

Work needs to be done both on the demand and supply side of finance to ensure progress in the sector. Providers need to develop a better understanding of fisheries and build their technical knowledge, while fishers need to become more transparent and predictable customers. Overall, the small-scale fishing industry needs to adopt a more business-oriented mindset: in the past the sector has too often been shaped by high levels of subsidy.

Digital channels need to be improved

Small-scale fishers on the Kenyan coast are generally accustomed to using digital services. The survey revealed that mobile money services are used by 76 percent of respondents, while 30 percent use online banking. The latter is all the more surprising given the fairly low incomes reported in the survey, and the age structure of respondents. Kenya has witnessed exemplary mobile penetration in recent years, and this is corroborated by the survey findings.

Digital financial services are widespread and offered by most of the FSPs surveyed. Specifically, the high availability of online banking (about 60 percent of FSPs offer online banking) and online loan applications (offered by about 50 percent). This speaks to a well-developed set of digital services on the part of providers. Furthermore, 35 percent of FSPs offer online training sessions for clients, which is a channel that could be exploited to reach small-scale fishers as well.

While both small-scale fishers and providers are using digital financial services, improving the fishing business through digitalization and its opportunities should be explored further. For example, small-scale fishers in the survey did not indicate that they used any kind of online support to trade their fish (e.g. by receiving price information). Similarly, they had not attended online training related to financial literacy or fishing technology.

[1] Based on the 1 July 2021 exchange rate of 1 USD = 108 KES, available via the online exchange website xe.com

Recommendations

Enhance access partnerships with Beach Management Units

Beach Management Units play an important role in facilitating credit and microfinance services. Small-scale fishers who are part of a cooperative or association already find it much easier to access finance. There is an urgent need to team up with Beach Management Units to improve the overall supply of financial services to small-scale fishers and support the development of suitable financial products.

Provide a networking platform

There is considerable informational asymmetry between the fishers and producers in the value chain on the one hand, and FSPs on the other. Almost all participants in the survey stated their wish to establish stronger links with other stakeholders (including public administration). To achieve this, a suitable platform to connect stakeholders – one in which FSPs could share their thoughts and observations on lending to the SSF sector – would bring major benefits.

Create a conducive policy environment

The public sector should focus on creating a conducive business environment, promoting fish as a food source, building capacity, and reducing risk on transactions. Direct subsidization of inputs or loans should only be applied in well-defined, limited circumstances.

Provide capacity-building activities and training

Financial service providers need more technical knowledge about the business model, turnover and new technologies in the fisheries sector, such as in marine aquaculture or seaweed farming. Small-scale fishers need to be given training on formalizing business activities (such as bookkeeping) and financial management skills (including increasing saving capacity). Special attention should be given to the capacity-building needs of women in the value chain, some of whom already demonstrate a strong savings culture in coastal communities.

Promote digital finance

The survey results show that the accessibility to financial services via online platforms is highly popular among small-scale fishers. Opportunities to capitalize on the digital sphere appear plentiful, notably by raising awareness of new finance products through digital channels. Moreover, fishers' use of digital tools– to access market prices that link into digital financial products, for example – could lead to further developments in this area.

References

CEIC. 2022. Kenya Average Wage Earnings. In: *CEIC Data*. London. Cited 6 December 2022. www.ceicdata.com/en/kenya/average-wage-earnings-by-sector-and-industry-international-standard-of-industrial-classification-rev-4/average-wage-earnings

FAO. 2020. *The State of World Fisheries and Aquaculture. Sustainability in action.* Rome, FAO. doi.org/10.4060/ca9229en

Kenya Marine and Fisheries Research Institute (KMFRI). 2021. *Annual Report: Ministry of Fisheries Development, Kenya*. Mombasa. www.kmfri.co.ke/images/pdf/State of Aquaculture in KE_2021 Report_final report Published.pdf

Kenya National Bureau of Statistics (KNBS). 2021. *Economic Survey 2019*. In: *source Africa*. Cited 22 June 2022. http://dc.sourceafrica.net/documents/119074-Kenya-National-Bureau-of-Statistics-Economic.html

Kimani, E., Okemwa, G. & Aura, C. 2020. *The Status of Kenya Fisheries.* Mombasa, KMFRI. www.researchgate.net/publication/338411825_The_status_of_Kenya_Fisheries_KMFRI_2018

Acknowledgements

This brochure has been prepared by Thomas Gietzen, Lixia Yang and Raymon Van Anrooy (FAO), and John Amimo and Thomas Essel (AFRACA). The authors gratefully acknowledge the support received through the surveys from financial service providers, fisherfolk, their organizations and cooperatives.

CAFI SSF Network

The Global Network for capacity building to increase access of small-scale fisheries to financial services (CAFI SSF) is an FAO initiative endorsed by rural finance stakeholders from Africa, Asia-Pacific, Latin America and the Caribbean.

The CAFI SSF Network aims to address this challenge by increasing the capacity of policymakers, financial service providers and fishers' and fish farmers' organizations to promote, design and implement appropriate financial services in support of small-scale fisheries and aquaculture. The Network envisions doing so by providing a platform to facilitate coordination, knowledge sharing, advice provision and support to all stakeholders involved in or interested in financing these sectors.

The Network mission is to act as a platform where members promote, develop and facilitate capacity building, knowledge exchange, advocacy and awareness, share experiences, good practices and provide support and advice to stakeholders to increase access of adequate financial services for SSF (small-scale fishers and small-scale aquaculture producers).

In the beginning of 2021, the Network began its activities by organizing thematic webinars, support baseline assessments of the financial and insurance services available in Africa and Asia for SSF. The Network has officially partnered with AFRACA and APRACA. The CAFI-SSF Network will engage with regional and national level financial institutions to provide evidence based policy recommendations, to develop training materials and to increase the capacity of financial institutions and fisherfolk organizations.

For further inquiries: cafi-ssf@fao.org

Follow us on linked: cafissfnetwork, #cafissfnetwork, #bluefinance

The African Rural and Agricultural Credit Association **(AFRACA)** is a regional association of sub-Saharan Africa's financial and non-financial institutions involved in promoting rural and agriculture finance.

The Association comprises of members from Central Banks, Commercial Banks, Agriculture and Rural Development Banks, Microfinance Institutions and Networks,

Insurance Providers and Knowledge Institutions. It is a lead advocate agency and coordinator of rural and agriculture finance in sub-Saharan Africa.

For further inquiries: **afraca@africaonline.co.ke** or visit the website at: http://afraca.org/en/

Required citation: FAO. 2023. *Financing small-scale fisheries in Kenya*. Rome. https://doi.org/10.4060/cc4109en

CC4109EN/1/02.23