



The Impact of Security Guaranteed Funds on Youth engagement in Agribusiness in Rwanda, a case of Business Development Fund (BDF) in Rwamagana District

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Abstract

Youth in Rwanda face serious challenges, including high rates of unemployment and underemployment. The Government of Rwanda continues to support the Youth Empowerment Funds in providing youth with access to finance for self-employment activities and entrepreneurial skills development. The study entitled “The contribution of security guaranteed fund on youth engagement in agriculture; a case of business development fund (BDF) Rwamagana Branch” was guided by three specific objectives: to determine the nature and services provided by BDF to youth, to analyze the level of development of youth engagement in agriculture and to find out the relationship between services of BDF and youth engagement in agriculture. The theories adopted include utility maximization theory and financial growth life cycle theory. Research methodology used were descriptive research design where questionnaire and interview were used to collect data and descriptive statistics, correlation analysis and multiple linear regression analysis were used to analyze data. The study covered 152 youths using BDF services Rwamagana branch as a sample size.

The findings revealed that services offered by BDF Rwamagana branch was at very high extent in terms of loan guaranteed fund with very high mean=4.43; trainings services with very high mean=4.13; Business advisory services with very high mean=4.27; monitoring and evaluation services with very high mean=4.23. The findings show that SMEs owned by beneficiaries of BDF in Rwamagana District has been development at least at high extent in term of job creation with very high mean=4.3, food security with high mean=4.43; access to market with very high mean=4.14; income and savings with high mean=4.0. The findings revealed that there is moderate positive significant relationship between business advisory services and youth engagement in agribusiness at $r = 0.699^{**}$; $p\text{-value} = 0.003 < 0.01$. The results revealed that there is high positive significant linear relationship between credit guarantees and youth engagement in agribusiness at $r = 0.723^{**}$; $p\text{-value} = 0.000 < 0.01$. The results indicate that there is moderate positive significant relationship between financial literacy training and youth engagement in agribusiness at $r = 0.635^{**}$; $p\text{-value} = 0.001 < 0.01$ and the results revealed that there is moderate positive significant relationship between monitoring services and youth engagement in agribusiness at $r = 0.593^{**}$; $p\text{-value} = 0.004 < 0.01$.

The study concluded that Security guaranteed fund offered by BDF Rwamagana branch such as loan guaranteed fund, trainings, advisory services and monitoring and evaluation services have a great impact on youth engaging in agribusiness in Rwamagana District which meets the goal and strategy of BDF establishment. The researcher

recommended that youth should use guaranteed finance what is requested for and following the management advice given by BDF through advisory services. For young entrepreneurs and early stages SMEs are recommended to join BDF and learn how to successfully obtain finance for their projects.

Key concept: Security guaranteed fund, youth, agriculture and agribusiness.

1. Introduction

Guarantee Funds (GF) are typically targeted toward a specific group of potential borrowers that are seen as being underserved by the formal credit markets, but whose success is deemed to be important to the development of a group of people, an industry or a region (Pozzolo, 2018). Although guarantee funds exist to cover many different kinds of borrowers, including large corporations, and even governments, the focus of this research is on those targeted at small and medium sized businesses (Dickson, 2017). However, though they can also be targeted toward more specific SME borrowers, such as borrowers in inner cities or rural areas, borrowers in certain industries such as agriculture or technology, or toward borrowers in certain demographics, such as women or ethnic minorities.

In Asian countries like Malaysia, since the late 1970s, the Malaysian government has established a number of specialized financial institutions and has adopted policy measures to provide credit that is cheaply available and accessible to SMEs. Government-support programmes for SMEs in Malaysia focus on five areas, namely, financial and credit assistance; technical and training assistance; extension and advisory services; marketing and market research; and infrastructure supports. In addition, the government provides SMEs with: management expertise, finance, land/building, facilities, and information about the market and tax deduction (Hashim, Mahajar, and Ahamd, 2018).

In African countries like Nigeria, underscores the need for governments to reform policies and framework conditions that have a bearing on firm creation and expansion, with a view to optimizing the contributions that these firms can make to growth. In Nigeria the contribution of SMEs has been recognized as main sustenance of the economy because of their capacity in enhancing the economic output and enhances human welfare. The problems bedeviling the SMEs in Nigeria are multi-faceted. Navajas, (2014) identified inadequate capital, inaccessible credit facilities. Long term development institutional credit was known not to be available to SMEs because they are generally considered high credit risks by financial institutions. The study by Evbuomwan, et al. (2017) indicated that 75.7% of their survey respondents relied mostly on own funds to finance their businesses. However, the SMEs lack of access to relative cheap and effective sources of finance has been identified as the major factor hindering their contribution to economic growth.

In Rwanda, since pre-colonial and after colonial, Rwanda efforts have been directed towards the poverty eradication, economic growth and development, through agriculture commercialization, tourism and industrialization. In relation to this and through the Private Sector Foundation the country has focused on sustainable development through small business development (RDB, 2014). Governments, particularly financial

regulators like those of Rwanda, have established various measures, programs and schemes aimed at providing SMEs with better access to financing. The motivations of these initiatives may differ depending on the stage of a country's financial sector development, its specific short- and long-term goals and the diverse needs of SMEs (AFI, 2016). The implementation of programs and schemes, including prioritizing and sequencing various measures, are also influenced by the available resources in a country, both financial and non-financial (Ibid). For the case of the Rwanda, the Business Development Fund (BDF) was set up to increasing access to finance for SMEs.

Despite the role played by BDF in helping development of SMEs especially youth in Rwanda, there is still SMEs failure to growth due to different reason , according to the reports National Industrial Research and Development Agency NRDA(2018), the estimated data on the failure of Enterprises in Rwanda from 2008 up to 2018, around 15 per cent of enterprises collapsed due to steady loss instead of generating profit, 98% of local firms are SMEs with limited business capital because financial institutions find it too high risk to lend to small enterprises given the cost/benefit ratio in terms of time and resources required to process SME loans as well as the difficulties most SMEs face in consolidating capital and creating business plans to become viable lending candidates (NISR, 2018). This means that even for entrepreneurs that do see opportunities in the market, it is difficult to bring those ideas to fruition due to the potential costs of failure. 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 Rwandan context, access to land, finances as well as viable markets among others are likely factors limiting youth participation in farming. 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. It is in this context that the researcher seeks to investigate the impact of security guaranteed fund on youth in Rwanda, with reference of SMEs funded by business development fund (BDF) Rwamagana branch.

Research objectives

- i. To determine the nature and services provided by BDF to youth;
- ii. To analyze the level of youth engagement in agribusiness;
- iii. To find out the relationship between services of BDF and youth engagement in agribusiness.

2. Material and Methods

2.1. Description of Business Development Fund

As part of the financial infrastructure to promote SMEs, BDF was established in 2011 as a wholly owned subsidiary of the Development Bank of Rwanda (BRD), with the objective of assisting SMEs to access finance, particularly those without sufficient collateral to obtain credit from traditional financial institutions at reasonable

rates. BDF's role was to promote alternative financing avenues at reasonable costs to help small businesses access credit by providing credit guarantees, Quasi-Equity support to start-up, managing matching grants, BDF Refinancing, and business development advisory services. The Government also consolidated the different funds provisioned for SME financial support that had been spread across various ministries and agencies under BDF. These included the SME Guarantee Fund, the Agricultural Guarantee Fund, the Rural Investment Facility, the Women's Guarantee Fund and the Retrenched Civil Servants Guarantee Fund. BDF has since harmonized the management of these funds and delivered through comprehensive agreements with the financing institutions. Given the privatization of BRD, a new ownership structure and strategic plan has been formalized for BDF to deliver on its mandate of supporting SME development. Moreover, with the introduction of the National Employment Program (NEP), BDF has been designated as the key implementing agency for NEP Pillar 2, and its functions need to be aligned with this role (BDF, 2022)

Vision: To be the leader in facilitating SMEs with Access to Finance and Advisory Services for National Development.

Mission of BDF: Promoting SME development through the provision of financial services to enhance the lending mechanism of financial institutions.

Objectives of BDF: Consolidate and manage all existing GoR funds available to SMEs; develop mechanism to enhance SMEs and special groups easy access to finance; tailor conditions and requirements to make simple SME and PFI participation; Scale up services and components to facilitate SMEs at all stages of their business cycle and Design banking products to respond to SMEs needs.

2.2. Data collection instruments

Questionnaire: Kakooza (1996) defines a questionnaire as a set of questions which are asked to get information from a respondent. It is also currently used to mean a set of questions, which are self-administrated. A questionnaire is designed and pre-tested before the researcher submitted it to the selected respondents. The questionnaire plays a major role in collecting data. This instrument was used because it is more comfortable to the researchers and respondents during data collection. It was made up on structured items and unstructured items. With structured items, respondents make a choice from a limited number of responses. With unstructured items (open-ended questions), respondents can give their opinions. Questionnaire was addressed to youth who get services provided by BDF.

Interview: Interview was arranged to allow respondents to freely provide their views related to the problem that is being investigated. The purpose of use this method was to supplement the questionnaire method of data collection so as to obtain the qualitative data that can be collected using questionnaires. In other words, it helped to get data that serve as supportive in narrating the role of security guaranteed fund on youth engaging in agribusiness. Interviews were semi-structured; i.e. some of the questions and topics were predetermined. Other questions arose during the interview sessions and thus the method appeared to be informal and conversational, but carefully controlled and structured. An interview was used to collect data from the director of BDF Rwamagana branch.

2.3. Data analysis

After the collecting of data, the data were analyzed using descriptive statistics. Descriptive statistics provides simple summaries about the sample and about the observations that are made. Data were carefully organized and checked to whether all the questions were addressed properly before entering them into Statistical Package for Social Science (SPSS) for data analysis. In order to make the research report simple and understandable, the framework of quantitative and qualitative methods of data analysis and presentation were applied. After entering all the questionnaires in to SPSS the researcher generates the tables which show the frequencies and percentages of the respondents to each question asked. Descriptive statistics was used to describe the basic features of the data in the study in the tendencies and then replicated in tabular manner. It involved use of percentages, frequencies, mean and standard deviation.

Multiple linear regressions: With multiple regression analysis, the researcher can assess the effects of multiple predictor variables (rather than a single predictor variable) on the dependent measure. Multiple regression model was used to test the significance of the effect of the independent variables on the dependent variable. Based on other models that have been used to test the effect of sub-variable of the credit guarantees, business advisory services, financial literacy training and monitoring services, the present study adopts the following model:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + e \quad (5)$$

Where: Y = Youth engagement in agriculture, $\{\beta_i; i=1, 2, 3 \text{ and } 4\}$ = The coefficients representing the various independent variables. B_0 = the Y intercept

$\{X_i; i=1,2,3 \text{ and } 4\}$ = Values of the various independent (covariates) variables.

e = the error term which is assumed to be normally distributed with mean zero and constant variance,

X_1 = Credit guarantees,

X_2 = Business advisory services,

X_3 = Financial literacy training,

X_4 = Monitoring services,

Qualitative data was analyzed using content analysis and this involves organizing data into categories, coding and sorting them to identify patterns and interpret meaning of responses. Saunders et al. (2007) argues that this method allows researchers to categorize the information and organize them into themes and patterns for easy interpretation. On the other hand, qualitative data was presented in a narrative form and inferences drawn from it.

3. Research results

3.1. Descriptive results

3.1.1. Loan guaranteed fund offered by BDF to youth

The study sought to assess the perception of respondents on loan guaranteed fund offered by BDF. The respondents were asked whether are in agreement or disagreement with the statement regarding to loan guaranteed fund services. The results were presented in Table 1.

Table 1: Loan guaranteed fund offered by BDF to youth

	SD		D		N		A		SA		Mea n	St. Dev
	fi	%	fi	%	fi	%	Fi	%	fi	%		
BDF helped me to run business when I failed to get loan from Banks due to lack of collateral	8	5.3	6	3.9	1	1.3	20	13.2	118	76.3	4.51	1.08
Terms and condition for BDF guarantying loan to entrepreneurs is fair	8	5.3	8	5.3	8	5.3	30	19.7	98	64.5	4.33	1.14
I have appreciated the services rendered by DBF to easily access the loan from commercial banks	8	5.3	2	1.3	4	2.6	16	10.5	122	80.3	4.59	1.01
The maximum lending limit offered by BDF is favorable to my business	8	5.3	6	3.9	4	2.6	46	30.3	88	57.9	4.32	1.07
BDF offers credit Guarantees to young entrepreneur at affordable interest rates	0	.0	18	11.8	25	6.6	22	14.5	102	67.1	4.37	1.04
The loan repayment period is long enough	0	.0	4	2.6	12	7.9	40	26.3	96	63.2	4.50	.76
Overall mean											4.43	1.01

Source: Primary data, 2023

Overall view of respondents on loan guaranteed fund offered by BDF Rwamagana branch to youth was at very high extent with very high mean=4.43 and standard deviation =1.01 which implies that there is strong evidence of existing of fact that BDF Rwamagana branch offered loan guaranteed fund services to youth wishing to start business at very high extent and heterogeneity responses. This findings are in the line with Modeer (2013), found that business support services such as advisory services, training services among others are key for businesses' success. These help them to manage the business through difficult times like death stage. This implies that the majority of beneficiaries of BDF were youth because most of youth did not have collateral security accepted by commercial banks and other financial institutions. So BDF supported youth who did not have collateral by given them loan guaranteed fund. This implies that the majority of beneficiaries of BDF were youth because most of youth did not have collateral security accepted by commercial banks and other financial institutions.

3.3.2. Access to market

The study sought to assess the views of respondents on youth access to market owned by beneficiaries of BDF Rwamagana branch. The respondents were asked whether agreed or disagreed with the statements regarding youth access to market.

Table 2: Access to market

	SD		D		N		A		SA		Mean	St. Dev
	fi	%	fi	%	fi	%	fi	%	fi	%		
BDF through bank helps youth to negotiate pre-season contracts with agro- dealers	0	.0	16	10.5	12	7.9	20	13.2	104	68.4	4.39	1.02
BDF through Bank help farmers in setting price favorable after harvesting process	2	1.3	4	2.6	4	2.6	36	23.7	106	69.7	4.58	.79
BDF through Bank provides sufficient information to farmers at right time	2	1.3	20	13.2	12	7.9	22	14.5	96	63.2	4.25	1.14
BDF through Bank famers to bargain the fair price of fertilizer with suppliers	0	.0	6	3.9	4	2.6	62	40.8	80	52.6	4.42	.74
BDF in collaboration with bank help youth to bargain prices of products	2	1.3	118	77.6	132	7.9	18	11.8	2	1.3	2.63	.80
Overall mean											4.14	0.88

Source: Primary data, 2023

Overall view of respondents on the access to market through BDF Rwamagana branch to youth entrepreneurs was at high extent with very high mean=4.14 and standard deviation =0.88 which implies that access to market among youth was at high extent and heterogeneity responses. The findings are in the agreement with Noorani (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.

3.2. Multiple linear regression analysis

With this test, it was assumed that the kind of relationship that exists between independent and dependent variables is linear. To ascertain this, and to know the extent to which the predictors affects youth engagement in agribusiness, regression test was carried out; the predictors in this case include; credit guarantees, business advisory services, financial literacy trainings and monitoring services while dependent variable is youth engagement i. The findings are presented in table 3:

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.753 ^a	.566	.557	.16420

a. Predictors: (Constant), credit guarantees, business advisory services, financial literacy trainings and monitoring services

Source: Primary data, 2023

Findings established an R-squared value of .566. This meant that when all the independent variables were taken together, they gave an R-squared value of 0.566(56.6%). Thus, the independent variables (credit guarantees, business advisory services, financial literacy trainings and monitoring services) taken together could account for up to 56.6% of the total variation in youth engagement in agribusiness at 95% of confidence interval. The remaining 43.4% in the variation in youth engagement in agribusiness implementation could be explained by other factors not in the model.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.443	4	1.611	48.81	.000 ^b
	Residual	4.934	147	.033		
	Total	11.377	151			

Source: Primary data, 2023

a. Dependent Variable: Youth engagement in agribusiness

b. Predictors: (Constant), credit guarantees, business advisory services, financial literacy trainings and monitoring services

In order to examine on whether the data was good fit for regression model, the ANOVA was undertaken and the data being good fit for data was tested at 5% level of significance. Since from the Table 4.16 indicated an F-value of 48.81 is larger than the critical $F_{(v_1=4, v_2=152)} = 2.42$ and also because p-value calculated =0.000 is less than Critical p-value =0.05 level of significant. Therefore, this implies that credit guarantees, business advisory services, financial literacy trainings and monitoring services as independent variable are good predictors of youth engagement in agribusiness.

Table 5: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.081	.287		3.771	.000
	Business advisory services	.314	.046	.015	6.926	.000
	Credit guarantees	.587	.040	.754	14.560	.000
	Financial literacy trainings	.101	.033	.001	3.060	.008
	Monitoring services	.135	.034	.209	4.002	.000

a. Dependent Variable: Youth engagement in agribusiness

Source: Primary data, 2023

The equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$) becomes: youth engagement in agriculture = $1.081 + 0.314X_1 + 0.587X_2 + 0.101X_3 + 0.135X_4$

The regression equation above has established that taking all factors into account (credit guarantees, business advisory services, financial literacy trainings and monitoring services) constant at zero youth engagement in agribusiness will be 1.08.

The regression results revealed that business advisory services have significance positive role on youth engagement in agribusiness as indicated by $\beta_1 = 0.314$, p-value=0.000<0.05, t=6.926. The implication is that an increase of one unit in business advisory services would lead to an increase of youth engagement in agribusiness by 0.314 units.

The regression results revealed that credit guarantee has significance positive role on youth engagement in agribusiness as indicated by $\beta_2 = 0.587$, p-value=0.000<0.05, t=14.560. The implication is that an increase of one unit in credit guarantee would lead to an increase of youth engagement in agribusiness by 0.587 units.

The regression results revealed that financial literacy trainings have significance positive role on youth engagement in agribusiness as indicated by $\beta_3 = 0.101$, p-value=.008<0.05, t=3.060. The implication is that an

increase one unit in financial literacy trainings would lead to an increase of youth engagement in agribusiness by 0.101 units.

The regression results revealed that monitoring services has significance positive role on youth engagement in agribusiness as indicated by $\beta_4 = 0.135$, $p\text{-value} = 0.000 < 0.05$, $t = 4.002$. The implication is that an increase one unit in monitoring services would lead to an increase of youth engagement in agribusiness by 0.135 units.

This implies that services offered by BDF Rwamagana branch like loan guaranteed fund, trainings, advice, monitoring and evaluation services has a great effect on development of SMEs in inform of increase in capital base, profitability, growth and expansion of the business. Hence business enterprises should utilize BDF services for their business growth and development. BDF has done so and continues to Thousands of business have been able to start and grow through the support of BDF in terms of credit guarantee, grants, trainings and other advisory support." "Various Talks to Entrepreneurs especially those that are in SME category try and change their minds on how to approach Banks, MFIs, SACCOs and then BDF for guarantee & grants. Proper and Good relationship development between MFI, SACCOs Banks and BDF Proper understanding as to shy BDF do exist. Provision of several BDF products; guarantee, Grants, Advisory services such as trainings

Given that almost youth had received a loan guarantee from BDF, majority were able to utilize the formal banking sector, which not only lowered their costs, but as the bank requires more extensive reporting, it most probably helped move the company toward more professional practices. Furthermore, the borrower will begin building a formal credit history which will make gaining future loans more likely. From the banks side, they gain new customers, as well as experience in lending to new sectors (Honohan 2008).

On a positive note, the findings of this study showed that the majority of the respondents reported that the members of their SMEs had been trained by BDF in ICT skills and also reported that BDF had imparted business development skills like planning and budgeting into members of their SMEs. Business development comprises a number of tasks and processes generally aiming at developing and implementing growth opportunities within and between organizations. Business development is the creation of long-term value for an organization from customers, markets, and relationships. Business development is to be thought of as a marketing tactic and thus possibly make accessing finance easy. The main function of Business Development is to utilize partners in selling to the right customers. Creating opportunities for value to be ongoing in the long-term is very important. There is no doubt that small and medium scale enterprises are the saving grace of economies particularly the developing economies. SMEs are part of the responses to development in most developing countries and have proven to play major roles of development in developed worlds. Despite much attention on SMEs in developing countries especially, SMEs still face some major challenges that hinder their growth and prevents them from competing favorably with large scale companies. It is, therefore important to identify these needs and fulfill them in order to foster their growth and subsequently aid economic growth

Similar to findings by Mburu (2012) and Blackburn (2010), reception of business advisory services from BDF by SMEs contributed to ease of access to finance. This is because by accessing business advisory services comes better financial management. Financial management involves planning and budgeting, cash flow and working capital management, financial controls, financial and business assessment for growth. Seeking business advisory services does not only make business grow but also aligns the business with the national goals of sustaining an economy driven by innovation; value added services and high quality business activity (Mburu, 2012).

5. Conclusion

Security guaranteed fund offered by BDF Rwamagana branch such as loan guaranteed fund, trainings, advisory services and monitoring and evaluation services has a great impact on youth engaging in agribusiness in Rwamagana District which meets the goal and strategy of BDF establishment. Youth entrepreneurs have been fully recognized by Government and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. BDF provides business support services to SMEs in Rwamagana District particular youth in the form of credit guarantees, advisory services and matching grant/credit line. These services have been availed to majority of the youth to help them startup and operate successfully. Through the services the youths have experiences significant growth, increased annual return and developed their business management skills. Majority of the youths are in position to increase their sales volume and profits, greased their average monthly return to between 200,000 and 300,000 Rwf and increase the number of employees, customer satisfaction and develop their markets after joining BDF.

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