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# Youth Enterprise Development Fund (Yedf) and Growth of Enterprise at Constuency Level in Kenya

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**Abstract**

The Youth Enterprise Development Fund (YEDF) was instigated to ensure that a specific portion of the Government annual ordinary revenue is devoted to the constituencies for the purpose of development and growth of enterprise among youth at constituency level. Unlike other development funds that filter from the Central Government through larger and more layers of administrative organs and bureaucracies, funds under this program go directly to local levels and thus provide people at the grassroots the opportunity to make expenditure decisions that maximize their welfare consistent with the theoretical predictions of decentralization theory. Increasingly, however, concerns about efficiency in utilization of funds under this program emerge. This paper reports results of a survey involving the use of questionnaires and interview schedules to collect qualitative and quantitative information from the stakeholders in two constituencies in Kenya. Linear ordinary least square regression was used to assess the effect of YEDF on growth of small enterprises at constituency level. The study provides information regarding the effect of awareness, involvement, perceptions and allocation efficiency of funds on growth of enterprise in the selected constituencies. The results of this study are invaluable to the Youth**,** the Government and micro-finance institutions involved in financing youth enterprises to evaluate the value of YEDF.

**Keywords:** Youth Enterprise Development; Growth of enterprise; Enterprise Development Fund.

## 1. Introduction

The development and growth of enterprises is important in any country as it results in social and economic growth. Enterprise Development can be defined as applying entrepreneurship for growth of enterprises. Creating a culture of developing enterprises to grow and be profitable – the strategy is to promote an enterprise development culture that promotes ideas that are turned into profitable growing businesses by development programs of mentoring coaching and incubation (Kauffman Foundation *et al.,* 2005). Entrepreneurship can be defined as identifying an opportunity (a gap in the market), turning it into a business by gathering and applying resources, and then growing the business to make a profit (University of Pretoria 2005). Generally, entrepreneurship is regarded as a process of starting a new business while an entrepreneur is viewed as someone who creates new independent organizations. In a more practical sense, Schumpeter define entrepreneurs as innovators who implement entrepreneurial change within markets in five manifestations: the introduction of new (or improved); the introduction of new method of production; opening of new markets; exploitation of a new source of supply; and, the re-engineering/organization of business management processes.

Most countries in Africa region are undergoing reforms that are opening their economies to greater international competition. However, domestic factor markets are not adequately developed to ensure the successful adaptation of SMEs to this new competitive environment. Unlike larger firms, which can more easily absorb the transaction costs, SMEs are at a disadvantage and require specific compensatory assistance. The importance of SMEs to longer-term economic stability, derives from their size and structure which, under adequate conditions such as well developed factors market, allow them the flexibility and ability to weather adverse economic conditions. SMEs are more labor-intensive than larger firms and, therefore, have lower capital costs associated with the creation of jobs. Consequently, SMEs play an important role in fostering income stability, growth, and employment.

Economic growth is a key issue both in economic policy making and in economic research. In African countries, the interest in economic growth is growing fast in view of the persistently high rates of unemployment and poverty levels. Neo-classical theory explained economic growth by accumulation of production factors and by exogenous technological change. Modern economies operate as complex networks of firms in which a firm's competitive position depends, in part, on the efficiency of its suppliers. Therefore SME's competitiveness affects the competitive position of the economy as a whole. In addition, SMEs improve the efficiency of domestic markets and make productive use of scarce resources, such as capital, facilitating long-term economic growth.

In recent years renewed attention has been given to the role of entrepreneurship in economic development. This is related to the aforementioned shift to supply side economics. Many economists and politicians now have an intuition that there is a positive impact of entrepreneurship on the growth of GDP and employment. Furthermore, many stress the role of the entrepreneur in implementing innovations. Economies that provide a conducive environment for start-ups and existing firms to expand, grow and flourish, whereas those that fail to provide such an environment languish (Corman *et al.*, 1996). Additionally, Porter *et al.* (2002) contends that the economic imperative is the need to create vast numbers of jobs. One of the keys to job creation is small entrepreneurial firms. With large businesses downsizing, rightsizing and re-engineering, many people are looking to small businesses as a means of economic expansion.

Youth unemployment in Africa is part of a much bigger of unemployment and underdevelopment from which most countries are yet to find a way out. Worst still is the youthfulness of the population implying a high dependency ration. Yet those who are depended are scraping a living in the low productivity areas such as agriculture and the informal sector. In the wake of the structural adjustment policies of the 1980s' most state-owned enterprises that had been a major source of employment were either privatized or wound up. This led to massive retretchment and lack of new opportunities for employment leading many to seek refuge in the sprawling informal sector whose performance dependent very much upon the health of the economy (Egulu, 1999).

In Kenya, poverty and unemployment are a major challenge to social and economic development. Youth in Kenya fact serious challenges including high rate of unemployment and underemployment. The overall unemployment rate for the youth is double the adult average at 21%. Statistics on joblessness suggest that the magnitude of unemployment problem is larger for youth with 38% of youth neither in school nor work. The problem of youth unemployment has become a matter of serious policy concern in the country (Amenya *et al.,* 2011). To ensure survival and achievement of Millennium Development Goals, a wide range of measures have been developed to manage the development challenges. These required formulation and implementation of strategies to deal with the challenges accordingly (Muir *et al.*, 2001).

The Youth Enterprise Development Fund (YEDF) is one of the Government of Kenya's innovations in combating the challenge of poverty and youth employment. The Government's interest in promoting entrepreneurship has various motivations. While seen as a means of combating unemployment and poverty, the promotion of entrepreneurship is perceived to yield additional benefits such as raising the degree of competition in a given market, fuelling the drive for new economic opportunities and helping to meet the challenges of rapid change in a globalizing economy. A reliance on private initiative as a source of employment creation is also clearly attractive in a context both of restricted public expenditures and a preference among many policymakers for supply-side solutions to unemployment. Promoting entrepreneurship is thus viewed as part of a formula that will reconcile economic success with social cohesion (Foley, 1999; and Kathleen, 2008).

Enterprise development is also emphasized in Kenya Vision 2030 development blueprint for 2008 to 2030 which aims at making Kenya a newly industrializing, "middle income country providing high quality life for all its citizens by the year 2030" (NESC, 2007). It has the twin objective of accelerating growth and reducing poverty through income generation. The plan is to be implemented in successive five-year terms with the first plan covering 2008-2012.

The Youth Enterprise Development Fund in Kenya was established in 2006 with the sole purpose of reducing unemployment among the young who account for over 61% of the unemployed in the country. The target of the fund is young people within the age brackets of 18-35 years who number 13 million. Its mission is to increase opportunities for, and participation by Kenyan youth in national building through economic development and strategic partnerships. The fund`s strategic fund focus is on enterprise development as a key strategy that will increase economic opportunities for, and participation of Kenyan youth in national building. The mandate of the Fund is not only increasing access to capital by young entrepreneurs but also provides business development services, facilitates linkages in supply chains, creates market opportunities locally and abroad for products and services of youth enterprises, and facilitates creation of commercial infrastructure to support growth of youth businesses. In realization of the fact that not all young people are interested in entrepreneurship, the Fund's mandate includes facilitating employment of semi-skilled/skilled young people in external labour markets. This mandate entails but not limited to job search abroad, facilitating travel documentation, and financing cost of relocation (Youth Enterprise Development Fund, 2012).

Among the functions of the Fund are to provide funding and business development services to youth owned or youth focused enterprises and to provide incentives to commercial banks through appropriate risk mitigation instruments to enable them increase lending and financial services to youth enterprises. They also provide loans to existing micro-finance institutions, registered non-governmental organizations involved in micro financing and savings and credit co-operative organizations for on-lending to youth enterprises. The services are provided to *bona fide* Kenyan youth falling within the age bracket of 18-35 years. The loans are accessed by approaching any one of the financial intermediaries in partnership with the Fund or one can also access loans through the Constituency Youth Enterprise Scheme (C-YES) where one needs to be in a registered group. The repayment period for the C-YES is one year with three months grace period. From the objectives the Fund has developed the four products for young entrepreneurs, namely: Loans through financial intermediaries, Constituency Youth Enterprise Scheme (C-YES), and the Easy Youth Enterprise Scheme; Market support and market linkages; Enterprise Development Services; and Jobs abroad (Youth Enterprise Development Fund, 2012).

The YEDF Board has made tremendous progress in implementation of its mandate. The key implementation focus of the Fund has been financing of youth entrepreneurs through Financial Intermediaries and the Constituency-based disbursement mechanism. However, the Fund has made tremendous effort in providing a complete entrepreneurship support package to the youth, while achieving its other mandates. Significant progress has been made in Lending and capacity building of the youth entrepreneurs. Notable progress has also been made in other mandates, such as market support and Youth Employment Scheme Abroad (Youth Enterprise Development Fund, 2012).

The progress of YEDF, like any other public sector, is seen to be consistently performing poorly in some constituencies, leaving the largest impact on the country in terms of what is perceived as poor policy development and lack of strategic planning (Kimenyi, 2005). It is revealed that some constituencies do not have the capacity to utilize the funds; hence the large sums of money returned to the Ministry of Finance. It was therefore imperative to establish the effect of YEDF on the growth of small enterprises.

### 1.1. Research Problem

There has been renewed interest of politicians and professional economists coincides with a revival of entrepreneurship rates in most, though not in all economies. A number of initiatives have been set up with substantial funding from corporate business to support enterprise development in general and youth enterprises. These together with other government enterprise allowance schemes are aimed at combating high levels of youth unemployment by facilitating the transition from unemployment to self-employment and thus contributing to the creation of an enterprise culture (Amenya *et al.,* 2011). In Kenya, the level of unemployment is very high with the most affected being the youth who are graduating from universities and other institutions of learning who fail to secure formal employment opportunities and hence fail to gainfully contribute to economic development of the country despite their enthusiasm, energy and drive (Sagwe, Gicharu and Mahea, 2011).

Unlike other development funds that filter from the central government through larger and more layers of administrative organs and bureaucracies, funds under this YEDF program go directly to local levels. This approach provides people at the grassroots the opportunity to make expenditure decisions that maximize their welfare consistent with the theoretical predictions of decentralization theory. Fiscal decentralization refers to the transfer of fiscal authority from central to subnational and local governments the advocacy of which is underpinned by the idea that subnational and local governments could make more appropriate policy decisions concerning local citizens' demands when compared with central governments far away (Bird and Vaillancourt, 1998; and Oats, 1999). The impact of fiscal decentralization has been linked to several outcomes, such as, service delivery, corruption, fiscal management and economic growth (Shah, Thompson and Zou, 2004).

Kenya's decentralized funds such as YEDF and WEDF were envisaged to economically empower youth and the women at local level. However, a number of challenges emerge during implementation preventing them from reaching their anticipated potential. Generally local community awareness, involvement has been low, inadequate allocations, poor processes of identification and implementation of projects, as well as weak monitoring and evaluation of projects and citizens have expressed concerns about accountability and transparency. Increasingly, concerns are being raised about the utilization of funds under the YEDF program. The general objective of the study was to access the effect of youth enterprise development fund on growth of small enterprises in the two selected constituencies. The study sought to answer the following questions:-

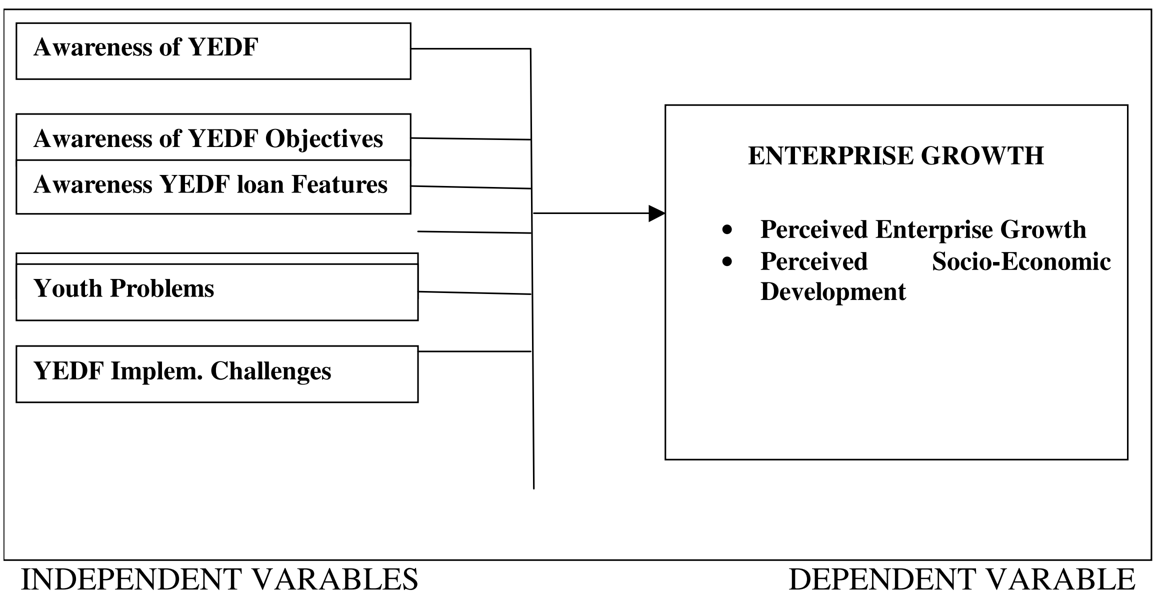
- What is the effect of awareness of YEDF among the youth on enterprise growth in the constituencies?

- What is the effect of awareness of YEDF objectives among the youth on enterprise growth in the constituencies?
- What is the effect of awareness YEDF loan features among the youth on enterprise growth in the constituencies?
- What is the effect of youth challenges on small enterprise growth in the constituency?
- What is the effect of youth problems on small enterprise growth in the constituency?

### 1.2. Conceptual Framework

A framework for this study was adopted and modified from Wennekers & Thurik (1999) framework which incorporates conditions, entrepreneuership and intermediate linkages for econmic growth. They argue that there is not usually a direct link between entrepreneurship and economic growth but these could be assessed by the growth of enterprises and socio economic factors (Figure 1).

**Figure 1:** Conceptual Framework of impact of YEDF factors on enterprise growth




## Hypotheses

Ho $_1$The level of awareness on YEDF among the youth does not affect enterprise growth in the constituencies.

Ho $_2$The level of awareness on YEDF objectives among the youth does not affect enterprise growth in the constituencies.

Ho $_3$The level of awareness on YEDF loan features among the youth does not affect enterprise growth in the constituencies.

Ho $_4$The level of achievement in YEDF implementation in the constituency does not affect enterprise growth in the constituencies.

Ho $_5$The extent of youth challenges does not affect small enterprise growth in the constituency.

Ho $_6$ The extent of youth problems does not affect small enterprise growth in the constituency.

## Study Methodology

The study adopted a descriptive survey method and collection data from the population using both closed and open ended questionnaires asking the respondents their opinions and perceptions regarding their awareness, challenges, problems and challenges in implementation of YEDF in their constituency. The target population were the youth between the age of 18 and 35 year within the two constituencies whos population were 345,000 and 345,000 as per 2009census. The interest was on those involved in small enterprise activities.

A random sample was selected from the beneficiaries of YEDF loans and from youths who are interested in applying for YEDF loans or training programmes. A list of youths was obtained from the District Gender and Youth Affairs offices. The sample allowed the researcher to make generalization about populations. A pilot test was conducted to test the reliability and validity of the questionnaires. The data was collected from the two constituencies between April and June 2011.

Before processing, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Descriptive statistics; frequency distributions, means, and standard deviation were used to analyze the responses. Correlation analyses were then conducted to assess the independence of the variables. Regression was used in measuring the effect of independent variables (β) on the dependent variable (Y). The regression equation was $Y= \beta_0+ \beta_1X_1+\beta_2X_2+ \beta_3X_3+ \beta_4X_4 {}_{+}\alpha$. Where Y is the dependent variable (Enterprise Growth), $\beta_0$ is the regression coefficient, $\beta_1$, $\beta_2$, $\beta_3$, $\beta_4$and $\beta_5$ are the slopes of the regression equation and the independent variables are; $X_1$ the Awareness of YEDF, $X_2$ Awareness of YEDF Objectives, $X_3$ Awareness of YEDF loan Features, $X_4$ Achievement of YEDF, $X_5$ Challenges in Implementation of YEDF and $X_6$ Problems in Implementation of YEDF while α is an error term normally distributed about a mean of 0 and for purpose of computation, the α is assumed to be 0. The equation was solved by the use of statistical model using SPSS software.

# Results

## Demographic Characteristics of the Respondents

The respondents were asked to provide their constituency and gender. There were a total of 105 respondents with 51% from Eldoret East constituency and 49% from Emgwen constituency. In terms of gender they were 49% female and 51% male. Therefore both constituencies and both genders were equally represented.

**Table 1:** Respondents constituency and Gender

| Constituency | Frequency | % | Gender | Frequency | % |
|---|---|---|---|---|---|
| Eldoret East | 54 | 51.4 | Female | 51 | 48.6 |
| Emgwen | 51 | 48.6 | Male | 54 | 51.4 |
| | 105 | 100 | **Total** | **105** | **100** |

The respondents were asked to provide their age bracket and highest level of education. The majority (40%) of the respondents were between the age of 24-29 years. There were 23% below 23 years and 21% between 30-35 years and only 16% above the age of 35 years. Therefore the respondents can be recarded as youth. Regarding their level of education 10% had only primary education, 20% had secondary education, 40% had college/Diploma education and 30% had had University education. This showed that the majority of the respondence would be expected to understand the issues of enterprise loans awareness, challenges, problems and growth of enterprises. Among this respondents 37% had received YEDF loans while 63% had not. It was also established that 37% of the respondents were self employed, 38% had casual/temporary employment and 25% in permanent employment.

**Table 2:** Respondents' Age and Education level

| Age bracket | Freq. | % | Education level | Freq. | % |
|---|---|---|---|---|---|
| 18-23 years | 24 | 22.9 | Primary | 10 | 9.5 |
| 24-29 years | 42 | 40.0 | Secondary | 21 | 20.0 |

**Table 2:** Respondents' Age and Education level - continued

| | | | | | |
|---|---|---|---|---|---|
| 30-35 years | 22 | 21.0 | College/Diploma | 42 | 40.0 |
| Above 35 years | 17 | 16.2 | University degree | 32 | 30.5 |
| **Total** | **105** | **100.0** | **Total** | **105** | **100.0** |

Descriptive analyses were carried out on the study constructs to establish the respondents view and opinions. The respondents were requested to state their level of agreement of disagreement regarding a series of statements on a scale of 1-5. Where 1= Strongly Disagree, 2 = Disagree, 3 = Not Sure, 4= Agree and 5 = Strongly Agree. On their level of awareness the respondents somehow agreed that they were aware of YEDF (m=3.6; sd=0.614) and awareness of YEDF objectives (m=3.8; sd=0.441). The respondents also acknowledged that there were challenges (m=3.95; sd=586) and youth problems (m=3.84; sd=0.516) in implementation of YEDF in their constituencies. The respondents were not sure weather YEDF had made any achievements in implementation (m=3.19; sd=0.701). Relating to the impact of YEDF again the respondents showed mixed opinions with a mean of 3.69 (sd=0.763) for impact on small enterprises and a mean of 3.1 (sd=0.766) for impact on socio economic development. A correlation analysis were conducted to assess the independence of the constructs and it was established that the variables were independent.

An ANOVA was conducted to assess the differences between the respondents who had received loans and those who have not. The results show significant differences in respondents regarding the YEDF awareness (F=10.37), objectives (F=8.11) and loan features (F22.82). While there are no major differences with regard to youth problems (F=1.71) and challenges (F=4.48) at 0.05% significance level. This shows that the level of awareness among those who have not received YEDF loans is low as compared to those who have received.

**Table 5:** AOVA for respondents with loans and without loans

| Constructs | F | Sig. |
|---|---|---|
| Awareness of YEDF role | 10.37 | .002 |
| Awareness of YEDF objectives | 8.11 | .005 |
| Awareness of YEDF Loan Features | 22.82 | .000 |
| Achievement in YEDF | 10.77 | .001 |
| Challenges in Implementation of YEDF | 4.48 | .037 |
| Problems in Implementation of YEDF | 1.71 | .197 |
| Impact on Enterprise Growth | 0.28 | .601 |
| Impact on Socio-Economic Development | 13.46 | .000 |
| Enterprise Growth | 4.93 | .029 |

Regression analysis was conducted to assess the impact of level of awareness, challenges, and problems on the growth of the small enterprises. The regression model summary indicates that the variables explain 46% of the impact on small enterprise growth (R = 0.68, $R^2$ = 0.46, Adjusted $R^2$ = 0.48). However the effect of awareness, challenges and problems were not significant on the growth of small enterprises, while the successful achievement of YEDF objectives would have a significant effect on small enterprise growth. It is also evident from the results that other factors explain 54% of the small enterprise growth. These other factors may include personality traits and the business environment.

The analysis shows that the data supported only one hypothesis of the study that the level of achievement in YEDF implementation in the constituency affects enterprise growth in the constituencies. The opinion of the respondents means that if the Government succeeds in implementing the YEDF objectives in will results in enterprises growth in Kenya. The other five hypotheses are not supported by the data in this study at both 0.5 and 0.1 level of significance.

**Tables 6:** Regression Model results of impact on enterprise growth

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 4.832 | .917 | | 5.270 | .000 |
| Awareness of YEDF role | -.240 | .183 | -.199 | -.1310 | .196 |
| Awareness of YEDF objectives | -.041 | .201 | -.025 | -.206 | .838 |
| Awareness of YEDF Loan Features | .016 | .045 | .358 | .358 | .722 |
| Achievement of YEDF | -.570 | .123 | -.585 | -4.650 | .000 |
| Challenges in Implementation of YEDF | .269 | .191 | .174 | 1.407 | .165 |
| Youth Problems in implementation of YEDF | .006 | .198 | .004 | .029 | .977 |

## Conclusions

The study concludes that increasing awareness of YEDF, its objectives and loan features among the youths will have a effect on the growth of small enterprises. This would results as more youths will apply for the loans and also utilize the loans prudently in order to repay. As pointed out by Amenya et al (2011) most of the youth are not properly informed about the loans which make it a challenge in accessing. There is need to provide the youth with adequate information on YEDF objectives and loan features. The study also concludes that reducing the youth problems in the constituency will have an effect on growth of enterprises in that more youths will involve themselves in gainful activities. Reducing the challenges in implementation of YEDF in the constituency will also have an effect on growth of enterprises. Further research should be conducted on the variables in study in other settings in order to draw conclusive results.

The study provides information regarding the fund awareness, involvement, perceptions and allocation efficiency in the selected constituencies. Addressing the issues pointed out in this study will enable the fund to contribute more towards the growth of small enterprises in the constituencies. The results of this study are very important for the Youth**,** the Government and micro-finance institutions involved in financing youth enterprises.

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