

# Factors Affecting Funding of Youth Group Enterprises in Kenya: A Case Study of Machakos Town Constituency

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## Abstract

This study sought to establish the factors affecting funding of youth group enterprises through youth Enterprise Development Fund. Specifically the study sought to determine whether the nature of businesses, management skills, business plan development and collateral requirements affects funding of youth group enterprises in Kenya. The study adopted descriptive research design. The study targeted youth development officers in Machakos district and youth group that applied for C-YES loan scheme 2010-2012. This also included five youth officers that were involved in the process as agencies of YEDF. Stratified sampling technique was applied whereby the sample was divided into sub-groups of youth officers and youth members from funded groups and groups that were not funded. The sample size of the study was 75 respondents; 70 respondents from the youth groups and 5 youth officers. Primary data was collected using a questionnaire for youth group members interview guides for the youth development officers. The collected data was analyzed through descriptive analysis and inferential statistics using SPSS. The analyzed data was presented in tables and charts to summarize responses. The study found out that funds that the youths were given for their intended purposes were not enough. The youths cited that their businesses were performing well but indicated that they needed more funds so as to achieve comprehensive growth. The study concluded that lack of proper business plan development, adequate repayment structures and lack of repayment avenues was a problem. To improve on the viability of the youth enterprises, there is need for the Government to aggressively market the youth products. The study therefore recommended that the youths need to be sensitized on youth group formation and registration in order to benefit more from the fund. The Fund should invest more in public sensitization and education on its operations and progresses since its inception. There should be alternative public sensitization and education avenues that are relevant to youth development.

**Keywords:** nature of businesses, management skills, business plan development, collateral requirements

## 1.0 Introduction

The global population of young people aged between 12-24 years is currently 1.3 billions. This population is projected to be 1.5 billion by 2035 (Paul 2007). It will increase rapidly in Sub-Saharan Africa (SSA) and South East Asia (SEA) to by 26% and 20% respectively between 2005 and 2035 (Benell, 2007). Kenya is one of the countries in Sub-Saharan Africa with an estimated population of 38 million people as per 2009 census 75 % of her population being under 30 years of age, but of which 9.8 million are between 15-30 years of age young people make up 60% of the total labour force in Kenya and 75% are either unemployed or cannot access gainful employment (KNYP, 2006). Currently, there is no uniform data available on youth statistics. What exists is data gathered by various bodies which differs from other data presented by other bodies. However, all the different sets of statistics are in agreement on the fact that youth unemployment in Kenya is rampant. The major challenge of developing countries such as Kenya is to mainstream youth development agenda in the National development plans and strategies that aims at improving social-economic development in democratic society where 50% of the total population are youth and children. (Ben-Atlas, 2010).

Since 1960s when most Sub-Saharan countries attained independence, Youth development has remained at the margins of National development strategies. However, a resurgence of interest in Youth is the reasons of which stem from the growing realization of the serious negative social, polluted and economic consequences stemming from the precariousness of Youth/ livelihoods. (Paul 2007). The government of Kenya and other stakeholders interested in Youth development have attempted to address this issue through various strategies such as Kenya vision 2030 development plans seasonal papers or partnership with stakeholders. This is notable in the new constitution where ambiguity of who is a youth is addressed in Article 260 and Article 55 specific obligations towards youth are stated including access to equal opportunities in all process of national development UNICEF Report (2011). The Sessional paper No. 2 (2002) recognizes the need to improve and promote the acquisitions of entrepreneurial skills adding that the government will encourage universities, polytechnics technical enterprises to develop demand driven entrepreneurship low and business management that will enable young people in the informal sector of the country's employment sector create more job opportunities for young population.

Notable and the most significant strategies in addressing Youth development commenced in the first decade of 21<sup>st</sup> Century. In 2002 after the general election, there was an Economic Recovery Strategy for Wealth and Employment Creation (2008-2011) any to create at least 500,000 job opportunities every year that would absorb the growing population of unemployed youth both in the formal and informal sectors of Kenyan's economy. By the end of 2005 the Ministry of Youth Affairs was created and with it Youth Enterprise Development Fund was established to address Youth entrepreneurship as well as promote entrepreneurial culture among young people. It was legally operationalized in 2006 through legal notice NO. 167 and later transformed into a state corporation on 11<sup>th</sup> May 2007. Its mandate has been to increase the access to capital by young entrepreneurs, provide business development services, facilitate supply chain and market linkages as well as support infrastructure development for youth enterprises.

## 2.0 Research Problem

By September 2008 according to date available from Youth Enterprise Development fund 1.34 billion was disbursed through financial intermediaries to finance 47,722 youth enterprises and 322 million disbursed to 7,840 youth group in various constituency (UNICEF, 2011). Therefore youth have been able to access capital to invest in business across the country. Available data also indicate that 34,616 female youth and 26,144 youth have accessed funds through YEDF.

However this is a small percentage, the total youth population who are unemployed. The population and amount of money disbursed is not adequate to cater for youth who are engaged in viable micro enterprise that require funding especially in various stages. Sumo T. et.al (2012) in their research on youth opportunities and participation in the dairy sector in Uasin Gishu district, noted that there are adequate opportunities for youth especially with regard to funding opportunities from government, NGOs and financial institutions. Unfortunately many youth have not benefited because of low awareness. They had sample a sample of 140 youth from different youth groups involved in business activities and 70 respondents did not indicate YEDF as a viable source of funding. Despite various efforts and initiatives to improve youth enterprises various reports indicate that, young people have not been able to access fund and there is need to address issues of equity accessibility and capacity building so that Youth can benefit from youth fund. Thus despite government efforts and recommendation made to improve access to youth fund; there is a problem that affects funding of youth enterprise in Kenya through Youth Enterprise Development Fund (YEDF) which has of the challenge of disbursing and repayment from youth enterprises. Africa Youth Trust (2011) in their report Making Agenda 4 a Reality for Kenyan youth said that loans without some form of security from YEDF, make some youth groups end up defaulting loan repayments and poor utilization due to lack of skills and some of the enterprises end up collapsing due to mismanagement. This study was to investigate those factors that affect funding of youth group enterprises in Kenya which are a major challenge in youth entrepreneurship.

## 3.0 Objectives of the Study

To critically examine factors affecting funding of Youth Group enterprises in Kenya. A Case Study of Machakos Town Constituency The study was guided by the following specific objectives: To determine the nature of businesses that affecting funding of youth group enterprises in Kenya. To assess management skills affecting funding of youth Enterprises in Kenya. To determine how business plan development affect funding of youth group enterprises in Kenya. To evaluate collateral requirements affecting funding of youth group enterprises in Kenya.

## 4.0 Reviewed literature

Kuratko and Hodgetts (2004) define entrepreneurship theories as verifiable and logically coherent formulations of relationships or underlying principles that either explains entrepreneurship, predict entrepreneurial activities, or provide normative guidance. Early scholars like Joseph Schumpeter, Marx Weber, David McClelland and others looked at entrepreneurship from hypothesizing several theories among them; psychological, sociological and economic theories. Entrepreneurship's psychological roots was put forward in early 1960's by David McClelland, who found that certain kinds of people, including and especially those who become entrepreneurs have a high need for achievement, high need for affiliation, and high need for power. Shane (2003) notes that there are several ideas as to why someone becomes an entrepreneur, some of which belong to the psychological theories of entrepreneurship, which basically suggests that there are a number of psychological traits possessed by the entrepreneur which allow him or her to undertake such a task. The following are the psychological traits noted by Shane (2003): (a) there is a leader, the entrepreneur, who is the driving force behind economic events, (b) Inside the mind of this entrepreneur is a vision of a future state that is preferred to the present state, (c) Through a semiconscious process of intuition and insight, rooted in experience, the entrepreneur develops this vision and a strategy of how to implement it. (d) This vision is promoted diligently and passionately by the entrepreneur. The job for many provides a feeling of being "alive" or the satisfaction of serving society, (e) The

strategy is deliberate and the overall vision is clear, however details may be malleable, incomplete, and emergent, (f) Entrepreneurial strategies tend to go along with simple centralized organizational structures that respond quickly to the entrepreneur's directives, (g) Entrepreneurial strategies tend to be used in niche markets that have not been noticed by the large industry leaders. Weber and others hypothesized that the adoring entrepreneurial energies are generated by the adoption of exogenously supplied religious beliefs (Weber, 1946). For the faithful, these beliefs, both in their direct implications for practical conduct and in the entrained anxiety to generate signs of favorable predestination, produce intensive exertion in occupational pursuit (Weber, 1958). This means that youth entrepreneurs can either be classified based on their character traits, background, education and training provided for by the society that value entrepreneurship. This theoretical review explores other scholars' theories on management, entrepreneurship, individual behavior and human resource management which guide the study. The contingency theory states that there is a universal principle to be found in the management of enterprises but one learns management by experiencing a large number of case problem situations and determine what will work for every situation (Wren, 2005). Mentoring and inducting success family enterprises help them acquire the necessary skills in this regard. Founders of small and medium family enterprises can use the contingency theory to effectively plan for future success and sustainability of their enterprises. They can change their strategies with the environment to achieve strategic fits for the enterprises (Wren, 2005). Youth enterprises cannot be seen as standalone businesses that have no link to family background that will nurture their progress; therefore contingency measures must be in place to help the establishment and development of such enterprises. Systems theory has a new perspective for managers to interpret patterns and events in the workplace. The rational systems perspective focuses on the structure as a significant tool for the efficient achievements of organizational goals. It emphasizes the role of management in deciding such structures and determining the specific goals that are to be achieved (Millet, 1998). According to Millet (1998) organizations are comprised of set interdependent parts, or sub-systems, that interact with each other to form a unified whole that gives the organization its unique identity. The organization is seen as being capable of making changes to these sub-systems, although it is recognized that it is not a simple process; because from the interdependent parts, the organization grows to a complex structure. This view makes it important to see youth enterprises as part of the system that works in a business environment that is competitive and interdependent with other stakeholders. The complexity theory provides a new perspective from which it is possible to understand the development of new business start-ups, and allows us to discover that the development of new start-ups is indeed a nonlinear, chaotic process. This type of theory assumes that the startup development process follows predictable patterns, and these patterns can be developed into several sequential stages. In spite of the differences between the various life cycle models, their developers typically feel that the growth and development of enterprises is a progressive and linear process, and that all enterprises must face certain key problems during each stage (Kaulio, 2003; Kazanjian, 1988; Kazanjian and Drazin, 1990). Startup development is dynamic, nonlinear, and unpredictable. Lalani (2004) used chaos theory as a metaphor for the process of group and organizational development, and further suggested that chaos theory can be applied to the startup or new product development process. Chaos theory is what is defined as complexity theory in this study. In addition, since the development of a startup must begin with an initial event, as soon as this event occurs, the startup's development is in a dynamic state of co-evolution with management.

## 5.0 Research Design

The study adopted descriptive research design. Descriptive design studies are commonly used when examining social issues that exist in communities. The study targeted youth development officers in Machakos district and youth groups that applied for C-YES loan scheme 2010-2012. Five youth officers were involved in the process as agencies of YEDF. There were 119 youth groups who applied for funds. 33 were funded and 86 were not successful. The study picked respondents from officials of youth groups who signed application forms and youth officers who evaluated and recommended groups for funding. The target population was not homogenous; therefore stratified sampling technique was applied. The sample was divided into sub-groups of youth officers and youth members from funded groups and groups that were not funded. A census was conducted during the interview with youth officers and a stratified random sampling was used in selecting a sample size from youth group members as shown below:

## 6.0 Data Collection Procedure and Analysis

Two primary data collection instruments were used during the study. A questionnaire was used to collect data from youth group members; it was administered by the research assistant. It contained both open and closed ended questions developed as per the variables for information to be obtained from 70 youth members. Interview guides were used to collect information from 5 youth development officers. The guide was discussed with key informants from the constituency of the issues being explored in the study. Information collected was used to compare with the one collected from youth group members. The data was analyzed through descriptive analysis.

The descriptive statistical tool helps the researcher to describe the data and determine the extent to be used. These included frequency distribution tables and measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies among others. The analysis was aided by the SPSS software, which was expected to produce various statistics, which then was then applied to analyze the quantitative data in terms of percentages, frequency distribution, means and standard deviations. The analyzed data was presented in tables and charts to summarize responses for further analysis and facilitate comparison. A regression analysis has been included in the report to find out the significant of independent variables of the study in relation to the dependent variable. The ANOVA test to establish the level of confidence was carried out with a 5% significant in where the variables were to determine the relevance and reliability of the study model.

## 7.0 Research Findings

The study established that majority of the youths needed funds for the funds requested was to start business while others indicated that their need for the funds was to expand the business. The study established that the youths disagreed that the funds given for the intended purpose were not enough. The youths cited that their businesses were performing well but indicated that they needed more funds so as to achieve comprehensive growth. Further a few felt that their businesses had not performed very well they were still in the founding stage. Majority of the youth indicated that their educational qualification/training background was KCSE. Majority of the respondents agreed that some of the group members were trained in business courses. The study established that the majority of the respondents agreed that they required marketing courses. The study shows that the respondents disagreed that they presented a business plan to youth enterprise requesting fund the respondents indicated that they presented budget of the proposed business while others indicated that their business components included finances, marketing, management, vision, mission and activities. The study established that majority of the respondents indicated that a business plan would assist to run the group business to a great extent. Majority of the respondents disagreed that they were required to provide any form of security for the fund. It was established that majority of the youth disagreed that their groups had any asset that could be used as a security for youth funds. Majority of the respondents agreed that there were registration requirements for groups applying for C YES funds. The respondents agreed that they charged a fee for the certificate and it took a month to get the registration. The study established that the youth respondents indicated that the process of getting registration affected youth group to a great extent.

## 7.1 Regression Analysis

The following regression equation was established:

$$Y = 0.179 + 0.006 X_1 - 0.003 X_2 + 0.376 X_3 + 0.158X_4 + 0.302X_5$$

From the above regression model, holding all variables constant, funding of youth enterprises would be achieved at a unit of 0.179. A unit increase in business plan development would cause an increase in funding of youth enterprises by a unit of 0.376; a unit increase in statutory requirements would also cause an increase in funding of youth enterprises by a factor of 0.302. However, a unit increase in managerial Skills was found to cause a decrease in funding of youth enterprises by a factor of 0.003. The study found out that there was a significant relationship between funding of youth enterprises and business plan development ( $p=0.001<0.05$ ), nature of the enterprise ( $p=0.001<0.05$ ), collateral/ security requirements ( $p= 0.015<0.05$ ) and statutory requirements ( $p=0.003<0.05$ ) and process innovations. However, the study established an insignificant relationship between funding of youth enterprises and managerial skills ( $p=0.138<0.05$ ).

## 8.0 Conclusions

It can be concluded that lack of proper business plan development, adequate repayment structures and lack of repayment avenues was a problem. To improve on the viability of the youth enterprises, there was need for the Government to aggressively market the youth products, engage the youth entrepreneurship training before and after obtaining the loans and to provide necessary market information to the youth so as to gain competitive advantage in their areas of operation. It was also noted of the few who accessed the funds, there was low repayment was attributed to poor proceeds from business, investments taking a long time to mature and lack of continuity in groups. On the other hand, the study found out that despite the fact that YEDF could be a preferred source of funding among the youths, accessing it remained a great challenge. Most youth have not been properly informed on how this fund can be accessed. Projects funded by the funds have not been properly managed and hence low repayment rates. The fund has staffing problem and hence lacks proper monitoring and capacity building. The fund has not been able to address gender imbalances and has not made significant impact in society. The youths still need to be sensitized on youth group formation and registration in order to benefit more from the fund. The Divisional Gender and Social Development Officers should perform an active role in the registration and sensitization of the youth on registration so as to take the service closer to the youth. The requirement of an active bank account locks out many young people who are unemployed and cannot afford

bank accounts.

The Fund should invest more in public sensitization and education on its operations and progresses since its inception. There should be alternative public sensitization and education avenues relevant to disadvantaged areas. Such avenues include local FM stations, elders, church leaders, provincial administration, and traditional communication channels. It should focus on building the capacity of selected youth officers to act as Enterprise Development Agents to facilitate localized approach to the business development services. More officers and selected youths should be trained to expand the target outreach of the program. Provision of entrepreneurship training to sensitize and inculcate entrepreneurial culture among the young people will be crucial to identifying emerging business talents. The provision of continuous and relevant business development services to youth entrepreneurs is key to the success of enterprise development initiatives in creating long term employment. Therefore most the beneficiaries of these trainings will manage to access financing through the financial intermediaries and the constituency component. Public sensitization and information for accountability and education on YEDF should be a focal function of the Fund. The timing of the Fund's establishment and the sensitivity of the target group will make the Fund an initiative that enjoys high public interest.

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**Table 3.4 Sample size**

Category	Population	Percentage	Total
Youth development officer	5	100%	5
Members from funded groups	30	50%	15
Members from non-funded groups	186	30%	55
<b>Total</b>			<b>75</b>

## Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.760(a)	0.577	0.542	0.333

a) Predictors: (Constant), Nature of the enterprise, business plan development, managerial skills, collateral requirements, statutory requirements

The adjusted R<sup>2</sup> is called the coefficient of determination and tells us how the dependent variable varied with the independent variables. From the regression model summary above, the value of adjusted R<sup>2</sup> is 0.542. This implies that, the independent variables: nature of the enterprise, business plan development, managerial skills, collateral requirements, and statutory requirements explained 54.2% of funding of youth enterprises.

**ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.096	5	1.819	16.385	0.000(a)
	Residual	6.662	60	0.111		
	Total	15.758	65			

a) Predictors: (Constant), Nature of the enterprise, business plan development, managerial skills, collateral requirements, statutory requirements

The study used ANOVA to establish the significance of the regression model from which an f-significance value of  $p < 0.001$  was established. This shows that the regression model has a less than 0.1% likelihood (probability) of giving a wrong prediction. Hence the regression model has a confidence level of above 95%.

**Coefficients Results**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.179	0.152		1.178	0.243
Nature of the enterprise	0.006	0.001	0.420	4.780	0.000
Managerial Skills	-0.003	0.002	-0.145	-1.505	0.138
Business plan Development	0.376	0.076	0.445	4.912	0.000
Collateral requirements	0.158	0.063	0.239	2.503	0.015
Statutory requirements	0.302	0.096	0.324	3.143	0.003

a Dependent Variable: Funding of Youth Enterprises

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