

**THE ROLE OF YOUTH ENTERPRISE DEVELOPMENT FUND ON
GROWTH OF MICRO AND SMALL ENTERPRISES IN KENYA: A
CASE OF KIHARU CONSTITUENCY, MURANG'A COUNTY.**

BY

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DECLARATION

This research project is my original work and has not been presented in any other university or for any other award.

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ABSTRACT

This study sought to establish the role of the Youth Enterprise Development Fund (YEDF) on MSEs growth. Importance of MSE finance is widely recognized. Access to finance and business development and support services provides growth opportunities for the businesses. The Fund was started by the government to stimulate business start-ups and growth among the youth at the constituency level. Descriptive survey method was used. The study targeted 64 Youth groups in Kiharu Constituency that have benefitted from the loan. A census of all beneficial 64 MSEs in the Constituency was used to select purposively one member from each enterprise to form a sample of 64 informants. Questionnaires were personally administered to the informants to collect data. Data collected was classified and compiled. It was analyzed using descriptive statistics with the aid of MS-EXCEL. Data was then presented in forms of tables, pie charts and bar graphs. Descriptive statistics such as percentages and frequencies accompanied the graphs and charts. The results of the research are expected to establish whether the Fund plays any role towards the growth of MSEs, in terms of employment generation, profit generation and physical expansion of the MSEs. The recommendations that are given will go a long way in appraising the success of the Fund in the attainment of its objectives.

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LIST OF ABBREVIATIONS

BDS	Business Development Services
EDAS	Enterprise Development Agents
EDO	Enterprise Development Officer
EDU	Enterprise Development Unit
FIs	Financial Institutions
DYO	District Youth Officer
GDP	Gross Domestic Product
SPSS	Statistical Packages for Social Sciences
MTP	Medium Term Plan
SACCOs	Savings and Credit Cooperative Organizations
MSEs	Micro and small and enterprises
WEF	Women Enterprise Fund.
YEDF	Youth Enterprise Development Fund
YO	Youth Officer

CHAPTER 1: INTRODUCTION

1.1 Background to the study

MSEs are increasingly seen as playing an important role in the economies of many countries. Thus, governments throughout the world focus on the development of MSE sector to promote economic growth (Olawe & Garwe, 2010). MSEs currently evolve in complex business environments, characterized by globalization, the internationalization of markets and the need for greater efficiency, effectiveness and competitiveness based on innovation and knowledge (Mateev & Anastasov, 2010).

Empirical research has suggested that firm growth is determined not only by the traditional characteristics of size and age but also by other firm specific factors such as indebtedness, internal financing, future growth opportunities, process and product innovation and organization changes. It is therefore imperative that governments need to pay increased attention to MSEs and try to create a business environment that will be beneficial to MSE development (Mateev & Anastasov, 2010).

MSEs face many barriers that prevent their start-up or growth and hamper their potential. They have less access to markets and procurement because of lack of information and existing opportunities or discouraging complicated procedures (OECD, 2012). The successful establishment of MSEs and their subsequent evolution and growth has long been a source of interest for researchers, governments and policy makers because MSEs are increasingly important to the growth of economy. In response, governments have introduced a variety of policies including the provision of advice, to facilitate formation of new firms and to offer support to MSEs to aid their survival and foster improved rates of growth (Robson & Bennet, 2001).

Fajnzylber et al. (2009) argue that facilitating access to credit and business development services and promoting formalization by the government, are likely to increase firm growth. Hansen, et al (2009) in a study entitled 'Enterprise growth and survival in Vietnam: Does Government support matter?' found out that various government policy interventions have played a significant role in the explanation of MSEs success in the Asian region. Promotion of MSEs has been a central tenet in policy statements of the Vietnamese government. There are major reforms to streamline regulatory barriers to MSE development and to improve the general business environment. The government assistance offered to MSEs in Vietnamese

government can basically be divided into two groups; financial assistance and technical assistance. The former includes various forms of investment incentives and soft policy loans and the latter consists of basically three types of assistance: human resource training, export promotion incentives and quality and technology practices.

The UK government has developed policies to support start-ups and MSEs so that they can continue to grow and make contribution to the economy and so that they get access to finance and support that had been unavailable previously. The government works closely with businesses, financial institutions and other government departments to help make sure that the environment is right for UK businesses to start-up grow and succeed. The government contends that existing MSEs can be put off growing because of lack of access to finance and not being able to recruit people and lacking the right skills in new and existing staff. In trying to make UK an easier place to do business, the government has undertaken to: providing funding and programmes to make loans available to more small businesses, provide funding and programmes to encourage private sector investment in small businesses including investing in MSEs with government and private sector money through the Start-Up Loan Scheme, The Business Finance Partnership and Business Angel Co- I investment Fund. The government also funds and manages initiatives to encourage young people and give them skills to set up their own businesses and also providing support and advice to MSEs (UK government, 2013).

The Kenyan government, aware of the role MSEs play in the economy, has taken steps to develop a legal and regulatory framework aimed at guiding and accelerating the growth of this sector. The official policy framework of MSEs in Kenya is contained in the *Sessional paper No. 2 of 2005*. This policy paper forms the basis for enacting the MSE Act to institutionalize MSE policy in Kenya. The new Act would give direction to among others, key issues such as legal and regulatory environment, markets and marketing, business linkages, the tax regime, skills and technology, and financial services (Syeki & Opijah, 2012). The government has gone a step further to set up Funds that actualizes policies and support the sector. These Funds include Women Enterprise Fund (WEF) and Youth Enterprise Development Fund (YEDF).

1.1.1 Youth Enterprise Development Fund (YEDF)

Unemployment is one of the most daunting economic challenges facing Kenya. The government has consistently placed job creation at the top of policy agenda. Youth account for 61% of the unemployed. It is in recognition of the above facts the government started institutional financing as a way of addressing unemployment which is essentially a youth problem. The concept is based on the premise that micro and small enterprise development initiatives are likely to have the greatest impact on job creation (YEDF, 2011).

YEDF was established in the year 2006 with the sole purpose of reducing unemployment among the youth. The target of the Fund is young people within age brackets of 18 years to 35 years who number 13 million. The Fund was gazetted on 8th Dec. 2006 and then transformed into a state corporation on 11th May 2007. The fund's strategic focus is on enterprise development as a key strategy that will increase economic opportunities for, and participation by Kenyan youth in nation building (YEDF, 2011).

In the year 2005, the Fund developed a three year strategic plan to address varied needs and aspirations of the youth, and to address challenges it has faced in the past. The Fund is currently working on a 5 year strategic plan with the Medium Term Plan (MTP) of vision 2030.

The Fund's objectives is to provide on-lending to the youth enterprises, attract and facilitate investment in micro, small and medium oriented commercial infrastructure that will be beneficial to youth enterprises, support youth oriented micro, small and medium enterprises to develop linkages with large enterprises and facilitate marketing of products and services of youth enterprises both in domestic and international markets. The Fund also provides business development services to youth enterprises (YEDF, 2011).

The Fund comes with free entrepreneurship training, charges no interest at the start up stages and does not require any collateral. The Fund also guarantees convenient appraisal and repayment terms. The Fund has financed over 144,000 youth enterprises to the tune of Kshs.5.2 billion. It has also helped thousands of the youth build their enterprises through market support and enterprise training. The Fund has trained over 200,000 young entrepreneurs (YEDF, 2011).

1.2 Statement of the problem

The Kenyan government, in line with the Medium Term Plan (MTP) of Vision 2030, has chosen to support start-up and growth of youth enterprises. Government's policy towards MSEs is one important factor into consideration when looking at the opportunities MSEs have for growth (Gatt, 2012). However, despite the significance associated with these firms and the numerous policy initiatives introduced by African governments during the past decade to accelerate the growth and survival of MSEs in the African region, the performance and growth of MSEs is disappointing (Atsede et al. 2008).

The government of Kenya has chosen to support MSE sector by providing enabling environment and support programmes that develop the sector. There are government policy programmes geared towards the support and funding of small enterprises through a variety of funding agencies and institutions, one of them being YEDF. YEDF has advanced loans worth 5.2 billion Kenya shillings to 144,000 youth enterprises in Kenya (YEDF Status Report, 2011). However the Fund has not made significant impact on growth of MSEs (Gudda & Ngoze, 2009).

The Fund's objective is to provide on-lending to the youth enterprises, attract and facilitate investment in micro, small and medium oriented commercial infrastructure that is beneficial to youth enterprises, support youth oriented micro, small and medium enterprises to develop linkages with large enterprises and facilitate marketing of products and services of youth enterprises both in domestic and international markets. The Fund also provides Business Development Services to youth enterprises (YEDF, 2011). However, it remains unknown, the extent to which these initiatives have succeeded in addressing the funding and support challenges faced by youth MSEs.

There is a body of literature that seeks to bring to the fore the challenges the Fund faces and why majority of the youth are increasingly turning to the Fund to finance their entrepreneurial activities. Other studies concentrate on the structure of the fund that makes it a preferred source of finance. This study sought to establish the role of the Fund on growth of MSEs accessing the Fund in Kiharu Constituency, Murang'a County.

1.3 Research objectives

1.3.1 General objective

To establish the role of Youth Enterprise Development Fund (YEDF) on growth of MSEs in Kiharu constituency, Murang'a County.

1.4 Specific objectives

The study specifically sought to:

- (i) To establish the extent to which YEDF provides on-lending to youth MSEs.
- (ii) To establish the extent to which YEDF support youth MSEs develop linkages with large enterprises.
- (iii) To establish the extent to which YEDF facilitates marketing of products and services of youth MSEs locally and internationally.
- (iv) To establish the extent to which YEDF provides Business Development Services to youth MSEs.

1.5 Research questions

The study sought to answer the following questions.

- (i) To what extent does YEDF provides on-lending to youth MSEs?
- (ii) To what extent does YEDF supports youth MSEs develop linkages with large enterprises?
- (iii) To what extent does YEDF facilitates marketing of products and services of youth MSEs locally and internationally?
- (iv) To what extent does YEDF provides Business development Services to Youth MSEs?

1.6 Scope of the study

The scope of the study was limited to MSEs benefitting from YEDF in Kiharu constituency, Murang'a County. The researcher sought to establish whether YEDF is able to attain its set objectives towards growth of youth MSEs.

1.7 Significance of the study

This study is of importance and great assistance to various concerned parties:

The government and specifically YEDF. This study does not only help the managers of the fund but also the government to appraise itself on attainment of the desired goals and objectives of the fund

This study goes a long way in helping youth entrepreneurs in establishing whether the Fund has in one way or another addressed the problem of youth access to finance and also whether the fund has any significance on growth of the MSEs.

The study is of benefit to the academia. This study forms a base on which others can develop their studies, offer criticism and make references.

1.8 Limitations of the study

Growth of MSEs can be a function of many factors that were not investigated. This study was limited to the objectives of YEDF in its attempt to address youth enterprises growth and support. Also, performance analysis on growth of the MSEs required review of the firms' data. This was not possible because many may were unwilling to share the information and/or they do not keep records.

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction

This chapter reviews the role of MSEs in employment generation and economic growth. It also examines the role of on-lending, support to youth MSEs develop linkages with large enterprises, facilitation of marketing of products locally and internationally and provision of Business Development Services on MSEs growth.

2.1 Theoretical review

Many models have been established in an attempt to explain the growth of MSEs. These models are many and varied. However, not a single theory has adequately offered an explanation why some enterprises grow and others fail. This study will concentrate on three widely acclaimed theories that attempt to offer an explanation on the framework of enterprises growth.

The stochastic models are the earliest. They are also referred to as random models. These models assume that there are too many factors affecting growth and that no specific factors have been used to explain growth. The growth of firms can be assumed to be perfectly random and cannot be predicted using any group of variables. They assume that growth is independent of any other factors.

The static theories of small business growth propose that the size of the firm is determined by efficient allocation of given resources including entrepreneurial resources. The proponents posit that the observed firm size is the efficient size, in the sense that long run costs are minimized at that point. Growth follows from the assumption of profit-maximizing behavior and from the shape of the cost functions. A firm will grow until it reached the size where long run marginal costs equal price, which is assessed as the optimum size of the firm. Kihlstrom & Laffon (1979), being proponents of this theory, proposed that the major determinants of business growth is the differing taste for risk among individuals. They assume that production technology is risky and that entrepreneurs who have the ability to take risks in the face of uncertainty will produce more output. Firm size is therefore limited by entrepreneurs' willingness to take risks.

Another proponent of the static theories, Lucas (1978) equates the firm with the entrepreneur or manager and he assumes that a firm's output is a function of managerial ability as well as capital and labour. Lucas postulates that managers with higher abilities will have lower marginal costs and therefore will produce larger outputs. Therefore firm expansion will be limited due to decreasing effectiveness of the manager as the scale of the firm increases. An implication of the Lucas model is that, for a small business to grow, the small business owner must be willing and able to relinquish many day to day control functions and delegate the tasks to an enlarged specialized management team. The variation in levels of business acumen is the major determinant of business growth.

The theory of stages development is widely acclaimed. The theory postulates that a firm growth undergoes through various stages. Churchill & Lewis (1983) argue that growth is part of natural evolution of a firm. They identified five stages of growth: existence, survival, success, takeoff and maturity. In each stage of development, a different set of factors is critical to the firm's survival and success. Growth thresholds may exist as obstacles to the transition from one stage to another. A business must overcome these obstacles to survive and grow. The stage models face a lot of criticism. It is argued that it puts much emphasis on internal factors putting less focus on external factors. Stage models are also critiqued because few have been applied in longitudinal studies, which are needed to clearly understand the process of growth. They also assume that all firms grow through the same stages and in the same sequence.

2.2 MSEs and employment generation and economic growth.

Small business sector is a major source of net job creation (Schreyer, 2009). MSEs have a propensity to employ more labour intensive production processes than large enterprises. Consequently, they contribute significantly to the provision of productive employment opportunities, generation of income and equality and the reduction of poverty (Kongolo, 2010).

Ayada (2011) is of the view that the major advantage of the sector is its employment potential at low capital cost. The labour intensity of MSE sector is higher than that of large enterprises. The Kenyan government in recognition of this fact established YEDF in the year 2006 with the sole purpose of reducing unemployment among the youth who account for over 61% of

the unemployed in the country (YEDF, 2011). Kongolo (2010) in a study in South Africa concluded that MSE sector creates the majority of the country's (S.Africa) net new employments. Micro and Small and enterprises play an important role in the development of a nation's economy and creating employment for rural urban growing labour force (Ndumana, 2013).

MSEs have been considered as the engine of economic growth and for promoting equitable development (Ayada, 2011). MSEs contribute to the economic development in various ways; by creating employment for rural and urban growing labour force, providing desirable sustainability and innovation in the economy as a whole (Kongolo, 2010).

Kongolo (2010) argues that MSEs contribute over 55 % of GDP and over 65 % of total employment in high income countries. MSEs and informal enterprises account for over 60 % of GDP and over 70 % of total employment in low income countries.

2.3 The role of YEDF on growth of youth enterprises

2.3.1 On-lending to youth enterprises

Access to finance provides growth opportunities for businesses and the economy as a whole. The need to address financing hurdles to MSE growth was underlined by G8 leaders at the 2011 Deauville Summit (OECD, 2012). Okello, (2010), in a study investigating factors influencing growth of MSEs owned by youth in Rachuonyo South District in Kenya, made recommendations that relate to finance in enhancing MSEs growth. He recommended that introduction of tax relief, differential tax rates as well as grace periods for Youth MSEs to enhance their growth. The study found that growth of MSEs is affected, among other factors, by accessibility to finance.

Ruffing, (2006) argues that once an enterprise is formally organized, it should be able to access business and financial services necessary to strengthen and/or expand the business. Finance has been identified in many business surveys as the most important factor determining the survival and growth of MSEs. Rabbani, (2013) posits that commercial banks do not prioritize lending to MSEs due to MSEs have a higher risk to finance because they lack or have little collateral, low capitalization, vulnerability to market fluctuations and high mortality rates, high transaction costs and inability to access credit worthiness.

It is in cognizance of this fact the Kenyan government conceived a Fund to address the problem of youth access to entrepreneurial finance. The Fund was structured in a manner that would ease access and remove barriers that hitherto formed obstacles to access to finance to majority of Youth enterprises. Lack of collateral and cost of finance have been touted as the main obstacles to finance access. Kunateh (2009) contends that most businesses in the private sector have been unable to grow and realize their full potential mostly due to, among other factors, the high cost of finance and lack of collateral demanded by financial institutions. The most salient features of YEDF Fund is that it is low cost finance, requires no collateral and that it targets group projects for start-up and ongoing business finance.

2.3.1.1 Collateral requirement and access to finance

One loan feature of YEDF Fund is that it does not require collateral. Kihimbo et al (2012) defines collateral as the assets that are pledged by a borrower to a lender as a security for the payment of debt. Collateral requirement is seen as an obstacle to MSEs growth. Lack of collateral is ranked as obstacle number two from lack of finance. The lack of collateral is probably the most widely cited obstacle encountered by MSEs accessing finance. The enterprise may be unable to provide sufficient collateral because it is too new or is not firmly enough established (Olawale & Garwe, 2010).

Lending to MSEs is seen as high risk business since most of these enterprises lack collateral. The problem does not appear to be lack of funds but rather how to make them accessible to MSEs, (Kihimbo et al, 2012). There are institutions such as banks and non-bank financial institutions that are willing to provide funds to MSEs, but are not able to meet the requirements of these financial institutions. Chief among these requirements is the issue of collateral, which most MSEs cannot provide (Ackah & Vulvor, 2011).

The demand for collateral by banks and other financial institutions stifle the growth of MSEs, (Kunateh, 2009). Lending to MSEs is more likely to be based on collateral than is the case for loans for large firms. This may lead to situations in which lending is not based on expected return but rather upon access to collateral. Many MSEs lacking access to ‘good collateral’ suffer from credit rationing (Ndumana, 2013).

In a study, Flesing (2006) argues that collateral matters because of three essential features of formal credit markets. First, borrowers face requirements for collateral in the formal financial sector of most countries, regardless of the size of the economy. He postulates that loans secured by collateral have more favourable terms than unsecured loans do, for any given borrower or size of the loan. A borrower able to offer collateral can obtain a larger loan relative to the borrower’s income, with a larger payment period and a lower interest rate. Conversely, a borrower who cannot provide the type of assets lenders require as collateral often gets worse loan terms than an otherwise similar borrower who can do so, or gets no loan at all. Secondly, he argues that in most low and middle income countries, most firms receive none of the benefits of collateral despite having a wide array of productive assets because their assets cannot serve as collateral. This limitation arises entirely from the legal framework for secured transactions. He concluded that secured loans are the most common

loans in the formal financial sector. In low and middle income countries, between 70% and 80% of firms applying for a loan are required to pledge some form of collateral.

In Kenya, there are many MSEs which despite their high potential have been unable to access financing from existing institution in the financial sector. Such situations may be due to the inability of the MSE to offer sufficient loan collateral, (www.entrepreneurstoolkit.org). Pietro et al (2012), in a study in four East Africa countries established that 94 % of the banks in the sample demand collateral from their MSE borrowers. They found that collateral requirements for MSE loans are higher than consumer loans, because SMEs' credit risk is usually more difficult to evaluate. Informality of MSEs came out as the main reason why banks in the region require MSEs in the region lodge security relative to corporate clients.

2.3.1.2 Cost of finance

Small business formations and growth bear heavily the impact of imperfections in bank credit markets. Asymmetric information between bank lenders and borrowers, together with agency problems related to the appropriate use of borrowed funds, lead to well-known phenomena of credit rationing and higher interest charged to small businesses as compared to large firms,(Ventura & Zecchini ,2009). Credit constraints constitute one of the main obstacles to growth of SMEs. Financial barriers, which affect MSEs, include the high cost of credit and relatively high bank charges, (Bukvic & Bartlett, 2001).

Bukvic & Bartlett (2001) argue that information asymmetries between lenders and borrowers make it hard for banks to determine the real value of a project, and lead to credit rationing. The high risk of credit to MSEs with information asymmetry may explain the relatively high interest rates charged to MSE borrowers. Loans conditions encompass many dimensions among which the most important are the spread between the banks and other financial intermediaries, cost of funds and interest levels, the commissions, the differences between the amount granted and those demanded by the enterprises, the level of collateral required, the duration of the loan and processing delays,(OECD, 2009).

Cost of finance has been rallied as one of the constraints to MSE growth. Various empirical studies done all over the world attests to this. Ahiawodzi and Adade (2012) in a study on access to credit and growth of MSEs in Ho Municipality of Ghana concluded that one barrier to MSEs growth is high borrowing cost and rigidities in interest rates. Beck, (2007) in a study

found that the cost of finance was rated by over 35% of MSEs as a major growth constraint in a sample of 71, most developing countries.

An increase in interest rates means that companies often have to devote more resources paying interests on their existing debts, which lowers the amount available for investment. Obamuyi (2009) studied the relationship between interest rates and economic growth in Nigeria. The study revealed that lending rate has a significant effect on economic growth. The study recommended that investment friendly interest rate policies necessary for promoting economic growth needs to be formulated and properly implemented. Bader & Malawi (2010) in a study tested the hypothesis that the real interest rate has negative impact on Jordanian economy. The results were found to support the hypothesis. Sharma & Gounder (2011), in a group survey of MSEs in a Pacific Island country found that their growth is constrained by banks' interest rates, fees and charges and collateral requirements. Oreku (2010), in a survey in Tanzania also came to the conclusion that higher interest rates in public microfinance are affecting the growth of MSEs.

2.3.1.3 Group project approach to financing.

A group is made up of a number of people or things gathered, placed or working together or naturally associated (YEDF Level One booklet, 2011). Conventional lending to the poor has traditionally been considered infeasible as a result of riskiness of loans that are not secured with adequate collateral. In developing countries, this risk is exacerbated by lack of sound legal infrastructure and credit scoring mechanisms. In such circumstances, joint liability institutions, which lend to groups of people and where the entire group is considered responsible for default by any one member have had some success in lending to the poor (Bhole & Ogden, 2009).

Group's model basic philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by collective responsibility and security afforded by the formation of a group of such individuals. The collective coming together of individual members is used for a number of purposes e.g. educating, awareness building and bargaining power (Bhole & Ogden, 2009).

Forsyth (2010) contends that groups are often more effective than individual in accomplishing tasks, devising solutions to problems and achieving innovative goals because a group

possesses more talent, skills and ideas and that there is strength in unity. On benefits of groups, YEDF Level one booklet (2011) indicates that groups attract donors for support and that private sector companies are keen to train and support organized groups. Through groups, collective marketing increases product volumes thus increasing chances of attracting more buyers. Proper saving schemes by groups also enable members to reduce mismanagement of funds, both for groups and individuals.

Groups are also full of challenges like poor group leadership skills, lack of business focus or orientation, personal differences among group members, group politics and external politics etc (YEDF level one booklet, 2011). Group investment in our society seems not to work. Group thinking is the single biggest killer of investment group's drive (Wameyo, 2011).

2.3.2 MSEs linkages with large enterprises

Siwadi (2010) defines linkages as any upstream or downstream, formal or informal relationship that takes place between organizations and its local partners. He argues further that these linkages can be on local or international scale. Linkages between local and international firms and local MSEs are particularly important to the economies of developing countries because they provide a means of bringing much needed capital and diffusing knowledge to the linked firms.

Business linkages are in twofold: horizontal linkages and vertical linkages. Vertical linkages refer to linkages to corporations and partnerships between MSEs and large corporations along the value chain perspective. The underlying economic rationale is that through this strategic partnership, success in the target markets can be enhanced. This arises through economies of scale and the reduction of costs in the value chain and/or quality improvement. Horizontal linkages, on the other hand, are cooperative type of activities between MSEs of the same step in the value chain (LEA, 2013)

Siwadi (2010) adds that linkages provide tremendous opportunities for MSEs to improve their technology and thus products. He continues to say that linkages can bring with it marketing assistance in the form of new markets and marketing capabilities for MSEs. They build the capacity of local MSEs by making them more competitive and ready for future challenges. Badal (2013) also argues that when small companies interact with large corporations, these MSEs make changes that improve their organizational structures,

management practices and operations. These changes lead to MSEs to upgrade their technologies, increase their efficiency and most importantly, become financially stable. Having large corporations as a customer also opens door to easier credit and other business opportunities. The biggest upside is the spillover of new knowledge, innovation and business models. When a few small businesses improve their systems or business models, other small businesses learn from that and raise their game to stay competitive, boosting the quality of the entire MSE sector.

There is strong evidence that forming alliances, clustering and networking helps small firms to compete with large firms. By working together, firms can gain the benefits of collective efficiency, enabling them to link with large producers and break into national and global markets. MSEs can forge horizontal links between themselves and vertical linkages with larger manufacturing and service industries for increased market access, enhanced investment flow, skills development and technological advancements. Such linkages would help overcome the constraints that currently plague the industry in African countries (Hussain, 2000).

2.3.3 Marketing of products and services

Marketing is one of the biggest problems MSEs face in their business operations. It is recognized as one of the most important activities and essential elements to survival and growth of enterprises (Pandya, 2012). Entrepreneurial marketing is the marketing process common among entrepreneurs and small business owners that encompasses innovation, identification of a common market, interactive marketing methods and informal information gathering (Carter, 2006).

Reijoen, (2010) posits that there are four perceptions by marketers in MSEs. These are: marketing as a philosophy, marketing as a strategy, marketing as tactics/ methods and marketing as market intelligence. Marketing as a philosophy postulates that marketing a firm aims to achieve competitive advantage by satisfying its customers more effectively and efficiently than its competitors and thus long-term profitability. Marketing is regarded as a process that brings the firm in constant and direct contact with its customers. MSEs tend to follow some form of self-directed informal customer- centric philosophies because small firms tend to be interpersonal in their contact with primary customers and tend to invest in

personal relationships with specific customers and other players in the market network. This is natural because of the nature, simple structure, limited scope and resources of small firms as well as the high level of customer contact by employees. Marketing as a strategy sees marketing in small firms as being dependant on several factors. These include the situation, nature, types of products and services, as well as quality of management. Marketing as tactics/methods argue that marketing is peripheral to MSE requirements and that it is only used when there is a need for growth and profits. Marketing as market intelligence includes generating market intelligence concerning present and future needs of customers, disseminating this information through an organization and responding to this intelligence.

A precept of the marketing concept contends that a business achieves success by determining and satisfying the needs, wants and aspirations of target markets. However MSEs lack resources to compete head to head with large rivals, it is questioned whether MSEs formally practice marketing at all, even though the marketing function contribute positively to small business success and the ability to think strategically. Although marketing activities in MSEs may be different, marketing departments are still critical to firms' success. Many firms carry out business via highly informal, unstructured, reactive mechanisms, whereas others develop, overtime, a proactive and skill approach where innovation and identification of opportunities give them a competitive advantage (Walsh & Lipinski, 2009).

In this time of global recession, MSEs are exceptionally proactive in keeping sales up. Entrepreneurs are able to control and discover key revenue streams and make the right decisions. Marketing as an activity is therefore very central to the success of not only MSEs but any other business venture. Gichira (1991) postulates that marketing is an activity that involves finding out the customers' wants, choosing the products or services to satisfy these wants, pricing the products that the customers want and selling the products in order to make profit. Tripathi & Siddiqui (2012) contends that business growth and performance has been associated with innovation in marketing orientation both for MSEs and large organizations. MSEs that survive are amongst the most innovative and market oriented. Accordingly, the absence of current marketing practices and activities in majority of small and medium enterprises has led to concerns about the potential consequences of this apparent lack of engagement with innovation in marketing for the business success of MSEs.

Cacciolotti et al. (2011) in their research indicates that MSEs that make good use of structured marketing information presented a higher probability of growth. Scheers (2011)

found that lack of marketing skills of MSEs contribute to high business failure in South Africa. The study concluded that lack of marketing skills has a negative impact on success of small business.

Mahmoud (2011) in a research in Ghana concluded that the higher the level of market orientation, the greater the level of performance in Ghanaian firms. Marketing an MSE determines in the long term whether the business will succeed or go under. The assumption is, if potential customers are not aware of your products or services, no one will do business with you. However, MSEs face marketing limitations due to limited resources like finance, time and marketing knowledge, shortage of exclusive marketing techniques and limitation in market influence (Pandya, 2012).

Small business deliberations involve informal, unplanned activities that heavily rely on the intuition and energy of owner/ manager to make things happen, (Mahmoud, 2011). It appears that when compared to other functions of their business MSEs owners have a problem with marketing. They appear to give marketing a low priority, often regarding marketing as something large firms do (Stokes & Blackburn, 1999).

Businesses must recognize that marketing is business development. Effective marketing is all about recognition and complete understanding of your target market and the environment of your potential customers. What businesses need to do is to achieve better marketing results by using direct response offers to promote and build their customers. MSEs face marketing challenges which include finding new clients and customers, using engaging marketing messages that generate results and implementing business oriented marketing systems (Zulunga, 2013). Mahmoud (2011) concluded that the higher the level of market orientation, the greater the performance of Ghanaian SMEs. Moorthy et al. (2012) in a study in Malaysia found that the construct with the strongest positive relationship with performance of MSEs is the use of marketing information.

2.3.4 Provision of Business Development Services

Access to capital alone is not enough for MSEs success. Financing needs to be accompanied by Business Development Services that provides entrepreneurs and businesses with knowledge and tools that they need to compete. In Kenya, quality BDS are costly and out of reach to many small businesses (KIM, 2013).

World Bank Group posits that Business Development Services (BDS) include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion. BDS includes both operational and strategic business services. Operational services are those needed for day to day operations such as information and communication, management of accounts and tax records, and compliance with labour laws and other regulations. Strategic services, on the other hand, are used by the enterprise to address medium and long-term issues in order to improve the performance of enterprise, its access to markets and its ability to compete (World Bank Group, 2001)

Kabahanga (2013) contends that BDS are an important ingredient to business growth and competitiveness. BDS play a very important form of support for the development of MSEs by providing a range of business advice, information and support to the sector, as well as stimulating sustainable MSE development by improving the general business environment. They are generally viewed as a mechanism for addressing market failures which are particularly evident in transition economies such as lack of information which can act as a barrier to foster economic development and growth in a particular geographical area (UNDP, 2004).

The main objectives of BDS are the provision of non- financial services e.g. accounting and legal advice to MSEs at affordable costs, supplementing the role of financial services, supporting MSEs in their promotion, development and sustainable growth and facilitating MSEs' development of competitive advantage. Accordingly, one of the best BDS for promoting growth oriented MSEs is through the concept of incubation. A business and technology incubator is defined as an organization that develops, provides and maintains controlled conditions to assist in the cultivation of new growth oriented or innovation driven enterprises. An incubator provides office space and business equipment, business plan development, technical support, financial management business training and mentoring and coaching. Incubators facilitate business creation and assist entrepreneurs until their

‘graduation’ when they have capacity to ‘survive’ in the external competitive environment. Incubators provide local, on-spot diagnosis and treatment of business problems in addition to facilitating access to capital (UNDP, 2004). The largely known type of BDS provided by YEDF is training of loan recipients.

2.3.4.1 Training of youth entrepreneurs

Most academic and development policy discussions about micro-entrepreneurs focus on credit constraints, and assume that subject to these constraints, the entrepreneurs manage their businesses optimally. Yet self-employed poor rarely have any formal training in business skills (Karlán & Vildiva, 2010). CMF Team, (2010) argue that microfinance clients often lack entrepreneurial and financial management skills and often fail to run their businesses effectively and even face difficulties repaying their loans.

Sievers & Vandenberg (2007) posit that access to both financial and Business Development Services (BDS) can aid the growth of micro and small enterprises. YEDF has put into place Enterprise Development Unit (EDU), with the sole purpose of enhancing capacity for youth entrepreneurs to manage funds loaned to them by the Fund and to ensure prudent management that can perpetuate business growth among the enterprises. The unit covers all the youth enterprises in the country that have been financed by the fund and any other youth enterprise seeking for such assistance. The Enterprise Development Officer (EDO) in consultation with the DYOs identifies training needs for the youth in the enterprises and prepares a training curriculum, syllabus and the calendar of events. The unit liaises with field officers i.e. DYOs and YOs in respective areas to mobilize the youth for training in the identified areas of the need in collaboration with the Business Development Service (BDS) providers/ Enterprise Development Agents (EDAs), (YEDF, 2011).

Entrepreneurship training and provisions of appropriate Business Development Services are key to the Fund’s achievement of its mandate. Besides ensuring that the youth have adequate skills, it also assists them in identifying and tapping into business opportunities, while embracing modern business techniques. The Fund has started a mandatory pre-financing training programme to enhance sustainability of youth enterprises. To date, the Fund has provided entrepreneurship training to over 200,000 youth. The fund has also partnered with the Ministry of Cooperatives Development to assist youth form Savings and Credit Societies

(SACCOs). So far, the Fund has facilitated formation of 24 SACCOs. Besides being marketing vehicles for youth enterprises, these SACCOs will also be used as financial intermediaries through whom the Fund can reach members with credit facilities (YEDF Status Report, 2011).

The Fund has also trained 2,500 youth in 24 constituencies on how to access procurement from public sector. It has also supported two businesses plan competitions in which over 10,000 youth entrepreneurs have been trained and winners awarded. Some of the participants of the competition have started very viable enterprises (YEDF Status Report, 2011).

Okpara (2011) in a study in Nigeria found that lack of management skills is a major constraint for business. The majority of owners surveyed indicated that they had little or no management skills or experience before starting their businesses. They also indicated that this lack of basic business management skills affected and still affects their businesses in terms of growth. The study, in respect to the management problem, recommended that management workshops and seminars be organized in order to provide owners with fundamental skills in management such as accounting, marketing and record keeping that they needed to manage their businesses on daily basis. These essential skills would enhance the overall success of the venture. Michael et al (2009), in a study are of the conclusion that there is need to be trained in area relevant to the business carried. Their survey clearly shows that managers with relevant training run successful businesses compared to untrained counterparts.

2.4 Empirical literature

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

Ameya, Onsongo, Guyo and Omwong'a (2011), in a study about an analysis of challenges facing YEDF in NyaribariChache Constituency, sought to find out the extent to which YEDF is a preferred source of finance for youth enterprises, factors influencing youth entrepreneurs' utilization of YEDF and challenges facing YEDF. They concluded that YEDF is a highly preferred source of funds. They also concluded that flexible collateral and low interest rate remains a great attraction to most applicants. However, they found that YEDF was yet to make an impact in society compared to other devolved funds.

Sogwe, Gicharu & Mahea (2011), in a study titled 'A study on youth and women entrepreneurs preparedness in Kenya: a case of YEDF and Kenya Women Enterprise Fund' found that majority of the entrepreneurs indicated that they need both advice and money. 61 % of women entrepreneurs and 48 % of the youth surveyed had less than 50 % likelihood of business success. This explains why one in every three new businesses fails within the first six months. On market and technology; respondents were assessed on technology orientation, market status, market prospects and customer orientation. Majority (98 %) scored 0 – 25 % on market and technology, an indication that entrepreneurs are not well prepared in market and technology and yet they operate in a business environment that is technologically advanced. The study concluded that entrepreneurial preparedness is low among the entrepreneurs who benefitted from both youth and women Fund. They recommended that it is crucial for enterprise funders need to assess the entrepreneurs on business readiness gaps.

Kanyari & Namusonge (2013) in a study in Gatundu South District, Kenya, aimed to determine the various interventions that influence youth entrepreneurs towards YEDF and their role towards attracting the youth toward YEDF. The study concluded that provision of entrepreneurship training to sensitize and inculcate the youth is crucial in identifying emerging business talents. The study also concluded that provision of continuous and relevant Business Development Services to youth entrepreneurs is key to the success of enterprise development initiatives in creating long term employment. They recommended

that the Fund should invest in more public sensitization and education on its operations and progress since its inception.

Oduol, et al. (2013) researched on effect of the YEDF on youth enterprises in Kenya. The study in Siaya County, Kenya, focused on the activities of the Ministry of Culture and Social Services in registration of youth groups, YEDF officers and Financial Institutions (FIs) in the management and disbursement of the Fund to the youth entrepreneurs. The study found out that the youth need to be sensitized on youth group formation and registration in order to benefit from the Fund. The number of successful applicants remained at 50 % which indicated that accessing YEDF loan was still a challenge to young people. The study recommended that, to improve on the viability of the youth enterprises, there is need for the government to market the youth products, engage youth in entrepreneurship training before and after accessing the loan.

Gudda & Ngoze (2009) in a study titled ‘Sustainable Youth Employment Programmes in Kenya: The Case of YEDF’ sought to establish the impact of YEDF and evaluate the current status of its outcome three years since inception. The study found that YEDF board has made tremendous progress in implementation of its mandate. The research indicated that various interventions have been established by YEDF such as disbursement of funds through C-Yes, Youth Enterprise Scheme, through intermediaries, entrepreneurship training or Business Development Services, youth employment scheme abroad, markets and market linkages support and commercial infrastructure. The study however recommends that there is need for better mechanisms for monitoring these interventions by implementers and other parties in order to have a wide impact on enterprise creation and sustainable employment for the youth throughout the country.

2.5 Gaps to be filled by the study

There is a body of literature that seeks to bring to the fore the challenges the Fund faces and why majority of the youth are increasingly turning to the Fund to finance their entrepreneurial activities, as in Ameya et al. (2011). Other studies concentrate on the structure of the fund that makes it a preferred source of finance, as in Kanyari & Namusonge (2013). Majority of studies done also explores government policy programmes geared towards the support and funding of youth enterprises through YEDF, as in Sogwe et al. (2011). However, it remains unknown the extent to which these initiatives have succeeded in addressing the funding and challenges faced by youth MSEs.

2.6 Conceptual framework

The literature review done indicated YEDF plays a role in growth of MSEs through on-lending to youth enterprises, supporting youth MSEs develop linkages with large enterprises, facilitating youth MSEs market products and services both locally and internationally and provision of Business Development Services as illustrated in figure 2.0 below.

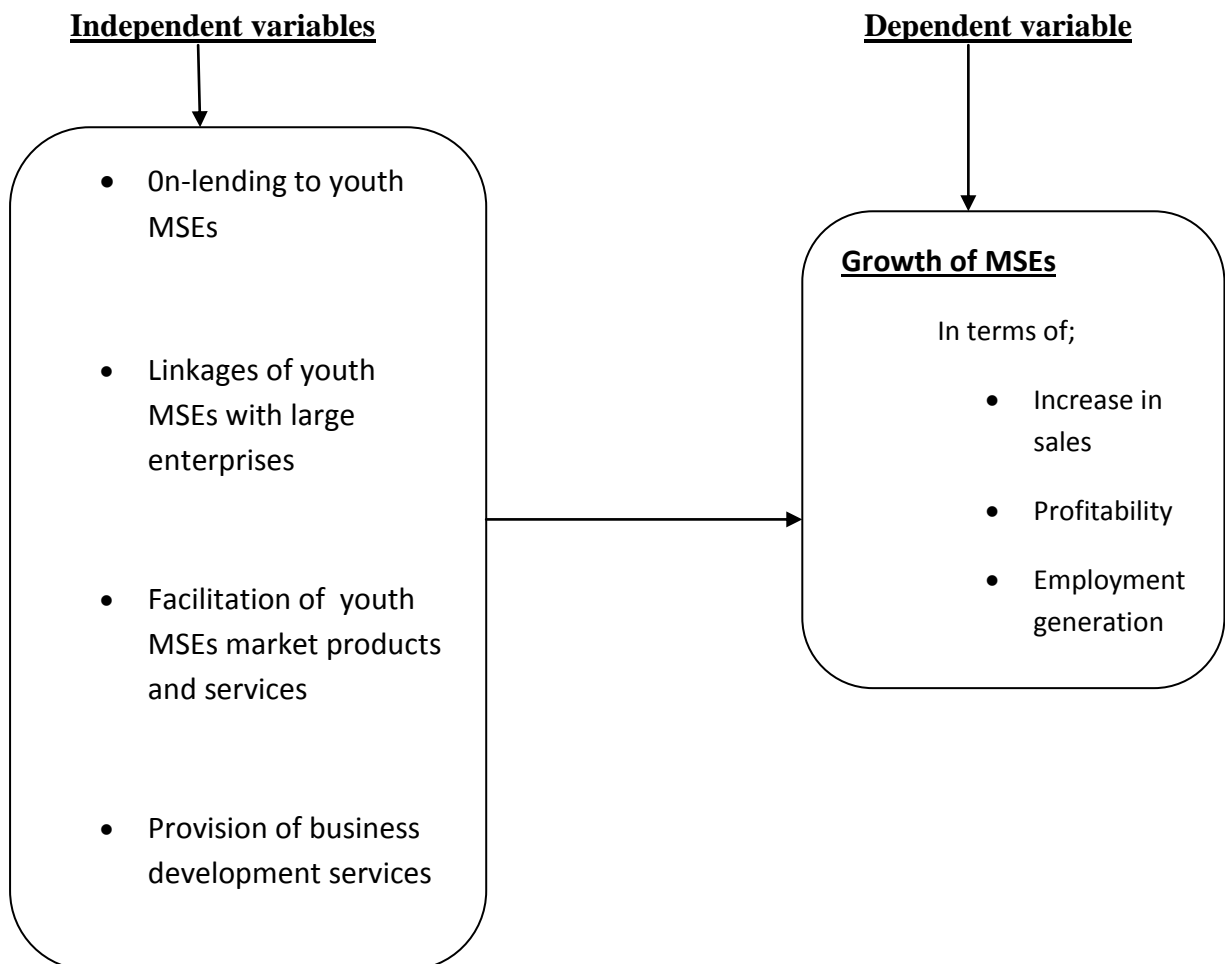


Figure 2.0 Conceptual framework showing independent and dependent variables.

Source: researcher, 2013 (Adopted from YEDF, 2011)

On- lending to youth MSEs

Access to finance provides growth opportunities for a business. The creation, survival and growth are often hampered by access to finance. When the MSEs access finance, sales and profitability increase since they are able to market their products, diversify and even expand the enterprises. With expansion comes increased employment.

MSEs linkages with large enterprises.

One rationale behind linking MSEs to large enterprises is that target markets are enhanced. By working together, firms gain the benefits of collective efficiency, enabling them to link with large producers and break into national and global markets. This results in economies of scale and reduction of costs in the value chain and quality improvement. This leads to growth of the enterprises since profitability increases. Linkages also lead to increased employment since the MSEs make changes that improve their organizational structures, management practices and operations.

Facilitation of youth MSEs market their products and services

Marketing is recognized as one of the most important activities and essential elements to survival and growth of enterprises. Effective marketing leads to increased sales and hence profitability. YEDF facilitates youth enterprises to market their products and services in domestic and international markets. Due to increased sales and profitability arising from effective marketing, the youth enterprises register growth.

Provision of Business Development Services

The main objectives of BDS are the provision of non-financial services e.g. accounting and legal advice to MSEs, supplementing the role of financial services, supporting MSEs in their promotion, development and sustainable growth and supporting MSEs development of competitive advantage. These interventions enable the business to improve on profitability hence growth. YEDF is also involved in mentorship, coaching and entrepreneurship training. This creates employment directly to the youth who undergo such programmes and start new or improve on their existing enterprises.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research methodology that was used in the study. It consists of the research design, the target population, sampling strategy, data collection tools and techniques and data analysis.

3.1 Research design.

This study adopted a descriptive survey method. Descriptive information often provides a sound basis for the solution of business problems. It is marked by prior formulation of specific research questions (Shajahan, 2009). Descriptive method is used to describe existing or past phenomena (Wilson, 2010). This method is also appropriate because it allows generalizations of data to be made (Mugenda, et al. 1999).

3.2 The target population

This study was carried out in Kiharu Constituency, Murang'a County. The target population for the study was youth MSEs that had benefitted from YEDF since its inception in the year 2005. As per the YEDF status report dated 20th July 2012, there are 64 youth groups which have already received the loans in the Constituency. The 64 MSEs owned by the youth groups formed the target population. (Also refer to appendix 4)

3.3 Sampling strategy

A sampling frame was prepared using a list of all beneficial youth MSEs from the constituency. A census of all MSEs was done. There are 8 strata – the unique MSEs (see table 3.0 below). From each stratum, one key informant per MSE was purposively selected. The informant included either a manager or one official involved in day to day operations of the business. A total of 64 informants formed the sample.

Table 3.0 Sample framework

Type of enterprise	Number of MSEs	Sample size
Retail business	8	8
Agri business	34	34
Service business	8	8
Quarry business	4	4
Tailoring	4	4
Pottery	1	1
Transport (Boda boda)	3	3
Jua kali (welding)	2	2
Total	64	64

Source: Researcher, 2013

3.4 Data collection tool and techniques

Data sources for this study were primary data. Data was collected using questionnaires. A questionnaire is a method of data collection that comprises a set of questions designed to generate data suitable for achieving objectives of the research proposal (Wilson, 2010). Questionnaires allow the researcher to obtain accurate information and that they also provide cost-effective and reliable means of gathering feedback.

The questionnaires were structured in such a way as to address the research questions as well as gather basic background information about the respondent and the business. Before actual data collection, the questionnaire was tested in a pilot study to assess clarity and the ease of use. Any confusing and sensitive statements were clarified and modified.

3.5 Reliability and validity

Reliability refers to the extent to which results of a study are consistent over time and accurate representation of the total population under study. To achieve reliability in this study, test-re-test method was used.

Validity refers the degree to which a research study measures what it is intended to measure. In this case, content validity was applied to ensure that the questions in the questionnaire provided adequate coverage of the investigative questions. Content validity was tested by use

of expert opinion. The supervisor and a practitioner from YEDF examined the instrument to ensure that the concepts were valid.

3.6 Data collection

The researcher was helped by an assistant to access the informants in the constituency. Youth Enterprise Fund official in the area was relied upon to locate the informants and get their formal consent to investigate their responses. The researcher explained the importance of the study and the necessity of the respondents to give genuine and honest responses. The respondents were assured of confidentiality and that the information they gave was used purely for the study purposes. The questionnaires were self-administered to the sample respondents. They were collected after one week, checked for completeness and analyzed.

3.7 Data analysis and presentation

Data collected was checked for completeness, coded, and compiled. Descriptive statistics was applied through the use of MS-EXCEL to generate frequencies and percentages. Presentation of the data took the form of pie charts, bar graphs, frequency tables as well as percentages for ease of presentation and understanding.

CHAPTER 4: DATA ANALYSIS AND DISCUSSIONS

4.0 Introduction

This chapter contains the results and presentation of findings of the study. The study aimed at establishing the role of Youth Enterprise Development Fund on growth of micro and small enterprises in Kenya. The independent variables of the study included: On-lending to youth MSEs, Linkages of youth MSEs with large enterprises, Facilitation of youth MSEs market products and services and provision of business development services. The dependent variable was growth of MSEs. The findings were presented based on the study research objectives. The study sought to address the following research questions: To what extent does YEDF provide on-lending to youth MSEs?, To what extent does YEDF support youth MSEs develop linkages with large enterprises? , To what extent does YEDF facilitate marketing of products and services of youth MSEs locally and internationally? and To what extent does YEDF provide business development services to youth SMEs?

From the study population target of 64 respondents, only 47 respondents filled and returned their questionnaires, constituting 73 % response rate. Data analysis was done with the aid of MS-EXCEL. Quantitatively, descriptive statistics such as frequencies and percentages were used. The findings were presented through the use of tables, charts and graphs.

4.1 General information

Table 4.1: Time in years the enterprises had been in operation.

No. of years in business	Frequency	Percentage
Not yet started	0	0
Under 1 year	3	6.38
1 – 2 years	11	23.40
3 – 4 years	25	53.19
Over 5 years	8	17.02
Total	47	100

Source: Field data (2013)

According to the number of years the enterprises had been in operation, it was found that only three enterprises had been in operation for a period of less than one year, which translated to 6.38 %. Only 23.40 % of the respondents indicated that their businesses had in

operation for a period of 1 -2 years. The findings also indicated that only 8 enterprises, representing 17.02 %, had in operation for a period of five years and over. This is surprising since the Fund had been operational from the year 2007 when it was incepted. The only explanations can be that there was slow uptake of the fund in its early years or they could have closed shop. However, majority - 53.19 % indicated that they had been in operation for a period of 3 – 4 years. The enterprises therefore were in a position to respond to the statements posed by the questionnaire and provide reliable information as key players in the sector.

4.2 On-lending to youth MSEs

Table 4.2.1 On-lending and increase in sales

Response	Frequency	Percentage
Strongly disagree	0	0
Disagree	5	11
Neutral	23	49
Agree	19	40
Strongly agree	0	0
Total	47	100

Source: Field data (2013)

As the table 4.2.1 above indicates, 5 respondents, translating to 11%, indicated that they disagreed that on-lending to the enterprises leads to increase in sales. The majority of the respondents - 49 % - were neutral in their comment. However, 19 respondents were of the view that on-lending to the enterprises led to increase in sales. This corresponded to 40 % of the total respondents. The results of the study are in concurrence with those cited by Omondi (2013) from a survey done by National Social and Economic Council (NESC), which indicated that MSEs significantly improve on sales once assured of steady financing.

4.2.2 MSEs Profitability as a result of on-lending

The study sought to establish whether on-lending led to increased profitability of the youth enterprises. The findings of the study are as analysed in the figure below.

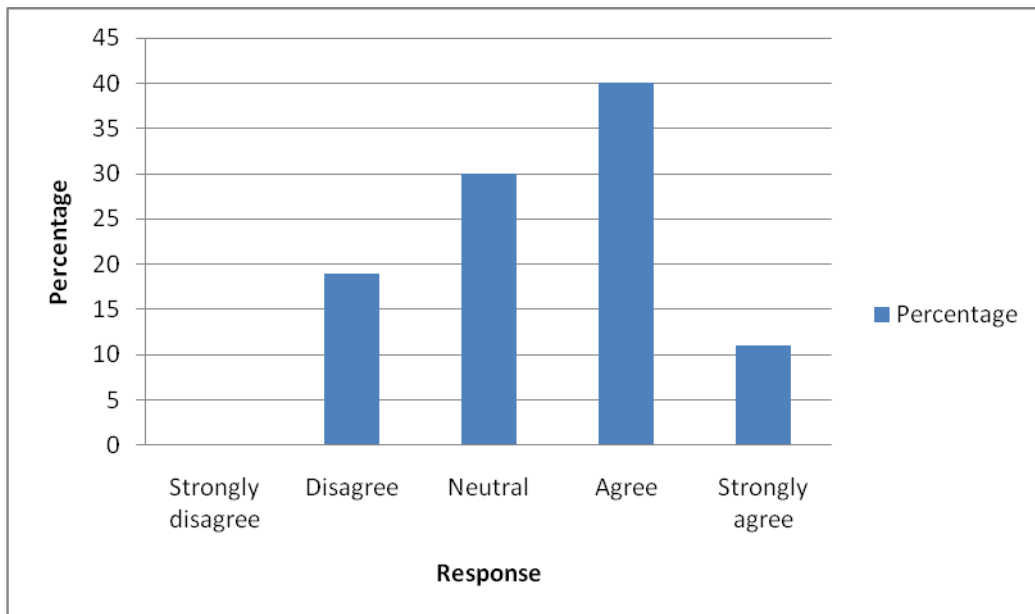


Figure 4.2.2 MSEs profitability as a result of on-lending

Source: Field data (2013)

On whether on-lending to the MSEs leads to profitability, only 19 % disagreed while 30 % were neutral. A total of 40 % agreed while 11 % strongly agreed as indicated in the figure above. This shows that although majority of the respondents were neutral in their response to whether on-lending leads to sales increase, profitability was noted to improve after the enterprises accessed the loan. These results agree with that of European Central Bank (2013) who in a survey found that access to finance by small enterprises reported significant changes to the profitability of the enterprises.

4.2.3 On-lending and employment generation by youth MSEs

The researcher sought to establish whether on-lending to youth MSEs led to employment creation. The respondents responses were analyzed as indicated in the figure below.

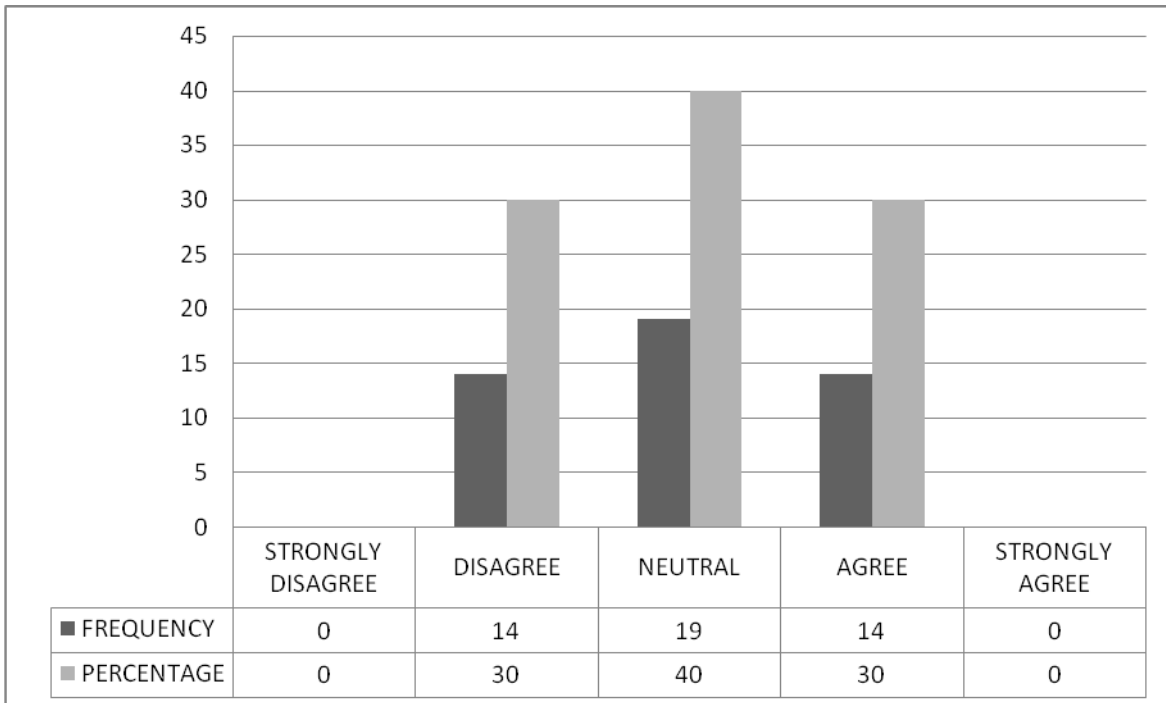


Figure 4.2.3 On-lending and employment generation by youth MSEs

Source: Field data (2013)

From the analysed data, as indicated by the figure 4.2.3 above, the researcher revealed that majority of the respondents; constituting 19 % were neutral as to whether the enterprises were able to generate more jobs. 14 % agreed that as a result of on-lending to the enterprises, there was a rise on the number of jobs created. However, 14 % disagreed that job creation rose after accessing the loan. There was 0 % response rate on those strongly agreeing and strongly disagreeing. The study findings agree with that of Gudda & Ngoze (2009) who also noted that there is not much impact by YEDF in sustainable employment for the youth throughout the country.

4.2.4 Individual loan versus group loan

Then researcher sought to know whether the youth were in preference of individual loans or group loans. The responses are as analysed in table 4.2.4 below.

Table 4.2.4 Individual loan versus group loan

Response	Frequency	Percentage
Strongly disagree	0	0
Disagree	14	30
Neutral	5	11
Agree	19	40
Strongly agree	9	19
Total	47	100

Source: Researcher (2013)

As the table above indicates 30 % of the respondents agreed they preferred a group loan than individual loans. 11 % were neutral in their comment. The majority of the respondents were in support of individual loans. 40 % and 19 % agreed and strongly agreed respectively. The findings are consistent with that of Wameyo (2011) who also noted that group investment in our society seems not to work. He opined that group thinking is the single biggest killer of investment group's drive. However, the findings depart from that of Attanasio et al. (2011) established that there is a higher uptake in group lending than individual lending.

4.2.5 Number of times the MSEs have been able to access loans from YEDF

The researcher sought to know whether the youth enterprises had been able to access more loans apart from the initial one. YEDF has adopted the concept of on-lending whereby the enterprises should qualify for a loan after paying off the previous one.

The study found that majority of the enterprises indicated by 87 % had only been able to access the initial loan. This is despite the fact that they had been in operation for some time. 9 % of the enterprises had indicated that they had accessed a second loan while only 4 % had been able to secure a third loan. This is not in line with the concept of on-lending adopted by the Fund. The findings agree with those of Oduol et al (2013) who also established that the number of successful applicants remained at 50 % which indicated that accessing YEDF loan was still a challenge to young people.

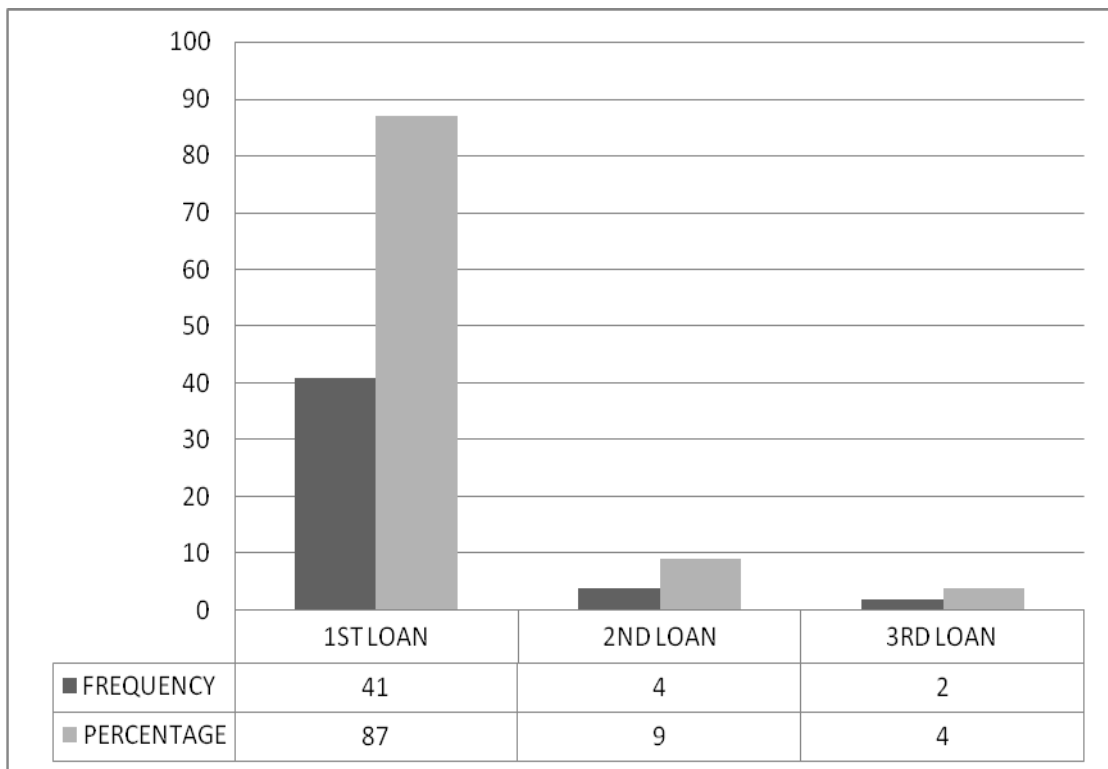


Figure 4.2.5 The number of loans MSEs had been able to access.

Source: Researcher, (2013)

4.3 Supporting MSEs develop linkages with large enterprises

4.3.1 Whether the MSE was linked to a large enterprise

The researcher sought to know whether any of the youth MSE had been linked to a large enterprise by YEDF.

Table 4.3.1 Whether the MSE was linked to a large enterprise

Response	Frequency	Percentage
Yes	9	19
No	38	81
Total	47	100

Source: Field data (2013)

Findings indicated that majority of the respondents – 81 % had their enterprises not linked to any large enterprise. 19 % indicated their businesses had been linked to large enterprises by YEDF. The findings agree with that of Siwadi (2012) who also established that the concept of business linkages is not yet fully utilized. Sievers & Vandenberg (2007) also in their research established that little has been done to conceptualize linkages and develop good practice models.

4.3.2 Whether linkages bring about profitability

The researcher sought to know whether the respondents believed that profitability of their enterprises would go up if linked to a large enterprise.

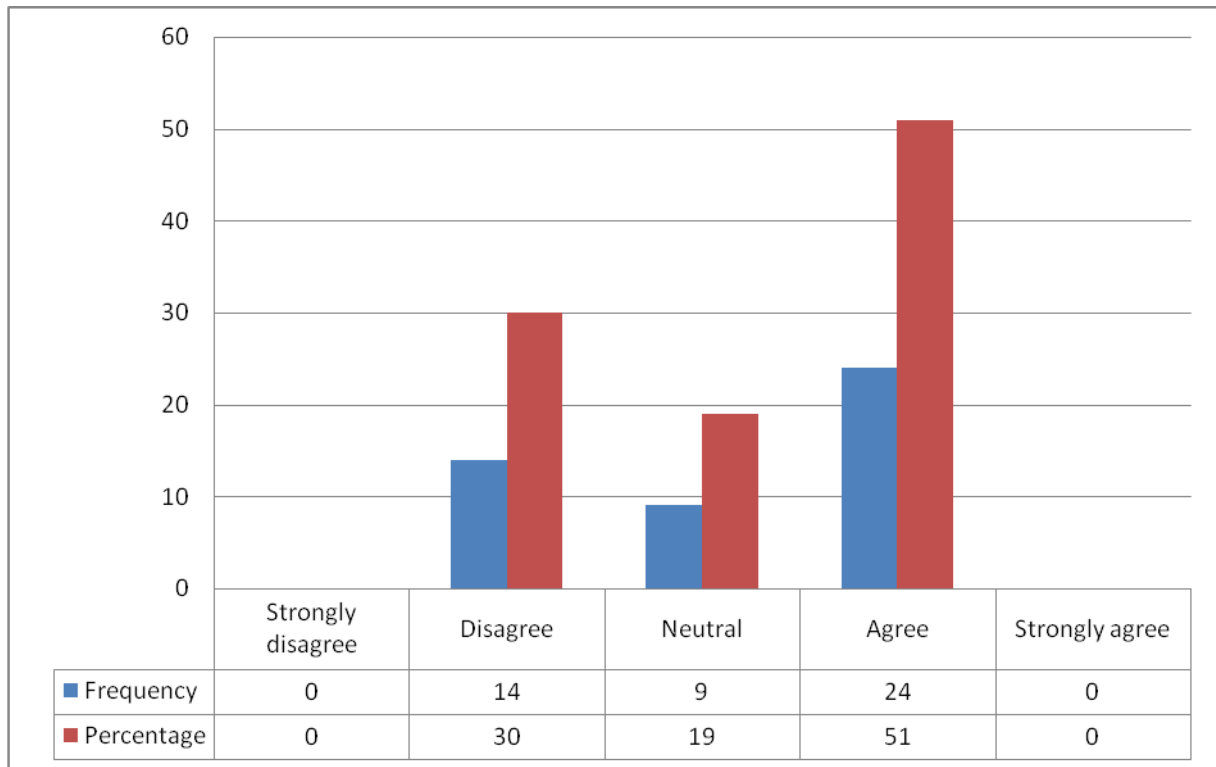


Figure 4.3.2 Whether linkages brought about profitability

Source: Field data (2013)

As indicated in the figure 4.3.2 above, 30 % of the respondents disagreed to the statement that profitability was likely to rise if linked to a large enterprise. 19 % were neutral in their response. None strongly agreed or strongly disagreed. However, majority were in agreement that linkages lead to profitability. This was as indicated by 51 % of response rate. The findings are consistent with those of Jenkins et al. (20078) who in their survey established that linkages bring about increased wealth creation by local firms.

4.3.3 Employment generation as a result of linkages

The researcher sought to establish whether linking youth MSEs would make the youth enterprises employ more workers.

Table 4.3.3 Employment generation as a result of linkages

Response	Frequency	Percentage
Strongly disagree	0	0
Disagree	24	51
Neutral	19	40
Agree	4	9
Strongly agree	0	0
Total	47	100

Source: Field data (2013)

51 % of the respondents, constituting the majority, indicated that they disagreed while 40 % were neutral in their response. Only 9 % agreed that linkages led to job creation. None strongly disagreed or strongly agreed. This indicated that majority of the youth enterprises did not create any new jobs as envisaged by the Fund. The findings depart from that of Badal (2013), who in a study of 200 small US businesses, established that linkages by small enterprises make them upgrade their technologies, increase their efficiency and most importantly become financially stable. As a result, revenue becomes greater and more consistent, making it possible for the businesses to add new jobs. Jenkins et al. (2008) also established that linkages bring about increased employment.

4.3.4 Whether linkages bring about growth of an enterprise

This research statement sought to establish whether linking youth enterprises to large ones led to growth of the youth enterprises.

Table 4.3.4 Whether linkages bring about growth of an enterprise

Response	Frequency	Percentage
Strongly disagree	0	0
Disagree	0	0
Neutral	9	19
Agree	38	81
Strongly agree	0	0
Total	47	100

Source: Field data (2013)

The study found out that 19 % of the respondents were neutral in their comments. The majority, 81 % agreed that linkages lead to growth of enterprises. None of the respondents strongly disagreed, disagreed or strongly agreed. The results of the study agree with that of Siwadi (2010) who in a survey in Zimbabwe established that MSEs that had been linked to large enterprises indicated positive results from those linkages and the growth and success of small scale sector might depend on the establishment of such linkages.

4.4 Marketing of products and services

The study sought to establish the role of marketing of products and services from youth enterprises by YEDF on growth of youth MSEs. Marketing is central to an enterprise growth hence the need for the researcher to know whether YEDF had successfully marketed youth MSEs and whether that marketing had brought about growth of the enterprises as envisaged in the conceptual framework.

4.4.1 Whether YEDF had helped market products and services

The researcher sought to establish whether YEDF had helped the youth enterprises market their products or services. The findings are as indicated in the figure below.

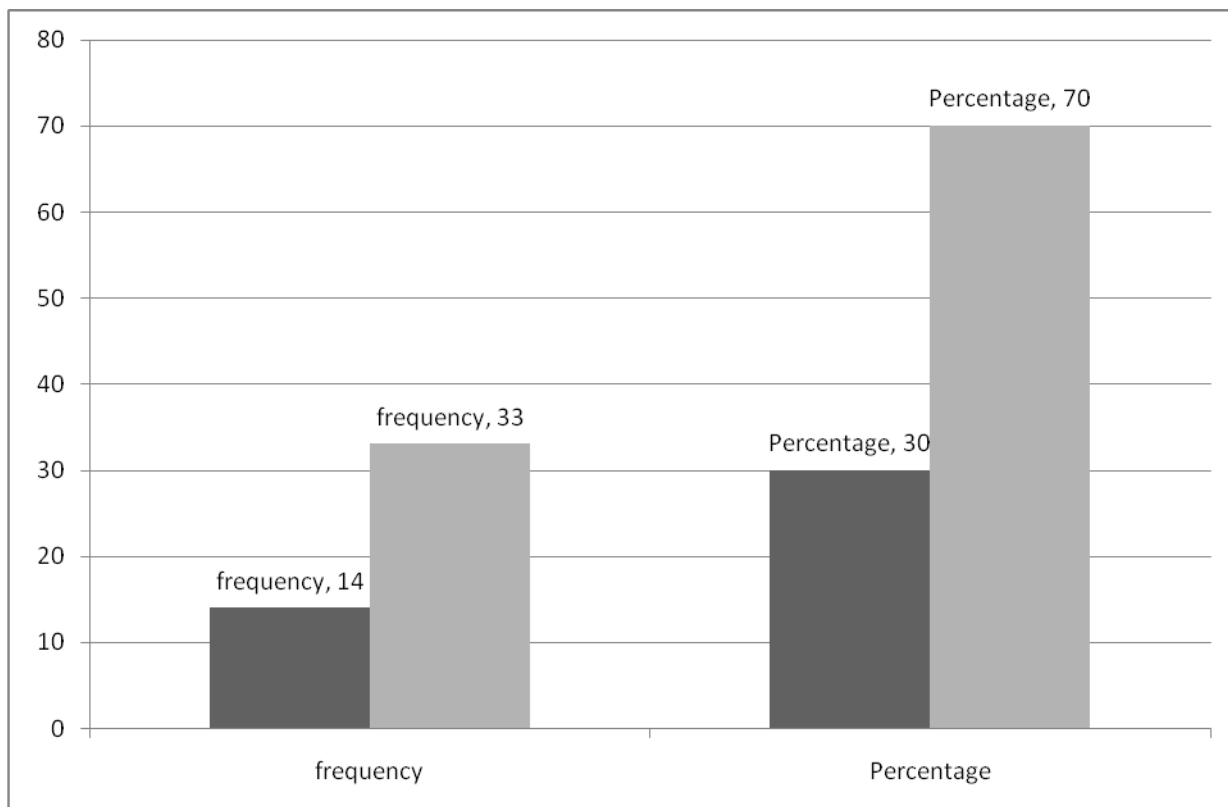


Figure 4.4.1 Whether YEDF had helped market products and services

Source: Field data (2013)

As figure 4.4.1 above indicates, 70 % of the respondents were negative that YEDF had helped them market their products and services. 14 respondents, constituting 30 % response level were affirmative. Though YEDF in its objectives aim marketing youth enterprises products and services, it was evident from the study that the Fund faired dimally in that area. A lot more needs to be done to realize this objective. The findings are consistent with that of Gudda & Ngoze who established that although various interventions have been established by YEDF, such as marketing of products and services of youth enterprises, there is need for better mechanisms for monitoring these interventions. Oduol et al. (2013) also established that marketing of youth products and services had not been put to the fore. They

recommended that, to improve on the viability of youth enterprises, there is need for the government to market youth products and services.

4.4.2 Whether YEDF had trained the youth on how to market products and services

The study sought to establish whether YEDF had trained youth MSEs on how to market their products and services. The findings were analyzed as indicated in the figure below.

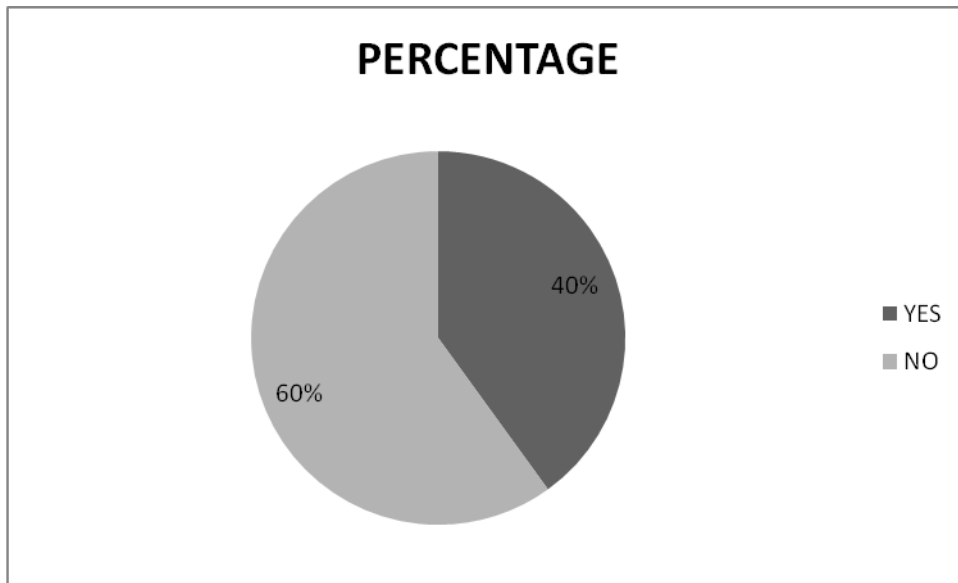


Figure 4.4.2 YEDF and training the youth on how to market products and services
Source: Field data (2013)

The study established that 19 youth enterprises, constituting 40 % had been trained how to market their products and services. The majority, 60 % had not been trained by YEDF. The Fund needs to intensify training the youth how to market their products and services as only a small number had been trained. The findings agree with that of Sogwe et al. (2011), who in their study assessed market status, market prospects and customer orientation among the youth who had accessed YEDF. The majority (98 %) scored 0 – 25 % on market and technology, an indication that they were not well prepared in marketing their products and services.

4.4.3 Youth participation in any market fair organized by YEDF

The researcher sought to know whether the youth enterprises had participated in any market fair organized by YEDF.

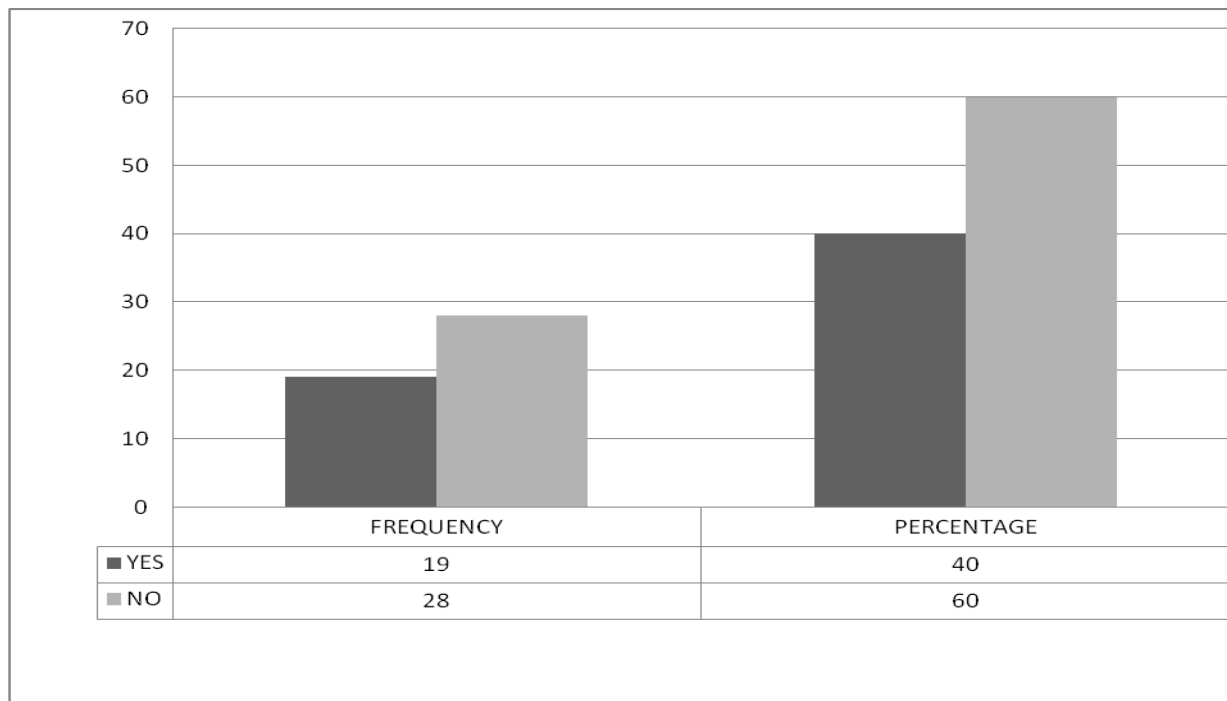


Figure 4.4.3 MSEs participation in trade fairs
Source: Researcher (2013)

4.4.4 Increase in profitability as a result of market fairs organized by YEDF

The researcher sought to know whether profitability of the youth enterprises improved as a result of attending trade fairs organized by YEDF. Market fairs were designed to expose the youth enterprise to potential customers and in the long run improve on profitability of the youth enterprises. The study sought to establish whether this was the case. The findings of the study are as in the table below.

Table 4.4.4 Increase in profitability as a result of market fairs organized by YEDF

Response	Frequency	Percentage
Yes	9	19
No	38	81
Total	47	100

Source: Field data (2013)

As table 4.4.4 indicates, 19 % indicated increased profitability of their enterprises as a result of attending trade fairs organized by YEDF. 81 % of the respondents indicated no increased profitability. This indicated that the trade fairs organized by YEDF had little impact on the profitability of the youth enterprises. These findings depart from that of Mahmoud (2011) who in a study in Ghana concluded that the higher the level of market orientation, the greater the performance of Ghanaian MSEs. Also, Cacciolotti et al. (2011) established that MSEs that make good use of structured marketing information presented a higher profitability growth.

4.4.5 Whether more needs to be done by YEDF with respect to marketing

The study sought to establish whether the respondents felt that a lot more needed to be done by YEDF in respect to marketing of their products and services.

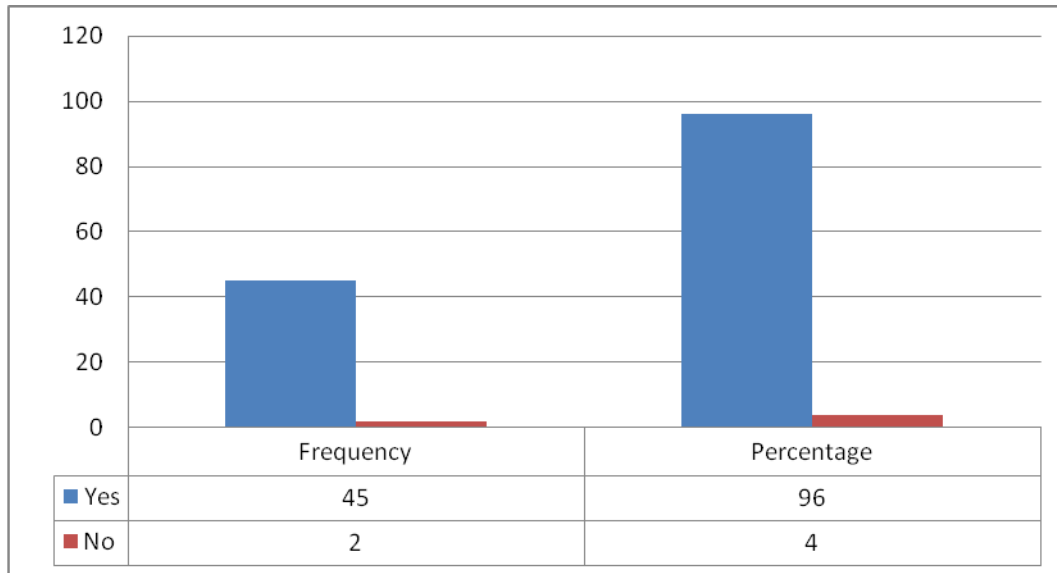


Figure 4.4.5 Whether more needs to be done by YEDF with respect to marketing

Source: Field data (2013)

The study found out that a lot needed to be done by YEDF to market products and services of youth MSEs. This was informed by a Yes response rate of 96 %. Only 4 % of the respondents were satisfied with the effort made by YEDF to market their products and services. The findings agree with that of Oduol et al. (2013) who also noted that there is need for government to market the youth products and services.

4.4.6 Whether YEDF has enabled the enterprises identify customer needs

The researcher sought to find out whether YEDF had helped the youth enterprises identify customer needs. The findings were analyzed as indicated in the figure below.

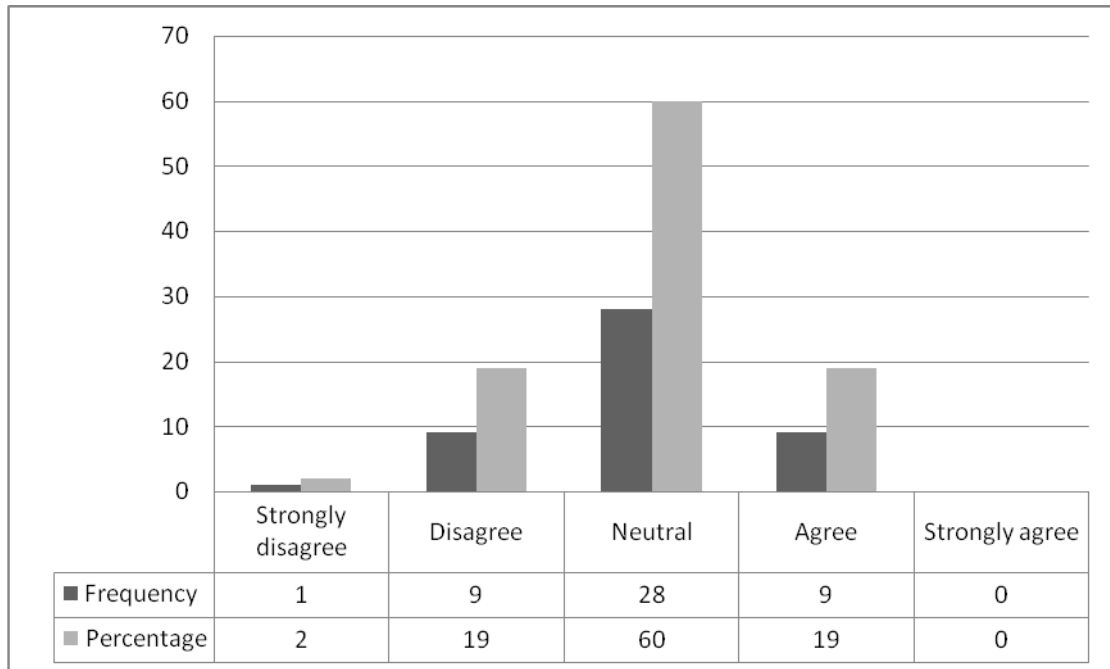


Figure 4.4.6 Whether YEDF has enabled the enterprises identify customer needs

Source: Field data (2013)

2 % of the respondents strongly disagreed, 19 % disagreed while the majority, 60 % were neutral. 19 % of the respondents agreed that YEDF had helped them identify customer needs. None of the respondents strongly agreed. The findings are consistent with that of Githingi (2012) who established that YEDF is doing poorly in creating market linkages for youth produced goods and services. He recommended that YEDF should create policy framework that recognizes the importance of marketing of goods and services produced by the youth.

4.5 Business development services

The study sought to know the extent to which YEDF provided business development services to youth enterprises and whether they played any role towards the growth of the youth enterprises.

4.5.1 Whether YEDF has trained the youth how to run their enterprises on day to day basis

The study sought to establish whether YEDF had trained the respondents how to run their enterprises on day to day basis.

Table 4.5.1 Whether YEDF has trained the youth how to run their enterprises on day to day basis

Response	Frequency	Percentage
Strongly disagree	0	0
Disagree	0	0
Neutral	24	51
Agree	18	38
Strongly agree	5	11
Total	47	100

Source: Field data (2013)

The findings of the study showed that 51 % of the respondents were neutral on whether they had been trained by YEDF how to run their enterprises. 38 % of the respondents were in agreement while 11 % strongly agreed that they had been trained. There was zero response rate on strongly disagree and disagree. The findings agree with that of Sogwe et al. (2011) who also established that entrepreneurial preparedness is low among youth entrepreneurs who had benefitted from YEDF. However, the findings are not consistent with YEDF Status Report (2011) which indicated that the Fund had trained over 200,000 youth countrywide.

4.5.2 YEDF assisting the youth in developing lesson plans

The study sought to know whether YEDF had trained the respondents how to develop business plans for their enterprises.

Table 4.5.2 YEDF assisting the youth in developing lesson plans

Response	Frequency	Percentage
Strongly disagree	0	0
Disagree	9	19
Neutral	14	30
Agree	24	51
Strongly agree	0	0
Total	47	100

Source: Field data (2013)

The research revealed that 19 % disagreed that they had been trained on how to develop business plans for their enterprises. 30 % were neutral in their response while the majority, 51 % agreed that they had been trained how to develop business plans for their businesses. In respect to developing lesson plan, YEDF seemed to have made commendable progress since majority of the enterprises had been trained. The findings agree with YEDF Status Report (2011) which indicated that the Fund had supported two business plan competitions in which over 10,000 youth entrepreneurs had been trained and the winners awarded.

4.5.3 Whether YEDF had assisted the enterprises to keep proper records

The researcher sought to establish whether YEDF assisted the youth enterprises keep proper records.

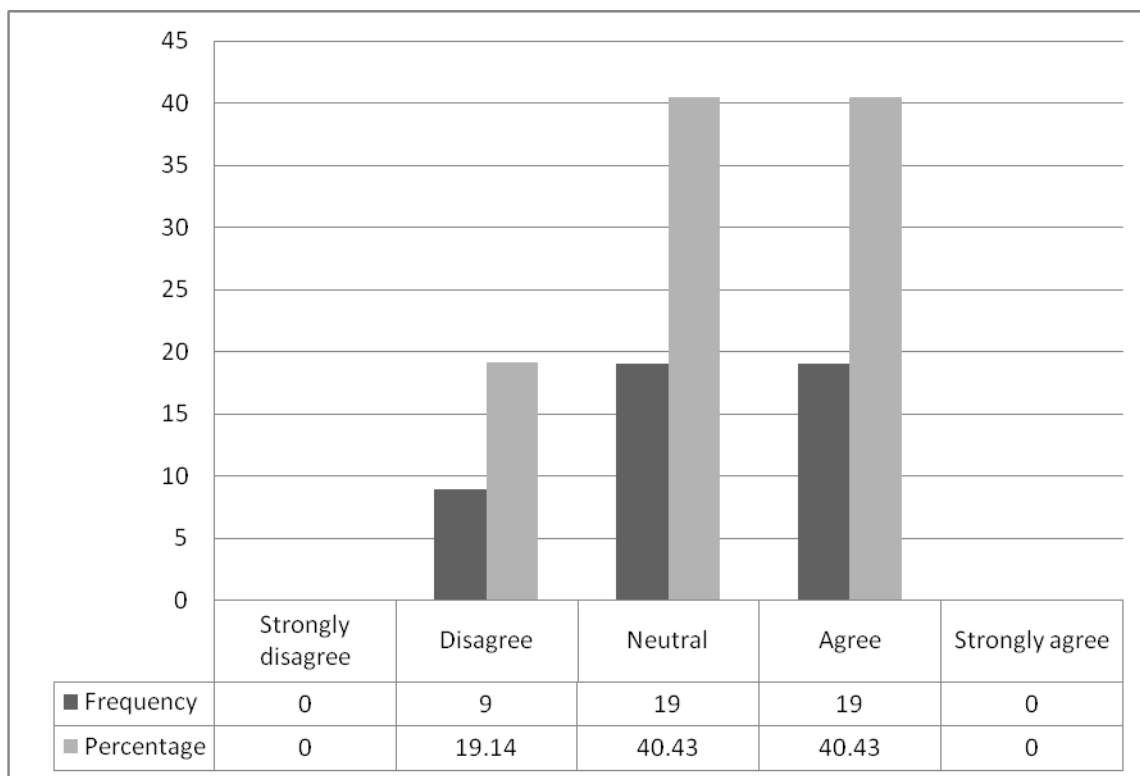


Figure4.5.3 Whether YEDF had assisted the enterprises to keep proper records

Source: Field data (2013)

The figure 4.5.3 above reveals that 40.43 % Of the respondent agreed that YEDF had assisted them keep proper records. A similar number of 40.43 % respondents were however neutral in their response. 19.14 % disagreed that they had been assisted to keep proper records. Record keeping is central to the success of an enterprise hence the need for YEDF to do more in this area. The findings are in concurrence with YEDF status Report (2011) which indicated that the Fund had started a mandatory pre-financing training programme to enhance sustainability of youth enterprises.

4.5.4 Whether YEDF has provided any mentorship and counseling

The study sought to establish whether the respondent had been mentored or received any business counseling from YEDF.

Table 4.5.4 Whether YEDF has provided any mentorship and counseling

Response	Frequency	Percentage
Strongly disagree	5	11
Disagree	9	19
Neutral	9	19
Agree	24	51
Strongly agree	0	0
Total	47	100

Source: Field data (2013)

From the table above, 11 % of the respondents strongly disagreed, 19 % disagreed while another 19 % were neutral. The majority of the respondents, 51 % agreed that they had been mentored and had received business counseling by YEDF. The findings agree with YEDF Status Report (2011) which indicated that the Fund had provided entrepreneurial mentorship and counseling to the youth throughout the country.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of the results on the role of Youth Enterprise Development Fund on growth of Micro and Small Enterprises in Kenya. The study gives recommendations on what the government and the managers of YEDF can do to improve for the attainment of the Fund's set objectives on enterprise development. The recommendations are presented based on the study, after which recommendations for further studies are drawn.

5.1 Summary of the findings

5.1.1 On-lending to youth MSEs

The study established that the respondents although they were able to access the finance from YEDF they were neutral on whether the enterprises had registered any increase in the sales. This is as was indicated by 49%. Majority 40% however indicated that the profitability of the enterprises rose due to on-lending. They were however neutral as to whether their enterprises were able to generate any employment. The respondents agreed that individual loans were better than group loans as indicated by a response rate of 40%. This might be the reason why most of the enterprises had been reluctant to go for a second or third loan. 87% of the respondents indicated that they only accessed the initial loan only. This is an obstacle to the objective of on-lending by YEDF.

5.1.2 Supporting youth MSEs develop linkages with large enterprises

Findings of the study established that majority of the youth enterprises, as indicated by a response rate of 81%, had not been linked to large enterprises by YEDF. However, the little number of MSEs which had already been linked reported to have improved on their profitability. 51% of the respondents indicated that as a result of the linkages facilitated by YEDF, their businesses were making more profit. In terms of employment generation, the enterprises disagreed that, due to linkages, they were able to create more employment opportunities. This could also be attributed to the fact that the enterprises are group owned hence difficult to create more employment opportunities beyond the actual number of the

group members. Accordingly, 51 % of the respondents agreed that should their enterprises get linked to large enterprises, they would register growth.

5.1.3 Facilitating marketing of products and services

On whether YEDF had helped youth enterprises market their products and services, 70 % of the respondents were negative. Marketing is central to success of any enterprise and therefore there is need for YEDF to help in exposing the enterprises to potential customers. The problem is even compounded by the fact that majority of the enterprises had received no training in the area of marketing their products and services. This was indicated by 60 % of the respondents. Also, another 60 % of the respondents stated that they had not attended any market fair organized by YEDF. However, those who had been able to exhibit their products and services during such market fairs responded to have profitability of their enterprises improved. This was indicated by 81 % of the respondents. This affirmed the conclusion that exposing the enterprises to potential customers is not only vital for their success, but also for growth. This might also have informed the response by 96 % of the respondents who were of the opinion that much more needed to be done by YEDF in marketing youth enterprises' products and services.

5.1.4 Provision of business development services

The study established that only 51 % of the youth entrepreneurs had been trained how to run their enterprises. Entrepreneurial training is key to the growth of enterprises. Majority of the youth entrepreneurs have little or no formal schooling and that they lack any experience in business hence the need for entrepreneurial training. In addition 50 % of the respondents indicated that YEDF had assisted them in writing business plans for their enterprises. This can be attributed to the fact that the youth are required to have a realistic and workable business plan as a requirement in order to access the funds. 40.43 % of the respondents agreed that YEDF had enabled them to keep records for their enterprises. Again the majority of the respondents agreed to have been positively mentored in the field of entrepreneurial development. The study therefore concludes that some ground had been covered by YEDF in offering business development services, but the level of responses suggested that there is still room for more to be done.

5.2 Conclusions

Youth Enterprise Development Fund was started to offer young people a unique opportunity to gain access to the much needed financial support to start or expand business. The Fund's strategic focus is on enterprise development hence the reason why the Fund's objectives are aligned towards this. However, as the findings of the study indicates, the Fund has a long way to go to achieve this. It seems to have made little impact in youth enterprises' growth. The objectives of the study, which had been adopted from YEDF' objectives indicate that YEDF needs to do a lot more in order to attain its set objectives and spur the growth of youth enterprises.

5.3 Recommendations

This study makes the following recommendations:

- The Fund needs to intensify entrepreneurial training to the youth.
- The Fund should result to giving individual loans rather than group loans since majority of the youth are in support of this.
- Youth enterprises need to be linked to youth enterprises since only a few have been linked
- YEDF should strive to expose youth enterprises to potential customers.
- YEDF needs to intensify the on-lending campaign to the youth so that the problem of access to business finance can be minimised.

5.3.1 Suggestions for further studies

Apart from YEDF, the Kenyan government has introduced other forms of institutional financing at the constituency level to support the youth enterprise development. One such fund is the Uwezo Fund. This study therefore recommends that further studies be done on the role of Uwezo Fund in the growth of youth enterprises in Kenya.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE.

Questionnaire No

INTRODUCTION

The objectives of the study will be to establish the role of Youth Enterprise Development Fund on growth of micro and small enterprises (MSEs) in Kiharu Constituency.

Kindly note that the information collected is purely intended for academic purposes only and that all the information obtained through this questionnaire will be treated with utmost confidentiality.

PART A: BACKGROUND INFORMATION

Date

Name of the business

Type of the business (please specify e.g. retail shop, grocery, pig rearing etc).....

Number of years in business (please tick the one that applies best)

- a.) Not yet started 1.
- b.) Under 1. Year 2
- c.) 1 – 2 years 3
- d.) 3 – 4 years 4
- e.) Over 5 years 5

PARTB: ON-LENDING TO YOUTH SMEs

Please indicate by circling the number of the degree to which you agree with each of these statements.

NO	ITEM	RATING SCALE				
		Strongly disagree	disagree	Neutral	Agree	Strongly agree
1	Your business sales have gone up as result of a loan from YEDF	1	2	3	4	5
2	The business is now making good profit as a result of YEDF loan.	1	2	3	4	5
3	Accessing the loan is easy.	1	2	3	4	5
4	The interest rate charged is not high.	1	2	3	4	5
5	Individual loan is better than group loan.	1	2	3	4	5
6	The business is able to employ more workers as a result of YEDF funding.	1	2	3	4	5
7	Forming groups to access the loan is easy.	1	2	2	4	5
8	Getting additional loan to your business is not problematic.	1	2	3	4	5
9	The business has expanded as a result of the loan	1	2	3	4	5

10. Indicate the number of times that you have accessed YEDF loan. (Please tick the one that applies to you currently)

1st

2nd

3rd

PART C: SUPPORTING MSEs DEVELOP LINKAGES

11. Has YEDF linked your business to another large enterprise?

Yes No

12. If Yes in 11 above, has it benefitted your business?

Yes No

Please indicate by circling the number of the degree to which you agree with each of these statements.

NO.	ITEM	RATING SCALE				
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
13	As a result of linkages, your business is making more profit.	1	2	3	4	5
14	Sales have increased as a result of linkages to large enterprises.	1	2	3	4	5
15	Your business is able to employ more workers as a result of linkages to large enterprises.	1	2	3	4	5
16	If linked by YEDF to a large enterprise, your business will learn from it.	1	2	3	4	5
17	Your business will grow should YEDF link it to another large enterprise.	1	2	3	4	5

PART D: MARKETING OF PRODUCTS AND SERVICES

18. Has YEDF has helped market the products/ services of your business?

Yes

No

19. Has YEDF trained you on how to market the products and services of your business?

Yes

NO

20. If Yes in No. 19 above, have you been able to successfully market your business products and services.

Yes

No

21. Have you participated in a market fair organized by YEDF locally?

Yes

No

22. Have the sales of your business or profit increased as a result of the fairs organized by YEDF?

Yes

No

23. Do you think more needs to be done by YEDF to market your products and services?

Yes

No

Please indicate by circling the number of the degree to which you agree with each of these statements.

NO	ITEM	RATING SCALE				
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
24	YEDF has trained you how to package your products and services.	1	2	3	4	5
25	YEDF has exposed your business to potential customers internationally.	1	2	3	4	5
26	YEDF has enabled your business to identify the needs of your customers.	1	2	3	4	5
27	YEDF has shown you how to market your business to attract more customers.	1	2	3	4	5
28	YEDF has enabled your business attain competitive advantage through marketing your business.	1	2	3	4	5

PART E: BUSINESS DEVELOPMENT SERVICES

Please indicate by circling the number of the degree to which you agree with each of these statements.

NO.	ITEM	RATING SCALE				
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
29	YEDF has trained you how to run your business on day to day basis.	1	2	3	4	5
30	YEDF has trained and assisted you to develop business plan.	1	2	3	4	5
31	YEDF has facilitated you in identifying a business premises for your business.	1	2	3	4	5
32	YEDF has assisted your business keep proper business records.	1	2	3	4	5
33	YEDF has facilitated your business comply with labour laws and other regulations.	1	2	3	4	5
34	YEDF has set up information and communication centres that your business rely on.	1	2	3	4	5
35	YEDF has done any research aimed at helping your business grow.	1	2	3	4	5

36	YEDF has provided counseling and mentorship services for your business.	1	2	3	4	5
37	YEDF has provided business incubator for your business to grow.	1	2	3	4	5

..... **THE END**.....

THANK YOU

APPENDIX 2: TIME SCHEDULE

PHASE	ACTIVITY	TIME PERIOD
Phase 1	Proposal writing and defence	Jan 2013 – September 20-13
Phase 2	Pilot study and adjustments	September 2013
Phase 3	Data collection	October 2013
Phase 4	Data analysis	October 2013
Phase 5	Report writing and compilation	November 2013

APPENDIX 3: BUDGET

COST OF PROPOSAL

a.)	Cost of typing and printing @ Shs. 40 per page	1,600
b.)	Internet costs	5,000
c.)	Binding	500
d.)	Travelling costs	5,000

PROJECTED COSTS OF THE PROJECT

a.)	Travelling expense	10,000
b.)	Cost of hiring an assistant	6,000
c.)	Cost of processing data	10,000
d.)	Cost of typing final document	3,000
e.)	Cost of producing other three copies	2,000
f.)	Cost of binding the final copies	3,000

Subtotal **46,100**

Contingencies (30 %) of subtotal 13,830

TOTAL COST OF THE RESEARCH **59,930**