

Credit Accessibility and Entrepreneurship by Youth Groups in Nyamira County, Kenya

Ongwae Nyakondo Eric

Lecturer Zetech University, Kenya. Faculty of Business

Abstract: *Youth entrepreneurs make significant contributions to the Kenyan economy. Their businesses account for about one-half (48%) of all micro, small, and medium-sized enterprises (MSMEs); and contribute around 20% to Kenya's Gross Domestic Product. Despite their potential, youth owned businesses in Kenya are less likely to grow, the main stumbling block being inadequate access to credit. The study established that financial requirements, knowledge levels, cultural elements, fund disbursement procedures and government policy influence accessibility of credit and entrepreneurship among youth groups in Nyamira County. A descriptive research design was employed for the study. The study targeted 200 youth groups drawn from Nyamira County that are in business funded by WEF, Uwezo and YEDF. A sample of 60 Youth groups was obtained by stratified random sampling. Youth group leaders were approached and questionnaires. The was collected and analyzed using SPSS, multiple regression and correlation and the findings were presented using graphs, tables and charts. The study established that the major knowledge aspects affecting access to credit include: lack of ; inadequate information on the services of the YEDF, Uwezo and WEF; also some government policies such as registration and licensing barriers, as well as numerous statutory requirements affect access to credit. Cultural elements identified include: social norms limiting youth access specific markets, gender discrimination and assigning more wage earning responsibilities to adults. Financial requirements affecting access to credit as identified by the study include: limited amounts being disbursed and short payback time. Finally the key funds disbursement procedures affecting access to credit include: the amount dispersed was at the discretion of the fund managers; low level of creativity and innovations on the part of the funds management and numerous documentation and the time it takes to process loans.*

1. Introduction

This paper presents research findings carried out recently in Nyamira County, Kenya based on the role played by the Youth Enterprise Fund, Women Enterprise Fund and Uwezo fund in the development of Entrepreneurship among the youths.

Background

According to a survey carried by the World Bank (2008), the study established that in developing countries roughly 20 to 50 per cent of youth aged 15-19 and 50 to 80 per cent of youth aged 20-24 are working. Higher rates are witnessed in Africa, this indicated limited education opportunities and the need for young people in these countries to contribute to family income. Therefore, to cope with the poor economic conditions and lack of educational opportunities, many youths turn to the informal market for work and financial services, however imperfect they may be. A better solution would be to provide more formal financial service opportunities for youth by including them in inclusive finance strategies.

Youth Entrepreneurship and Credit Accessibility

Youth entrepreneurship has a greater potential to aid the achievement of the vision 2030 which aims at providing decent and productive work for youths. Provision of employment among the youth will save them from social exclusion. Kithae, et al (2013) stated that youth and women-owned businesses are making significant contributions to the Kenyan economy. Their businesses account for about one-half (48%) of all micro, small, and medium-sized enterprises (MSMEs); and contribute around 20 % to Kenya's Gross Domestic Product.

Youth Enterprise Development Fund

The Youth Enterprise Development Fund (YEDF) was established by the government in June 2006 as one of the strategies of addressing youth unemployment. The fund was launched on 1st February 2007 by former president, His Excellency Mwai Kibaki. The Fund was transformed into a parastatal on 11th May 2007. It is one of the flagship projects of Vision 2030, under the social pillar. This fund is viewed as a strategy of gainfully engaging the youth a majority of who are unemployed. It targeted young people within the age bracket of 18 to 35 years whose total population currently stands at 13 million. The Fund provides financing to businesses and enterprises that are owned by youth by a revolving loan facility.(YEDF Status Report, 2007 -2012).

Women Enterprise Fund

Women enterprise fund was established by the government as part of the Kenya government's commitment to one of the millennium development goals on gender equality and women empowerment to provide accessible and affordable credits to support women expand or start new businesses for wealth and employment. The women enterprise fund (WEF) was established in August 2007 and launched in May 2009 as part of the government's commitment to one of the millennium development goals on gender equality and women empowerment. It is a flagship project under the social pillar in vision 2030 (WEF, 2009).

Uwezo Fund

The Uwezo Fund is a flagship programme for vision 2030 aimed at enabling women, youth and persons with disability access finances to promote businesses and enterprises at the constituency level, thereby enhancing economic growth towards the realization of the same and the Millennium Development Goals No.1 (eradicate extreme poverty and hunger) and 3 (promote gender equality and empower

women). The Fund was launched by His Excellency the President of the Republic of Kenya, Uhuru Kenyatta on 8th September 2013 and enacted through a Legal Notice No. 21 of the Public Finance Management Act, 2014, and published on 21st February, 2014.

Statement of the problem

Kenya shows a disproportionately high rate of youth unemployment as compared with adult unemployment rates. The youth, those aged 18 to 35, represent 43% of the working age population in Kenya, and these youth constitute 70% of total unemployment. According to the Economic Survey figures (Kenya National Bureau of Statistics, 2009), approximately 800,000 youth from primary, secondary and high learning institutions enter the job market annually, while only about 50,000 get employment into formal sector.

The strategies to increase opportunities for the youth have been operationalized in the "Marshal Plan" for youth unemployment, which emphasized the importance of a coordinated and multi-sectoral approach to address the problem of youth unemployment. Notwithstanding numerous efforts and initiatives to improve youth owned businesses various reports indicate that, youths are unable to access funds to enterprise, this necessitates the need to tackle the issues with regard to capacity building and accessibility of funds to enable the youth to benefit from these funds. It is against this backdrop that this study sort to examine the accessibility of funds and its effect on entrepreneurship among youth groups in Nyamira County.

2. Literature Review

Theoretical Review

These study appreciated the use of the following theories:

Credit Rationing Theory

These theory was but forward by Stiglitz and Weiss in 1981, it provides a framework for analyzing financial market inefficiencies. It suggests that, information asymmetry is the major cause of financial market malfunctioning in developing countries. Financial institutions that advance loans to households and firms are not only concerned in the interest they receive on loans, but also the risks of such loans. It is also noted that the interests charged by financial institutions tend to affect the risks of a pool of loans by either categorizing prospective borrowers on the basis of adverse selection or affecting the conduct of borrowers commonly referred to as the moral hazard problem.

Financial Inclusion Theory

Financial inclusion refers to the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as the marginalized and low income groups , at an affordable cost, in an accountable manner by both the mainstream and informal financial institutions. An inclusive financial sector provides access to credit for all eligible people and organizations (United Nations, 2006). It therefore doesn't require that everyone who is eligible must utilize all the products instead they should be allowed to choose and utilize those products they need.

Empirical Review

This represents similar studies conducted which are of importance to establish the research gab which underpinned this study

Financial Requirements and entrepreneurship

Financial availability and accessibility is cited in many studies as being one of the major barriers and constraints to growth. In a study of NGOs and youth small-scale entrepreneurs in the garment manufacturing sector of the textile industry in Nyeri and Nairobi by Macharia and Wanjiru (1998), the factors that inhibit credit availability to youth include: lack of start-up (seed capital); lack of awareness of existing credit schemes; high interest rates; lengthy and vigorous procedures for loan applications; and, lack of collateral security for finance. These factors have become a major barrier to the growth potential of businesses owned by youths.

According to Kithae, P.P Nyaga, and Munene J (2013), on an evaluation of legal, legislative and financial factors affecting performance of women micro entrepreneurs in Kenya argue that compared with men, women tend to have limited control over resources accepted as collateral, less access to information, being more risk averse and face a different set of activity-regulating social norms and family rights or when, as it is typically the case, loans to women are smaller than those granted to men for similar activities and responsibilities, it is easy to see that the type of financial products they need, the conditions under which they are willing to participate in formal financial markets and their ability to meet their financial needs differs dramatically from those of their male partners.

Knowledge Levels and entrepreneurship

Kariithi et al (2013) observe that development of micro and small enterprises for wealth and employment creation for poverty reduction states that the major factors facing SMEs in relation to information are its acquisition, capacity to interpret and effectively utilize the acquired information, and dissemination of the same.

Fletschner & Kenney (2011) argue that without access to timely, simplified, reliable and relevant information on market opportunities, access to credit, production technologies and government regulations and policies, SMEs are unable to survive and grow in the fast- changing, increasingly globalized and highly competitive market environment.

Cultural Elements and entrepreneurship

One critical factor, although unexplored, is the impact on and influence socio-cultural dynamics on development of micro and small enterprise. In some countries, enterprises operating in the informal sector experience resistance to formalization due to socio-cultural factors. According to Portes and Haller (2005) on their paper on transiting from informal to formal businesses, they found out that, in many cases this transition is due to strong networks of trust and interdependence.

Fund Disbursement Procedures and entrepreneurship

According to YEDF status report (2011) in order to access credit or finance from YEDF, the youth must belong to a

group and engage themselves in economic activities. Youth groups usually offer some kind of collateral for them to access the loans. These loans utilize the group as form of security for those with few or no assets where joint liability for the loan repayment transfers the risk to the group (Heyer A, Thorp and Stewart, 2003).

Government Policy

According to Magombola, D. (2013), in their study on investigating impediments towards access to financial services by women entrepreneurs in Arumeru district in Tanzania, the study discovered that women face a lot of challenges including discrimination by the institutions, small loan sizes, strict unfavorable conditions, lack of collateral and property rights, and presence of cultural norms which stereotype against women in accessing and controlling financial resources.

Summary of Research Gaps

The study was to examine credit accessibility and entrepreneurship by youth groups in Nyamira County. A review of the literature revealed that knowledge, financial, management policy, government policy and cultural elements play a key role in access to credit hence affecting entrepreneurship. However, a gap was identified as many of the studies reviewed tackled issues to do with the impact of WEF and YEDF none of them focused on accessibility of credit and entrepreneurship among the youth groups and entrepreneurship specifically in Nyamira County. It is worth to note that the youth are a key constituency that should not be ignored since it includes young men and women between the age of 18 to 35 years whose majority are unemployed.

3. Methodology

During the study the researcher adopted a descriptive research design; questionnaires, unstructured interviews, were used to collect data from 60 respondents who were selected to participate in the study. The collected data was analyzed using qualitative and quantitative data analysis to summarize the data in order to draw valid conclusion in relation to the objectives of the study.

The Summary of Research Findings and Discussion

The study found out that a majority of the youth leaders are male and a majority of them were aged above 26 years of age, many of the youth groups are in North Mugirango Constituency, all the levels of academic had a representation except masters, a majority of the youth groups were 1-4 years old and many groups had a membership of below 15 members.

The study identified that the youths had accessed the YEDF, WEF and Uwezo fund; a majority had borrowed between 100,000-150,000 shillings; brick making, bodaboda, shoe shinning and agriculture were the main businesses that the youth have engaged in; majority of the youth enterprises were young; the businesses were profitable; the business' profits were not sufficient and all the businesses had an outstanding.

The study sought to assess credit accessibility and entrepreneurship by youth groups in Nyamira County. The

study specifically sought to establish: financial requirements, the knowledge levels, cultural elements and funds disbursement procedures influencing access to credit and entrepreneurship among the youth groups in Nyamira County.

The researcher identified the following financial elements that affect access to credit hence entrepreneurship: the likelihood of funds being diverted to other uses; the short payback period for the loan; the amount of money disbursed being limited; the high costs involved in forming groups, paying membership fees and group registration; poor accessibility due to the absence of the WEF and YEDF offices in remote areas.

On the knowledge levels affecting access to credit and entrepreneurship, the study identified the following: lack of transparency on the part of the funding institutions on its products and services; information asymmetry between the funding institutions and youth groups seeking credit; the lack of credit history on the part of youth groups seeking credit; poor skills managerial and low market information on business opportunities.

The study identified the following cultural elements affecting access to credit and entrepreneurship: assignment of more wage earning responsibilities to adults than the youth which limit the youth's ability to save; the absence of considerable number of youths engaging in comparable businesses to act as role models; youth being discriminated based on their gender; social norms that affect the time the youth can engage in economic activities and the type of markets they can access and lack of support from parents fearing that they could lose over their children.

The study found that the following funds disbursement procedures affect access to credit and entrepreneurship: non-willingness of the WEF and YEDF to grant loans; the amount disbursed is at the discretion of the fund managers; low level of innovativeness and creativity on the part of the WEF, YEDF and Uwezo Fund and loans take long to be processed.

4. Conclusions

Based on the study findings, several conclusions can be drawn. The study concludes that the youths had accessed the YEDF, WEF and Uwezo fund; a majority had borrowed between 100,000-150,000 shillings; bodaboda and agriculture were the main businesses activities that the youth have engaged in.

This study also concludes that the main financial requirements affecting access to credit and entrepreneurship include: the likelihood of funds being diverted to other uses; the short payback period for the loan; the amount of money disbursed being limited; the high costs involved in forming groups, poor accessibility due to the absence of the WEF and YEDF offices in remote areas.

The study also concludes that knowledge levels affect access to credit and entrepreneurship, the study identified the

following: lack of transparency on the part of the funding institutions on its products and services; information asymmetry between the funding institutions and youth groups seeking credit and lack of credit history on the part of youth groups seeking credit.

The study also concludes that the main cultural elements affecting access to credit and entrepreneurship: assignment of more wage earning responsibilities to adults than the youth which limit the youth's ability to save

Finally the study has also concluded that the funds disbursement procedures affect access to credit and entrepreneurship such non-willingness of the WEF and YEDF to grant loan, the amount disbursed is at the discretion of the fund managers, low level of innovativeness and creativity on the part of the WEF, YEDF and Uwezo Fund and loans take long to be processed.

5. Recommendations

Arising from the foregoing findings and conclusions; the study makes the following recommendations:

- 1) The processes of registering businesses and obtaining business licenses should be made easier by minimizing requirements and bureaucracy to encourage more youths to formalize their businesses.
- 2) The constitution of Kenya guarantees equity before the law and does not condone any discrimination based on race, ethnicity or creed.
- 3) Discriminatory customary practices should be discouraged. This can be done by legislating against them as well as encouraging adults to take action that empowers the youth.
- 4) Further, WEF, YEDF and Uwezo fund should tailor their financial products to better meet the needs of the youth entrepreneurs by increasing the payback period and increasing the amount disbursed.
- 5) The procedures involved in accessing the funds should be simplified. The steps should be made clear, less tedious and time consuming to encourage more youth to access them.
- 6) The WEF, YEDF and Uwezo fund should embark on an aggressive public awareness campaign. This can be done through radio, television, newspapers, magazines and billboards to raise awareness and sensitize the youth entrepreneurs on the work of the funds.
- 7) The WEF, YEDF and Uwezo fund should intensify capacity building plan for youth entrepreneurs seeking credit. The management of the funds should contract more experts to train the youth in business planning, book keeping and other skills relevant to successful management of businesses
- 8) Finally, the government should expedite the Kenyan Citizens and Foreign Nationals Information management that involve re-registration of all Kenyan citizens, capturing of information such as tax payments, assets held and loans advanced which will help minimize the information asymmetry between the WEF, YEDF and Uwezo fund and youth groups.

References

- [1] Amenity, S. (2011), *An Analysis of The Challenges Facing Youth Enterprise Development Fund: A Case Study of Nyaribari Chache Constituency, Kenya.*
- [2] Bandura, A. (1991). *Social-cognitive theory of self-regulation. Organizational Behavior and Human Decision Processes*, 50, 248-287.
- [3] Barkham, R. G., Gudgin, M. H., & Hanvey, E. (1996). *The Determinants of Small Firm Growth: An Inter-regional Study in the United Kingdom, 1986-90.* London: Jessica Kingsley.
- [4] Burns, P., & Dewhurst, J. (1996). *Small Business and Entrepreneurship.* London: MacMillan.
- [5] Carter, S. & Shaw, E. (2006). *Women's Business Ownership: Recent Research and Policy Developments.* London: Small Business Service.
- [6] Cochran, W.G. (2007). *Access to finance for women.* New York: John Wiley & Sons.
- [7] Fletschner, D., & Kenney, L. (2011). *Rural women access to financial services.* ESA Working Paper No.11-07.
- [8] Eloine Kempson, (2006) *Policy level response to financial inclusion in developed economies.* University of Bristol, Washington DC
- [9] Gaititi, J. (2013). *Factors hindering access to the women enterprise fund: a survey of women Entrepreneurs in Muranga municipality* (Unpublished masters' thesis). Kenyatta University, Nairobi, Kenya.
- [10] Heyer, J., F. Stewart, et al., Eds. (2003). *Group behavior and development: is the market destroying cooperation?* Oxford, Oxford University Press.
- [11] IFC. (2011). *Strengthening access to finance for women-owned SMEs in developing Countries.* Washington, D.C: IFC.
- [12] Ifelunini, I.A., & Wosowei, E. (2013). *Constraints to Youth Entrepreneurs Access to Microfinance in South-South Nigeria.* Research Journal of Finance and Accounting, 4(6), 6-13.
- [13] ILO (2012): *Unleashing African Entrepreneurship Facility: Independent; Midterm Evaluation (Phase 1 2010-2011)* (January 2010-July 2011: p. 16).www.ilo.org/Africa.
- [14] ILO (2012) *Africa's Response to the Youth Employment Crisis Regional Report: Synthesis of Key Issues and Outcomes from Eleven National Events on Youth Employment in the African region, March - May 2012;* ILO, Geneva.
- [15] Kariithi, G.M., & Ogollah, K. (2013). *Challenges facing accessibility of credit facilities among women owned enterprises in Nairobi Central Business District in Kenya.* International Journal of Social sciences and entrepreneurship, 1(7), 377-396.
- [16] Kawira, H.M., Ibuathu, C.N., & Kubaison, S.T. (2014). *Accessibility of women enterprise fund among small and micro women enterprise owners in Tharaka South District, Kenya.* Journal of Business and Management, 16(1), 79-103.
- [17] Kithae, P.P., Nyaga, J., & Munene, J. (2013). *An evaluation of legal, legislative and financial factors affecting performance of women micro entrepreneurs in Kenya.* European Journal of Business and

- Management, 5(8), 16-20.
- [18] Kothari, C.R. (2004). *Research Methodology Methods and Techniques*. New Delhi, India: New
- [19] Age International.
- [20] Kyalo, T., Gichira, R., Waititu, A., & Ragui, M. (2013). *Access to finance-hindrances to women start-up of enterprises in male dominated sectors in Kenya*. Prime journal of social sciences, 2(5), 315-319.
- [21] Kuratko, F.D. (1988). *Entrepreneurship Education; Emerging Trends and Challenges for the 21st Century*. London: Coleman White Paper Series. University of Iowa Lewis- Beck. *The Journal of Politics* 55 (04), 1100-1109, 1993. 109 ,
- [22] Lois, L. (2004) *The Future Of Europe's Rural Peripheries*. Oxford: Ashgate Economic Geography Series. Ashgate Publishing, Ltd.
- [23] Macharia, W.L., & Wanjiru, A. (1998). *Formal Credit Financing for Small Scale Enterprises in Kenya: A case study of NGOs and Small Scale Women Entrepreneurs in Garment manufacturing Sector of the Textile Industry in Nairobi and Nyeri*. Nairobi: Kenyatta University.
- [24] Magombola, D (2013), *in their study on investigating impediments towards access to financial services by women entrepreneurs in Arumeru district*. Tanzania
- [25] Ministry Of Youth Affairs. (2006). *National Youth Policy*, www.youthpolicy/national/Kenya.
- [26] Mody, A. (2001). *Infrastructure delivery: Private Initiative and the Public Good*. Washington, D.C: The World Bank
- [27] Mugenda, M, O., & Mugenda, G, A. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: Acts Press.
- [28] Mwangi, I.W & Ouma, S.A. (2012). *Social capital and access to credit in Kenya*. American Journal of Social and Management Sciences, 3 (1): 8-16.
- [29] Neville Otuki, (2014), *Inefficiencies in the disbursement of the Youth Enterprise Fund* nationmedia.com. Posted Thursday, January 9 2014 at 20:28
- [30] Semboja H, Hatibu H (2005). *A concept paper on promoting opportunities for youth employment in East Africa*, prepared for the ILO regional office and presented at the EAC meeting of labour commissioners, Silver springs Hotel, Nairobi, Kenya.
- [31] Tavakol, M, and Dennick, R. (2011) *Making sense of Cronbach's alpha*. International Journal of Medical Education, 2, 53-55.
- [32] UNCDF (2012) *Policy Opportunities and Constraints to Access Youth Financial Services*. The World Bank, New York.
- [33] Uwezo Fund Report, (2014) Nairobi: Government press.
- [34] Youth Enterprise Development Fund (2012), *Status Report (2007-2012)*. Nairobi: Government Press.