

RESEARCH ARTICLE

Effect of the Youth Enterprise Development Fund on Youth Enterprises in Kenya

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Abstract

This study sought to determine the effect of the Youth Enterprise Development Fund (YEDF) on youth enterprises. The study location was in Siaya County, Kenya and stratified random sampling was used to select 28 financiers of YEDF and 202,897 youths in the County. The sample size constituted 128 respondents; 28 in the first stratum and 100 in the second stratum. The data was collected using survey questionnaires and analyzed through multiple linear regression analysis. The study concluded that the YEDF has not had a significant effect on youth enterprises. The study recommends an increase in the number of financial intermediaries (FIs) in partnership with the fund and an active involvement of all the stakeholders in mobilization of the youth on group formation and YEDF activities.

Keywords: *Development, Kenya, Youth enterprise.*

Introduction

Youth unemployment is one of the biggest development challenges in the Third World today. In Kenya over 15 million people live below the poverty line, with over three million classified as unemployed. Youth account for about 55% of the unemployed in Kenya, implying that unemployment is a predominantly youth issue. The rapidly increasing youth unemployment levels have been aggravated by changes in economic policies. Subsequently, over the past decade, there has been a steady shift from formal to informal sector employment, popularly known as '*Jua Kali*'. Secondary negative effects such as the systematic erosion of the social value of education, crime, prostitution and drug abuse have increased as a direct consequence [1].

Widespread poverty remains a critical development challenge in Kenya. Young people are particularly affected by unemployment, lack of proper housing (particularly in the urban areas) and health challenges. Poverty affects educational levels and children from poor backgrounds have been known to be much less likely to attend school than those of rich families. Poorer educational levels imply poorer chances of

gainful employment. Additional negative factors affecting the youth include marginalization; lack of voice in the family, the community and the national arena; poor representation in decision making; and limited recreational facilities. Areas that require specific attention are: geographic transitions (including youth migration); integrating the youth in urban areas; transition from school to work; youth unemployment; youth groups at risk and implementation of youth policies and programmes [2].

In the absence of opportunities in the formal labour market, many young people are engaged in the informal sector which is largely unregulated and are subjected to hazardous conditions for low earnings and long working hours, without any formal contract. To address the youth challenges, the Youth Enterprise Development Fund (YEDF) was introduced on 8th December, 2006 and later formed into a State Corporation on 11th May, 2007. The Fund has engaged in partnership with 32 Financial Intermediaries (FIs) to enable the youth access funds directly either as individuals or as organized entities. Apart from the on-lending component of the fund through financial

intermediaries, there is the Constituency Youth Enterprise Scheme (C-YES) which funds enterprises of youth groups in all constituencies. YEDF focuses on enterprise development as a key strategy for increasing economic opportunities for, and participation of Kenyan youth in nation building. YEDF seeks to increase access to capital by young entrepreneurs in order to reduce the level of youth unemployment in the country. An estimated Kshs 5.96 billion has been disbursed to 315,076 group and individual enterprises all over the country. Out of this amount Kshs 614.8 million has been advanced to 13,341 group projects while Kshs 66.1 million has been disbursed to 2,645 individual enterprises at the constituency level. Through FIs, the fund has financed 141,552 group and individual enterprises by Kshs 5.3 billion. The fund disbursed is expected to be repaid back to the lending institutions so as to be accessed by other youth enterprises that were unable to access the fund due to limited allocation by treasury. Through YEDF, the Government has released Kshs. 11,917,198 to 328 youth groups, no funding to individual members of the groups and Kshs. 83,702,926 disbursed to 2891 youths in Siaya County [3]. This amount is evidently inadequate to cater for the high expectations and demand of the youth. Proper management of the fund to ensure that the loans disbursed are repaid and therefore accessed by others is of critical importance. There is a need to continuously highlight the main issues, priorities and potentials of the youth to further enlist and strengthen interventions of actors dealing with this group. The study seeks to determine the extent to which the YEDF has achieved increased access to funding by the youth.

Literature Review

In Britain, the Prince's Trust Enterprise Programme is for people who have a business idea they want help to explore, are aged 18-30, unemployed or working less than 16 hours per week. Services provided include; Advice on employment options, business skills training, business planning support, start-up loan funding, ongoing support from a volunteer business mentor, access to specialist support, including free legal services and, if one wants to start a business, access to a wide range of free and discounted products and services [4]. In South Africa, the National Youth Development Agency (NYDA), 2011, outlines its mandate which include; advancing youth development through guidance and support to initiatives across sectors of society and spheres of government, embarking on initiatives that seek to advance the economic

development of young people and developing and coordinating the implementation of the Integrated Youth Development Plan and Strategy for the country [5]. The NYDA activities have propelled young people to reach their personal goals and develop their full capacity. Numerous young people have been assisted since the NYDA's establishment including: Disbursing loans to microfinance enterprises, disbursing Small and Medium Enterprise loans, disbursing Business Consultancy Services Vouchers and engaging youth under the National Youth Service Programme [5].

In Kenya, the YEDF loan targets all forms of youth owned enterprises whether individual, companies, groups, cooperatives or otherwise and the loan is accessible to any youth owned enterprise operating within the district [3]. A second component is the Constituency Youth Enterprise Scheme (C-YES) that funds enterprises of youth groups in all constituencies. The Divisional Youth Enterprise Development Fund Committees (Divisional YEDFC) have been formed to effectively identify and recommend viable youth group enterprises for loans. The group can only be eligible for C-YES funding if members of the group are aged 18 to 35 years, in case of mixed group, at least 70% of the members are aged 18 to 35 years and 100% of group leaders are within the preferred age bracket, the group is registered with the Department of Social Services or the registrar of societies at least three (3) months before applying for the loan, the group is physically operating within the Constituency, the group is undertaking/proposing to carry out business oriented activity and operating an active bank account [3].

Through these programmes, youths have managed to start and sustain viable businesses, and attain financial independence and stability. Kenya needs long term strategies to enable youth access more rewarding and productive work. There is also a tendency to treat youth as a homogeneous group, which could end up isolating some young people who cannot fulfill YEDF requirements such as business plan development, a registered group and an existing bank account. The rules should be more flexible and needs-based in order to benefit some of the needy and illiterate youth who require more rigorous training and support to succeed [6]. According to Bannock & Albach [7], SMEs who were starting up in Britain were provided with 40 pounds (Kshs 4,800) per week if they were unemployed persons before the start-up. Gumbo [8] assessed the impact, challenges and prospects of MFIs in transforming

the urban poor residents' livelihoods through the provision of Housing Microfinance (HMF) loan product. Although findings indicate that the loan was popular with most urban poor residents, MFIs were failing to meet the demand mainly due to lack of loanable funds. Diugwu [9] ascertains that knowledge was critical for organizational success and organizational effectiveness would require the improvement of organizational capabilities for leveraging and exploiting knowledge. Mburu [10] reveals that most of the young entrepreneurs had other sources of income apart from the business to cushion them against uncertainties encountered in the informal sector. Amenya [11] determines that YEDF could be a preferred source of funding among the youth, accessing it remained a great challenge, there was lack of monitoring and evaluation affected its implementation. Gumbo [8] establishes that the critical problem faced by MFIs was limited and unreliable sources of funding and inflation which had eroded the monetary value of the currency. Mburu [10] observes that the loan given was minimal below Kshs 20,000 and that some lending institutions required collaterals which indicates that a small fraction of the youth are likely to have access to the funding.

Research Methodology

The research was conducted in the 5 constituencies of Siaya County namely: Alego Usonga, Ugenya, Gem, Bondo and Rarieda constituencies. The study focused on the activities of the Ministries of Culture and Social Services in the registration of youth groups, YEDF Officers and FIs in the management and disbursement of the Fund to the youth entrepreneurs in Siaya County from the time of its launch in 2006 to 2011. The study applied survey research design and stratified random sampling was employed to select respondents from the county. Two strata resulted; one for stakeholders of YEDF and the other one for the youths in the county. Primary data was collected through structured survey questionnaires from the youths on their perception of the various aspects of the YEDF. Secondary data was obtained from the financiers of the YEDF on the number of applicants, number of successful applicants, the amount of loan disbursed and the revolved repayment. Regression analysis was used to obtain values of the parameter estimates for the model of study. Coefficient of determination (R^2) was then utilized to determine the variations in the dependent variables explained by the variations in the independent variables.

Results

The Level of Awareness of the Youth on Group Formation and YEDF Activities

On employment status, 50% of respondents were unemployed while 15% and 30% were in groups and had their own businesses respectively. Out of the 30% who were in business, only 10% and 15% got loans from FIs and C-YES respectively. Only 10% felt that the loan was sufficient to start and run a viable business. On registration, all the youth groups who applied for registration were registered. 69% respondents agreed that youths are reluctant to form groups while 70% lacked awareness on registration procedures. 68% of respondents disagreed that the youths were not aware that groups are to be registered.

The registration offices were seen to be far away in urban centers however registration officers were found to be friendly to the youth who visit their offices. 56% of respondents felt that FIs are not within the reach of the majority of the youth and that they have few branches in their constituencies. They were also located far away from the youths mostly in District headquarters. FIs reveals that security is required before giving out a loan and one has to open and run a bank account to be able to get a loan. FIs gave loans mainly to those who already had existing businesses according to 50% of the respondents.

Number of Successful Applicants against Total Number of Applicants for YEDF Loans in Siaya County

The number of youth enterprises that applied for YEDF loan had to be registered with the Ministry of Gender, Children and Social Development in their respective Districts. The total number of groups and individual enterprises that applied for YEDF loans in Siaya County was 4,577. Out of this total, 2,509 were individually owned enterprises while 2,068 were group owned enterprises. A linear regression analysis of the number of beneficiaries of YEDF against the total number of applicants resulted in model 1 below.

$$Y = 995.067 + 3.975 X_1 \quad (1)$$

The linear relationship between the variables was weak, $R = 0.42$ and R squared = 0.176. The variations in the number of applicants for YEDF explained only 14.6% of the total variations in the total number of beneficiaries of YEDF. A beta value of 0.42 implied that an increase in the number of applicants by 63 would directly increase the number of youth beneficiaries by 250.

The respondents were asked if they had applied for YEDF loan and its sufficiency to meet their business need. The findings demonstrate that only 15% of the respondents had applied for YEDF loan which they felt was sufficient to start and run a viable business. 83% accepted that the loan was mainly given to youth groups as start-up capital. The number of group and individual enterprises who successfully applied for YEDF loans both from C-YES and FIs was 3,167 compared to the total applicants of 4,577. The study revealed that 87.5% of successful applicants were given loans by FIs. The implication was that FIs have performed a more significant role in the disbursement of YEDF loans. A linear regression analysis of the number of beneficiaries of YEDF against the number of successful applicants generated model 2 below.

$$Y = 1029.527 + 5.476 X_2 \quad (2)$$

The linear relationship between the variables was weak, $R = 0.53$ and $R \text{ squared} = 0.28$. The variations in the number of successful applicants explained only 28.1% of the total variations in the total number of beneficiaries.

Average Amount of Loan Disbursed in each Constituency in Siaya County

The average loan disbursed in each constituency ranged from Kshs 20,000 to Kshs 40,000 in the five constituencies for FIs and between Kshs 25,000 to Kshs 52,000 for C-YES. All the beneficiaries interviewed agreed that the amount given to them was sufficient to meet their business needs. A linear regression analysis of the number of beneficiaries of YEDF against the amount of loan disbursed produced model 3 below.

$$Y = 1526.439 + 0.006 X_3 \quad (3)$$

The linear relationship between the variables was very weak, $R = 0.11$ and $R \text{ squared} = 0.01$. The variations in the average amount of loan disbursed explained only 1.1% of the variations in the number of beneficiaries of the fund. This variable explained the lowest percentage of the variations in the dependent variable compared with the first two variables.

Revolved Repayment

89% of the respondents indicated that low repayment could be attributed to poor proceeds from business while 72% suggested that investment took a long time to mature. 66% attributed low repayment to lack of continuity in the groups. 44% preferred to repay their loans through the banks while M-PESA and postal

services were not preferred at all by the respondents. A linear regression analysis of the number of beneficiaries of YEDF against the amount of revolved repayment caused model 4 below.

$$Y = -48.937 + 0.001 X_4 \quad (4)$$

The negative y – intercept implies that if repayment is not made then the public who are the tax payers will be worse off as this will be a withdrawal from the circular flow of income. The linear relationship between the variables is strong, $R = 0.94$ and $R \text{ squared} = 0.89$. The variations in the revolved repayment explained 57.6% of the variations in the number of beneficiaries of the fund. The value of F for the model was 185.82 which were significant at 5% hence the model can be used to estimate the number of youth beneficiaries of the fund. A beta value of 0.94 implied that an increase in the revolved repayment by Kshs 386,264 will directly increase the number of youth beneficiaries by 562.

The number of beneficiaries of YEDF loans in Siaya County

A multiple linear regression analysis was utilized to discover the extent to which the models represented the facts.

From Table 1, the coefficients, a_3 , and a_4 were statistically significant because the critical values of t-statistics (t_α) are smaller than the computed value of t (t). Although a_1 has remained to be statistically insignificant, the significance level has improved from 0.572 to 0.087. The y-intercept is still negative and is statistically significant. In conclusion, the number of registered youth groups, average loan disbursed and the amount of revolved repayment were the most critical factors.

A change in the total number of applicants and successful applicants of YEDF loan by 63 and 58 would lead to an increase of 67 and 46 respectively in the total number of beneficiaries. An increase average amount of loan disbursed and revolved repayment by Kshs 10,520 and Kshs 386,264 respectively would increase the total number of beneficiaries by 111 and 509 respectively for the first model. On the other hand, a change in the total number of applicants of YEDF loan by 63 would lead to an increase of 91 in the total number of beneficiaries. An increase in the average amount of loan disbursed and revolved repayment by Kshs 10,520 and Kshs 386,264 respectively would increase the total number of beneficiaries by 99 and 524 respectively for the second model.

Table 1: Multiple linear regression coefficients

Model		Coefficients	Std. Error	Beta	t	Sig.	ta
1	a ₀	-517.87	243.587		-2.124	0.046	- 2.069
	a ₁	1.058	1.072	0.112	0.987	0.336	2.069
	a ₂	0.793	1.380	0.077	0.574	0.572	2.069
	a ₃	0.011	0.005	0.187	2.146	0.044	2.069
	a ₄	0.001	0.000	0.854	9.818	0.001	2.069
2	a ₀	-500.08	237.8		-2.1	0.048	- 2.07
	a ₁	1.453	0.808	0.153	1.798	0.087	2.069
	a ₃	0.009	0.004	0.166	2.126	0.046	2.069
	a ₄	0.001	0.000	0.879	11.911	0.000	2.069

Table 2: Descriptive statistics

	Mean	Std. Deviation	N
Number of youth beneficiaries of the fund	1723	596	25
Number of applicants for YEDF loans	183	63	25
Number of successful applicants	127	58	25
Average loan disbursed	32481	10520	25
Amount of revolved repayment	1217723	386264	25

Discussions

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. This has limited the fund to young people who have other sources of income [10]. The number of successful applicants remained at 50% of the total applicants which concurred with the findings that accessing YEDF loan was still a challenge to young people [11]. Only 15% of respondents had applied for C-YES while 10% for loans from FIs and all of them felt the loan was sufficient for them. The average amount of loan disbursed ranged from Kshs 25,000 to Kshs 50,000 for C-YES and Kshs 21,000 to Kshs 40,000 for FIs respectively. FIs remained very important partners to the fund as they have disbursed 7 times as much as had been disbursed by C-YES. Repayment of the YEDF loans is one of the challenges facing the fund in many counties in the

country. In all the constituencies in Siaya County, the repayment rate was less than 50%, this had two implications; the amount available for disbursement to other youths was inadequate and the individual members of the groups could not obtain E-YES. The low repayment was attributed to poor proceeds from business, investments taking a long time to mature and lack of continuity in groups.

The study establishes that lack of 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 [9]. The YEDF officers had not provided adequate guidance on YEDF activities to the youth and there was lack of follow-up on loan beneficiaries (Amenya et al., 2011). The study also confirms that out of the total youth population of 202,897 only 40,063 had benefited from the fund over the last 5 years. The YEDF had comparatively very little to impact on the youth.

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