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INFLUENCE OF ACCESS TO FINANCE ON THE GROWTH OF ORGANIC SMALL-SCALE AGRI-BUSINESS ENTERPRISES IN KAJIADO COUNTY, KENYA

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Abstract: *Despite the recognized potential of organic small-scale agri-business enterprises to contribute to sustainable agriculture and rural development, the limited access to finances poses a significant challenge to their growth and expansion. The lack of adequate financial resources hinders these enterprises from capitalizing on market opportunities, adopting modern agricultural practices, and scaling up their operations. As such, the current study intended to examine the influence of access to finance on the growth of organic small-scale agri-business enterprises in Kajiado County. A descriptive survey research design was adopted in the study. The target population comprised of 900 Organic small-scale farmers in Kajiado County. There were two hundred and ten (210) Agribusiness Micro and Small Enterprises which formed the accessible population of the study. One hundred and thirty-eight (138) Agribusiness Micro and Small Enterprises out of 900 Agribusiness MSE constituted the sample for the study. The study employed structured questionnaires to collect quantitative data as the only convenient means for data collection. The research instrument was pilot tested before its administration for data collection in the main study. The rationale behind pilot testing was to assess any potential weaknesses in the research instrument. Further data analysis was done with the help of use of Statistical Package for Social Sciences (SPSS version 21) software. The Study findings were presented using frequency tables, pie charts and bar charts. Quantitative data was analyzed through descriptive analysis. The study found out that Access to finances plays a crucial role in the growth and development of organic small-scale agri-business enterprises in Kajiado County. However, it remained a significant challenge for farmers and agri-business owners in the region. Limited access to formal financial services, high-interest rates, lack of financial literacy, and insufficient collateral posed formidable challenges for farmers and agri-business owners. These obstacles hinder their ability to invest in essential resources and adopt sustainable practices, thereby limiting their growth and development. Addressing the finance accessibility challenge requires collaborative efforts, including the development of tailored financial solutions, comprehensive financial literacy training, and supportive policies.*

Keywords: *access to finance, growth of organic small-scale agri-business enterprises, organic small-scale agri-business, agri-business enterprises, financial resources, organic farming Kenya*

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INTRODUCTION

Agriculture plays a vital role in sustainable development, poverty reduction, and improved food security, especially in developing countries (Willer, Lernoud &Kilcher, 2020; Soriano, Aznar-Sánchez &Calatrava-Requena, 2014; Reganold & Wachter, 2016). In Kenya, agriculture is recognized as one of the key economic sectors driving the country's projected 10% annual growth as outlined in Kenya Vision 2030. The vision acknowledges the significant contribution of more than 5 million smallholder farmers engaged in various agricultural activities across the country. Achieving the goals of Vision 2030 is closely linked to the promotion of innovative, commercially-oriented, and modern agriculture(). In 2016, a significant portion of the global population, about 689 million people or 9.5% of the total population, faced severe food insecurity. Africa, with 27.4% of the population according to FAO (2016), was particularly affected by this issue, highlighting the prevalence of food insecurity in the region. This situation necessitates innovative approaches to address and reverse the challenges faced. As the human population continues to grow, it becomes crucial to develop sustainable solutions that can enhance agricultural production, improve the global supply chain, reduce food losses and waste, and ensure access to nutritious food for those suffering from hunger and malnutrition (Sustainable Development Knowledge Platform, 2018).

The development of Organic agriculture has mainly focused on increasing productivity rather than holistic management of natural resources to ensure healthy food security and sovereignty (Bhardwaj 2014). However, the transition to a more commercialized farming sector faces challenges, particularly in accessing financial support. Many farmers in Kenya, who primarily reside in rural areas, rely on subsistence agriculture as their main livelihood. The majority of the population, approximately 80%, is engaged in agricultural activities (Kenya Population Census report, 2009). Small-scale farmers in Kenya contribute significantly to agricultural output, accounting for 60% of the total farmed area. They produce the majority of crops, with smallholder farmers cultivating 90% of maize, as well as other food crops like sorghum, millet, rice, potatoes, beans, and cassava (Ministry of Agriculture, Livestock and Fisheries, 2013). They also play a significant role in producing coffee, tea, sugarcane, and horticultural crops. The small-scale farming sector in Kenya is crucial for development, as it represents a significant portion of agricultural production and the livelihoods of millions of households. Supporting smallholder farmers with access to credit and financial services is essential for enhancing productivity, fostering innovation, creating employment, and alleviating poverty at both the micro and macroeconomic levels (Brouwer, Steel & Liebrand, 2023). While agriculture remains fundamental to sustainable development and poverty reduction, it encounters various challenges at the global, regional, and national levels that require urgent attention. Several factors constrain agricultural production in Kenya, including low adoption of improved technologies, volatile markets, limited access to credit and markets, and a lack of business knowledge among farmers. The use of fertilizers, pesticides, improved seeds, and practices is gaining momentum but still needs further implementation. Insufficient productivity on farms leaves many families unable to meet their basic household needs (Bradman, Quirós-Alcalá, Castorina, Aguilar Schall & Camacho, 2011; Odhong, 2014).

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Access to credit is essential for the development and commercialization of agriculture in Kenya. Credit plays a crucial role in modernizing agriculture and commercializing the rural economy. It provides farmers with opportunities to invest in their farms, improve productivity, and enhance their standard of living. Agricultural credit is particularly important in the agricultural sector due to the seasonal variations in farmers' returns and the transition from subsistence to commercial farming (Greene, Kremen &Wiemerslage, 2012). The availability of financial tools has significant impacts on households' ability to smooth consumption, make long-term investments, manage risk, and drive economic growth. Financial market imperfections can limit entrepreneurial production and hinder economic development.

Kajiado County, being a part of this larger context, also faces its share of food security challenges. The vision of achieving zero hunger encompasses various objectives, such as eliminating stunted growth in children under the age of two, providing year-round access to adequate food for all, promoting sustainability in food systems, increasing productivity and income for smallholder farmers, and reducing food loss and waste (Muriithi, Muendo, , &Ndirangu, 2019; Reganold & Wachter, 2016). However, these goals are still aspirations for many countries, including those in the African continent. Access to finance is essential for farmers and agri-businesses to invest in the necessary resources, such as improved seeds, fertilizers, irrigation systems, and modern farming equipment. It also enables them to adopt sustainable practices, implement efficient storage and processing methods, and expand their operations. However, many small-scale farmers and agri-businesses in Kajiado County face limitations when it comes to accessing formal financial services and credit facilities.

Agricultural credit plays a crucial role in promoting the growth and development of the farming community. Access to credit is essential for small-scale farmers in Kajiado County to invest in resources, such as improved seeds, fertilizers, irrigation systems, and modern farming equipment (Bradman, Quirós-Alcalá, Castorina, Aguilar Schall & Camacho, 2011). By providing financial support, agricultural credit enables farmers to adopt innovative and commercially-oriented practices, leading to increased productivity and improved living standards. Kajiado County, like many other rural areas, faces challenges such as low savings capacity, underdeveloped rural financial markets, and limited availability of appropriate farm technologies. These constraints can hinder the adoption of modern agricultural practices and limit the potential for agricultural growth (Odhong, 2014). Agricultural credit becomes even more vital in such circumstances, as it provides farmers in Kajiado County with the necessary funds to overcome financial barriers and invest in the inputs required for increased productivity. By addressing the constraint of agricultural credit, Kajiado County can foster a more innovative and modern agricultural sector. Farmers will have the financial means to access improved technologies, acquire quality inputs, and implement sustainable farming practices. This, in turn, can lead to higher resource productivity, increased output growth, and ultimately, the improvement of food production and the overall well-being of the farming community in Kajiado County.

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Moreover, the burden of high-interest rates further compounds the finance accessibility challenge. Even when financial institutions do extend loans, the interest rates imposed can be exorbitantly burdensome for small-scale farmers and agri-businesses to bear. Consequently, this creates a substantial financial burden that severely limits their capacity to afford the cost of borrowing and ultimately hampers their ability to repay loans, thus exacerbating the already restricted access to finance (Brouwer, Steel & Liebrand, 2023). In addition, a prevailing lack of financial literacy among farmers and agri-business owners within Kajiado County further perpetuates the challenge of finance accessibility. Many individuals involved in the agricultural sector possess limited knowledge and understanding of financial management, as well as inadequate skills to navigate the intricate loan application procedures associated with formal financial institutions (Maritim, 2020). This dearth of financial literacy presents a formidable obstacle, impeding their ability to access and effectively utilize financial resources crucial for sustainable agricultural practices.

Another key hurdle contributing to the finance accessibility challenge is the scarcity of sufficient collateral. Small-scale farmers often lack the necessary assets to serve as collateral, thus impeding their ability to secure loans from formal financial institutions (Akeno, 2015). Without tangible collateral, farmers face significant difficulties in accessing credit, thereby impeding their capacity to invest in vital resources such as advanced equipment, quality inputs, and innovative technologies that are integral to enhancing productivity and profitability(Oluoko-Odingo, 2019). While there may be some agricultural financing programs in existence, their availability and reach within Kajiado County may be limited. Government agencies and non-governmental organizations play a vital role in providing initiatives and programs that aim to support farmers and agri-businesses. However, the scope and effectiveness of these programs may fall short in meeting the immense demand and requirements of the diverse small-scale agricultural landscape. Consequently, this results in an insufficient supply of accessible financial resources for organic small-scale agri-business enterprises and serves as a significant impediment to their growth and development. As such, the current paper intended to examine influence of access to finance on the growth of organic small-scale agri-business enterprises in Kajiado County.

METHODOLOGY

Research Design

According to Collis and Hussey (2013) a research design refers to the process of creating an empirical test to support or refute a claim (Collis & Hussey, 2013). The study used descriptive survey research design to describe record, analyze and interpret conditions that exist. Descriptive survey research design was used mainly because, the design was useful in describing the characteristics of a large population, made use of large samples, thus making the results statistically significant even when analyzing multiple variables, many questions can be asked about a given topic giving considerable flexibility to the analysis. The design allows use of various methods of data collection like questionnaire and interview methods. It also makes use of standardized questions where reliability of the items is determined (Meeker & Escobar, 2014).

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Target Population

A population refers to the larger group from which the sample is taken. It also refers to an entire group of persons or elements that have at least one thing in common. According to Mugenda and Mugenda,population refers to the entire group of individuals, events or objects having a common observable characteristic(Mugenda & Mugenda, 2011). On the other hand, the accessible population is a subset of the target population from which the sample is going to be derived. While the accounts and finance factors make organic Agri-business farms in Kenya registered with Crop Development.

The total population in Kajiado County is about 687,312. The target population defines those units for which the findings of the study are made to generalize. The target of this study comprised of 900 small-scale agri-preneurs in Kajiado County. The accessible population was 210. In this study the 138 out of 210 registered small scale organic farmers in Kajiado County were the units of analysis from which the research data was collected.

Sample Size and Sampling Technique

Sampling is the method of selecting a representative subset of the population known as sample. Sampling makes research deals more with accurate and economical. It is the sampling method which actually determines the generalizability of the research findings. In simple words, the process of choosing a sample of the population to study is called sampling (Showkat & Parveen, 2018). A sample is a subset of the accessible population. The accessible population (210) was quite large and this necessitated sampling, Yamane (1967:886) formula was employed as shown below (Rajendran & Nedelea, 2017).

$$n = \frac{N}{1 + N(e)^2}$$

Where
n is the sample size,
N is the population size,
E is the level of precision

According to Mugenda and Mugenda (2009), a sample is a smaller group or sub-group obtained from the accessible population(Walliman, 2011). This subgroup is carefully selected to be representative of the whole population with the relevant characteristics. Each member or case in the sample is referred to as subject, respondent or interviewees.

This formula by Yamane (1967:886) is used to calculate a simple sample sizes. A 95% confidence level and P=.5 are assumed for Equation.

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Sample Size Calculation

$$n = \frac{210}{1+ 210\ (0.05^2)}$$

$$n = \frac{210}{1+ 0.525}$$

$$n = \frac{210}{1.525}$$

n = 138

From the computation, the sample size of respondents who were sampled was 138.

Data Collection Instruments

For the data collection process, the study adopted primary data source. The primary data collected by use of questionnaires which contains close-ended questions to identify the age, level of education and their net profit. The close-ended questions have consistency in responses, easy and quick to answer for the response and are easy, quick and less costly to analyze (Rono, 2013). Also, other questionnaires comprised of structured questions/ specific questions which will be used to gain some specific information from the respondents. The questionnaires will also ensure anonymity of the respondents.

Data Analysis

According to Dedić and Stanier data analysis is a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making (Dedić & Stanier, 2016). After collecting data through questionnaires, the data was edited for completeness and comprehensibility. It was later coded and analyzed by the using SPSS The researcher used both qualitative and quantitative methods of data analysis. Qualitative data was consolidated, content analyzed depicting respondents‟ views on the strategic factors influencing growth of organic agri-business in Kenya. Data was presentation was done through pie charts, tables and figures to illustrate the research findings. The analysis was done using descriptive statistics for quantitative data in terms of frequencies and percentages.

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RESULTS

Demographic Characteristics of the Respondents

The study sought to examine demographic characteristics of the respondents who took part in the study. The characteristics sought included gender, age bracket, level of education, working experience and earnings per season for the agribusiness.

Slightly more than half 79 (57%) of the respondents who participated in the study were male. The remaining 59 (43%) were female.

Regarding to the age bracket, a good percentage 29% (40) were above 40 years of age. This was followed by 29% (40) who indicated that they were between 31 and 35 years of age. The remaining 28% (39) were below 30 years of age. The 14% (19) were also between the age of 36-40.

Slightly more than half (57%) 79 indicated that they had gone to college. Slightly more than a quarter (29%) 40 indicated that they had gone to university whereas the remaining (14%)19 had a secondary certificate. This shows that majority of the organic farmers have a basic education.

In terms of working experience, 44% (60) had worked for 4 to 6 years, 28% (39) above 6 years and the remaining 28%(39) below 4 years.

The major sources of finance and credit used by the small scale organic farmers include micro finance (29%) 19 and contributions from the family and friends (28%) 40. There are however those few who seek credit from the banks, merry go round and shylocks respectively.

Influence of Access to Finance on the Growth of Organic Small-Scale Agri-Business Enterprises

The study sought to examine the influence of access to finance on the growth of organic small-scale agri-business enterprises.

Factors affecting Access to Credit

The study sought to examine factors affecting access to credit. The respondents were asked to indicate the factors that was considered to ensure access to credit figure 1 shows the distribution of the respondents by factors affecting access to credit

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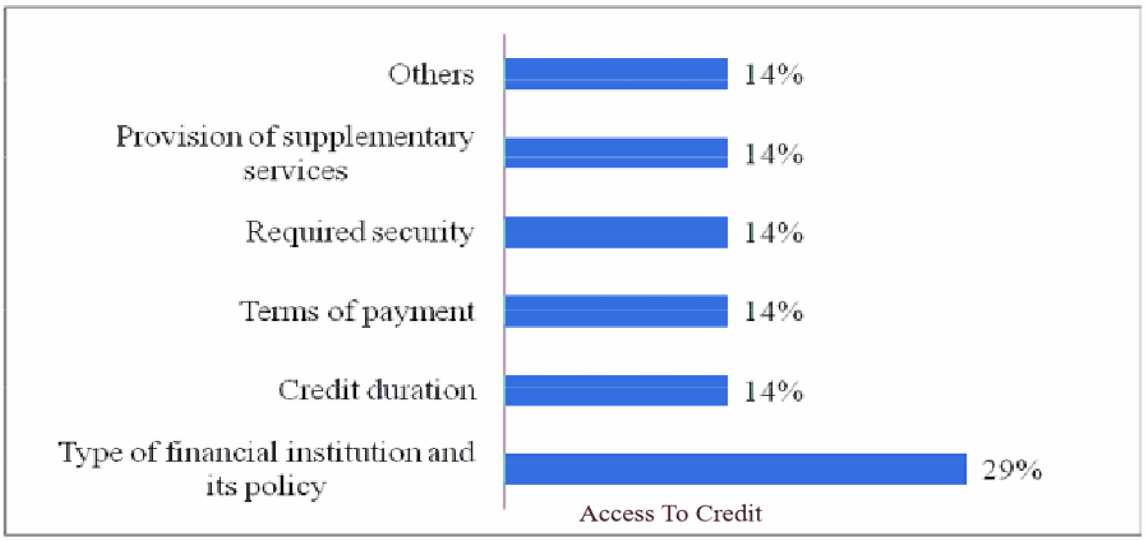

Figure 1 Factors affecting Access to Credit

As shown in the figure, there are various factors which have been pointed out as to affect access to credit among the small scale organic farmers. The key factor pointed out as to affect access to credit was the type of financial institution and its policies (29%).

The remaining factors (credit duration, terms payment, reacquired security, provision of supplementary services and others) were represented by only 14%

Being in agricultural sector and lands involved, the respondents were asked to indicate whether ownership of land influenced access to credit. Figure 2 shows the response that was provided.

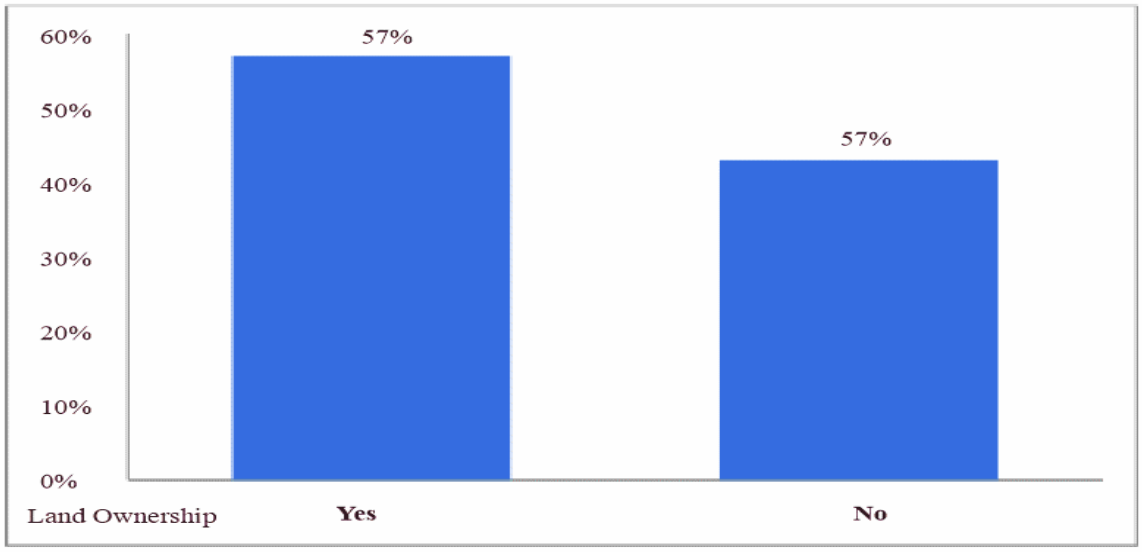

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Figure 2: Whether Land Ownership Influence Access to Credit

A divided response was obtained. This is whereby whereas 57% indicated that land ownership did influence access to credit, 43% indicated that it did not affect. This may be because there are those who easily acquire credit when they use title deeds as collateral and financial institutions always find land as a valuable collateral asset.

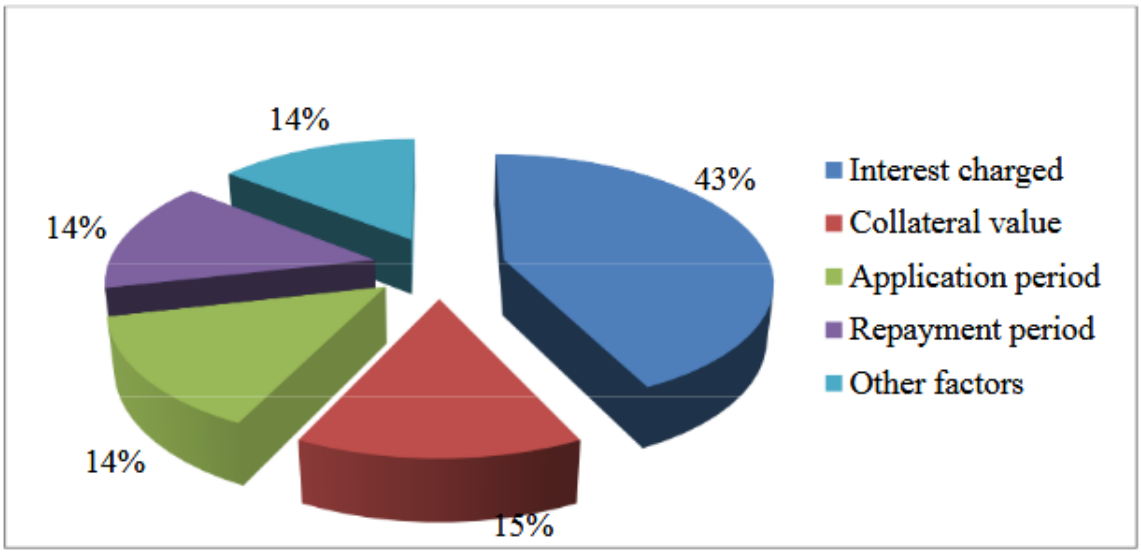

Figure 3: Considerations on Choice of Source of Credit

In terms of the things the farmers considered for choosing the source of credit, 43% (59) indicated interest charged and 15% (21) indicated the collateral value. Others indicated that application period and repayment period among other factors influenced their choice of source of credit.

The respondents were asked to indicate the extent to which access to credit affected the growth of their enterprise. The responses obtained are as presented in Figure 4 below.

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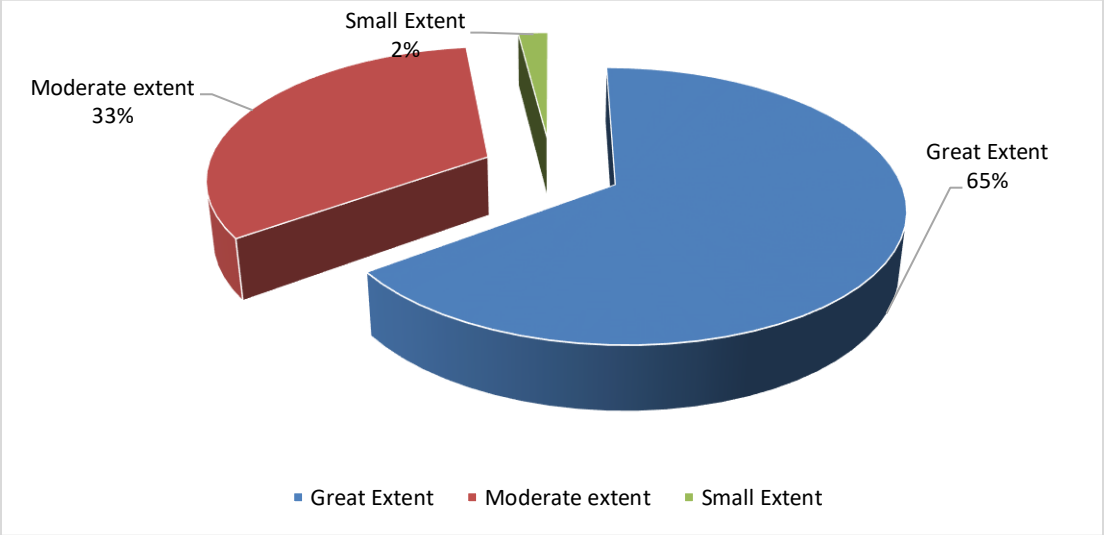

Figure 4: Extent to Which Access to Credit Affects Growth of Agribusiness Enterprises

Slightly less than two thirds (65%) of the respondents indicated that access to credit affected the growth of their enterprises to a great extent. This was supported by a third (33%) who indicated to a moderate extent. A few (2%) however, indicated that it had not effected at all.

Correlation between Finance Access and Growth of Agribusiness Enterprises

The study determined the correlation between access to Finance and Growth of Agribusiness Enterprises. Table – shows the correlation between finance and growth of Agri Business.

Table 1: Correlation between finance and growth of Agri Business

		Growth	**Finance**
Growth		1	
Finance access	Pearson Correlation	.93	1
	Sig. (2-tailed)	.000	.000
	N	138	

As shown in Table 1, the association between access to finance and growth of Agri Business was strong, with a correlation of .93.

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DISCUSSION

Availability of finance is important for sustaining the production of agricultural commodities. Small-scale farmers in communal areas of Kajiado County and the entire country are an issue as entrepreneurs have limited access to finance and information. Credit is an important instrument for improving the welfare of the poor directly through consumption smoothening that reduces their vulnerability to short-term income. Moreover, availability of finance contributes to increased income. It also enhances productive capacity of the poor through financing investment in their human and physical capital. In the same line, Ragasa & Mazunda (2016) observes that availability of finance is crucial for farmers, particularly small-scale and subsistence farmers, to invest in agricultural inputs, equipment, technologies, and infrastructure. It enables them to increase productivity, expand their operations, and adopt sustainable agricultural practices

According to this study, it is clear that Financial Knowledge is crucial for financial decision making. A lack of financial knowledge, especially of farmers, can explain the low income of farmers and slow economic growth. It is clear that majority of the entrepreneur earned 6,000 shillings and less during the harvesting season. However, there is also a clear indication that the farmer's earnings per season for their enterprise were above 20,000. All of them indicated that it was not sufficient, and they had to depend on other sources of income for support. supporting this study, a number of scholars have also conducted their studies on the importance of financial knowledge in agribusiness field. For instance: The study by Cole, Sampson, and Zia (2011) explores factors that drive demand for financial services in emerging markets. the study supports the notion that financial knowledge is crucial for individuals to make informed financial decisions. The study's focus on enabling individuals to make better financial decisions aligns with the importance of financial knowledge for farmers' income and economic growth. in the same line, the study by Karlan and Valdivia (2011) examined the impact of business training on microfinance clients and institutions. The study established that the potential benefits of providing financial knowledge and training to entrepreneurs. This aligns with the idea that enhancing financial knowledge can lead to improved financial decision-making and better business outcomes, which can potentially impact farmers' income as well.

Shedding more light, the study by Duveskog and Sarris (2018) investigated the relationship between financial literacy and the welfare of farm households in Kenya. the study explored how farmers' financial knowledge influences their income and overall well-being, highlighting the importance of financial literacy for farmers' economic outcomes. This directly resonates with the study findings on the relationship between financial knowledge, farmers' income, and the need to depend on other sources of income for support. The study by Mishra and Sharma (2018) also focused on financial literacy and its impact on farmers' income in India. The study explored the relationship between farmers' financial knowledge, their income levels, and the potential for financial literacy interventions to improve income outcomes. This aligns with the study findings regarding farmers' earnings and their perception of insufficiency, emphasizing the need for enhanced financial knowledge to address income challenges. in the same vein, the study by Alesina and Giuliano (2015) investigated the role of culture and institutions in economic development. While the study did not directly focused on financial knowledge or farmers'

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income, it offered insights into broader socioeconomic factors that influence financial decision-making and economic growth. This broader context is relevant for understanding the significance of financial knowledge within the larger framework of economic development and farmers' income.

Based on the study findings, the major sources of finance and credit used by the small-scale organic farmers include micro finance and contributions from the family and friends. The key factor pointed out as to affect access to credit was the type of financial institution and its policies, whereas a large group showed that land ownership did influence access to credit. In terms of the things, the farmers considered for choosing the source of credit. There is also interest charged and collateral value in borrowing of many by the entrepreneurs. Slightly less than two-thirds of the entrepreneurs indicated that access to credit affected the growth of their enterprises to a great extent. The study findings appear to be in line with a number of studies, for example: A study by Rahman (2016) focused on microcredit and rural poverty. While not directly addressing the specific findings, the study is relevant as it examines the use of microfinance as a source of finance for small-scale farmers. It discusses the impact of microcredit on poverty reduction, which aligns with the use of microfinance as a major source of finance for small-scale organic farmers in your findings. in the same line, Mendoza-Torres and Fernández-Maldonado (2019) investigated access to credit and its impact on income and productivity of rural households, specifically small-scale farmers in Mexico. Their study directly relates to the current study findings regarding the key factor affecting access to credit, the influence of land ownership, and the impact of credit on the growth of enterprises. It provides insights into the relationship between credit access, income, and productivity in a similar context.

Adding more weight, the study by Kumar and Sharma (2019) examined the impact of microfinance on agricultural productivity in India. While not specifically focusing on organic farmers, it contributed to the understanding of how microfinance can influence agricultural productivity and enterprise growth, which is in line with the current study findings regarding the impact of credit on the growth of small-scale farmers' enterprises. Asongu and Odhiambo (2019) also explored the relationship between bank size, information sharing, and financial access in Africa. Although not directly related to small-scale farmers, their study touches upon factors that affect access to credit, such as the type of financial institution and its policies. This is in line with the current study findings regarding the influence of the type of financial institution on credit access. Adesina, Salami, and Olubode-Awosola (2020) also investigated the collateral requirements and access to credit for small-scale farmers in Nigeria. Their study directly relates to the current study findings on the factors influencing credit access, including the consideration of collateral value in borrowing by entrepreneurs. It highlights the importance of collateral requirements in accessing credit for small-scale farmers.

Entrepreneurs perceptions of the important requirements to obtain finance also vary across finance provider types. From the perspective of entrepreneurs, the most important requirement to obtain finance from a farmer’s association is membership. However, only 80 percent of

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entrepreneurs perceive membership as very important in Kajiado County. Some entrepreneurs, especially farmers who are not a member of a registered farmer' association, appear to be unaware that membership is very important to obtain finance from this provider. Farmers perceive collateral as the most important requirement to obtain finance from a bank, while banks do not perceive collateral as the most important requirement. In this way it makes the Kajiado County very difficult to get finance from the associations, and so they turn to family contributions and friends to be the means of finance. Lack of finance prevents farmers from expanding the size of their business and exploiting business opportunities.

CONCLUSIONS

Access to finance plays a crucial role in the growth and development of organic small-scale agri-business enterprises in Kajiado County. However, it remains a significant challenge for farmers and agri-business owners in the region. Limited access to formal financial services, high-interest rates, lack of financial literacy, and insufficient collateral pose formidable challenges for farmers and agri-business owners. These obstacles hinder their ability to invest in essential resources and adopt sustainable practices, thereby limiting their growth and development. Addressing the finance accessibility challenge requires collaborative efforts, including the development of tailored financial solutions, comprehensive financial literacy training, and supportive policies. By improving access to finance, organic small-scale agri-businesses can unleash their potential, enhance productivity, and contribute to the sustainable development and food security objectives of Kajiado County.

To overcome the challenge of finance accessibility and promote the growth of organic small-scale agri-business enterprises in Kajiado County, several recommendations can be put forward. Firstly, financial institutions should develop specialized financial products and services that cater specifically to the needs of small-scale farmers. These products should offer lower interest rates, flexible repayment terms, and streamlined loan application processes. Secondly, comprehensive financial literacy training programs should be implemented to enhance the financial knowledge and skills of farmers and agri-business owners. This will empower them to effectively manage their finances, understand loan requirements, and make informed financial decisions. Additionally, government agencies and agricultural organizations should collaborate to create supportive policies and regulations that incentivize financial institutions to extend credit to the organic farming sector. These policies can include loan guarantee schemes, tax incentives, and subsidies for sustainable farming practices. By implementing these recommendations, access to finance can be improved, enabling organic small-scale agri-businesses to thrive, contribute to sustainable agriculture, and enhance the economic well-being of farmers in Kajiado County.

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