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INFLUENCE OF STARTUP LOANS FROM YOUTH ENTERPRISE DEVELOPMENT FUND ON GROWTH OF YOUTH ENTERPRISES IN MAARA CONSTITUENCY, KENYA

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Abstract

In Kenya, the Youth Enterprise Fund was established by the government of Kenya in 2006 to provide an on lending facility to the youth, with low interest rate. The objective of this study was to establish whether the startup loans from the youth enterprise development fund has influenced the growth of youth enterprises in Maara Constituency. The study adopted a descriptive research design. The study targeted registered youth groups in Maara Constituency, Kenya. The study used multiple regression analysis to test the hypothesis. The study found that there was a strong positive relationship between start up loans and growth of youth enterprises. There has been growth of businesses owned by youths which has been started using youth fund and this has led many youths to be self-employed and responsible young people. The study recommends that there should be an increase in the amount given to youths as a startup loans from the youth enterprise development fund in order to give the youths a wider range of opportunities for investment.

Keywords: Influence, Start-Up Loans, Growth of Youth Enterprises, Growth of Youth Enterprises

INTRODUCTION

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 years, 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 specialists support, including free legal services and for business start-ups, access to a wide range of free and discounted products and services. MSEs who were starting up in Britain were provided with 40 pounds (Ksh4,800) per the urban residents' livelihoods through the provision of Housing Microfinance loan product (Fleisig, H. et al 2006).

In Kenya, the Youth Enterprise Fund was established by the government of Kenya in 2006 to provide an on lending facility to the youth, with low interest rate and flexible to micro and small enterprises (Ministry of Youth Affairs and Sports 2009). This was expected to create employment, which was in line with the government economic recovery strategy (ERS) for wealth and employment creation (2003-2007), which estimated that, about 500,000 jobs needed to be created annually, of which 88 percent were to come from the MSE sector.

Cohorts (2006) states that in Kenya youth represent 30% of the population and their unemployment is twice the country's average. Kenyan youth are faced with the challenge of underemployment and unemployment. The Kenya national youth policy (2006) notes that unemployment for the Kenyan youth is not caused by lack of jobs but also lack of job skills due to training that does not address the job demand and also lack of training due to poverty levels. This aspect led the government to initiate the idea of institutional financing with an aim of addressing unemployment. The Youth Enterprise Development Concept is based on the premise that micro, small and medium enterprise development initiatives are likely to have the biggest impact on job creation.

The Official policy framework of MSEs in Kenya is contained in (Sessional paper N0. 2 of 2005). The policy paper forms the basis for enacting the MSE Act to institutionalize MSE policy in Kenya. The Act would address the business environment, the legal and regulatory framework, markets and marketing, business linkages, tax regime, skills and technology and financial services (Syekei & Opijah, 2012).

Maara Constituency has benefited a lot from the YEDF since it is the only constituency in Tharaka Nithi County with the highest number of youth groups which have been formed and registered. This has led to many youths borrowing funds to start their own businesses. The youth groups that have been funded have started agribusinesses, financial businesses mainly in table banking, and hawking businesses. The greatest challenge currently being loan repayment. The youth district officer of the sub – county said that majority of the youths start very well but due to the influence of peer pressure, they start drinking alcohol which eventually affects the running of businesses.

Statement of the Problem

According to National bureau of Statistics (2010), the Kenyans rate of unemployment is attributed to little or no experience among the youth and inadequate job creation. Most youth employed in the informal sector are poorly paid thus continue living in poverty. Failure to engage the youth decently and productively has driven them to criminal activities. Fundamentally, without active youth participation in the economic sector, the region may never realize its full economic potential. Creation of entrepreneurial activities was seen as the way out of the employment crisis. In relation to this, Kenyan government created the youth enterprise development fund to fast track the issuance of affordable loans to the youth in order to empower them and make them reliable and productive. This was meant to increase self-employment and reduce unemployment in the country especially to youth by enabling them start their own businesses.

However, out of the Ksh.1.98 billion allocated to the youth enterprise development fund by 2010, only Ksh, 382,467,669 had been disbursed, which is equivalent to 19.3% disbursement rate (Wario 2010). According to YEDF report (2012), as at 31st December 2011, the fund had disbursed Ksh 614.8m to 13,341 youth groups and Ksh 66.1m to 2,645 individual enterprises, making a total of 680.9m. When compared to the Ksh 3.3B released by then, translates to a disbursement rate 20.6 %. A low disbursement rate as illustrated by the above figures is an indication that what the government set out to achieve through the youth enterprise development fund was not being achieved. (YEDF,2011) reports that the fund had advanced loans worth 5.2 billion Kenya Shilling to 144,000 youth enterprises in Kenya. Programmes like enterprises linkages through marketing of products and services, entrepreneur training, Business Development Services were introduced but it remains unknown the extent to which these initiatives have succeeded in addressing the funding and support challenges faced by the youth MSEs. This brings an academic inquest on the role of the youth enterprise development fund on the growth of youth enterprises.

General Objective

The objective of this study was to establish whether the startup loans from the youth enterprise development fund has influenced the growth of youth enterprises in Maara Constituency

Research Hypothesis

$H_{O;}$ There is no relationship between the start-up loans and the growth of the youth enterprises in Maara Constituency.

Scope of the Study

The study was limited to all registered youth groups enterprises in Maara constituency Tharaka Nithi County, Kenya which have been accessing youth enterprise development fund. There were 13 registered youth groups which have been accessing YEDF for the last three years with a total of 135 youths.

REVIEW OF RELATED LITERATURE

Theory of MSE's Growth

From the many models that address the growth of MSEs, there is none that has given an explanation why some businesses succeed and others fail. The Static theories of small business growth propose that adequate allocation of resources which include entrepreneurial resources, determine the size of the business enterprise. The proponents posit that the observed firm size is the efficient size, in the sense that long run costs are minimized at that point. Growth is assumption of profit-maximizing behavior and the shape which the cost functions take. A firm reaches the optimum size when long run marginal cost equal price. Kihlstrom & Laffon (1980), being proponents of this theory, proposed that the major determinants of business growth is the differing taste for risk among individuals. They make an assumption that, since production technology is risky entrepreneurs who are able to take high risks even where there is uncertainty eventually produces more output.

Nicolai (2008) relates the business firm with the entrepreneur who is the manager, and he makes an assumption that the output of the firm is directly dependent on the Managerial ability as well as capital and labour. This theory brings out the fact that managers who have greater managerial ability realize lower marginal costs hence higher output. Lack of effective managerial skills limits firms' expansion in the event of increased scale of the firm. Lucas model implies that for small business to grow the business owner must involve other people and create a team which he can delegate specialized tasks.

The theory of stages development brings out that a firm growth undergoes through various stages. Churchill & Lewis (1983) argue that the growth is part of natural evolution of a firm. They identified five stages of growth: existence, survival, success, takeoff and maturity. They say that in each stage, several factors affect growth. It is also clear that for a business to move from one stage to another, it must overcome the obstacle and challenges in that stage for survival and growth. Nevertheless, this model is widely criticized because it is assumed that it puts a lot of emphasis on the internal factors ignoring the external factors. The Stochastic models also referred to as random models assume that there are too many factors affecting growth and that no specific factors have been used to explain growth. The growth of a firm is assumed to be independent of other factors and that it is perfectly random and cannot be linked to any group of variables.

Empirical Review

Startup Loans and the Growth of Enterprises

Langat, Maru, Chepkwony and Kotut (2012), on a study about YEDF and growth of MSEs at constituency level in Kenya concluded that increasing awareness of YEDF, its objectives and loan features among the youth have effect on the growth of small enterprises. This indicates that the Fund has a role in growth of MSEs. However, the study does not delve into the extent to which YEDF plays in MSEs growth.

Okello (2010) notes that Access to finance provides growth opportunities for businesses and the economy as a whole. In his study at Rachuonyo South District in Kenya on factors influencing growth of MSE's he recommends that introduction of tax relief, differential tax rates as well as grace periods for Youth MSEs to enhance their growth. Ahiawodzi and Adade (2012) in a study on access to credit and growth of MSEs in Ho Municipality of Ghana concluded that one barrier to MSEs was the high borrowing cost and rigidities in interest rates. Beck, (2007) in Study found that the cost of finance was rated by over 35% of MSEs as a major growth constraint in a sample of 71, most developing countries. An increase in interest rates means that the firms must put in more resources in paying for the interest on their existing debts, which lowers the amount available for investment.

Obamuyi (2009) studied the relationship between interest rates and economic growth in Nigeria. He concluded that the lending rate has a significant effect on the economic growth. Bader & Malawi (2010) in a study tested the hypothesis that the real interest rate has negative impact on Jordanian economy. The results were found to support the hypothesis. Sharma & Gounder (2011), in a group survey of MSEs in a pacific Island country found that their growth constrained by banks' interest rates, fees and charges and collateral requirements. Oreku (2010), in a survey in Tanzania also came to the conclusion that higher interest rates in microfinance are affecting the growth of MSE's.

Flesig H et.al (2006) in a study on reforming collateral laws to expand access to finance in Washington DC argues that collateral affects financial borrowers because loans secured by collateral have more favourable terms than unsecured loans do, for any given borrower or size of the loan. He says that a borrower who is able to provide collateral can obtain a larger loan relative to the borrower's income, with a larger payment period and a lower interest rate. Those who are not able to provide collateral often gets worse loan terms than an otherwise similar borrower who can do so, or gets no loan at all.

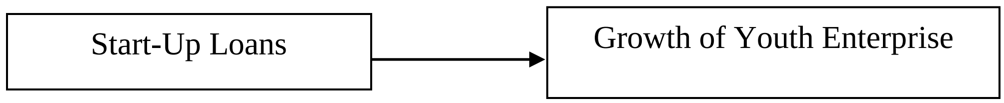
The YEDF is based on the Group project approach to financing. The philosophy that lies behind it is that the shortcomings and weaknesses at individual level are overcome by collective responsibility and security afforded by the formation of a group. The coming together of individual people enhances education, awareness and bargaining power. Groups are often more effective than individuals in achieving tasks, coming up with solutions, innovativeness and creativeness because a group has more talent in skills and ideas and there is strength in unity. Benefits of groups range from support from donors and private sector companies who may have interests in training and supporting organized groups. Groups are able to get collective marketing which increases product volumes and chances of getting more buyers. They help reduce mismanagement of funds, both for groups and individuals due to keen follow up (Bhole & Ogden, 2009**).**

Groups are also full of challenges like poor group leadership skills, lack of business focus or orientation, personal differences among group members, group politics and external politics among others. Group investment in our society seems not to work. Group thinking is the single biggest killer of investment groups drive (Wameyo, 2011). Songwe, Gicharu & Mahea (2011), in a study titled 'A study on youth and women entrepreneurs preparedness in Kenya: a case of YEDF and Kenya Women Enterprise Fund' found that majority of the entrepreneurs indicated that they need both advice and money. 61% of women entrepreneurs and 48% of the youth surveyed had less than 50% likelihood of business success. The study concluded that entrepreneurial preparedness is low among the entrepreneurs who benefited from both youth and women Fund. They recommended that it is crucial for enterprise funders need to assess the entrepreneurs on business readiness gaps.

Nagarajan (2005) points out that microfinance for youth is requires long term commitment and adequate microfinance capability due to its complexity. For the success of the program, there is need to involve the microfinance institutions or organizers who are aware of microfinance best practices and youth issues. He notes that the youth below 20 years should consider not only getting the financial education but also the entrepreneurial skills training to facilitate effective use of the micro finance. Ontario Association of Youth Employment (2000), statistics show that 46% of new business ventures were financed through personal savings, 38% through money from friends and family and only 28% through loans of lines of credit and 9% through business loans. Okello (2010) in a study investigating factors influencing growth of

MSEs owned by youth in Rachuonyo South District in Kenya, made recommendations that relate to finance in enhancing MSEs growth. He recommended that introduction of tax relief, differential tax rates as well as grace periods of Youth MSEs to enhance their growth. The study found that growth of MSEs is affected, among other factors, by accessibility to finance.

Figure 1. Conceptual Framework



RESEARCH METHODOLOGY

The study adopted a descriptive research design. The study targeted registered youth groups in Maara Constituency. These were the youth groups that had been accessing youth funds in the constituency the last four years. According to the department of Social Development Ministry Maara constituency, (January, 2015), there were 13 registered youth groups of which were active in accessing youth funds for the last four years with a total of 135 youths. These are the youths that were involved in the study. The study conducted a census of the elements in every youth group. The study used the questionnaires as the main tools for collection of data. To increase the reliability of the data collected a test – retest technique was done by administering 13 questionnaires to youth groups and correlation coefficient calculated using spearman's formula and obtained a correlation coefficient of 0.885. Descriptive statistics which includes frequencies and percentages was used to analyze data. The study used multiple regression analysis to test the hypothesis and the p-value from test statistic was used to determine whether there was any relationship which could be attributed to the ordinary random factors or not. The analyzed data was presented using tables.

$Y = \beta_0 + \beta_1 X_1 + e$

Where: Y= Growth of Youth Enterprises β_1 =Coefficient of independent variables

β_0= Constant X_1 = Start-Up Loans e = Error term

ANALYSIS AND DISCUSSION OF FINDINGS

This section sought to gather the responses of the respondents in regard to the startup loans and the growth of youth enterprises. Respondents were asked to tick the most appropriate response on the role played by the youth enterprises fund on youth enterprises. Respondents were asked to respond on whether youth enterprise fund has led to job creation among youths through startup loans. The table 1 presents respondents responses to the item.

Table 1: Job creation through YEDF

Responses		Frequency	Percent	Cumulative Percent
Valid	Agree	90	75.0	75.0
	Disagree	22	18.3	93.3
	Not Sure	8	6.7	100.0
	Total	120	100.0	

Majority of the respondents 75.0% agreed that youth enterprises fund has led to job creation among youths in the county, while 18.3% agreed that youth enterprises fund has led to job creation among youths in their county while 6.7% of the respondents could not agree or disagree that the youth enterprises fund has created job among youths. These findings agrees with a study done by Okello (2010) who found that access to youth fund has led to creation of jobs in Kenya among youth. It can therefore be inferred that access to youth fund has led many youths to be self-employed and responsible young people.

Response on Business Growth and YEDF

The respondents were asked to indicate whether youth development fund has led to their businesses growth. Their responses were presented below in table 2 below.

Table 2: Response on Business growth and YEDF

Responses		Frequency	Percent	Cumulative Percent
Valid	Agree	57	47.5	47.5
	Disagree	48	40.0	87.5
	Not Sure	15	12.5	100.0
	Total	120	100.0	

Majority of the respondents 47.5% agreed that their businesses have grown due to use of youth enterprise fund while 40% disagreed and 12.5% of the respondents were not sure whether the growth was due to youth fund. This implies that there is growth in the youth enterprises which is as a result of youth enterprises fund. These findings agrees with the study done by Bhole & Ogden (2009) who found that funds disbursed to youth groups are able to increases their product volumes and chances of getting more buyers.

Response on Youths ability to pay loan from business income

The respondents were asked to indicate whether youths running business through youth fund are able to pay loan back from their business incomes. Their responses were presented below in table 3 below.

Table 3: Ability to pay loan from business income

Responses		Frequency	Percent	Cumulative Percent
Valid	Strongly Agree	19	15.8	15.8
	Agree	54	45.0	60.8
	Not Sure	8	6.7	67.5
	Disagree	25	20.8	88.3
	Strongly Disagree	14	11.7	100.0
	Total	120	100.0	

The data revealed from majority of the respondents 45% agreed that youths who borrow funds from youth fund are able to pay loan from their businesses while 20.8% disagreed that they are able to pay loan. This implies that youths are able to pay their youth funds comfortably from their businesses incomes. These findings agrees with those of Najaragan (2005) who points out that youth fund attracts low interest rates and this makes it possible for borrowers to repay with the income earned from their investments.

Response on business started using YEDF being successful

The respondents were asked whether business started using youth fund are running successfully. Responses were presented in the table 4 below.

Table 4: Business within youth groups run successfully

Responses		Frequency	Percent	Cumulative Percent
Valid	Strongly Agree	9	7.5	7.5
	Agree	12	10.0	17.5
	Not Sure	8	6.7	24.2
	Disagree	80	66.7	90.8
	Strongly Disagree	11	9.2	100.0
	Total	120	100.0	

Data obtained revealed that majorities of the respondents 66.7% disagreed that businesses started using youth fund run successfully while 10% of the respondents agreed with this statement. Only 6.7% of the respondents who were not sure. The finding implies that starting a business with youth fund is not a guarantee that the business will run successfully. The findings are consistent with that of Wameyo (2011) who also noted that group investment in our society seems not to work. He opined that group thinking is the single biggest killer of investment group's drive.

Response on Youths Use of All the Money Received For Business Purposes

The respondents were asked whether youths use all the received from youth fund for business purposes only. Responses were presented in the table 5 below:

Table 5: Response on Youths Use of All the Money Received For Business Purposes

Responses		Frequency	Percent	Cumulative Percent
Valid	Strongly Agree	6	5.0	5.0
	Agree	22	18.3	23.3
	Not Sure	6	5.0	28.3
	Disagree	51	42.5	70.8
	Strongly Disagree	35	29.2	100.0
	Total	120	100.0	

Data revealed from the respondents that 42.5% disagreed that youth's use the money received from the youth fund for business purposes only while 18.3% of the respondents agreed that the money received from the youth fund is used for business purposes only. It was also found that 5% of the respondents were not sure whether all the money is used for business purpose. This implies that not all the youths who put this money into the intended purpose. These findings are in consistent with the results of the study by Songwe et al (2011), in which they concluded that entrepreneurial preparedness is low among the entrepreneurs who benefited from the youth and women fund. They recommended that it is crucial for enterprise funders to assess the entrepreneurs on business readiness gaps.

Test of Hypothesis of Start Up Loans

Table 6: Correlations of the dependent and independent variables

		Start Up Loans
Growth Of Youth Enterprises (Y)	Pearson Correlation (r)	. 796*
	Sig. (2-tailed)	.003

There is a strong positive relationship between start up loans and growth of youth enterprises as indicated by correlation of 0. 796 and a p-value of 0.003. Since the P values was less than 0.05, there was enough evidence to reject the null hypothesis that there is no significant relationship between start up loans and growth of youth enterprises and accept the alternative hypothesis. Hence there is a significant positive relationship between start up loans and growth of youth enterprises in Maara Constituency.

Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 22) to code, enter and compute the measurements of the multiple regressions. Regression coefficients were obtained and presented in table 5 below:

Table 7. Regression Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	0.093	0.159		7.486	0.00
	Start Up Loans	0.409	0.03	0.204	4.639	0.00

a. Dependent Variable: Growth of Youth Enterprises

The study hypothesized that there is no significant relationship between start up loans and growth of youth enterprises. The study findings showed a positive significant relationship between start up loans and growth of youth enterprises (β=0.409, p value <0.05). This implies that an increase in growth of youth enterprises in Maara Constituency is associated with startup loans. The multiple regression model was also developed using the Beta coefficients as follows;

$Y = \beta_0 + \beta_1 X_1$

Where: Y= Growth of Youth Enterprises

β_0= Constant

β_1 =Coefficient of independent variables

X_1 = Start Up Loans

$Y = 0.093 + 0.409X_1$

CONCLUSIONS AND RECOMMENDATIONS

The study found that there was a strong positive relationship between start up loans and growth of youth enterprises as indicated by correlation and a p-values. There was enough evidence to reject the null hypothesis that there is no significant relationship between start up loans and growth of youth enterprises and accept the alternative hypothesis. Hence there is a significant positive relationship between start up loans and growth of youth enterprises in Maara Constituency.

The study concludes that youth enterprises fund has led to job creation among youths in Maara Constituency, Tharaka Nithi County. There has been growth of businesses owned by youths which has been started using youth fund and this has led many youths to be self-employed and responsible young people. It is noted that youths who borrow funds from youth fund are able to pay loan from their businesses comfortably from their businesses incomes. However, it is worth noting that most of the youths does not use the money received from the youth fund for business purposes and there is likelihood of diverting this money to other uses that the intended ones.

The study recommends that there should be an increase in the amount given to youths as a startup loans from the youth enterprise development fund in order to give the youths a wider range of opportunities for investment.

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