

Dividend Payout by Agricultural Firms in Kenya [An Empirical Analysis of Firms Listed on the Nairobi Security Exchange]

Calistus Wekesa Waswa

Fredrick W.S. Ndede

Ambrose O. Jagongo, PhD

Kenyatta University
Kenya

Abstract

Agriculture has been a major source of the country's food security and a stimulant to off-farm employment yet agricultural production remained on decline. Most firms in the agricultural sector have performed below shareholder expectations which have led to shareholder apathy and have contributed to the decline of the rural economy due essentially to unstable and low dividend payout. This research is an attempt to analyze the determinants of dividend payout of Kenya Agricultural sector. It also focused on identifying whether various factors available as per literature influence dividend payout ratio in Agricultural sector in Kenya in existing scenario or not. Statistical techniques of correlation and regression were used to explore the relationship between key variables. Thus, the main theme of the study was to identify the various factors that influence the dividend payout policy decisions of Agricultural firms in Kenya listed on Nairobi Securities exchange. The objective of the study was achieved by adopting panel data estimation technique using multiple regressions because it is the best method to use when dealing with micro-units in the economy. Data analysis was carried out using the Statistical Package for Social Scientists (SPSS) version 17.0. The results show positive relationships between dividend payout and liquidity and profitability. The results also show negative associations between dividend payout and firm's growth, Firm size and leverage. These results are consistent with the prediction by many authors.

Keywords: Dividend payout, Agricultural firms, liquidity, profitability, leverage

1.1 Background of Study

Does Dividend Policy matter? Almost each Academic will say without any doubt "Yes" and of course will cite many classic and contemporary examples of how dividend policy plays out in the marketplace. Dividend policy cuts to the quick of such interesting and old questions like "Why do corporations pay out dividends?" and also "why should investor care?" Dividend Policy is must-have recourse".

John (2013) understanding dividend payout ratio is important, because it can provide clues as to the sustainability of a company's dividend and the potential for it to grow. Typically, the payout ratio refers to the percentage of a company's earnings that are paid out as dividends. However, the ratio is also sometimes expressed as a percentage of cash flow, which excludes non-cash items such as depreciation. Young, fast-growing companies tend to pay out little or nothing in the way of dividends, because they need to reinvest cash in the business. Cyclical companies with volatile earnings – materials producers, for example – also tend to have very low payout ratios, because they can't sustain a high dividend in bad times. At the other end of the scale are mature companies whose predictable earnings and strong cash flows allow them to pay out a higher percentage of their profits. As an investor, I like to see a target payout ratio, because it's a sign of financial discipline. John (2013) in extreme cases, a payout ratio can exceed 100 per cent. How is this possible? Well, a company can dip into its cash resources or borrow to sustain the dividend even when its profits take a hit. Also, if a company has a dividend reinvestment plan, it can pay out more than it earns because many investors choose to take their dividends in shares instead of cash. But a company can't pay out more than 100 per cent forever. Eventually, it will either have to cut its dividend, or increase its profits. In such situations, the company should have a plan for addressing the shortfall.

There are no simple rules of thumb with payout ratios. But if you stick with strong companies that have manageable payout ratios – and which also have growing revenues and earnings – you’re more likely to be rewarded with dividend increases and less likely to suffer a dividend cut. Dividend payout has been a subject of debate among finance managers. Academicians and researchers have developed many theoretical models describing the factors that managers should consider when making dividend payout decisions.

Miller, Merton and Modigliani (1991), argue that given perfect capital markets, dividend decision does not affect the firm value and is, therefore, irrelevant. Most financial practitioners and many academics greeted this conclusion with surprise because the conventional wisdom at the time suggested that a properly managed dividend payout had an impact on share prices and shareholders’ wealth.

Company’s income can be invested in operating assets, used to acquire securities, used to retire debts, and/or distributed to shareholders in the form of cash dividends. Issues that arise if a company decides to distribute its income to shareholders include the proportion of the after tax income that would be distributed to shareholders; and how stable the distribution should be. The well-known classical paper Black and Fischer (1976), argue that “the harder we look at the dividends picture, the more it seems like a puzzle, with pieces that just do not fit together”. Thus setting corporate dividend policy remains controversial and involves judgment by decision makers. In addition, there has been emerging consensus that there is no single explanation of dividend payment.

Dividend decision is the third major financial decision (Pandey, 2008). The financial manager must decide whether the firm should distribute all profits, or retain them, or distribute a portion and retain the balance. The dividend payout should be determined in terms of its impact on the shareholders’ value. The optimum dividend policy is one that maximizes the market value of the firm’s shares. Thus, if shareholders are not indifferent to the firm’s dividend payout, the financial manager must determine the optimum dividend payout policy. Most profitable companies pay cash dividends regularly. On the other hand dividends may be considered desirable from shareholders’ point of view as they tend to increase their current return. Dividends, however, constitute the use of the firm’s funds. Cash dividend is the commonest of dividends paid (Pandey, 2008). It is a return to the shareholders. Companies intending to pay such dividends will be required to reserve sufficient cash in their bank accounts to facilitate this payment. It is useful for a company to prepare cash budgets to indicate which period would be best for payment of cash dividends without endangering the company’s liquidity position and if this is at stake, the company should make arrangements to borrow funds to fill the gap left by the payment of cash dividends. In all, the payment of cash dividends has the impact of reducing the company’s cash balance and thus total assets and the company’s net worth in general.

Pandey (2008) states that a securities dividend by definition is the distribution of shares in addition to or in lieu of cash dividends which the company pays to its shareholders. These shares must be within the company’s authorized share capital because this securities dividend will increase the existing number of ordinary shares. It is usually given in proportion to the company’s existing shareholding. This securities dividend represents a capitalization of reserves which will change from their temporary form to a permanent form of ordinary securities.

Linter’s (1996) classic work finds that growth prospects of the industry and the firm, earnings of the firm and cyclical variation of investment opportunities are important factors affecting firm’s dividend policies. Although variation in dividend payouts among firms appear to be affected by firm specific variables such as investment requirements and earnings variability, Linter’s (1996) hypothesizes that dividend policy also is influenced by an industry effect. This effect could be interpreted as common correlations with determinants of dividend payout by firms in the same industry.

The modern theory of dividend policy began with Miller and Modigliani (1990) who argues that dividend policy is irrelevant, holding constant the firm’s investment policy. Since then several hypotheses have been advanced to explain dividend policy. This study aimed at analysing the determinants of dividend payout of agricultural firms that were listed on the Nairobi Securities Exchange during the period of 2005 to 2010. The term dividend usually refers to a cash distribution of earnings. Dividends are distributed to shareholders when all investment projects with Positive Net Present Values have been financed (Dayha *et al.*, 2003). The issue of dividend payout is important for several reasons. First, researchers have found that a firm uses dividends as a mechanism for financial signaling to the outsiders regarding the stability and growth prospects of the firm. Secondly, dividends play an important role in a firm’s capital structure. A firm’s securities price is affected, among other things, by the dividend pattern.

Firms usually do not like to reduce or eliminate dividend payments (Woolridge and Gosh, 1988 and 1991), hence they make announcements of dividend initiation or increases only when they are confident of keeping up with their good performance. Moreover, because the success of a financial manager is tied to the maximization of shareholder wealth, hence he must understand the dynamics of dividend payout.

Grounded in the agency theory, dividends are influenced by the severity of agency costs and agency costs in turn, are related to the strength of shareholder rights (Gompers, Ishii and Metrick, 2003).

Therefore, there should be a relationship between dividend payouts and the strength of shareholder rights. Jensen (1996) two competing hypotheses are discussed. First, the Managerial Opportunism hypothesis argues that opportunistic managers are likely to retain cash within the firm instead of distributing it to shareholders. The excess cash may be spent to the private benefits of the managers. Firms with weak shareholder rights are more vulnerable to managerial opportunism and hence, payout less in dividends. This hypothesis predicts a positive link between dividends and shareholder rights – the weaker the shareholder rights, the lower the dividend payouts.

The substitution hypothesis contends that firms need to raise capital in the external capital markets at least occasionally. The ability to raise capital on favourable terms hinges on the reputation of the firm for not exploiting shareholders. One way to build such a reputation is by paying dividends. This reputation for treating shareholders favourably is most valuable for firms with weak shareholder rights. Thus these firms tend to pay dividends more generously to establish such a reputation. In other words dividends substitute for shareholder rights. The empirical prediction of this hypothesis is that dividend payouts are inversely related to the strength of shareholder rights; the weaker the shareholder rights, the higher the dividend payouts.

Information asymmetry between an ‘insider’ and ‘outsider’ may also lead to agency cost (Jensen and Meckling 1996). One of the mechanisms suggested for reducing ‘outsiders’ expropriation is to reduce free cash flows available to managers through high payout. The cash flow hypothesis asserts that insiders have more information about firms’ future cash flow than do outsiders, and they have incentive to signal that information to outsiders. Dividends can be an ideal device for limiting rent extraction of minority shareholders. Large shareholders, by granting dividends, may signal their willingness to exploit them. Dividend payout, however, guarantees equal payout for both insider and outsider equity holders. The taxation theory postulates that investors do not prefer cash dividends because of the tax disadvantages associated with them although there are benefits that offer the tax disadvantage. In Kenya the withholding tax are as follows: 5% and 10% for residents and non-residents respectively. Thus, according to the taxation theory investors will prefer capital gains to dividends because of the tax disadvantage associated with dividends. When capital gain tax is higher than the dividend tax, investors will prefer dividends to capital gains.

Dividends are also paid because of the clientele effect. Low income shareholders will prefer high dividends to meet their consumption needs while high income shareholders will prefer less dividends so as to avoid the payment of taxes. Therefore, when a firm sets a certain dividend policy, there will be shifting of investors to it and out of it until an equilibrium position is reached. There are empirical studies that investigated the relationship between dividend and investment policy (Allen and Michaely, 1995). They have concluded that firms could pay dividends provided they did not have any positive net present value projects to undertake. This is termed the residual dividend theory, which states that a firm pays dividends after meeting its investment needs while maintaining a desired debt-equity ratio (Ross et al, 2000).

In summary, there are many reasons as to why companies should pay or not pay dividends. For example, the dividend payout is important for investors because i) Dividends provide certainty about the company’s financial well-being, ii) Dividends are attractive for investors looking to secure current income, and iii) Dividends help maintain market price of the share. Companies that have a long-standing history of stable dividend payouts would be negatively affected by lowering or omitting dividend distributions. These companies would be positively affected by increasing dividend payouts or making additional payouts of the same dividends. Furthermore, companies without a dividend history are generally viewed favourably when they declare new dividends.

1.2 Statement of the Problem

In the 2004, Kenya adopted strategy for Revitalizing of Agriculture the path to national development and planning in the promotion of the overall development in the country. It is in the rural areas where a large proportion of people lives and depends to a large extent on agriculture. Most of them are poor and live below a dollar a day.

Augustin *et al.*, (2003), despite the importance of agriculture to economic development, support for agriculture through either donor aid or the domestic resources has fallen in absolute and relative terms. The result has been a slower growth in staples and traditional exports and an increase in poverty. According to the International Fund for Agricultural Development (IFAD) Rural poverty report 2001, real net aid disbursement to all developing countries has fallen from 2.7 percent to 1.4 percent of GDP between 1992 and 1998. Over the same period, the proportion allocated to agriculture, has declined from 20.2 to 12.5 percent.

The reduction of funding to agriculture is regressive to efforts geared towards poverty and hunger reduction. Neglect of agriculture in terms of both international development cooperation and domestic resource allocation must be addressed if the challenging targets of poverty reduction, inequality and food security is to be achieved. Alemayehu *et al.*, (2005) Indeed, overwhelming evidence from experience of developing countries show that rural development has important invigorating effects on overall economic development. In Kenya, empirical evidence shows that a 1 percent increase in agricultural GDP results in a 1.6 percent increase in national GDP. Thus, improving the quality of life in rural areas necessarily spills over to the urban centers. To support this view, recent studies have shown that in many developing countries, the largest growth in poverty reduction has occurred as a result of agricultural sector growth . The implication is that agricultural growth is generally poor and that improving farm production helps spur non-farm activities in the rural areas. Such non-farm activities are now seen as crucial to insulating rural families from poverty. In-deed the Poverty Reduction Strategy Paper (PRSP) discussions by stakeholders placed agriculture and rural development at the top of national priorities for action (Republic of Kenya, 2001). This position was influenced by the high priority accorded to agriculture and most firms in the agricultural sector have not lived to their expectations and have led to shareholder apathy thereby contributing to the decline of the rural economy due essentially to unstable and low dividend payout.

1.3 Objectives of the Study

The general objective of the study was to analyze the determinants of dividend payout for agricultural firms listed on Nairobi Securities Exchange, with following specific objectives:

1. To assess effects of firms' size on dividend payout.
2. To assess effects of liquidity on dividend payout.
3. To determine the effects of firms' growth opportunities on dividend payout.
4. Examine the effects of firms' profitability on dividend payout.
5. To determine the effects of leverage on dividend payout.

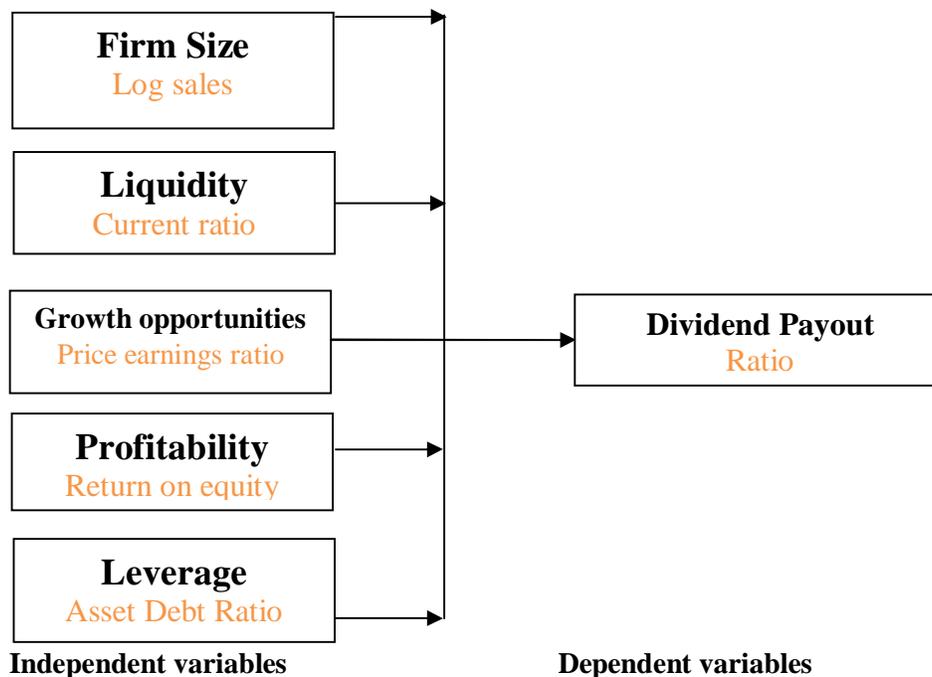
1.4. Scope of the Study

The study focused on the determinants of dividend payout of agricultural firms listed on NSE. The Agricultural Segment is made up of seven companies Kakuzi- specialized in Tea and Horticultural crops, Rea Vipingo plantations-Sisal, Sasini- tea and coffee, Kapchorua Tea, Limuru Tea, Williamson Tea and Eaagads. Relevant dividend payout theories ranging from traditional theories to relevancy school was highlighted and discussed in detail.

2.4 Conceptual Framework

Fraenkel and Wallen (2000) argue that most research reports cast the problem statement within the context of a *conceptual* or *theoretical* framework. A description of this framework contributes to a research report in at least two ways because it identifies research variables, and clarifies relationships among the variables. Linked to the problem statement, the conceptual framework sets the stage for presentation of the specific research question that drives the investigation being reported. For example, the conceptual framework and research question would be different for a formative evaluation study than for a summative study, even though their variables might be similar. A conceptual framework was used in research to outline possible courses of action or to present a preferred approach to an idea or thought.

Figure 2.1: Conceptual Framework



Conceptual framework, (Source: Author, 2013)

2.5 Definition of Variable

2.5.1 Firm Size

As the firm grows in size it has the capacity to pay a higher ratio of its earning to its shareholders. Large firms are more mature so they have a capacity to pay higher dividend payout ratio which will act as a device to reduce agency problems. The natural logarithm of sales is used as a proxy for firm size. The natural logarithm of sales is used in other studies to control for scale effects in the final regression and to remove any size effects from other variables used in the model. A positive relationship between firm size and dividend payout ratio is expected.

2.5.2 Liquidity

The liquidity position of a firm is important in order to determine if a company is able to meet its short-term assets highlighting cash flow difficulties that usually arise when current liabilities are greater than current assets if the liquidity position of the firm is not good even if it is profitable it will not be in a position to pay cash dividends. The study used the current ratio as a determinant of a firm's dividend payout ratio to proxy for liquidity. A positive relationship between liquidity and the payout was expected.

2.5.3 Growth Opportunities

A company with growth from investments as long as these are profitable, will pay less dividends and will instead pay securities dividends as it will be pre-occupied with retention for ploughing back of such money to finance viable ventures. The residual theory suggests that firms with high growth opportunities pay a lower ratio than with low growth firms. Thus higher growth firms pay a lower portion of its earnings as dividend so as to meet its investment needs. The study used price-earnings ratio to serve as a proxy for a company's future growth prospects. A negative relationship between the growth of the firm and the dividend payout ratio is expected.

2.5.4 Profitability

Firms with more stable earnings will payout a higher proportion of its earnings as dividends than a firm with variable earnings. To proxy for the profitability the study used the return on shareholders' equity. A positive relationship between the profitability of the firm and the dividend payout ratio is expected.

2.5.5 Leverage

A highly levered firm is expected to return more to strengthen its equity base. Highly levered firms have more debt and interest obligations to meet thus they have a high probability of paying a low dividend payout ratio.

Where $i = 1, 2, 3, 4, 5, 6, 7$
 $t = 1, 2, 3, 4, 5$
 $\mu_{it} = \eta_{it} + \lambda_t + \upsilon_{it}$

The subscript i denotes the i -th firm (cross section dimension) and the superscript t denotes the t -th year (the time series dimension).

- Υ_{it} is the natural logarithm payout ratio for the firm i at time t .
- Size is the natural logarithm of sales which measures the firm size of the firm i in the year t .
- liq is the ratio of current assets to current liabilities
- grow is the investment opportunities of firm i in year t
- profit is the return on equity of firm i in year t
- lev is leverage of firm i in year t
- η_i represents the time invariant (firm effects) variables and specific to the individual cross section unit in the fixed effects model.
- λ_t represents the time effects
- υ_{it} represents the stochastic error term with two dimensions, one for the firm (i) and the other for the time (t). It is assumed to have a mean of zero and constant variance.
- α_0 is positive coefficient.

4.0 Data Analysis and Presentation of Results

4.1 Correlation Matrix

The first step was to construct correlation matrix for various possible combinations of dependent and independent variables. The correlation matrix shows that dividend payout has a positive correlation with and all other factors except growth of the firm which has a negative correlation. Profitability of a firm has a positive correlation with liquidity and growth, but negative correlation with firm size and leverage.

Table 4.1: Correlation Matrix

		Profitability	Liquidity	Size	Growth	Leverage
Div. Payout	1	.205 (.726)	.514 (.314)	.018 (.903)	-.018 (.903)	.063 (.044)
Profitability		1	.387 (.228)	-.003 (.206)	.160 (.601)	.347 (.034)
Liquidity			1	-.142 (.688)	-.045 (.899)	.069 (.662)
Size				1	.177 (.806)	.153 (.051)
Growth					1	.265 (.539)
Leverage						1

Measuring at 5% significance level (* $p < 0.05$)

There was no multicollinearity as all correlation scores below + 0.8 or – 0.8, Bryman (2006). The strongest predictor of dividend payout is noted as a correlation score of positive 0.514. This score illustrates a positive correlation, as the liquidity increases the so does the dividend. The liquidity has a negative correlation with firms’ size and growth but has a positive relationship with leverage. Firm size has a positive correlation with both growth and leverage. Growth and leverage of a firm has a positive correlation. From the correlation matrix all factors that have a positive correlation indicates that the degree to which the variables vary is the same. If one variable increases the other variable increases and vice versa. When two variables are negatively correlated it indicates that if one variable increases the other variable decreases and vice versa.

4.2 Regression Analysis

Table 4.2: Regression Results

R	R Square	ADJ. R Square	STD. Error
0.523	0.273	0.236	2.756576

R^2 the coefficient of determination, gives an estimate of the proportion of variance of dependent variable accounted for by the independent variable. It is used in the context of statistical models whose main purpose is the prediction of future outcomes on the basis of other related information. It is the proportion of variability in a data set that is accounted for by the statistical model. It provides a measure of how well future outcomes are likely to be predicted by the model. The coefficient of determination (R^2) reveals that independent variables explain 27 % of the model. The table 4 below gives significant coefficients.

Table 4.3: Regression Coefficients and Their Significance

	Regression coefficients	Prob.
Constant	-8.476	.000
X1(profitability)	0.960*	0.041
X2(liquidity)	7 1.766*	.000
X3 (Firm size)	2.570*	0.045
X4 (Growth)	-.0865*	0.036
X5 (Leverage)	-.005119	0.152

The regression coefficients of profitability, liquidity, size are positive and significant at 5% level of significance. The regression coefficient of growth is negative and insignificant at 5% level of significance. Leverage has a negative regression coefficient and is not significant at 5% level of significance.

The regression coefficient of liquidity is positive at 5% level of significance. This implies that the liquidity position of a firm is an important determinant of dividend pay-out, thereby indicating that a good liquidity position increases firms' ability to pay higher dividends. Generally firms with good and stable cash flows are able to pay high dividends easily compared with unstable cash flows. A poor liquidity positions means less payment of dividends due to shortage of cash. The empirical results are consistent with the findings of Al-malkawi and Husam-Aldin Nizar (2008) Bens *et al.*, (2004), all found positive and significant relationship between the liquidity and the dividend payout. This means that the liquidity position of Kenyan agricultural firms determine dividend payout. The regression coefficient on growth opportunity is negative at 5% level of significance and it indicates that growth opportunity of a firm has a negative influence on the dividend pay-out. This may due to the fact that most of the profit is re-invested into company or treated as capital reserve. These results are consistent with the findings of John (2013), Rajan and Zingales (1995), Gul (1999), Lioyal *et al.*, (1985), Baclay *et al.* (1995) and Wany *et al.*, (1993). Who found negative and significant relationship between the dividend payout and growth. The results are contrary to D. souza (1999) empirical findings that showed a positive insignificant relationship in the case of growth. The regression coefficient of the profitability is positive and significant at 5% level of significant. This implies profitability has a positive influence on the amount of dividend pay-outs. This results are consistent with the findings of Baker and Powell (2000), Baker and Powell (2000), Raheja(2005), Faranha (2003), Fama and French (2002) Adaoglu (2000), Amidu and Abor 2006 and Belans *et al.*, (2007) and deviates from Collins *et al.*, (1996), D' Souza (1999), and Jeong (2008).

The regression coefficient of leverage is negative and is not significant at 5% level of significance. This indicates that although leverage has a negative influence on amount of dividend pay-outs it's not significantly affecting it. The result is consistence with the findings of Jensen (1986), Bradley *et al.*, (1998). The findings are contrary to Vasiliou and Eriotis (2003) and Pandey (2008). In the present chapter researcher analysed and interpreted the obtained data and discussed the result. In the next chapter summary of the research work, major findings, recommendation and suggestion were made for the future research

5.0 Conclusion and Recommendations

This study examined the determinants of dividend pay agricultural firms, we found, inter alia, that there is a positive relationship between the profitability and the dividend payment. When profitability increases the firms are going to pay higher dividends. It is also observed that liquidity and size are also positively related with the dividend payout. Growth of the firms has a negative relationship with the dividend payout an indication that an increase in any will result in reduced dividend earnings. This is in agreement with other researchers. The research has made several recommendations aimed at addressing emerging issues and challenges so as to realize its full potential. This will be achieved through measures that include increasing dividend payout.

The profitability has positive & significant effects on dividend, the government should support the agricultural firms to be more profitable so that farmers get high dividend. The government should waive huge debts worth billions of shillings which farmers owned savings societies. The result is to revive the agricultural sector; this will see the price of the commodities shoot up, to the joy of farmers. What farmers require is sufficient capital to invest in modern crop production as a profitable venture. The Agriculture ministry should supply subsidized fertilizer to be used on planting and top dressing of the crop as farmers are unable to afford the higher prices by retailers this will cut down the production costs making the firms more profitable. The firms should come with initiatives aimed at not only at saving billions, increasing the company's profits, but also tripling farmers earnings by revolutionizing quality and quantity of agricultural produce.

Liquidity has positive & significant effects on dividend payout, access to rural finance particularly credit to producers is necessary to encourage rural agricultural development. This is because the period between planting and harvesting is long. Sometimes it is in excess of one year like in the case of coffee. Providing the producers with working capital in the short run enables them to purchase yield-enhancing inputs. Similarly competition amongst traders has also been affected by lack of adequate working capital because of lack of credit. This has reduced competitiveness in commodity trading. Rural financial institutions encourage savings in those areas and stimulate off farm activities. But the medium and small enterprise programme has been able to reduce the working capital constraints of most of the traders. Support of an agricultural credit system one that considers risks in agriculture could alleviate some of the working capital constraints by producers. This will make firms more liquid and pay high dividend that increases both savings and investment to expand manufacturing exports. There is a wealth of policy options available to improve the performance of the agricultural; sector and reduce the incidence of declining performance of the rural economy. On a macro-economic level such policy options include, re-distribution of government budgets towards food insecure populations including poor agricultural producers, re-visiting the role of government in allocating scarce resources to ensure efficient usage and reformulation of general economic policy goals such as "fair" income re-distribution, growth, full employment and sustainable public debts.

Firm's growth opportunity has negative but significant on dividend payout, the government should come up with policies that spar firm growth like setting up state owned marketing boards, government storage, price stabilization activities and storing perishable food items instead of allocating funds for the purchase of food when needed. This calls for a debate on the effectiveness of state interventions as well as agricultural producer policies. This will make fund available for growing and expanding firms to pay high dividend to shareholders.

The firm size has positive & significant effect on dividend payout this implies that there government should allocate more resources Kenya should also streamline agricultural sector to be more globally competitive and quick expansion. Agricultural producer policies should focus on encouraging domestic production through input subsidies, provision of public goods such as research and training, market interventions to stabilize process and often free trade interventions. In theory, high consumer prices provide an incentive for producers to increase production and sales volume. To eventually, increase production most small scale farmers in the country should be able to capitalize on price rises due to access to markets and key production inputs such as seed, fertilizer, technical know-how, irrigation facilities land and credit to improve on production and sales of their produce. Agricultural policy options to prop up sustainable intensification of crop production could include, seed sector development, farmer education and extension, incentive schemes for adoption of sustainable practices, schemes to value ecosystem services and penalize unsustainable practices, integrated approaches to soil fertility management, storage, transport, promotion of private sector input delivery and removal of policy constraints that act as a disincentive for this, formulation of policies that promote sustainable rural financial intermediation.

Lastly, the government should train and post more agriculture extension officers to rural areas and ensure they are given performance targets. Many poor farmers in rural areas lack this basic knowledge on disease control and farming techniques. All the above measures to promote increase in firm size as agricultural produce and sales volume will increase hence high dividend payout to shareholders.

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