

The Influence of Yedfstartup Loanservice on Employment in Kirinyaga County.

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Abstract: In response to the rising youth unemployment, the Government of Kenya launched the Youth Enterprise Development Fund (YEDF) in 2006. The main role was to provide flexible financing and low interest loans to the youth enterprises which would in turn provide direct and indirect employment to the youth. The fund has so far provided financial and non-financial assistance to many youth groups in the country. The main focus of this research is to evaluate the role of the fund's start up loan services on employment in Kerugoya Ward, Kirinyaga County. Despite the existence of the fund for almost 10 years, the rate of unemployment among the youth is still high in Kenya. There is a missing link in the role of the Fund in delivering its mandate of gainfully engaging Kenyan youth in economically viable activities to eradicate unemployment. The study was guided by Change Theory and Resource Based View. Descriptive survey design was used to analyze the role of the fund's services on employment. The results indicated a significant relationship between the YEDF start up loan services and employment. With proper implementation the service would have a higher impact on unemployment.

Keywords – Startup loans, employment, YEDF, youth, Kenya.

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I. Introduction

Youth unemployment has become a major challenge in the 21st Century and is of critical concern to almost every country in the world. Youth represent 36 percent of Kenya's population and 60% of the total labor force (National Youth Situation Report, 2009)¹. Almost one third of Kenyans are between 15 and 29 years, and the total reached almost 11 million people in 2006 and 15 million in 2013 (Sparreboom, 2013)². Youth in Kenya face serious challenges, including high rates of unemployment and underemployment. The overall unemployment rate for youth is double the adult average, at about 21 percent.

Governments all over the world have formulated policies and programs to alleviate the unemployment scourge and have engaged in programs to boost employment and job creation for young people. A study done by Million, Nyikal and Wangia (2012)³ observed that the South African government alleviates both poverty and unemployment through the Umsobomvu Youth Fund. It is reported that this fund has nationwide presence due to good partnership strategies but suffers from challenging evaluation and monitoring. Kashuliza (1993)⁴ observed that Tanzania also had government credit schemes which also face various challenges. The international Youth Foundation and USAID launched the Caribbean Youth empowerment Program in 2008 to target youth in Antigua, Barbuda, Grenada, Jamaica and Saint Lucia. This program imparts technical, entrepreneurial and life skills to the youth to develop sustainable livelihoods. In Britain, the Prince Trust Enterprise Program (P.T.E.P) targets youth with business ideas, the unemployed or those working under 16 hours per week. The incentives in this program are start loans, advice on employment options, mentorship support, and other specialists such as free legal advice.

Entrepreneurship is increasingly being viewed as an important means and strategy to create jobs, Sagwe, Gicharu and Mahea (2011)⁵ and improve livelihoods and economic independence of young people. Entrepreneurs are seen as agents of change in a market economy. Omolo (2010)⁶ established that entrepreneurship and entrepreneurial culture is an important ingredient in youth employment in Kenya. Audretsch and Thurik (1999)⁷ show that an increase of the rate of entrepreneurship (number of business owners per labor force) leads to lower levels of unemployment in 23 OECD countries in the period 1984 through 1994. It is widely believed that the solution to strengthening youth enterprises lies in the accessibility of credit to the youth to start small enterprises thus creating jobs for the youth due to their ability to spur growth in micro and small enterprises. SMEs tend to be large in number therefore creating large number of new jobs in the country.

I.1 Youth Enterprise Development Fund

The Youth Enterprise Development Fund was conceived in June 2006 by the government as a strategic move towards arresting unemployment. The loan targets all forms of youth owned enterprises whether owned individually, as a company, in groups, in cooperatives or any other legal forms of business ownership. The government set aside Kenya shillings One billion (Ksh.1 billion) in the 2006/07 budget to fast-track this noble and timely initiative (YEDF,2013)⁸.The Fund was gazetted on 8th December2006 to provide the necessary legal framework to govern its use and operations. The MSYA, 2007-2012 Strategic plan identified several strategic themes to focus on in the development of the youth sector: Youth employment, youth empowerment and participation and Youth training and education amongst other key strategies. The functions of the fund to provide loans to existing MFIs ,registered NGOs and Saccos for on-lending to the youth enterprises; attract and facilitate investment in MSMEs oriented commercial infrastructure such as business incubators; support youth oriented enterprises to develop linkages with large enterprises; facilitate the marketing of product and services of youth enterprises in both domestic and international market; last but not least facilitate employment of youth in the international labor market.

I.2 Employment

Employment is defined as a condition in which labour resource is actively engaged in a productive activity in exchange for a payment, a wage or a salary. The number of jobs in an economy does not indicate the employment or unemployment rate as a person may have more than one job and available jobs may not be matched to the available skills. There are various determinants of employment notably, the level of economic activity (measured using the GDP), business cycle behavior (at the peak point the employment rate is at the highest) and the level of education and skills of the labour force.The traditional Keynesian view of the labor market is that wages are sticky and set above the market clearing level. According to a study done by Shapiro and Stiglitz (1984)⁹ indicates the demand and supply in the labor market is subject to wages and existing firms activities. In the last two decades, this demand-oriented view has been challenged by search-matching theory, which explains unemployment by frictions in the labor market. Demand plays no role in the standard search-matching model but supply creates its own demand (Carlsson, Eriksson andGottfries, 2006)¹⁰. Unemployment is a chronic problem in most of the developing and underdeveloped countries (Kemunto, 2014)¹¹. Entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation. The youth unemployment is a major contributor to increased poverty levels (Mbatia and Mbugua,2010)¹².

I.3Statement of the problem

A report published in 2008 by World Bank dubbed, Kenya Poverty and Inequality Assessment, gave the national average youth unemployment rate to be 16% as at 2006.The situation seems to be deteriorating as years go by as seen in Moyas (2011)¹³ and Omolo (2010)¹⁴ reports that indicated that nearly 40% of youth (age 15-34) are in neither education nor employment. A further observation that amongst the youth, the unemployment rate was at 25% whilst another report Njonjo (2009)¹⁴ put the Kenyan youth unemployment rate at 29%. YEDF briefs 2013 indicate the level of unemployment as 40% as at January 2013 up from 12.7% in 2006 when the fund was launched translating to 220% increase (Muthoni and Rambo, 2015)¹⁵. Since its inception, the government has released over Ksh. 4.4 billion to the fund that has trained over 250,000 entrepreneurs and financed over 260,000 enterprises (YEDF, 2013)¹⁶. The Economic survey 2015 indicated that since 2010, the Kenyan economy has created over 445,000 new jobs. The overall purpose of YEDF is creating employment for the youth of Kenya through enterprise development and was designed to address the challenges of youth run enterprisesExisting studies have been conducted on the operations of the Fund and challenges facing it (Ameya, Onsongo, Guyo and Omwong'a 2011)¹⁷.Another study analyzed its role in the growth of MSEs (Kanyari andNamusonge, 2013)¹⁸ and confirmed results of another study,Gudda and Ngoze (2009)¹⁹ that painted a rather grim finding that the fund has not had an impact on SMEs growth. Kanyari and Namusonge (2013) focused on entrepreneurship skills as interventions influencing towards YEDF success. One of the conclusions of the study on the provision of business services as a key factor in creation of long term employment has a bearing in this study. There are few studies that have been conducted to assess the performance of YEDF in achieving its main goal, that is, employment. Maisiba (2013)²⁰ studied the role of YEDF in job creation in Dagoretti Nairobi County with the variables: youth empowerment programs, collaborative linkages, and training programs. The main reason why the fund was launched was to deal with youth unemployment. The studies done have concentrated on the operations, challenges, the beneficiaries, thereby neglecting to analyze the effect of the fund not only on job creation but in taming the youth unemployment.

The statistics presented by the studies above and various reports show that YEDF's main agenda of reducing unemployment is yet to be met. The number of unemployed youth continues to swell day by day. A report by World Bank (2014)²¹, confirms that the number of jobless youths has gone up with 20% from year

2009. Macharia and Nyikal (2006), when the fund was launched, indicated that Kirinyaga County had the second lowest unemployment rate in the then Central province at 4.93%. The Kirinyaga County Transition Implementation Plan (2014)²² reported that the number of unemployed people in the county stands at 67,003 representing 19.8% of the total labor force most of whom are the youth meaning that the rate has quadrupled since 2005 . The study sought to assess the role of YEDF start up loans on employment for the youth in Kerugoya Ward of Kirinyaga County. The study sought to evaluate the efficacy of functions of the fund on unemployment.

II. Research Objectives

The main objective for this study was to establish the influence of startup loans from the YEDF on employment in the Kerugoya Ward of Kirinyaga County.

III. Literature Review

Access to funds has been reported to being one of the major reasons for failure of youth based small businesses in their first year of existence in Sub Saharan Africa due to the lack of finance sustains their development (Kashuliza, 1993)²³. Curtain (2000)²⁴, confirms that access to micro credit to the young people is a major constraint to the growth of youth to start and manage their business. Similarly, (Fatoki and Garwe, 2010)²⁵ states that the access and availability of finance to entrepreneurs in South Africa was second after lack of entrepreneurial and management competencies in new and existing entrepreneurs.

According to Youth Entrepreneurship Paper (2002)²⁶, specific loan schemes like soft loans are increasingly overriding traditional funding schemes. It further explains that the soft loan approach involves the provision of low interest rates usually some form of revolving loan fund to young entrepreneurs. Signhild and Brosvik (2010)²⁷ observed that, startup capital is a major obstacle to entrepreneurial growth among the youth. This is mainly due to various policies and stringent requirements by commercial banks especially on collateral. One of the ways of circumventing the requirement is through group lending, which is one of the faucets of YEDF, as this normally serves as security. Zeller (1999)²⁸ states that access to microfinance has the potential to assist the poor youth in earning the income from micro-enterprises smooth their income and consumption. Simeyo (2011)²⁹ points out that a number of microfinance institutions and financial intermediaries including K-REP, Equity Bank, Kenya Women Finance Trust (KWFT), and Faulu among others provide financial services to the low income groups with the purpose of starting or developing income generating activities Ameya, Onsonngo, Guyo and Omwong'a (2011)³⁰ sought to find the extent to which YEDF is a preferred source of finance for youth enterprises, challenges of YEDF and factors influencing youth entrepreneurs in a study titled 'An analysis of the challenges facing Youth Enterprises Development Fund'. The study concluded that because of the flexible collateral and low interest rate, it is attractive too most applicants but it is yet to make any impact as with other Government funds. Mwangi and Shem (2012)³¹ studied the accessibility of credit in Kenya and argued that the lack of collaterals for poor urban and rural households makes credit inaccessible. The study had various determinants of accessing credit in Kenya such as gender, age, education and marital status. Some studies have concluded that YEDF may not be as attractive due to some negative factors. Odera (2013)³² notes that the stringent requirements by YEDF make access to credit for illiterate but needy youth difficult. Mugira (2012)³³ posited that accessibility to YEDF loans was affected by the long duration between the loan application and the disbursement

IV. Research Methodology

This research study adopted descriptive survey design. The target population of the study were the members of registered youth groups under the MOYAS in Kerugoya Ward, since the inception to 2016. This comprised of 1200 youths from 223 groups. From the registered groups, only 98 groups were active. A stratified sampling method was used to select the sample size. This helped in the representation of all strata (groups).A sample of 120 respondents comprising of youths was interviewed, which according to Mugenda and Mugenda (2008)³⁴ is adequate as it represented 10% of the population.

Table 4.a

Strata	Number of groups	Population	Percentage	Sample size
Agribusiness	41	529	10%	53
Service	15	90	10%	9
Retail	10	75	10%	7
Transport (Bodaboda)	25	461	10%	46
Jua Kali	7	45	10%	5
Total	98	1200	10%	120

Source: Researcher (2016)

Data was collected with the help of structured and semi-structured questionnaires. A pilot study was conducted to test the reliability and validity of the research instruments. The aim of the pilot study was to test whether the design of the questions was logical, if the questions were clear and easily understood and whether the stated responses were exhaustive and how long it took to complete the questionnaires. A regression model was used to measure the significance of the relationship between the Independent variables; the intervening variables and the dependent variable. This was because it was easy to understand and work with. Further, and most important it was flexible and offered an important set of tools for understanding the association between the parameters of the study:

$$y = \beta_0 X_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + Z + e$$

Where

y= Employment

X_i =independent variable

i= 1,2,3,4

Z= job creation

β₁=Rate of change (the gradient).

V. Findings

5.1 Access To Start-Up Loans And Employment.

The study sought to examine the effect of startup loan on youth enterprises in Kirinyaga County. The findings would determine the role of the funds accessed to employment in the County.

5.2 Effects of Youth Fund

The study showed that majority of the respondents stated that the youth funds help more in increasing stock and this is represented by 53.6% of respondents while 20.9% of the respondents stated that the fund helped them to start operations. The 12.7% of the respondents stated that the youth fund assisted them in getting more profit, but 12.7% indicated that the youth fund assisted them in recruited new members. The study showed that the youth fund has an effect on the business of the youth.

Table 5.1 Effects of Youth fund

	Frequency	Percent
STARTED OPERATIONS	23	20.9
INCREASED STOCK	59	53.6
INCREASED PROFIT	14	12.7
RECRUITED NEW MEMBERS	14	12.7
Total	110	100.0

Source: Research data, (2017)

5.3 Increase in number of members since the business registration

The study showed that majority of the respondents who are 68.18 % stated that there was an increase of members by more than five since registration while 13.64% of the respondents indicated that there was an increase in number of members by five since registration. The 6.36 of the respondents stated that there was an increase of 10 and above. Only 5.45% of the respondents stated that the increase is 10 as below

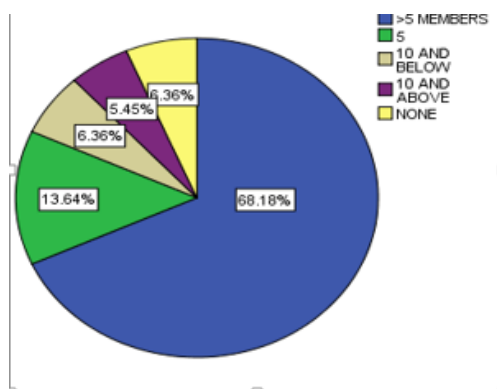


Fig 5.1.increase in members

Source: Research data, (2017)

5.4. Sources of funds before youth funds

The study showed that majority of the respondents got their funds from savings before youth fund and this is per 68% of the respondents. Only 31.8% of the respondents stated that they got the fund from borrowing before they got the youth fund, shown below. This study agree with findings in Fatoki and Garwe (2010) study that indicates that the sources of funds in different business is the main factor in the capital availability determinant and it affects the enterprise performance.

Table 5.2.Source Of Funds Before YEDF

	Frequency	Percent
SAVINGS	75	68.2
BORROWED	35	31.8
Total	110	100.0

Source: Research data, (2017)

5.5. Adequacy of funds obtained

Majority of the respondents stated that the fund they get is not adequate to meet their business needs and this is supported by 68.2% of the respondents. The 31.8% of the respondents stated that the funds were adequate to meet their business needs shown in figure 4.4. Fatoki and Garwe (2010) indicates that the capital adequacy is not the main factor in business progress since there are other factors thus differing slightly with findings of this study.

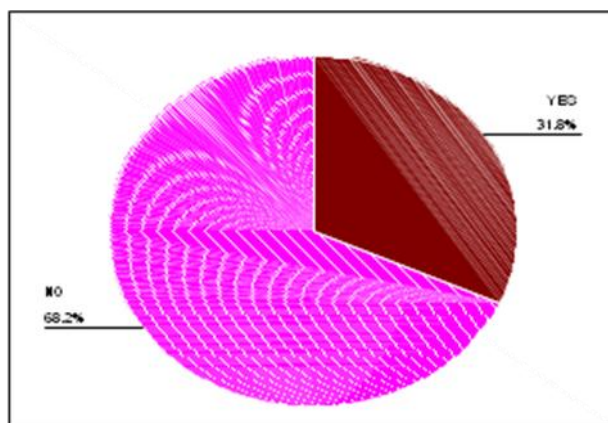


Fig 5.2.Funds Adequacy

Source: Research data, (2017)

5.6 If the Business was able to Pay Loan and pay Members

Majority of the respondents stated that the business was not able to pay loan and pay members. This was as per 72.7% of the respondents while 27.3% of the respondents stated that the business was not able to pay loan and pay members as illustrated below. Simeyo (2011) indicated that the payments to members is an incentives that assist in business growth, thus agreeing with findings of this study that shows that there is need for members payment.

Table 5.3 Ability to pay loan and members

	Frequency	Percent
YES	30	27.3
NO	80	72.7
Total	110	100.0

Source: Research data, (2017)

Table 5.4: Regression Coefficients– YEDF Start up loans and services in curbing unemployment

Indicator	Beta	Std. Error	t	Sig.
Previous source of fund	0.484	0.116	4.172	0.012
Adequacy of fund	0.487	0.261	1.865	0.021
Ability to pay	0.462	0.153	3.019	0.023

Source: Research data, (2017)

Table 4.6 indicates the regression coefficient of the independent variable that represented by parameters. The findings shows that the parameters, previous source of funds, adequacy of funds, and ability to pay, exhibits significance of YEDF services in curbing unemployment. There is therefore a relationship between independent variable, the YEDF services and the dependent variable employment in Kirinyaga County.

VI. Conclusions And Recommendations

6.1 Conclusions

The study showed that YEDF startup loans services have a positive correlation with employment in Kirinyaga County. The study showed that YEDF services have a strong correlation ($r=0.84$) with employment in the County. The study showed that though financial support to youth plays a key role in curbing unemployment in the County, there is a significant constraint on the business due to the repayment.

6.2 Recommendations

Youth owned enterprises need to be enhanced so as to ensure their enterprises progress. Startup loans play a great role in progress of youth fund financed businesses she biggest challenge amongst the youth is lack of capital. There is need of enhancing the financial support to the youth so that their enterprises may prosper. This may include the provision of grace period to the enterprises with close monitoring to allow the businesses to growth without the stain of repayment.

More training is needed to enable youth get skills to manage their businesses. YEDF needs to avail incentives to training and create constructive training programs in line with the youth. Further, YEDF should formulate strategies for improved technology training so that the youth can be informed on how to manage their businesses. The youth fund needs aggressiveness in providing the network and other linkages required for the business expansion. Lastly, engagement with the general public and local business owners to create strong mentorship programs is crucial for this service to be effective

6.3 Contribution to existing studies

The findings of study add to the existing knowledge and information on the influence of YEDF on the job creation. The research findings would also assist the policy makers and program implementers on the best way of implementing the programs based on the actual outcome of the research. The findings forms a platform for future studies essential empirical literature.

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