

Access to Credit Facilities as A Major Factor Hindering Access to Public Procurement Contracts By Youth Entrepreneurs in Government Ministries in OL Kalou Sub-County, Kenya

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Abstract: *Despite the various efforts put by the Kenyan Government to encourage youth participation in public procurement, very few youth-owned enterprises have been able to access public procurement opportunities. There has been no systematic attempt to look at public procurement from a youth angle in spite of its increasing recognition as a source of job creation, employment and economic dynamism in a rapidly globalizing world. The study sought to determine how access to credit facilities by youth entrepreneurs hinders their access to public procurement contracts. The researcher used descriptive research survey method. A population census of 25 youth-owned enterprises registered and operating within Ol kalou Sub-County was used. The research adopted an interview schedule and interviewed proprietors of the 25 youth-owned enterprises in the Sub-County. Data analysis was conducted through content analysis of the communication and views of the interviewees. Results revealed that access to credit was hindering access to public procurement contracts by youth-owned enterprises by denying them a level playing field in bidding for the contracts. The research recommends increasing access to credit to youth entrepreneurs to enable them access public procurement contracts.*

Keywords: Ol kalou, Access, Public Procurement, Youth, Credit Facilities

1. Introduction

Government is often the biggest customer within a country, and governments can potentially use this purchasing power to influence the behavior of private sector organizations. It spends a huge percent of its budget on procurement. Governments across the world tend to spend between 8% and 25% of Gross National Product on goods, works and services. In UK, public procurement expenditure is approximately one hundred and fifty (150) billion dollars (Department of Environment, Food and Rural affairs, 2007).

In Kenya, the Government is the largest single buyer of goods, services. The total volume of public procurement in 2003-2004 was established at 3.64 billion USD or 9% of the GDP (Independent procurement review Kenya, 2005). This amount is humongous and if it is well directed can drive economic growth through greater youth participation in public procurement (OECD, 2006).

Kenya's constitution defines youth as all individuals in the republic who have attained the age of 18 years but have not attained the age of 35 years. The sense of this definition is that it runs from the earliest acceptable school leaving age to the age at which most people will have completed third level education; the transition between education and the labor market (GOK, 2010).

Youth participation in public procurement can be an important source of businesses for youth owned enterprises. It functions to create demand and employment both directly through the projects and indirectly through purchased inputs. It offers attractive, stable contracts and accreditation through association with small firms that offer the best potential for

job growth and innovation. Public procurement therefore is an effective tool to create jobs and provide the foundations for economic recovery and sustained growth (McCrudden, 2004).

The government of Kenya has put in place policies to ensure youth benefit from government procurement contracts. Such policies include the public procurement and disposal regulations 2011, gazetted through legal notice number 58 of 2011, the government's affirmative action setting aside 10% of government contracts for the youth and the public procurement and disposal regulations, 2013 setting aside 30% of the public procurement contracts for the youth (PPDA, 2005).

According to public procurement regulations 2011, procuring entities are allowed to unbundle goods, works and services in practicable quantities pursuant to Section 31(7) of the PPDA, 2005 for the purpose of ensuring maximum participation of disadvantaged groups, small and micro-enterprises in public procurement (PPDA, 2005).

Small and micro enterprises or enterprises owned by disadvantaged groups participating in procurement proceedings are also exempted from providing tender securities. Under the regulations, procuring entities are authorized to make use of existing framework contracts with disadvantaged groups, small and micro enterprises wherever appropriate to provide an efficient, cost effective and flexible means to procure goods, works and services that are required repeatedly or continuously over a set period of time (PPDA, 2005).

2. Statement of the Problem

Despite the various efforts put by the Kenyan Government to encourage youth participation in public procurement, very few youth-owned enterprises have been able to access public procurement opportunities. There has been no systematic attempt to look at public procurement from a youth angle in spite of its increasing recognition as a source of job creation, employment and economic dynamism in a rapidly globalizing world. The tendency has been either to subsume the youth into general adult population or to ignore their efforts to forge a livelihood through enterprise activities (Thai, 2001).

3. Objectives of the Study

3.1 General Objective

To assess factors hindering access to public procurement contracts by youth-owned enterprises in Government ministries in Ol kalou Sub-County.

3.2 Specific Objective

To determine how access to credit facilities by youth entrepreneurs hinders access to public procurement contracts by youth-owned enterprises.

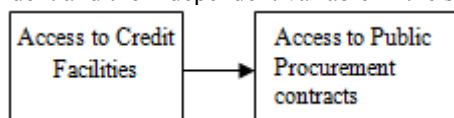
4. Literature Review

Access to credit is almost universally indicated as a key problem for SMEs. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Other financial challenges that face small enterprises include the high cost of credit, high bank charges and fees. Moreover, financing programs often do not address the type of sectors or business fields of youth entrepreneurs partly because those are not considered sectors with any growth potential (Welter, 2004).

Lack of access to finance is generally attributed to capital market imperfections which have resulted in financial institutions being less skilled at servicing the financial needs of SMEs and the lack of nonbank capital markets that SMEs can tap into. SME borrowing requirements are small and frequently do not appeal to financial institutions. More collateral may be required than SMEs can pledge. Financial institutions may lack expertise in understanding small and medium knowledge-based business (PECC, 2003).

5. Conceptual Framework

The conceptual framework explains the relationship between the dependent and the independent variable in the study.



The research used a descriptive research methodology. A census of all youth-owned enterprises registered and

operating in Ol kalou Sub-County was used. The instruments consisted of an interview guide administered through personal interview carried out by the researcher himself. Since the population was less than 30, the researcher collected data from all the 25 registered youth enterprises in Ol kalou Sub-County. The data collected was thoroughly examined and checked for completeness and comprehensibility. The data was then coded, summarized and categorized according to common themes. Content analysis was used mostly to arrive at inferences through a systematic and objective identification of the specific messages.

6. Research Findings

6.1 Bio data of Interviewees

Table 1: Position of Interviewees in the Enterprise

<i>Position of interviewee in the Enterprise</i>	<i>Frequency</i>	<i>Percent</i>
Manager/ CEO	22	91.7
Share holder	2	8.3
TOTAL	24	100

Table 1 shows that as regards the position of interviewees who participated in the study, 91.7% were CEOs of their respective enterprises while 8.3% were shareholders of their enterprises.

Table 2: Duration of Service of Participants in their Respective Enterprises

<i>Number of years</i>	<i>Frequency</i>	<i>Percent</i>
(0-4) Years	13	54.2
(4-8) Years	8	33.3
(8-12) Years	3	12.5
TOTAL	24	100

Table 2 shows that 54.2% of the participants interviewed had served for a period of between 0-4 years, 33.3% had served for between 4-8 years and 12.5 had served for between 4-12 years.

Table 3: Level of Education of the Participants

<i>Level of Education</i>	<i>Frequency</i>	<i>Percent</i>
KCPE	3	12.5
KCSE	8	33.3
Diploma	9	37.5
Degree	3	12.5
Masters	1	4.2
TOTAL	24	100

Table 3 indicates that 12.5% of the participants interviewed had KCPE certificates, 33.3% had KCSE certificates, 37.5% were diploma holders and 12.5% had first degree certificates. Research also indicated that very few youth entrepreneurs with a masters degree were engaging in business in the Sub-County at 4.2%.

6.2 Percentage of Youth Who Had Ever Borrowed Money from Financial Institutions

The findings revealed that 62.5% had borrowed money from financial institutions in the past while 37.5% had not.

6.3 Challenges Encountered by Youth While Borrowing

Table 4: Challenges Encountered by Youth Entrepreneurs while Borrowing

Challenges	Frequency	Percent
Lack of collateral	16	66.7
High interest rates	18	75
Difficult to get amount one wants.	10	41.7
Lack of guarantors	6	25
No grace period	7	29.2
Fear of the unknown by youth	2	8.3
Lack of trust by bank officials	4	16.7
Disorganized businesses	7	29.2
Long bureaucracy	3	12.5

From the findings in Table 4, high interest rate and other hidden charges was cited as a major challenge. This was cited by 75.0% of the interviewees. Majority of the interviewees at 66.7% also cited lack of collateral as a major challenge to accessing credit facilities. Other challenges indicted by the participants include difficulties in getting the amount of money that one is applying for indicated by 41.7% of participants, disorganized businesses that are not able to attract credit indicated by 29.2% of participants, Lack of grace period at 29.2%, lack of guarantors at 25.0%, Lack of trust by financial institutions on the part of youth entrepreneurs at 16.7%, Long bureaucracy in applying for loans and fear of the unknown by youth entrepreneurs which was indicated by 8.3% of the participants

6.4 Levels of Access to Credit Facilities by Youth-Owned Enterprises in Ol kalou Sub -County

The study sought to find the level of access to credit facilities in Ol kalou Sub-County by youth-owned enterprises.

Table 5: Levels of Access to Credit Facilities by Youth-Owned Enterprises

Level	Frequency	Percent
Excellent	1	4.2
Good	1	4.2
Fair	1	4.2
Average	13	54.1
Poor	8	33.3
Total	24	100

According to the findings shown in Table 5, majority of the participants rated the level of access to credit facilities by youth-owned facilities in the Sub-County from average to poor at 54.1% and 33.3% respectively. 4.2% of the respondents indicated that access to credit facilities was either excellent, good or poor.

6.5 How Access to Credit Facilities Hinder Access to Public Procurement Contracts

The study sought to find how access to credit was hindering youth-owned enterprises from accessing public procurement contracts in Government ministries in Ol kalou Sub-County.

Table 6: How Access to Credit Facilities Hinder Access to Public Procurement Contracts

Statement	Frequency	Percent
Inability to provide bid bonds	8	33.3
Financial incapability to go for big tender contracts	8	33.3
Expensive loans	1	4.2
Inability to deliver on contract	14	58.3
Lowers financial credibility	10	41.7

As indicated in Table 6, majority of the participants at 58.3% indicated that lack of access to credit hinders their ability to deliver on tender contracts when they win and this subsequently hinders their access to future contracts. The findings indicate that 41.7% of the participants indicated that lack of access to credit hinders their access to public procurement contracts on financial credibility during tender evaluation. The table also indicates that 33.3% of the participants indicated that lack of access to credit facilities hinders their access to public procurement contracts by hindering their ability to provide bid bonds and tender for big contracts. A small percentage of participants indicated that lack of access to credit hinders their access to credit by making the venture unprofitable due to expensive loans.

7. Conclusion

Access and availability of affordable credit ensures that youth entrepreneurs can get credit to start and expand their enterprises and also take advantage of emerging opportunities such as in public procurement. It hinders access to public procurement contracts by youth-owned enterprises in many ways namely by hindering ability to provide bid bonds, by hindering ability to go for big tenders, by hindering ability to deliver on won tender contracts, by lowering one's financial credibility on evaluation and by reducing one's profits due expensive loans from financial institutions.

8. Recommendations

To increase access to credit facilities by youth entrepreneurs participating in public procurement, loans to their enterprises through devolved funds such as YEDF should be up scaled. The Government should use purely government banks such as Post bank and National bank to give youth entrepreneurs' loans against LPOs and tender contracts. Mentorship and informative programmes on financial literacy should be rolled out among youth entrepreneurs. Youth entrepreneurs should be trained on business management. The high interest rates by financial institutions should be reduced. Youth SACCOs should be established to lend money to the youth at low interest rates.

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