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AN INVESTIGATION INTO CONSTRAINTS IMPACTING ON YOUTH ACCESS TO FINANCE FROM YOUTH ENTERPRISE DEVELOPMENT FUND IN KENYA: A SURVEY OF SELECTED YEDF BENEFICIARIES IN MURANG'A COUNTY

Jackson Irungu
District Procurement Officer, Mathioya, Kenya
jack.irungu14@gmail.com

Majory Nyaga
School of Business and Economics, Department of Accounting & Finance, Dedan Kimathi University of Technology, Nyeri, Kenya

Stephen Mwangi
District Development Officer, Mathioya, Kenya

Abstract

Unemployment has become the biggest macroeconomic concern for most developing countries and this was made worse by the global financial crisis of 2008. Governments have tried to come up with various innovative methods to stem it and one such initiative of the government of Kenya was the establishment of the Youth Enterprise Development Fund focused at alleviating unemployment among individuals aged between 18-35 years. This research aimed at finding out what are the external, institutional and internal factors impacting on youth access to finance from YEDF in Kenya with a special reference to Murang'a County. The research used questionnaires as data collection instruments. The population of the study was 567 respondents from which a sample of 60 respondents was selected. The data collected was analyzed quantitatively using statistical packages for social sciences (SPSS) and presented using frequency tables, histograms and pie charts. Out of 60 questionnaires administered, 50 were returned and analysed. The study found that of the three areas under study internal factors had the most impact on youth access to funding from YEDF. On internal factors education, prior *experience and business plans were cited to have major impact on access to finances. While external factors like taxation and political interference had little or no impact, with length of loan application form as an institutional factors having the biggest impact.*

Keywords: Funding, access to finance, internal constraints, external, constraints institutional constraints, Kenya

INTRODUCTION

The number of unemployed individuals around the world is estimated to have reached 201.8 million in 2013, an increase of 4.9 million from a revised 196.9 million in the previous year, there were 31.8 million more unemployed persons around the world in 2013 than in 2007 (ILO 2014). The global youth unemployment rate, estimated at 12.6 per cent in 2013, is close to its crisis peak. As many as 73 million young people were estimated to be unemployed in 2013. The unemployed young people in low-income economies do not benefit from the social protection systems that are available to their counterparts in developed economies (ILO 2013).

According to ILO (2014), 23 million people are estimated to have dropped out of the labour market due to discouragement and rising long-term unemployment, active labour market policies (ALMP) need to be implemented more forcefully to address inactivity and skills mismatch. Indeed, with more and more potential workers becoming discouraged and remaining out of the labor force, the risk of skills degradation and obsolescence is increasing. Thus, governments in developing countries are forced to come up with creative ways to address youth unemployment.

Kenya has had its fair share of unemployment challenge and it has been growing overtime with the youth being the main casualties. Creation of adequate employment opportunities remain one of the greatest challenges in Kenya. It is estimated that 64% of unemployed persons in Kenya are youth. The country has a youthful population with about 73% per cent being under 30 years of age. Kenya has experienced steady growth in population coupled with expanding youth unemployment. Statistical surveys have put Kenyan unemployment rate at 29% per cent (Njonjo, 2009).

There are many new challenges for young people in terms of employment, these include; the changes brought about by globalization and the decline of protected markets. The social, economic and political changes and challenges that characterize society make it imperative for young people to acquire skills, knowledge and understanding to cope with rapid change and an uncertain labour market (ILO, 2014).

There have been various initiatives by different administrations to stem unemployment in Kenya (GoK 1964; 1969; 1994; 2003a). According to the Country Social Analysis by the World Bank (2007), youth unemployment, especially among males, is a major contributor to frustration and tension, particularly in urban areas, and a matter of serious policy concern in the country. In this context, there has been an emergence of initiatives and activities to support and promote youth entrepreneurship and business creation. One of the objectives of these programmes is to respond to high youth unemployment rates by encouraging young people to create their own jobs. These programmes aim to increase the share of young people in self-employment or business ownership by influencing the degree of entrepreneurial initiative on the part of the young and by helping them to overcome some of the difficulties that they encounter when starting up a business or opting for self-employment.

In Kenya, the crisis of employment for many young people and their communities has given rise to a particular urgency in the demand for support policies and services. Such urgency to address the youth unemployment by the government was the establishment of the Youth Enterprise Development Fund in 2007.

The Youth Enterprise Development Fund

The YEDF was officially launched on 1st February 2007 by His Excellency Retired President Mwai Kibaki. The Fund was transformed into a state corporation on 11th May 2007. The Fund is one of the flagship projects of Vision 2030, under the social pillar. The Vision 2030 sees the Fund as a strategy of gainfully engaging youth, majority of who are unemployed. The fund targets 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).

The Fund was designed to address the challenges of youth owned enterprises such as inaccessibility to capital, lack of decent youth focused commercial infrastructure, barriers to marketing of youth products, and to market linkages. Its objectives are; provide loans to youth owned enterprises, attract and facilitate investment in micro, small and medium enterprises oriented commercial infrastructure such as business or industrial parks, markets or business incubators that will be beneficial to youth enterprises; support youth oriented micro, small and medium enterprises to develop linkages with large enterprises; facilitate marketing of products and services of youth enterprises in both domestic and international markets; provide business development services/entrepreneurship training to youth enterprises and facilitate employment of youth in the international labour market(YEDF Status Report, 2007-2012).

Whereas banks consider MSEs with no transaction history as too risky because of their ability to repay loans. These Unbanked MSEs may also not have collateral to access formal credit. Another issue is that these unbanked MSEs might not have the skills to run the business professionally. They may not have proper bookkeeping procedures, inventory systems, business plans or income statements making it hard for a bank to evaluate them Frempong (2007).

The fund was necessitated by some of the above mentioned issues as the government focus was on reduction of youth unemployment the traditional financial institutions had avoided lending to youth due to their relative inability to comply with the high transaction costs and inability to risk profile them. Prior to the establishment of the Fund, financial institutions erroneously misconceived the youth to be uncredit worthy and hence, too risky to lend to. The Fund has however shattered this myth and today, the youth have emerged as their major clients (RoK 2010). Since its inception, the government has released over Ksh. 4.4 billion through annual budgetary process to the fund that has trained over 250,000 entrepreneurs and financed over 260,000 enterprises (YEDF 2013 status report).

Statement of the Problem

Since its inception in the 2006/07 budget and the subsequent gazetement in December 2006 to legalize the fund operations, various research has been done in Kenya concerning the youth enterprise development fund. Mburu (2010) studied the viability of the YEDF as an empowerment strategy for youth entrepreneurs, Amenya *et. al* (2011) the challenges facing youth enterprise development fund, Kanyari *et. al* (2013), the effect of Youth Enterprise Development Fund on Performance of MSEs owned by youth, Oduor et. al (2013) the effects of youth enterprise development fund on youth enterprises and Irungu and Riro (2015) effects of youth enterprise development fund on growth of new enterprises owned by youths. None of these previous studies have focused on the constraints impacting the youth access to finance from youth enterprise development fund. Thus, this study aimed at answering the question how does the external, institutional and internal factors impacting on youth access to finance from YEDF?

Research Questions

i. How does external factors impact on youth access to finance from YEDF?
ii. How does institutional factors impact on youth access to finance from YEDF?
iii. How does internal factors impact on youth access to finance from YEDF?
iv. Which of these factors show the greatest impact on youth access to finance from YEDF?

LITERATURE REVIEW

Constraints to Financial Access

Lack of access to finance is a key constraint on the growth of small and medium enterprises in Sub-Saharan Africa, and thus also an important limitation on employment, economic growth and shared prosperity (International Finance Corporation, (IFC) 2013). According to Sacerdoti (2005), among the reasons for lack of access to credit from banks in Sub- Saharan Africa are inability of borrowers to provide accurate information on their financial status, absence of reliable and updated company and land registries, weak claim recovery and collateral realization process such as malfunctioning courts and cumbersome legal and judicial procedures. Other reasons include, long physical distance to the nearest financial services provider, high cost of the credit, socio-economic and demographic characteristics that make them less creditworthy.

Stiglitz and Weiss (1981), opined that whereas access to credit improves economic activities most MSE are financially excluded due to the lending terms and conditions by commercial banks and other formal institutions, this acts as a major obstacle to investment. Schiffer and Weder (2001) show that MSEs find accessing financing more difficult than larger firms. They rank all the obstacles firms face in doing business and find that financing is a top problem for SMEs, which rate it higher than larger firms.

Irungu and Riro (2015) found that 75% of participants indicated that the constraints to accessing financial support faced by the youth groups' were high with only 28% of them feeling that the financial support received from the fund was highly adequate

The establishment and launch of the credit reference bureaus was expected to change the credit landscape since information on the credit worthiness was to be made available hence, reducing the degree of information asymmetry. However, nothing much has been gained from that information as most financial institutions have continued to base their products on CBK base lending rate where they add a premium on to achieve the target profit.

External Factors

Beck (2007) pointed out that the external or systemic factors (also known as state variables) are outside the reach of lenders' actions and policy makers cannot change them in the short-run. Beck et al. (2005), stressed that "the focus of the business environment view is not on SMEs per se; it is on the environment facing all businesses", large and small. Dethier et al. (2010) indicated that the business environment affects the economy through its influence on incentives to invest and by inflicting pressure over firms that were previously enjoying some sorts of protection. They also mentioned that as a consequence of political economy, successful reforms on certain regulation, trade for example, will in turn put pressure for reform in other issues of the business environment such as the protection of capital.

The high cost of credit and interest rates has generally been identified by many studies as having an influence in MSE access to finance. This, according to Rungani and Chimucheka (2011 :5515), is attributed to the fact that finance institutions consider MSEs as being high risk borrowers. Due to their low capitalization and limited assets, MSEs are vulnerable to market fluctuations and have high mortality rates (Ganbold, 2008:35). Based on this, finance institutions charge MSEs higher interest rates than what they would charge larger businesses. They do this to compensate for higher costs of information collection, the smaller volume of external financing and the greater risk of failure as most MSEs fail before their fifth birthday.

Kimuyu and Omiti (2000) observe that 18.4% of the SMEs in Kenya cite access to credit as their second most severe constraint after market access. Further the 1999 National Baseline survey (International Centre for Economic Growth *et al.* 1999) indicates that 70% of the SMEs in Kenya require loans that do not exceed KSHs. 20 000 (US$ 285) while 96.3% do not require loans exceeding Kshs.100 000 (US$ 1428). Bank in most Africa countries have made little effort to reach SMEs due to difficulties in administering loans particularly screening and monitoring small scale borrowers, high cost of managing loans and high risk of default (Yahie, 2000).

Institutional Factors

According to Pandula (2011) these category (institutional factors) comprise of factors that are largely controllable by the lender. Bureaucracy and red tape especially in government have been identified as one of the reasons for SMMEs inability to access finance from public and private financial institutions (Ncokazi, 2007; Madahea and Pillay, 2008). MSEs have to undergo an unnecessary lengthy and costly process before their applications for funding are approved.

In the recent past the Government of Kenya (GoK) has moved to simplify business licenses, the on going efforts to amend the Companies Act, the enactment of the Investment Promotion ACT (2004) and the preparation of the Sessional Paper No. 2 of 2005 on 'Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction'. The Micro and small Enterprises Act 2012 has introduces new opportunities for indigenous Kenyan entrepreneurs. However, access to and awareness of such legislations as well as other legal business requirements and information has remained largely confined to elitist business leaders. Rural entrepreneurs in provinces, districts and other towns may not have access to such investment information, which they could take advantage of. This is particularly true for small-scale entrepreneurs, who, not being well informed of the necessary legal business requirements they should adhere to with respect to their enterprises, may often feel that they are harassed by local authorities.

Many local entrepreneurs prefer to run their businesses in an informal state, which hampers their potential for growth, expansion and innovation. This also prevents them from taking advantages of the incentives provided by the government for formal investment businesses (UNDP 2006).

The government of Kenya started the youth enterprise development fund to address some of the red tape to youth access to financing from the conventional financial institutions. Herrington *et al* (2010:49) also argued that although numerous small business incentives are becoming available, excessive bureaucracy and cumbersome application processes, offices that are open only on weekdays and the protracted, inefficient decision-making has limited the positive impact of these incentives.

Clover and Darroch (2005:245) mentioned that difficulties in accessing investment capital may also arise from MSE owner's lack of understanding of loan application procedures or lending institutions bias against MSEs due to the relatively high costs of administering relatively small loans. A study conducted by Ganbold (2008:56) on improving access to finance in Mongolia, complexity of loan application procedure was raised as one of the constraints to access to finance by MSEs in Mongolia. Bbenkele (2007:21) also identified the low levels of sophistication and understanding of loan procedures as stumbling blocks to MSEs access to finance from lending institutions. He further stated that this made MSEs to have a negative perception against the lending institutions, especially banks, and did not regard them as useful.

A study by Irungu and Riro (2015) found that of the respondents only 25% indicated the constraints to credit access from YEDF as low and this was because this individuals knew the steps to follow in loan application process. Oduor *et al* (2013) found that 69% of the respondents agreed that youths are reluctant to form groups which are a pre-requisite for loan application, while 70% lacked awareness on registration procedures with 68% of respondents disagreeing that the youths were not aware that groups were to be registered.

The government has continued to market the fund as the solution to the youths unemployment by providing start-up capital for youth owned enterprises. In portraying its commitment the government has continued to make annual budgetary allocation to the fund. The fund has also continued to be innovative from providing startup loans to financing Local Purchase Orders to enable youths take up the 30% government tenders reserved for youth, women and persons with disability. However, the problem identified by Herrington *et al* (2010:37) is that many of these initiatives are poorly marketed with respect to their targets. The United States Agency for International Development (USAID) (2008:23) and Herrington *et al*

(2010:120) noted that these initiatives tend to be concentrated in the urban areas. The registration offices were seen to be far away in urban centers. However, registration officers were found to be friendly to the youth who visited their offices Oduor *et al* (2013).

Internal Factors

The internal (borrower-specific) factors, include variables largely controllable by a firm (Barbosa and Moraes (2004:17) in Fatoki and Smit (2011 : 1415). A number of borrower-specific and firm related variables have been identified by various researchers (Mahadea and Pillay, 2008:39; Chenesai, 2009:190; Fatoki and Garwe, 2010:2767; Abor and Quartey, 2010; USAID, 2010:37; Pandula, 2011; Mzwanele, 2011) as having a great influence on MSE access to finance. These factors include gender, the level of education, level of experience, lack of appropriate skills to run and manage a business, networking, bad credit record and poor quality of business plans.

A study conducted by Zindiye (2007: 197) found that compared to male counterparts, female managed firms are less likely to obtain a bank loan. However, this was disputed by the USAID (2010) which argued that finance institutions seem less concerned about the gender of the entrepreneur when looking at loan applications. The study pointed out that a number of government and private sector finance institutions, instead, prioritise women, youth and the disabled when lending credit to MSEs.

Various studies on MSE access to finance found a correlation between the entrepreneur's level of education and SMME access to finance. For example, a recent study by Pandula (2011 :259) revealed that graduates had the least difficulties raising finance from lending institutions compared to their less educated counterparts. The study argued that more educated entrepreneurs have the ability to present positive financial information, strong business plans and are able to maintain a better relationship with finance institutions compared to their less educated counterparts. Fatoki and Smit (2010) also shared the same views. In relation to the entrepreneur's experience and lack of appropriate skills to run and manage a business, Abor and Quartey (2010) and Fatoki and Garwe (2010) pointed out that owner-managers with previous experience and appropriate business management skills are more likely to avoid costly mistakes than those with no prior experience.

Talavera et al (2010) in their study on the impact of social capital on financial obstacles faced by entrepreneurs using a pooled data of about 270 small companies, found that membership in business associations increases the probability of loan access by 14.8 percent. The challenge for MSEs owned by youth though, is the absence of small business associations under which they can affiliate.

RESEARCH METHODOLOGY

Research Design

The study adopted a descriptive research design. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. This study used descriptive research design to investigate constraints impacting on youth access to finance from youth enterprise development fund in Kenya. The researcher used questionnaires to collect data from youth group.

Target Population and Sample

The target population for this study was 567 youth group that have benefited from the YEDF loans in the county. Stratified random sampling technique was used to draw the sample from the population. The County was divided into sub-counties and from each sub-county 6 groups were randomly drawn from the beneficiaries list. This constituted a sample size of 50 respondents from whom questionnaires were given. This ensured that the information was geographically accurate and reliable.

Reliability and Validity

According to Kothari (2004), reliability of a research instrument stems from the instrument's ability to provide consistent results while validity indicates the degree to which an instrument measures what it is supposed to measure. The research instrument had a reliability coefficient of 0.9 which was established through pilot testing.

Data Analysis and Presentation

The data collected was edited to ensure completeness and analysed descriptively and presented in frequency tables, pie charts and bar graphs in the following section.

ANALYSIS AND FINDINGS

Response rate

The researchers sent out 50 questionnaires to youth groups that were beneficiary of the youth fund of which 40 were returned for analysis, this represents a 80% response rate that was adequate for data analysis.

According to Shuttleworth, (2009) a response rate of 60% is good for analysis and reporting and a response rate of 70% and over is excellent and reliable.

Age of youth group

The participants were asked to indicate for how long has their groups been in existence and a majority 62% indicated that their groups has been in existence between 1-5 years with 40% of respondents being engaged in agricultural activities. This may have been due to the concerted efforts by the government to persuade youths to be self-employed due to dwindling opportunities for youth in formal employment jobs. Approximate number of youths churned out by universities and tertiary institutions in Kenya in 2014 was over 200,000 youths.

Table 1. Age of youth group

Year	Frequency	Percentage
Less than 6 months	3	8%
6 months - 1 year	10	25%
1-3 years	13	32%
3-5 years	12	30%
Over 5 years	2	5%
Total	40	100%

Internal factors

Distribution of group members by education and gender

A majority 65% of the members of the participating youth groups had acquired secondary education while 22% had post-secondary education with 13% having primary education. The high number of those with secondary education may be due to low transition from secondary education to tertiary education. When asked their opinion on the effects of education on access to funding from YEDF 79% were of the opinion that it does affect funds accessibility from the fund. This can be attributed to the ability to read and understand what is expected of the application process. Groups composed of 60% male and 40% females this shows that male are still dominant when it comes to taking up financial opportunities from the fund as in other financial service providers such as banks.

Prior experience in loan application

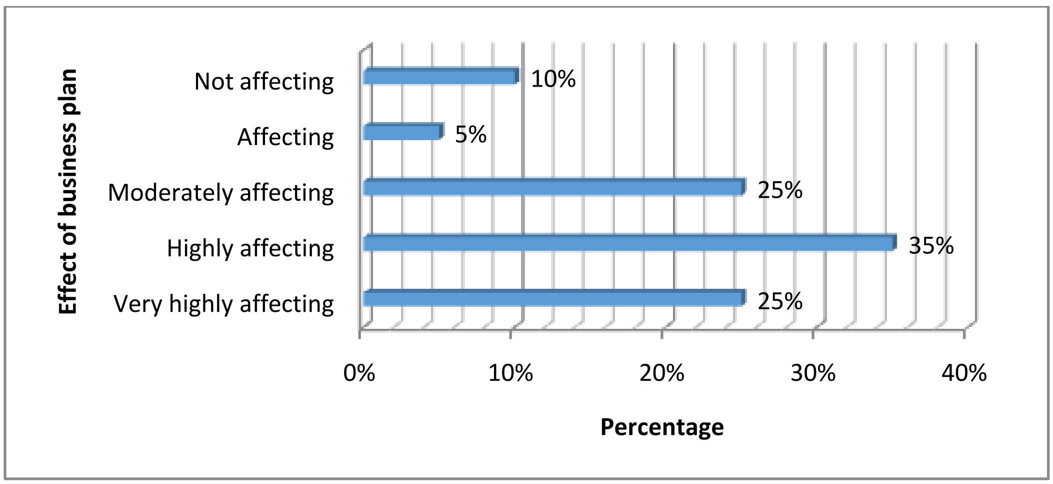
59% of the respondents indicate that they had experience in loan application prior to applying for loan from YEDF with a significant number of 41% indicating that they had no prior experience in loan application, this significant number indicates that financial services access by youths is still low due to red tape and bureaucracy involved.

When propped further, 58% of the respondents felt that possession of prior experience highly affected accessing funds from the YEDF. This might have been due to less time taken in application and being in possession of the relevant documents required that enabled a quicker loan processing.

Effect of business plan on access to funds

When asked about whether they had a business plan before loan application an overwhelming number of 95% of the respondents answered in the affirmative. This could be attributed to the fact that it's a requirement that before approaching the fund for funds each group must have a well thought plan of what they want to do and their contribution towards that activity. On this, 60% of the respondent indicated that the business plan had high effect on their accessing funds from YEDF.

Figure 1. Effect of business plan on access to funds



Effect of group credit history and records keeping

Majority (65%) of the respondents indicated that group credit history highly affected their access to YEDF funds while, 8% were of the contrary opinion that credit history had no effects at all. On records keeping, 58% of the respondents opined that records keeping highly affected their access to funds from YEDF. this can be attributed to the fact that during application for funds groups have to show that the activity they are seeking for funding actually exists.

External factors

Data was collected on external factors to determine how they affect youth access to funds from YEDF and is as tabulated below.

Table 2. External factors affecting youth access to YEDF funds

Factor	Very highly affecting	Highly affecting	Moderately affecting	Affecting	Not affecting
Constraints to market access	26%	28%	23%	15%	8%
County government requirements for business operations	23%	26%	18%	13%	20%
Availability of funds for lending by YEDF	13%	28%	23%	8%	28%
Cost of credit	3%	18%	31%	3%	46%
High interest rates	15%	23%	31%	5%	26%
Taxation	10%	6%	11%	15%	58%
Political interference	8%	12%	5%	12%	63%

Majority 54% of the respondents indicated that constraints to market access highly affected their activities while investing and to some extent their funds access from YEDF as market accessibility can determine the ability to start and run an enterprise and hence the ability to borrow. 49% of the respondents were of the opinion that county government requirements for business operations such as business permits and certificates of health highly affected their access to YEDF funds. This can be linked to the fact that such requirements are necessary attachments in loan application as a proof of business operation, whereas, 20% opined that such requirements had no effect most likely because the activities they engaged such as agriculture is not required to have such from county government.

Of the groups sampled 43% indicated that availability of funds for lending by YEDF highly affected their access to YEDF funds. This could be attributed to the fact that the fund solely depend on budgetary allocation from the government and the loan repayments done by the previous borrowers. With the government having other competing needs and priorities the allocation to the fund has continued to decline. This coupled with low pace of loan repayment and ballooning application for funds puts YEDF under pressure and some applicants takes longer to be financed. However, 28% indicated a no effect this could be due to their applications coinciding with the period after budgetary allocation, low application or high repayment.

On the cost of credit 46% indicated that it did not affect the group's borrowing from YEDF, with 31% indicate that the effect was moderate. 38% indicated that high interest rates highly affected their access to YEDF funds, this could be due to the fact that with high commercial banks interest rates and requirement for collateral many had turned to the YEDF for funding.

Of those surveyed 58% indicated that taxation did not affect the groups' access to finance from YEDF this could be due to the fact that before application for funds from YEDF tax returns are not a requirement. While 63% indicated that politics did not have any effect on their access to YEDF funds this could be attributed to the fact that the fund is professional run and all applicants have to follow laid procedure that can't be easily be manipulated by certain person.

Institutional factors

Data was collected on institutional factors influencing the participating groups. The purpose was to find out how institutional factors impact on the youth access to finance from YEDF in Kenya.

Table 3. Institutional factors affecting access to YEDF funds

	Very highly affecting	Highly affecting	Moderately affecting	Affecting	Not affecting
Groups understanding of YEDF lending criteria	19%	32%	16%	22%	11%
Length of loan application form	22%	35%	16%	8%	19%
Details required	21%	24%	18%	18%	18%
Information on YEDF activities	18%	10%	24%	24%	24%
Location of offices	11%	13%	11%	8%	57%

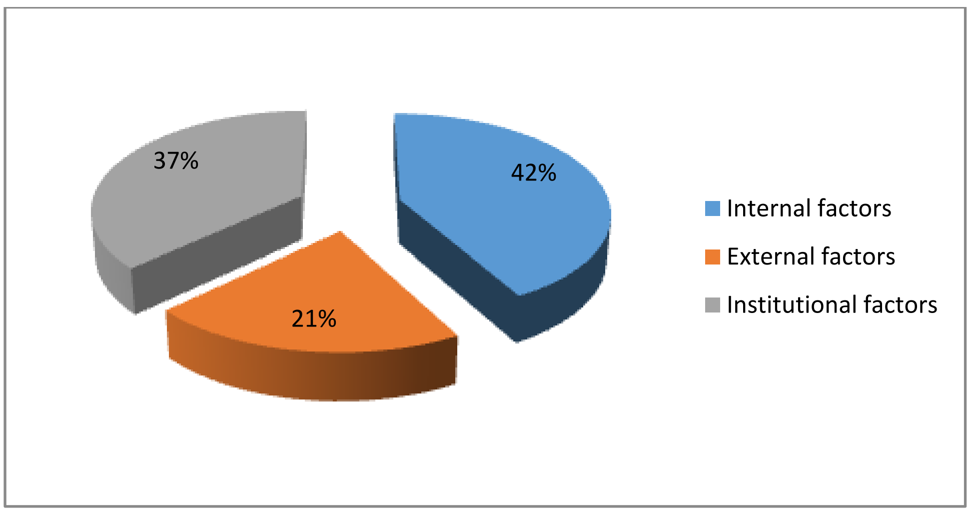
Majority (51%) of the respondents indicated that group members' understanding of the YEDF lending criteria highly affected the groups' access to YEDF funds. This could be due to the reason that knowing the process reduces the time taken to fill and find the documents required. 57% and 48% of the respondents indicated that the length of loan application form and details required in the form highly affected the groups' access to YEDF funds respectively. This could be attributed to the fact that the application form requires multiple information input as members in a group act as guarantors to one another and they are individually and collectively liable for loan repayment.

Of the respondents 28% indicated that Information on YEDF activities highly affected the groups' access to YEDF funds, while 24% indicated that the effect was moderate with an equal number (24%) indicated that there was no effect. This mixed result could be attributed to the fact that the activities of the fund are well known by the target group since it has been in existence for nearly a decade now. On location of YEDF offices 57% of the respondents opined that the location did not affect their access of funds while 21% indicated the effect was moderate. This may be because most offices of the fund are located in easily accessible location close to other government offices from which corresponding services like group registration can be sought.

Ranking of factors

When asked which of the three groups of factors had the biggest impact on youth accessing finance from YEDF 42% indicated internal factors, 37% opined institution while 21% opined external factors. This indicates that the biggest hindrance to youth access to finance are inherent such factors as education, and credit history. Remedying this factor can greatly assist youth in accessing financing from YEDF.

Figure 2. Ranking of Factors



CONCLUSION

It can be concluded that from the research findings, internal constraints such as education level, business plan and prior experience are the major hindrance to youth access to finance from YEDF which if addressed it would go a long way in enabling the youth access funding from the enterprise fund. This is followed by the institutional factors such as the length of application form which are the requirements that the youth have to comply with before accessing funding. Lastly external factors such a political interference and taxation had the least constraint meaning if the first two are addressed then there would be ease of youth access to funding from the youth fund.

The current study focused on constraints impacting on youth access to finances from youth enterprise development fund in Kenya. Future studies should look into how addressing those constraints would impact on youth access to finances from the youth fund.

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