Influence of the Vetting Process on Effective Utilization of the Youth Enterprise Development Fund in Kenya: A Survey of Gilgil Sub County, Kenya

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Abstract: To caution the youths from the rising unemployment rates, the government of Kenya introduced the Youth Enterprise Development Fund (YEDF) to allow them access low interest rate loans. Nevertheless, government statistics indicates that over 40% of the disbursed loans are non-performing compared to 8% of non-performing loans disbursed by banks. Thus this study aimed at establishing how pre-financing vetting process affects effective utilization of government funded youth projects in Kenya. It was carried out in Gilgil Sub-County, Kenya. The guiding objective was effects of vetting process on the effective youth fund utilization. The target population was youth groups that had accessed the YEDF and the YEDF officers. The study adopted explanatory research design with a sample size of 66 youth groups. Data was collected using interview schedules and questionnaires. Analysis entailed descriptive statistics, multiple response analysis, correlation analysis and thematic analysis. The study found out that there is no correlation between the vetting process and effective utilization of funds. The study recommends that YEDF should improve the vetting process to ensure that there is more accountability among youths on funds disbursed.

Keywords: Vetting, Youth Fund, Kitty, YEDF, Pre-financing Vetting, Disbursement

1. Introduction

In 2006, the government of Kenya introduced a specialised kitty (The Youth Enterprise Development Fund) meant to provide youthful entrepreneurs with source of capital for their business. Through the Youth Enterprise Development Fund (YEDF) initiative, there were more than 157,000 funded projects in the country by the close of 2012 at the tune of more than 5.9 billion shillings with over 300,000 jobs created [12]. There are success stories of how youth groups have been able to lift themselves from the effects of unemployment through the youth fund. The Ministry of Devolution and Planning cites Simba Engineering Youth Group, Tugi Initiative of Ndederu, Kinari Youth from Kiambaa among many other youth enterprises initiatives as examples of how the YEDF has helped youth start-ups grow.

However, there are also claims that most youth start-ups have been faced by a myriad of challenges during the implementation phase of such projects. Since the government statistics indicates that over 40% of disbursed loans are not being recovered compared to 8% of those advanced by the banking sector, it is clear that a good number of start-ups that are funded fail to achieve their initial objectives. Such high non-repayment rates may be an indication of poor vetting process since effective vetting process should minimise project risk by eliminating uncredit worth borrowers.

2. Theoretical Background

This study employed the theory of investment by John Maynard Keynes. According to Keynes [6], investments should place emphasis on the importance of interest rates in investment decisions. Changes in interest rates should have an effect on the level of planned investment undertaken in any venture. It further stipulates that a fall in interest rate should decrease the cost of investment, relative potential yield, and as a result planned capital investment projects on the margin may become worthwhile [9]. A firm only invests if the discounted yield exceeds the cost of the project.

Financing investments through borrowing implies an obligation to repay with interest. Whether the firm’s investment does not pay off, the money borrowed as principle and any interest accrued must be repaid. This implies that the ability to repay any loan is a crucial decision for any person interested in disbursing one. Thus, it is expected that funders should be ready to undertake a strong vetting and appraisal process so that only viable projects are funded. Much as the interests from the fund is considered minimal as compared to other loan schemes, YEDF projects have constant interest rates hence, when making an investment decision the interest rates should always be considered. Effective utilization fails when the youth beneficiaries fail to balance the return on capital with the capital cost of investment. Further effective utilization can be problematic when the youths are either over optimistic or over pessimistic as they at times fail to look at viable ventures, only concentrating on gut feelings. Due to over optimism as a result of availability of funds, youths might haphazardly form groups and start businesses that fail in their implementation and utilization of funds.
3. The Vetting Process

Before availing the requested funds to the youth beneficiaries, a vetting process is undertaken mostly by youth officers. It is a vital process to any loan giver as it helps eliminate projects that do not seem viable. Vetting also helps to ensure that there is proper management of funds safeguarding repayment of disbursed funds. Effective vetting process is meant to minimise project risks by ensuring that funds are not disbursed to those who borrow, but only to those who do with the intention and ability of repaying the loans. Graham asserts that financial vetting should include a thorough scrutiny of the credit policy and the proper credit appraisal [4]. Through vetting, main issues, priorities and potential of the youth are highlighted [3]. Odera et al. are of the view that through effective vetting process, the tendency of treating youths as a homogeneous group, which leads to isolation of some people, can be reduced [9].

Vetting for most YEDF projects does not concentrate on the viability of the project rather much consideration is placed on the application process and the selection criteria as stipulated by the guiding principles of disbursement of the devolved funds. The criteria to be met include; a mixed group of both genders, registered group with the department of social service or registrar of societies, minimum membership of fifteen individuals, groups constitution and minutes authorizing the loan, active bank accounts, copies of national Identification Cards of members, active bank account and a business proposal [12].

According to Odera et al., in a study of the effects of YEDF in Siaya County in Kenya, there was 100% acceptance among all the groups that applied for registration with the then ministry of gender and social services [9]. This gives an implication that vetting is done on grounds of meeting the guidelines and criteria given and not on the feasibility of the proposed projects. Additionally, there has been admission by the YEDF management that vetting process is never rigorous as undertaken by most financial institutions. However in support of this assertion, the YEDF explains that rigorous vetting would only serve to lock out many youths from benefitting from youth enterprise development fund whose main aim is to allow youths access credit with ease [12].

For effective utilization of the money accessed by the youths, quantifiable objectives that can be used to track performance of the fund and the youth group need to be put in place [10]. With proper vetting, the results to be achieved include; Scale and outreach of the fund, stakeholder profile of the fund, the size of the fund, and leverage of private sector fund to boost the activities of the youths [5]. The youth fund being a kitty for entrepreneurship development should be laced with professionals who can advise the youths before undertaking any venture. By doing these, it means a system of mentorship and follow up can be created to ensure the projects undertaken by the youths are viable which leads to sustainability [2].

4. Methodology

The study used explanatory research design. The target population was 80 youth groups that had accessed youth fund in the jurisdiction under review. At 95% confidence interval and 5% margins error, and with the aid of statistical sample size generators, the researcher calculated the sample size for the study, which yielded 66 youth groups. Data was collected using interview schedules and questionnaires. Analysis entailed descriptive statistics, multiple response analysis, correlation analysis and thematic analysis. Statistical Package for Social Sciences (SPSS) was used to for quantitative analysis where descriptive and inferential statistics were performed. The data was presented in tables and charts for ease of interpretation. For reliability purposes, a reliability test was done using Cronbach's alpha test, which yielded 0.789. The main objective of this test was to measure the internal consistency of the study components, that is, how closely related a set of components are as a group. Wherry argued that a reliability coefficient of 0.70 is considered “acceptable” in most social science research situations [11]. The questionnaire was therefore found to be relevant and effective.

5. Results

Out of the 66 questionnaires that were sent to the youth groups that had accessed YEDF, 57 questioners were duly filled and returned. This represented a response rate of 86.36%. After analysis was carried out as stipulated in the methodology, the following results were obtained.

6. Effects of the Vetting Process

The researcher first sought to establish if the youths had ever been denied the Youth Enterprise Development Fund as a result of vetting process. The results are indicated in Figure 1.

Figure 1: Denial of YEDF as a Result of Vetting

78.9% said they had never been denied the funds due to vetting process while 14% affirmed that they had been denied the funds as a result of vetting process. 7% did not respond to this question. It could therefore be concluded that the majority of the youths (78.9%) have never been denied youth fund as a result of the vetting process. This study therefore resonates with a study conducted by Odera et al. that the acceptance among youth groups that applied for youth fund was 100% implying vetting is done on the grounds of meeting certain guidelines and criteria given [10]. The researcher then sought to understand how vetting of groups eligible for funding is usually conducted. This was then tabulated on Table 1:
The researcher then sought to establish the effects of vetting process on government funded youth projects. The results of these are indicated in Table 2.

From the findings, 67.3% were of the opinion that vetting process ensures that funds are channeled to the right projects. 58.2% thought that effective vetting avails funds to the deserving youth while 56.4% opined that vetting helps assess the ability of youths to repay loans. Only 25.5% thought that vetting is characterized by conditionality and bureaucracy which makes the youths not to apply for funds. From the above responses it was clear that vetting was useful as funds were channeled to the right projects while deserving youths could access the funds hence improve their living standards and curb the rising rates of unemployment as envisioned by Boateng and Ofori-Sarpong [1]. From the Key informant data, it was established that vetting helps avoid money to deserving youth groups. Vetting focused on legal aspects thus reduced on the tendency of youth to change their mind on initial projects that leads to diversion of funds.

In a bid to link the dependent and independent variable, the researcher performed a correlation analysis to establish the relationship between vetting process and effective utilisation of government funded youth projects.

### Table 3: Correlation between Vetting and Effective Utilisation of Funds

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A two tailed test was used. From Table 3 the correlation between vetting and effective utilization of government funded youth project is 0.27 which is a very weak positive correlation. The p value was 0.842 which is greater than 0.05 indicating there is no significant relationship between vetting and effective utilization of government youth funded projects. This can further be backed up by the fact that the vetting done does not consider viability of projects, nor does it aim to empower the youths through empowering them on their academic level.
entrepreneurial skills as attested by Kimando, Njogu and Kihoro [7].

7. Summary and Conclusion

The findings demonstrated that the youths had never been denied funds as a result of vetting process. The vetting process entailed asking the youths on how they intend to use the availed funds. YEDF officer’s approach to vetting is mainly a check on completeness of the application forms as opposed to an evaluation of the ability of an applicant to repay the loan. This explains the high number of success rates among YEDF applicants and later very low repayment rates.

However, through vetting, there are circumstances that justified the youth being denied borrowed funds. These included the groups that did not have 70% being youths. The group should have existed for more than three months, groups that engage in illegal or socially misfit activities and those that had a history of none repayment were eligible for being denied the loans. From the findings it was clear that the vetting by YEDF officers was considered satisfactory by the youth and the funders. However, the YEDF vetting process does not meet the required threshold as envisioned by Wherry [11]. Effective utilization of funds ensured that funds are channeled to the right project by availing money to deserving youths.

In conclusion, the findings demonstrated that there was no significant relationship between vetting process and effective utilization of government funded youth projects. Thus whether the YEDF vetted or not this did not affect effective utilization of government funded youth project which indicates that the vetting process conducted by YEDF officers is insufficient. This observation can be buttressed by the fact that vetting as undertaken by the YEDF officers is more of check for completeness as opposed to the vetting process as opined by Graham, who asserts that for effective vetting process to minimize credit risk, the vetting process must include credit policy vetting and credit appraisal process [4].

8. Recommendations

The YEDF board needs to come up with better policies for effective vetting of the YEDF beneficiaries. As the study shows, there is no correlation between vetting and effective utilization of funds. Thus, vetting needs to be improved to determine the viability of projects before funds are disbursed. The researcher further recommends that fund administrators should focus more on rigorous pre-disbursement vetting to eliminate all none deserving youth groups.

References


Author Profile

Mr. Joseph Gatimu is a graduate of Sociology with Information technology (IT) from Maseno University (2009) and a Master of Science in Project Management Finalist from Jomo Kenyatta University of Science and Technology, Kenya, currently scheduled to graduate by the mid 2014. In addition to this, He has Certified Public Accounting qualifications up to the fourth section (CPA 4). Mugo has been involved in a number of research projects. He is highly passionate about the field of project management especially effects of monitoring and evaluation.