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Enterprise Fund Strategies Used to Alleviate Youth Unemployment in Developing Economies: A Case of Kenya

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Abstract:
Youth unemployment is one of the greatest challenges facing both developing and developed economies globally. To curb this there are a number of initiatives that have been implemented by the Kenyan government. The paperexamines enterprise fund strategy on youth unemployment. The paper focuses the access to credit facility by youth as mean of reduction youth unemployment. Human capital, information asymmetry and financial intermediation theories were used in the theoretical framework. The study adopted descriptive research design and used structured questionnaires to collect data. A target of 284 registered youth comprising of 204 youth enterprises and 80 women enterprises from which a sample of 85 enterprises were selected. Inferential statistics were obtained using regression model to test the hypothesis. The results of the study found out that access to credit facility was crucial to youth unemployment as well as information technology. Both contributed positively to employment. The study recommended additional funds to be made available to the youth. There is need for the government to make the market accessible and train the unemployed youth which was about four time the employed group. Recommendation for further research includes access to market and unemployment of youth and strategies training on employment of youth.

Keywords: *Strategy management, enterprise funds strategies, descriptive design, Kericho, Kenya*

1. Introduction

Developing economies in the world are faced with challenges of poverty. Poverty is brought by lack of proper employment opportunities rendering the working force with less income or no income at all. According to International Labour Organization (ILO, 2010), youth unemployment has become the most daunting economic challenges in Third world economies. The Report revealed that Sub-Saharan Africa is to a great extent influenced by youth unemployment. Globally, the youth unemployment rate stood at 15.4% in 2010 with a total of 84.8 million young people who are unemployed. Developed economies had a youth unemployment rate of 17.7% in 2010 while developing economies in Sub- Saharan Africa and North Africa had unemployment rates of 13.6 % and 25.3% respectively. In Kenya, the government has consequently placed job creation at the top of its policy agenda. The youth even with formal education have no job training. Unemployment not only implies that there is lack of jobs but also unskilled and poorly trained as result of inadequate training platforms and poverty. The government did then introduce Enterprise Funds for youth to solve the problem.

Enterprise Fund is a Kenyan government strategic program that was established to provide the youth with a platform and opportunity to engage in entrepreneurial activities across the country by financing them with the aim of reducing unemployment. The youth currently contribute to 61% of the unemployed in the Kenya (Government of Kenya, 2003). The funds strategy targets the youth of age bracket of 18 to 35 years whose population was over 13 million. The Kenyan Government has come up with several enterprise fund strategies including Youth Enterprise Development Fund (YEDF), women enterprise fund and Uwezo fund.

Youth Enterprise Development Funds strategy was enrolled in 2006 by through government initiative in Kenya. The fund was meant to assist on providing financial support to the youth with low interest rate and flexible financial packages. The funding targeted the youth-owned enterprises both micro and small enterprises by providing startup capital (Ministry of Youth Affairs and Sports, 2009). The government projected about 500,000 jobs creations annually, where 88% come from the SME sector (Government of Kenya, 2003). The YEDF loan was to support youth individual, companies, cooperatives and other SME with the country of Kenya. A second component that targeted the youth within Kenya was Constituency Youth Enterprise Scheme (C-YES) that provide financial assistance for the youth fraternity in the constituencies in Kenya. The government through legislation has developed Divisional Youth Enterprise Development Fund Committees (Divisional YEDFC) so as to effectively identify and recommend youth group enterprises that can be advanced loans so that they can be assisted to grow their enterprises and have a sustainable livelihood. Eligible groups for C-YES funding should be between the aged of 18 to 35 years comprised of diverse collection, with 70% of the group should attain the age bracket and while the leader should be 100% coming from the age bracket. This makes youths the highest representation in these groups. The C-YES encouraged youth to borrow finance to start their enterprises.

Women enterprise fund (WEF)was started in 2007 by the government of Kenya through ministry of youth and gender affairs. The components of the funds are disbursed through micro-finance institutions. They include family bank, equity, cooperative bank, KWFT, Kenya industrial estate (KIE), small and micro-enterprises program me (SMEP), Pamoja women group and Jitegemee credit scheme. The constituency women enterprise scheme (CWEFS). The CWEFS has an allocation of KSHS 1 million per constituency (MOYA, 2009). The fund targets viable only women groups within the constituency and not an individual owned enterprise and it are managed by the divisional women enterprise fund committee. The loan has no interest charges but a fee of 5% for the purpose of administration that are paid on the approval of the loan. The regulation in this fund is that groups with both genders are allowed with 70% been female in the membership and 100% as women for leadership positions. Furthermore, the group must have been registered with district social office and have been in existence for three months with active bank account. About Ks 2.6 billion were funds that could be given as loan to over 645,825 women entrepreneurs in Kenya (MOYA, 2010). Further the 116,372 women were trained on the finance and business management.

Uwezo fund was started on 21st February 2014. 6 million was launch by the present of Kenya on 8th September 2013. The aimed of the fund is to enable youth, women and person with disability access funds for running their business within constituency. This fund was to assist the groups to obtain 30% government procurement preference by mentoring and capacity building programs.

These programs were to alleviate the unemployment issues but still there are problems in unemployment. The study provided solution on where the strategy failed and where it has strength as implemented by the Kenyan government. It would help to replicate where success is accredited and advice on the loose ends.

2. Literature Review

Several scholars and researchers have reviewed the concept of performance of youth enterprises and the challenges they face. Abrams and von Stauffenberg (2007) conclude that an increase in international support of youth enterprises by development institutions is crowding-out private enterprises. Development agencies are supporting the largest and most successful MFIs, increasing their scale, and discouraging support of these institutions that should be the primary market for private investors.

Strong (2008) did a study on entrepreneurial solutions to poverty alleviation concluded that although funding strategies has become extremely popular as approach alleviation, there are still various controversies associated with it.

2.1. Theoretical Review

Sir, William Petty in 1691 developed the theory of human capital. Studies review indicated that human capital factors positively influence people establishing entrepreneurs. According to Becker (1975), he noted that education and skills obtain represented a resource including financial resources that are central to understanding of identification and exploitation of opportunities at hand. Human capital approach emphasizes behavioral aspects of skills, innovation, and risk-taking for developing and managing new enterprises (Dejaeghere, 2014).

Financial intermediation theory was developed by Leland and Pyle in 1977. Financial intermediation is a process where financial institutions provide credit facilities to other units with financial deficit. The financial institutions obtain finances from units with surplus finance and then lend the surplus to the units with deficits. Bisignano (1992) noted four distinctive ideologies that form the foundation of financial intermediation theory.

The theory of asymmetric information was developed in the 1970s and 1980s by Michael Spence and Joseph Stiglitz. It was developed to explain problems where generals' equilibrium economics was not able to explain. The theory notes that insufficient information between sellers and buyers may leads to lack of efficient in specific market.

2.2. Access to Credit Facilities

Youth enterprises have had high impact development and economic growth of a country. Though they are affected by challenges there are very many room for growth. These avenues include the non-governmental organization partnership, networking, multinational companies, franchise and multinational companies' partnership. These youth enterprises can change the developing countries to a better environment from other organization and companies (Wanjohi and Mugure, 2008).

According to Wanjohi (2010) and Naidu and Chand, (2012) enterprises have faced limited access to funds as compared to larger firms who have high financial capability. This impend the growth and development of SMEs. The other financial problem faced by Micro and Small Enterprises (MSEs) and youth groups in venturing into business is handling sales and debtors (Mbonyane and Ladzani, 2011).

2.3. Training on Entrepreneurial Skills

Goulet (2011) noted that development was important which included ability to sustain life, self-esteem and freedom from servitude. These revolve fulfilling the basic need from clothing, housing, food and education. According to Sen (2009), the well-being of humans is of paramount importance and the development is measurable in terms of how people can live life according to their capability. Sen further argues that no one is free if one cannot choose or live without education and skill. Development of human resource is important in development process in order to increase youth employment. Harbinson (2003) related human resource as capital and physical resource of national development. This forms the basis of the nation as he puts it that social-economic and political through accumulation capital and exploiting available natural resources can only be done through human resource. Acheampong (2006) adds to Harbinson's claim using human based capital theory and dwelled on the development of skills and training development to enhance performance through growth and productivity. (Naude, 2008), related entrepreneurship as part of social-economic development. Education and training formed the main basis of the argument that would enhance skills, attitude and knowledge in any economic activity undertaking. Kenya as one of the developing country have constrained employment because of scarcity of resources and restricted employment in public sector.

2.4. Access to Market

According to UNDP, (2006), the young generations are exposed to poverty as compared to the other groups. They low in favor in term of social and economic position because of inability to possess property. This added to makes them vulnerable to unemployment.
The report of ILO (2010) indicated that youth not only are disadvantage in accessing, work but locating productive work and market for their products or services that can sustain. Considering vulnerability based on income level and stability has both pros and cons to the livelihood strategies.

2.5. Technology

According to MOYA Strategic plan, (2007), most training institutions are not only inadequate, but lack the essential facilities and technology to prepare the youth for the challenging labor market demands. The (Gok, 2006), also reported that in addition, training institutions have no linkages with the labor market.
According to Munga, (2014), the technological advancement is also a critical area of concern in regard to youth unemployment. The Kenyan government initiative on enterprise fund strategic focus on the implementation and development of ICT can be depicted a critical milestone that provides the youth with necessary network, not only locally but also globally and therefore enabling them access to information that will assist them in making informed decisions which reduces unemployment due to lack of information on availability of the opportunity.

3. Research Objective

The research was directed by the following objective.

- To determine the effect of credit facilities on youth unemployment of youth
- To establish the influence of training on entrepreneurial skills on youth unemployment
- To examine the effect of access to markets on youth unemployment
- To analyze the influence of information technology on youth unemployment

4. Methodology

The study adopted a descriptive survey design. Target Population in represent the desired group of people where the required information is found (Kothari, 2014). 204 youth enterprises comprise of both male and female members while 80 enterprises are purely owned by women between the age of 18 and 35 years. Mugenda and Mugenda (2003) suggest that a sample of 30% of the population can suffice the study. In this research, a sample of 85 youth groups being 30% of the youth groups was used.
Target population=204 registered youth enterprises, both male and female owned
Sample size = 30%*204=61 – 10 for pilot study
Target population = 80 registered women owned enterprises
Sample size = 30%*80= 24- 5 for the pilot study. According to Borg and Gall (1989) 10-20% of the sample size is sufficient for pilot studies.
The study used primary data sources for the purpose of collecting data.
The reliability test indicated Cronbach's alpha = 0.7444, Hence the data was reliable for the purpose of analysis. Permission was sought from relevant authority to ensure ethical compliance.
The research used regression model to analysis the data and it found out that;

→ $Y = 0.929 + 0.295X_1 + 0.121X_2 – 0.102X_3 + 0.210X_4$

Where **Y-** youth unemployment, $\mathbf{X_1}$ – Access to credit. $\mathbf{X_2}$ – Training entrepreneurial skills, $\mathbf{X_3}$ – Access to market and $\mathbf{X_4}$ – Information technology.
This is elaborated in the research findings and discussion.

5. Results and Discussion

The research used inferential statistics to test the hypothesis that would the significance of youth funds strategies and found out the following results;

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.447[a]	.200	.150	.74664
a. Predictors: (Constant), Information technology, Access to Credit, Access to market, Training entrepreneurial skills				

Table 1: Coefficient of Determinant using SPSS Version 21.0
Source: Researcher Data (2017)

The correlation coefficient; R =0.447 which implied that there was positive relationship between access to credit, training entrepreneurial skills, access to market and information technology on the youth unemployment. It implied that an input on any of these variables would then create a change in unemployment of youth.The determinant of coefficient indicated that 20% of the data was used to create the relation and 80% is attributed to other factors which are not emphasized by the variable collected in the statistics.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.036	4	2.259	4.052	.005[b]
	Residual	36.236	65	.557		
	Total	45.271	69			
a. Dependent Variable: Growth, training, opportunities and efficiency is key to employment						
b. Predictors: (Constant), Information technology, Access to Credit, Access to market, Training entrepreneurial skills						

Table 2: ANOVA Using SPSS Version 21.0
Source: Researcher Data (2017)

The ANOVA results indicated that the relationship between the dependent and independent variables was significant since P < 0.05, ($F_{(P=0.95,\ 4,65)}$=4.052, P = 0.005). Hence there existed significant effects of enterprise fund strategy on youth unemployment.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.929	.552		1.685	.097
	Access to Credit	.295	.158	.277	1.868	.046
	Training entrepreneurial skills	.121	.110	.156	1.108	.272
	Access to market	-.102	.140	-.094	-.725	.471
	Information technology	.210	.109	.235	1.919	.049
a. Dependent Variable: youth unemployment						

Table 3: Coefficient Results Using SPSS Version 21.0
Source: Researcher Data (2017)

The model indicated from the t- statistics for each variable that access to credit and information technology was significant since (P < 0.05) and it assisted in the employment of youth. On the other hand, the training entrepreneurial skills and access to market were not significant cause of youth unemployment (P>0.05). Considering the hypothesis;

$H_0$1: There is no significant effect of credit facilities on youth unemployment. Null hypothesis was rejected since there existed significant positive relationship between the access to credit facilities and unemployment (t=1.868, p<0.05). Akisimire (2010) in his findings noted a positive relationship between favorable credit and the performance of youth enterprise in Uganda. This study provide evidence that credit facility is one factor that significantly affect the youth enterprises and make most of business ideas become only dream pipes.

$H_0$2: There is no significant influence of training on youth unemployment. Null hypothesis was accepted since there was no significant effect of training on youth unemployment (t=1.108, P>0.05). The developing economies' governments has a lot to play in creating training avenues to encourage entrepreneurial so as to create job opportunities.

$H_0$3: There is no significant effect of access to labor markets on youth unemployment. Null hypothesis was accepted that there was no significant effect of access to labor markets on youth unemployment (t=-0.725, P>0.05). These implies that government has done less to assist youth to access labor market.

$H_0$4: There is no significant influence of information technology on youth unemployment. Null hypothesis was rejected on the ground that there was significant influence of information technology on youth unemployment (t=1.919, P<0.05). This concurred with Strong (2008) where he found out that information communication technology was crucial to the growth of enterprises.

6. Conclusion and Recommendation

The youth unemployment needs to be the priority agenda to the government. Access to credit by youth should be improved in order to increase self-employment and entrepreneurial business. Information technology has improved significantly also in provision of youth employment opportunity in Africa and other developing economies. Training on entrepreneurship was not significant in bringing employment but has contributed positively to employment of youth. Access to labor market was poorly done by government and does not contribute to long run employment.

The government, non-governmental and private sector should join hands so that they can improve on weakness area like access to market and training entrepreneurship to youth in developing economies. So far, the initiative by the government of Kenya has improved access to funds and ICT that has brought major economic changes. The government should then go an extra mile in providing access to labor market and conduct training to youth who seek to enter into business.

The research recommends the government and private sector with non-governmental organization to provide market for the youth through buying and assist then in selling market for their produce. The youth funding should be increased to improve development and generation of self-employment. Funds should be followed by training on entrepreneurial skills through establishment a free training services.

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