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Influence of youth access to finances on their participation in agricultural value chain development in Kajiado North Sub-County, Kenya

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Abstract

Agriculture in Kenya has great untapped potential for developing gainful employment opportunities for youth that would enable them exploit their creativity, economic innovation and access to finances for agricultural value chain development, in order to spur faster national economic growth. Thus, improving youth productivity in the agricultural sector and exploring effective livelihood diversification is imperative for the nation to develop.Youth's interest in agriculture is however likely to be positively related to their ability to gain access to financial resources needed for the activities. The influence of youth access to finance for agricultural value chain activities in Kajiado North Sub-County was poorly understood and hence the need for this study, which used a cross-sectional design to collect data from 397 randomly, selected youth and 22 youth and agricultural officers. Content validity of the youth and agricultural officers' questionnaires was ascertained by extension experts while reliability was determined through a pilot test involving 30 respondents. The reliability coefficient were 0.86α and 0.80α respectively, which were above the 0.70 threshold for acceptable reliability. The results showed a statistically significant positive relationship(r=.197, p=0.01) between youth access to finances and their participation in agriculture. It also showed that youth access to finances influenced their participation in agriculture since accessing finances was a major challenge with only 3.5% youth having borrowed finances from micro finance institutions, 53.4% had saved from sources other than salaries while only 1.2% youth had obtained money from government youth fund. Youth with easy access to finances had higher participation rates in agricultural activities than those with minimal access.
Keywords: Agriculture, Employment, Finances, Participation, Value chain, Youth

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1. Introduction

Globally recognized as a significant producer of tea, coffee, horticultural products, dairy and meat products, Kenya's agricultural sector makes up 30% of total Gross Domestic Products (GDP), accounts for 65% of national exports earnings, caters for over 80% of employment opportunities and provides a livelihood to about 80% of the population (Central Intelligence Agency (CIA) World Facts, 2014). Kenya is a food deficit country which imports up to 20% of its annual cereal requirements even in a good harvest implying that it continues to be plagued by high poverty linked to food insecurity (IFAD, 2014). A report by FAO (2014) and the World Bank (2015) revealed that poverty in Kenya is mainly a rural phenomenon, with 68% of the poor living in the rural areas. Rural households rely on agriculture for most of their income mainly from smallholder farming, which produces the majority of Kenya's agricultural output. Thus, growth in agriculture is a key factor for overall performance of the economy and poverty reduction (Poulton and Kanyinga, 2013). World Bank (2014) indicated an evidence that agriculture-led growth in Kenya is more than twice as effective in reducing poverty as growth led by industry, thus there is a need to boost smallholder productivity and develop non-farm activities in order to enhance better performance in agriculture.

Noorani (2015) observed that there is insufficient youth participation in agriculture even though this class of people is the most productive of any society as they are in the prime of their lives physically and mentally. Purvis (2014) underscored agriculture as one of the foundation pillars of any society and argued that it can only function as such, if this insufficient youth participation is reversed. Thus, improving youth productivity in the agricultural sector and exploring effective livelihood diversification is imperative for any nation to develop (Purvis, 2014; Swarts and Aliber, 2013). Youth with dynamism and flexibility have the potential as agents of positive change and this should be ensured by enhancing their participation in agricultural development programs. In the most adverse and risky situations, youth have an extraordinary resilience and ability to cope (AGRA, 2015).

Youth's interest in farming is however likely to be positively related to their ability to gain access to the resources needed to farm. In the Kenyan context, access to land, finances as well as viable markets among others are likely factors limiting youth participation in farming (Noorani, 2015; Peters, 2004).

Access to financial services such as savings and loans is of fundamental in starting any agricultural activity. Finances cover the costs of planting and harvesting, as well as investments in improved productive capacities. AGRA (2015) reported that payment and trading services such as mobile banking and internet trading are important tools for selling their produce. Agricultural sector is often exposed to adverse natural events that negatively affect production thus, access to insurance schemes is crucial for young farmers (Dalla Valle, 2012).

In order to meet these agricultural needs by the youth, financial service providers (FSPs) should play a crucial role (IFAD, 2014). These include formal banking systems (commercial and development banks), semiformal banking systems (savings and credit cooperative organizations (SACCOs) and informal banking systems not officially registered at national level (e.g. self-help groups (SHGs), village savings and loan associations (VSLAs), moneylenders and traders). However, Noorani (2015) and UNCDP (2012) revealed that young people make up a smaller proportion of overall formal FSPs clientele than their overall population demographics would suggest. Providing financial services in rural areas is mainly viewed risky due to the unique characteristics possessed by agriculture; dependence on natural resources and seasonality; long production cycles as well as vulnerability to variable seasons and weather. At the same time, rural populations are scattered and this greatly increase the operating costs of financial institutions.

Financial services are increasingly unavailable to poor farmers in Kenya, therefore much efforts should be enhanced to improve the availability of such services to youth in agricultural and rural enterprises (Dalla Valle, 2012). In both developed and developing countries, most FSPs provide few savings or insurance services for youth and focuses more on credit, despite the fact that savings remain extremely important to youth (MIJARC, IFAD and FAO, 2012). In many countries, the laws and regulations exclude people below the age of 18 years from accessing any financial products and services (UNCDF, 2012). In addition, few if any financial products are specifically tailored to youth (MIJARC, IFAD and FAO, 2013). Research shows that while the majority of micro-finance institutions (MFIs) serve young people above 18 years old, they are rarely recognized as a specific client group, and few products are developed to meet their unique needs (Shrader et al., 2006). Many MFIs providing loans to youth charge too high interest rates (UNCDF, 2012), ask for loan guarantees, such as formal land titles, steady employment, personal guarantors, solidarity group guarantees or informal guarantees such as assets that many youth may not possess. Furthermore, youth are perceived as a high-risk category because of their limited financial capabilities often resulting from their lack of experience (Atkinson and Messy, 2012). Despite the growing recognition of the importance of inclusive financial services, there are few innovative models on the reduction of risks when lending to youth. May youth therefore rely more often on informal sources such as family and friends for finances.

Information about informal services in rural areas is mostly provided through informal channels such as word of mouth and the radio (Dalla Valle, 2012). Agro-processing companies, input suppliers and traders supply credit for inputs to farmers but, like many MFIs, they mainly charge very high interest rates. ICT offers a wide range of products for accessing financial services, such as e-banking, e-business and e-trade through mobile banking. However, many rural areas in Kenya lack internet connections, thus acting as a drawback for the youth who are wishing to remain in rural areas (IFAD, 2014).

Another barely affordable financial service is agricultural insurance which if affordable could support youth in developing better agricultural risk management strategies for their farms. Appropriate policies need to be drafted and existing services revised in order to improve agricultural insurance services thereby reaching a younger clientele (Leavy and Hossain, 2014). Collective action is limited among rural youth as they are not well organized in self-help groups which could provide the means for generating savings and improving their borrowing power. Further, young rural women in Kenya and especially in Kajiado face additional constraints in accessing financial services due to their limited literacy levels, restricted liberty of action and lack of consent of family members, much of which can be traced to gender discrimination embedded in societal norms (AGRA, 2015).

Transforming and strengthening agricultural value chain development activities and processes as well as enhancing youth access to finances for this value chain in Kajiado North Sub County would improve their active participation in agriculture (Njeru and Mwangi, 2015). In addition, provision of financial services would allow youth improve their livelihoods and accumulate assets in the long term. Appropriate and inclusive financial services are necessary as it could equip youth with the resources and support needed to become productive and economically active members of their agricultural households and communities.

In accessing finance by the youth, opportunities exist for innovative collateral schemes. A very good example is a leading mobile network operator in Kenya, Safaricom that launched a number of value-added services through its M-PESA product, with an aim of moving its customer base beyond basic money transfers (Kinyanjui, 2014). 'M-Shwari' launched by Safaricom in 2012, enables customers to save, earn interest, and access small amounts of credit instantly via their mobile phones. The amount of loan depend on how much the clients have saved in their M-Shwari accounts, as well as their repayment behaviour. Questions still exist as to whether youth, especially those engaged in agriculture, are using M-Shwari and the level of awareness about the product.

According to Mwaura (2015), affordable agricultural insurance schemes remains out of reach of many young farmers and thus exposes their production to risks that otherwise could be managed through insurance. Crop or weather insurance schemes address some of the uncertainties that youth may face in agriculture. A study carried out in Ghana, testing the relative importance of capital and risk in driving farmers' investment behavior and the different prices for rainfall insurance among households, revealed that farmers who received the insurance grant increased their expenditure on farm chemicals, and brought more acres of land under cultivation (Chant and Jones, 2005).

A study by Brooks et al. (2013) revealed that financial service providers can develop products targeting youth and especially young women in agriculture taking into account the peculiarities in agricultural activities. Successful models to be adopted could be based on building repayment requirements around the cash needs of young farmers without undermining the fact that repayment is expected, whether the farm was successful or not (Chant and Jones, 2005). Offering products tailored to agriculture season and flexible repayment schedules as opposed to strict weekly or monthly payments could be pertinent. Dominant consideration could be lending with access to inputs, training to mitigate production risks, use contractual arrangements with agro dealers and extension workers to guarantee input quality, markets, and access to training in order to manage risks involved in financing youth in agriculture (IFAD, 2014; Brooks, Zorya et al., 2013). The study investigated the influence of youth access to finances for agricultural value chain development on their participation in agriculture in Kajiado North Sub-County.

1.1. Statement of the problem

About 60% of Kenya's 45 million people are youth aged 15-35 years old who constitute 45% of the labour force. Some of these youth work mainly in agriculture, which supports over 75% of the population and contributes 30% to the GDP. Young people were expected to comprise 75% of the Kenyan population by 2015. This tremendous youth population increase, rising unemployment and therefore high dependence ratio poses a great danger to Kenya's economy. Despite Government's efforts to make agriculture more attractive and profitable to the youth, their participation in the sector is declining as they increasingly migrate to cities in search of remunerative and decent employment. Furthermore, although the youth hold Kenya's future due to their enormous energy and aspirations, most of them in the study area considered agriculture to be less attractive compared to other professions. Reducing youth unemployment through participation in agriculture is a challenge in Kenya since the average age of a farmer is about 60 years and at this age bracket, farmers are less venturous, averse to risks and hesitant to adapt innovations making it difficult to transform agriculture from subsistence to income generating activities. Although youth engagement in agriculture could greatly reduce youth unemployment in the country, 70% youth in the study area were unemployed. Youth access to finances is a dominant factor that influence their participation in agriculture in Kenya as a whole.This is a challenge in Kajiado North Sub-County since its influence in agricultural value chain activities and development were poorly understood and documented. This therefore made it difficult for Kenyan leaders and their development partners to formulate innovative strategies for enhancing youth access to finances required for agricultural activities. The study has provided information that the Government and other leaders can use to make informed decision on how to improve youth access to finances for agricultural value chain development in Kenya.

1.2. Purpose and objective of the study

The study sought to determine the influence of youth access to finances on their participation in agriculture in Kajiado North Sub County. The researchers assumed that there was a statistically significant relationship between youth access to finances and their participation in agriculture in the Sub-County.

2. Research methodology

A cross-sectional design was used to collect data from 397 randomly selected youth and 22 youth and agricultural officers. This design provides self-reported facts about respondents, their feelings, attitudes, opinions and habits and is excellent for collecting original data (Kombo and Tromp, 2007; Kothari, 2008). It enables the researcher to study a large population with only a portion of it being used to provide the required data (Kothari, 2008).

2.1. Instrumentation and data collection procedures

A self-administered questionnaire with information on the influence of youth access to finances on their participation in agriculture, developed by the researcher with open and closed-ended items, was used for the youth and agricultural extension officers. The questionnaires' content validity was ascertained by five extension experts while a pilot test involving 30 youth was conducted to determine its reliability, which was 0.83α. This was above the 0.70 minimum acceptable for educational research at a significance level of 0.05 set *a priori*.

3. Results

A respondent's age was important in determining the average age of youth involved agricultural production in the Sub-County. Most of the youth (63.4%) were 26-35 years while the rest (36.6%) were 18-25 years implying that agriculture in the Sub-County had attracted very few young people between 18 and 20 years. In terms of formal education, 60.2% had secondary (Form 4) to college (certificate or diploma) education. Of the remaining 39.8%, 7.3% had no formal education, 20.4% had primary education (standard 1-8) and only 12.1% had university education.

3.1. Youth challenges in accessing finances

Most youth 53.4% used savings from sources other than salaries. This was followed by 27.5% who used finances from other businesses outside agriculture. A few youth 12.1% had borrowed finances from parents and other relatives. 3.5% youth had borrowed from microfinance institutions, 2.3% used money from their own salaries and only 1.2% had benefited from youth fund. This showed that only (3.5%) youth had gained access to finances through borrowing from the FSPs.

3.2. The variable youth access to finances

During data analysis, youth responses for each item forming the 6 variables on access to finances were converted to scores with the most positive response "Strongly Agree" assigned a score of 5, "Agree" a score of 4, "Neutral" a score of 3, "Disagree" a score of 2 and the most negative response "Strongly Disagree" a score of 1. Total scores for each item were calculated and the mean, standard error (SE), standard deviation (SD) and range were determined as shown in Table 1.

Table 1. Descriptive Indicator Statistics for Youth Access to Finances (n=397)

Indicators	Mean	SE	SD	Range
Fear of loans by the youth	3.828	0.065	1.299	4
Lack of adequate finances needed in agriculture	4.115	0.052	1.038	4
High interest rates deter the youth from getting loans	3.763	0.057	1.152	4
Inadequate collateral to acquire loans	4.171	0.045	0.913	4
Lack of enough finances discourage the youth	4.098	0.047	0.939	4
Youth have difficulties in selling their business ideas to financiers.	3.657	0.060	1.199	4
Index of youth access to finance	23.18	0.250	4.981	23

The scores for the six indicator variables created an index of youth access to finances that had a mean of 23.18 and varied between 5 and 30. The reliability of the index using Cronbach's alpha was 0.801 and its frequency distribution is given in Table 2.

Table 2. Index of Youth Access to Finances

Index	Frequency	Percent
5 to 10	20	5.0
11 to 20	57	14.4
21 to 30	320	80.6
Total	**397**	**100.0**

Hypotheses: There is no statistically significant *relationship between youth access to finances and their participation to agriculture.*

Correlation analysis using the index of youth access to finances and their participation in agriculture was used to test the above hypothesis and the results are given in Table 3.

Table 3. Correlation for Youth Access to Finances and their Participation in Agriculture

Variable	r	p	n
Youth participation in Agriculture	0.197	0.01	397
Youth access to finances			

Correlation analysis between youth access to finances and their participation in agriculture show a statistically significant positive relationship (r=0.197, p=0.01), therefore we reject the null hypothesis and indicate that there is a statistically significant relationship between youth access to finances and their participation in agriculture, meaning that youth access to finances influenced their participation. This is in accordance with the study by Leavy and Hossain (2014) that access to financial services such as savings and loans just like access to land is of fundamental importance in starting any agricultural activity. The findings support Atkinson and Messy (2012) and Montez (2009) who observed that youth require finances to cover the costs of planting and harvesting, as well as investments in improved productive capacities. Moreover, the agricultural sector is often exposed to adverse natural events that negatively affect production, hence access to insurance schemes is crucial for young farmers in developing better agricultural risk management strategies (Dalla Valle, 2012; FAO, 2013).

Furthermore, lending to youth is considered even more risky due to their weak financial base and is often not attractive due to the small size of the loans requested relative to bank transaction costs. A study by IFAD (2014) observed that formal financial service providers perceive lending to youth as risky because they often do not have a saving culture, minimal financial track records, and their education does not equip them with financial literacy. The findings support those of AGRA (2015) that youth often do not possess the assets needed to start farming and may also lack experience in agriculture, and coupled with their limited access to agricultural value chains, makes it difficult for them to engage in contract farming, which would be a valuable strategy to give more security to their loan requests.

4. Conclusions

Major sources of finances for youth in agricultural activities include savings from sources other than salaries (cited by 53.4%); and sources of finances from other businesses outside agriculture (cited by 27.5%). Others had borrowed finances from parents and other relatives (cited by 12.1%); while some youth had borrowed from microfinance institutions (cited by 3.5%). Other sources included 2.3% used money from their own salaries (cited by 2.3%) and youth fund (cited by 1.2%),Youth with easy and better financial access engaged more in agricultural-related activities such as acquiring farm inputs, equipment, farm services as well as effective marketing. Financial access for agricultural value chain motivated the youth to increase their farm products, which enabled them to benefit from economies of scale as a result of a higher bargaining power.

4.1. Recommendations

Based on the conclusions of the study, the researchers recommend as follows:

1- Leaders should encourage grouping in informal saving clubs to help rural youth to improve their means for generating savings and increasing their borrowing power, provides a first contact with financial culture and can be a step towards the use of traditional financial services.

2- Policy makers and development partners should embrace youth mentoring programmes, as they provide significant opportunities for financial access, as most FSP managers prefer to see an experienced adult mentoring youth business owners to help them deal with rapidly changing trade markets

3- Policy makers and other development partners should come up with strategies of lowering the risk of lending to the youth, either through various guarantee and other partnerships and can adopt models for providing youth with enhanced security for FSPs.

4- Leaders should encourage the youth to apply modern ICTs in agriculture as it offers great potential for attracting youth to agriculture, providing up-to-date information, marketing agricultural products, offering training and managing finances for agricultural projects.

5- Leaders should organize competitions to act as a potential source of funds, particularly targeting rural youth where a good business plan is evaluated and rewarded as it can increase the winner's visibility while giving a crucial boost to their business.

The government should come up with a coherent and integrated response to address the core challenges faced by youth when entering agriculture. The government can work partnership, with a transparent multi-stakeholder mechanism ensuring coherence, coordination and cooperation across different national government institutions and agencies, at central and local level, private sector organizations, youth organizations and development partners.

4.2. Further research

In order to determine whether the situation is different in other areas, other researchers should replicate the study in order to come up with a more comprehensive program for enhancing youth access to finances for agricultural value chain development in Kenya.

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