

# Effects of Access to Finance on the Performance of Youth-Owned Small and Microenterprises in Kibra Constituency, Nairobi County

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**Abstract:** *World is full of struggle for financial resources, people have been experiencing a lot of financial difficulties enabling especially the youths to start up small and micro enterprises to put food on the table, this prompted the researcher to conduct the research on effect of financial factors on the performance of youth-owned small and micro enterprise in Kibra constituency, Nairobi County. Kibra being the largest Slum in east Africa and a place where unemployment rate is high among the youths the research felt necessary to conduct the research in this area to help young people bridge the gap on unemployment among the youths. The study was supported by the following specific objectives; to establish effects of access to finance on the performance of youth-owned small and micro enterprises; to assess the effects of the cost of finance on the performance of youth-owned small and micro enterprises, to assess the effect of financial training on the performance of youth-owned small and micro enterprises. This study adopts a descriptive research design for the fact that it utilizes the elements of quantitative research methodology. Judgmental sampling was also applied in identifying respondents who have the information that was required for the study, all 176 registered Youth Owned Small and micro enterprises based in Kibra Constituency was included but only 58 was chosen as the sample size. The choice and identification of key informants was purposive as those holding key information of the SMEs information were the ones chosen. Questionnaire was the main instrument for data collection, Analysis and interpretation of the data was done using quantitative method in accordance to research objectives and research questions. The data was then collected and summarized, classified, tabulated and analyzed quantitatively and presented using tables, charts and percentages.*

**Keywords:** Financial factors, Access to finance, Youth Owned Small and micro enterprises, Kibra Constituency.

## 1. Introduction

It has been observed by several researchers that the population of the world is composed of large number of young people where statistical grouping globally indicates the following. From the data summarized by United Nations Program on Youth (2012), youths of between the ages 15 to 35 represent approximately 34% of the global population; this indicates nearly 2.4 billion people which are a large percentage of the population living in the world. Youth globally have been facing a lot of problem in terms of unemployment, immoralities, joining bad groups like the Alshabaab posing insecurity to the whole world. Though many researchesshow that, countrycannot survive without youths since they are the backbone of the country in terms of human resources, Brau, J. and Woller, G. (2004). The current global youth population is very large. Of the world's 3 billion people estimated to be under the age of 25, approximately 1.3 billion are between the ages of 15 and 24. In view of these, youth population forms the largest source of human resource (Kirby & Bryson, 2008) However, they have been placed on the edge and not fully utilized for social, economic and political development; (Roth & Brooks, 2004). Many of the youth who are productive and energetic remain unemployed or underemployed, continues to suffer from poor health, drugs and substance abuse and lack sufficient support. As a result, they are tapped in a "low productivity-low income-low wealth" vicious cycle of poverty (Cheluget, 2013).

With the global youth populations reaching a historical height of 1.5 billion, economies world-wide are increasingly

unable to provide young people with jobs, as youth employment grew by only 0.2% over the past decade against the global youth population growth rate of 10.5%. This prompted the first-ever Global Youth Micro enterprise Conference held in Washington, D.C. in September,2007 to address the rising youth unemployment which they may acquire employment as well as income. This is in view of the fact that the Small and micro enterprises (SMEs) sector has a potential to create wealth and employment as demonstrated in previous studies (Aryeetey, 1997).

The meaning of youth, and the way society regards youth, varies across time, place as well as societies. For developing nations and most particularly for African countries, the definition of youth poses a persistent challenge given the socio-economic and political realities within which youth are defined and characterized in policy formulation and design (Jennings, 2011). The Africa Youth Charter (2011) defined youth as individuals aged 15 to 35 years. According to Kenya National Youth Policy (2006), youth referred to as persons resident in Kenya in the age bracket 15 to 30 years, taking into account physical, psychological, cultural, social, biological and political definitions of the term.

In Kenya, the ministry of Youth and Sports (2008) report indicates that the youth aged 18-35 years are 13 million or about 37% of the population. Of the 13 million youth, less than 50% are in gainful economic activities in the formal, informal and public sectors of the economy while majority are unemployed. This trend is worrying and calls for intervention measures. The 2003–2007 Economic Recovery Strategy (ERS) for Wealth and Employment Creation

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provides the road map for economic recovery. The paper estimated that SMEs contribute 20 and 72% to the GDP and employment respectively. Hence, when the ERS anticipated creating 500,000 jobs annually, 88% of the targeted jobs were to be created in SMEs with the aim of reducing poverty rates from 56.7 to 51.8% (Ministry of Planning and National Development, 2003).

Small and micro enterprises (SMEs) are widely recognized as a major source of employment and income in developing countries, Jennings, (2006). If they grow in size, they would contribute to economic growth and poverty reduction among the youth. Like the rest of the world, the Kenyan government has now embraced entrepreneurship development through formulation of policies favorable to development of small enterprises particularly in the recent years. Such policy initiatives include Sessional Paper number 2 of 2005 on development of SMEs for wealth and employment creation (Government of Kenya, (2005); Sessional Paper number 2 of 1992 for small enterprise and *jua kali* development in Kenya; Sector Plan for labour, youth and human resource development 2008-2012 (Republic of Kenya, 2008c); Poverty Reduction Strategy Paper 1999-2015 and MSE bill 2006 which led to the establishment of a council to facilitate the development of SMEs and creation of SMEs development fund (Government of Kenya, 2006). In addition, the Ministry of Youth Affairs (MoYA) established Youth Enterprise Development Fund (YEDF) in the year 2007 (MoYA, 2008) as a source of capital for registered youth groups in Kenya to start and/or boost their SMEs (Onugu, 2005). Most commercial banks and financial institutions have also developed MSE tailored strategies to give loans to young entrepreneurs in groups or as individuals.

Performance is a widely used concept in many areas. In enterprise management, Moulin (2003) defines an organization's performance as 'how well the organization is managed' and "the value the organization delivers for customers and other stakeholders'." Measuring performance is a multi-dimensional concept. Effectiveness and efficiency are the two fundamental dimensions of performance (Neely et al., 2002). Performance of small business is defined as their capability to lead to the creation of employment and wealth by business start-up, survival and sustainability (Sandberg et al., 2002).

Generally, firm performance refers to outcomes that come from undertaking entrepreneurial activities. Improving the performance of YREs is a complex and dynamic process covering numerous activities and decisions. These events can be described as person-environment interactions, which include among others the refinement of the business idea. Thus the improvement of the performance of YREs requires the discovery and exploitation of opportunities. Entrepreneurial opportunities are those situations in which new goods, services, raw materials, and organizing methods can be introduced and sold at greater than their cost of production (Shane & Venkataraman, 2000). Discovery of opportunities occurs when an individual makes the conjecture that a set of resources is not put to its best use. In other words, the resources are priced too low, given a belief about the price at which the output from their combination

could be sold in another location, at another time, or in another form. If the speculation is acted upon, then exploitation of opportunity occurs. If the conjecture that is acted upon is correct, the individual earns entrepreneurial profit but if it proves to be incorrect, the individual incurs an entrepreneurial loss. In essence, this is firm performance. Understanding the key determinants of firm performance remains a daunting task for researchers in entrepreneurship. Specifically, Chigunta (2002) has called for systematic studies that investigate the determinants of performance of YREs.

In Kenya, the Ministry of Youth and Sports report (2008) indicates that the youth defined within the age 18-35 years are about 13 million which is equivalent to 37% of the population. Of the 13 million youth, less than 50% are in gainful economic activities in the formal, informal and public sectors of the economy while majority are unemployed, Jennings, (2006) and live on less than two dollars a day, as estimated by the United Nations.. Attempts to alleviate the youth from this poverty level have been carried out in as many places in Kenya. The provision of credit, for example, has increasingly been regarded as an important tool for raising the incomes of these youths, mainly by mobilizing resources to more productive uses. Unfortunately poverty has continued to prevail among them even with such loans. ). While in Africa, youth population represents 30%, in Kenya the youths are approximately 9.1 million and account for 32% of the population (African Union, 2008)

In the Kenyan context back in sixties, the government and other voluntary youth agencies did little to involve youth in the development agenda. National Youth Policy, (2006) highlights that, except the National Youth Service that was started in 1964, most other youth programs that existed were largely social and recreational in nature. In addition, they were urban based. They included: the ILO/University of Nairobi sponsored Kericho conference on "Education Employment and Rural Development" and; the publication by the NCKK of the "After School - What?" Report in 1966. The problem of youth employment has since then continued to occupy the minds of policy planners in Government and private sector. The third National Development Plan 1974-78 while acknowledging the efforts made in addressing the youth unemployment predicted that in future would loom large unless urgently addressed (Parliamentary Budget Committee, 2011). According to that report, efforts towards youth development programs have ever since been made in other subsequent policy documents such as: the Sessional Paper No. 2 of 1992, on Small Scale and *Jua Kali* Enterprises; the 1997-2001, Development Plan; the National Poverty Eradication Plans 1999-2015; the 2002, Kenya National Youth Policy; the 2006, Youth Enterprise Development Fund; the 2009, Kazi Kwa Vijana and the 2013, Uwezo Fund. Youth organizations in Kenya have also come up with innovative programs to address the youth's socio-economic needs. These includes health intervention programs especially those aimed at promoting reproductive health and alleviating the spread of HIV/AIDS among the youth, environmental programs, character building, literacy, vocational training, sports, recreational programs as well as social-cultural programs (NGO Coordination Board, 2010).

The study aimed at establishing effect of financial factors on the performance of youth-owned small and microenterprises in, Kibra constituency, Nairobi County since Kibra is the largest slum in East Africa, it is a microcosm of many of the world's most vexing issues – poverty, poor healthcare, severe water shortage, the spread of HIV infection and lack of women's rights. More than 700,000 people live in a 630-acre area (about 2.5 square kilometers) outside Nairobi Town, Kenya. It is one of the most densely populated urban settlements in the world. The vast majority of Kibra's residents live in abject poverty with few government services. Kibra faces an exploding youth population, representing over half of the slum's entire population – a population that is largely unemployed and will continue to multiply. Much of our global population growth will occur in developing, urban settlements like Kibra. A myriad of Kenyan ethnic groups from various religious backgrounds call Kibra home and the slum has a violent history of ethnic clashes between these groups.

Youth development Fund was established in January 2007 with an aim of spearheading the general empowerment of the youth in order to reduce risk factors and promote positive factors. The department coordinates and mainstream youth issues in all aspects of National Development as stipulated in the National Youth Policy 2006. The state department empowers youth through provision of accessible appropriate and quality training in technical, vocational, industrial, entrepreneurship and life skills. This is to enable the youth be self-reliant and have necessary skills to steer the country towards the goals of vision 2030. With existing youth and women fund initiated by then president Mwai Kibaki operated KSh4.8 billion and 5.2 billion. Kazi kwa Vijana had 5.2 billion for which all have been in disposal for the last seven years but many young people still languish in abject poverty.

However, youth unemployment problem has been worsening in spite of remarkable increase in the number of programs adopted to address it mainly because of lack of a comprehensive, long term and practical approach; charitable nature of the available youth programs that have created dependency and taken away individuals' initiative to break the poverty cycle; pressure from the high population growth rate currently standing at 2.6% (Kenya National Bureau of Statistics, 2009); resources constraints; lack of appropriate skills and unclear and uncoordinated policies and programs. According to Parliamentary Budget Committee's Report (2012), the creation of jobs for unemployed Kenyans, especially the youth is more urgent than at any other time in the country's history and needs to be the focus of the new growth plan

## 2. Statement of the Problem

World over, provision of finance to the vulnerable has been considered an innovative and sustainable approach where the youth can engage in microenterprise activities to generate income so as to improve their livelihoods and contribute to economic growth. Finance factors refers mainly to loans; savings mobilization and training in micro enterprise investment services extended to poor people to enable them undertake self-employment projects that

generate income. This is in view of the fact that the Small and micro enterprises (SMEs) sector has a potential to create wealth and employment (Aryeetey, 1997).

Youth (15 – 34 year olds), who form 35% of the Kenyan population, have the highest unemployment rate of 67%. Over one million young people enter into the labour market annually without any skills some having either dropped out of school or completed school and not enrolled in any college. A further 155,000 join the labour market annually after completing training in Technical and Vocational Education and Training (TVET) or at the university. A total of over 1.3 million new employment places have to be created annually to meet this demand. It is also noted that, the skills acquired by the college and university graduates often do not meet the expectation of employers. (Kenya Country Report, 2014).

In order to respond to this high rate of unemployment, policy makers are increasingly focusing on encouraging young people to create their own jobs. Various governments are taking an increased interest in promoting the growth of entrepreneurship. Individuals are encouraged to form new business and are provided with such government support as tax incentives, buildings roads and a communication system to encourage this creation process. This will be of paramount importance because the size of the projected growth of the labour force, even under the best of scenarios, the expansion of wage and salary jobs will not absorb the majority of the future labour force. The informal sector will continue to take in a large share of labour force growth especially in sub-Saharan Africa.

Small and micro enterprises (SMEs) are widely recognized as a major source of employment and income in developing countries (Mano *et al.*, 2011). If they grow in size, they would contribute to economic growth and poverty reduction among the youth. Like the rest of the world, the Kenyan government has now embraced entrepreneurship development through formulation of policies favorable to development of small enterprises particularly in the recent years. Such policy initiatives include Sessional Paper number 2 of 2005 on development of SMEs for wealth and employment creation (Government of Kenya, (2005).

Despite these efforts, problems still face potential young entrepreneurs with recent statistics showing that three out of five SMEs in Kenya fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Such challenges include identification of business opportunities and negative view of SMEs (Amyx, 2005); poor management (Longenecker *et al.*, 2006) and financial problems (Naidu and Chand, 2012). The major challenge the YG SMEs face is how to overcome the factors hindering growth (Mbonyane & Ladzani, 2011).

According to Mushendami, *et al* (2004) limited access to credit has been identified, in a number of studies, as one of the major constraints that hinder the process of empowering the poor to break out of the poverty circle. Commercial banks are reluctant to service youth run SMEs, particularly entrepreneurs from rural areas for a number of reasons such as: Youth are high-risk borrowers due to insufficient assets



and low capitalization, vulnerability to market fluctuations and high mortality rates; Lack of accounting records, inadequate financial statements or business plans makes it difficult for creditors and investors to assess the creditworthiness of potential SME projects.

A few studies have been done in Kenya revolving around performance of SMEs and SMEs. According to Kamau (2009), 90% of all small and micro enterprise collapse in their first year of startup, due to lack of financial resources. Although many financial institutions have been vigorously marketing their credit facilities, few enterprises have been accessing them. Wanjohi (2009) among the conditions being set are provision of various forms of Collateral security, land title deeds and maintaining accounts with the financial intermediaries for six months prior to being given the loans. Paul (2014) postulates that the amount of credit awarded influences the size of an investment. Simeyo, et al (2011) revealed that loan had the largest significant effect on performance of microenterprises. However, none of these studies provide direct information on the effect of Access to finance on financial performance of SMEs. It is with this concern that this study endeavors to establish the finance factors that affect the performance of youth-owned SMEs

#### The General objective of the study

- 1) The general objective of this study was to determine the effects of access to finance on the performance of youth-owned small and microenterprises in Kibra constituency, Nairobi County.

#### The Specific objectives of the study

- 1) To establish the effect of Collateral security on the performance of youth-owned small and microenterprises In Kibra constituency, Nairobi County.
- 2) To assess the effect of availability of capital on the performance of youth-owned small and microenterprises In Kibra constituency, Nairobi County.
- 3) To assess the effect of lending institutions on the performance of youth-owned small and microenterprises In Kibra constituency, Nairobi County.

### 3. Literature Review

#### The Resource Based Theory

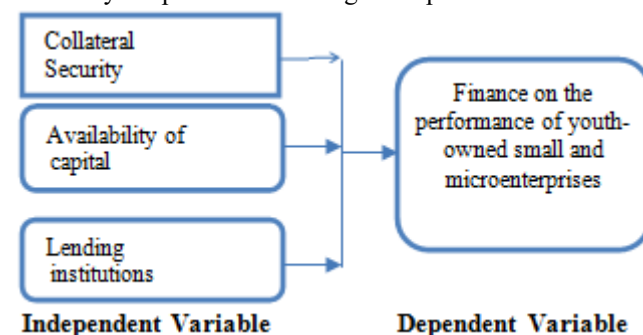
Resource based theorists contend that the assets and resources owned by companies may explain the differences in performance. Resources may be tangible or intangible and are harnessed into strengths and weaknesses by companies and in so doing lead to competitive advantage. Fletschner and Kenney (2011) noted that the resource-based view seeks to bridge the gap between the theories of internal capability of the firm on one hand and external competitive strategies on the other. It treats organizations as potential creators of valued capabilities and postulates that the assets and resources of the firm have to be viewed from a knowledge-based perspective (Cole, Sampson & Zia, 2009).

Resources are either property-based or knowledge-based (Wiklund and Shepherd, 2004). In this respect, property-based resources are tradable and non-specific to the firm while knowledge-based resources are the ways in which firms combine and transform tangible input resources.

Therefore, knowledge-based resources may be important in providing sustainable competitive advantage (Croson and Gneezy, 2008). Age and education are two common sources of knowledge-based resources, which influence access to credit (Cutura, 2007). Other, sources of knowledge-based resources that have the potential to influence access to credit include family business history, entrepreneurial experience, industry specific know-how, training and social capital (Lore, 2007).

### 4. Conceptual Framework

The study adopted the following conceptual framework:



Source: Author 2016  
Conceptual framework

#### Access to finance

Access to finance can be a restriction for other businesses though not by choice. The high level of uncertainty typically associated with small and to a lesser extent medium enterprises means it is difficult for lenders to assess the risk of an investment. In combination with the characteristically lower levels of collateral held by these businesses, having little to offer but their hopes and dreams, banks and other parties may be reluctant to lend (Harrison et al., 2004; Rutherford et al., 2001). Thus, for many small enterprises, lack of available cash flow or external finance may result in the firm being unable to adequately fund its operations and pursue market opportunities. This highly affects the growth (Locke, 2004; Carter & Van Auken, 2005).

Lack of access to credit/ finance is almost universally indicated as a key problem for SMEs. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives who are not enough to enable SMEs undertake their business activities optimally. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. There are various financial challenges that face small enterprises. They include the high cost of credit, strict credit scoring, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' which they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial

constraint remains a major challenge facing SMEs in Kenya (Wanjohi & Mugure, 2008).

Young entrepreneurs often have difficulties in meeting strict credit scoring criteria as banks often deal arbitrarily with terms and conditions. There is a lack of binding rules and clear general terms ensuring the transparency of rating procedures and credit scoring systems for young entrepreneurs. They are easily put off by the documentation procedures and information required by many commercial lenders of credit. Particularly funds requiring less or no collaterals but that charge very high interest rates and fees often have more complex documentation procedures. Entrepreneurs are often not aware of all available types of finance, funding forms and special support programs. They often do not understand the concept, the benefits, the possibilities and the drawbacks of the numerous forms of debt and equity financing (De, 2001)

Finding start-up finance for the business is the biggest hurdle that many entrepreneurs go through. Even after getting started, getting sufficient finance to sustain business growth is another problem. Research findings by McCormick et al (1996), Daniels et al (2003) Kinyanjui (2006) show how SMEs are constrained by finance. Studies undertaken by Kiiru, Mirero and Masaviro (1988) for Kenya Rural Enterprise Program (K-Rep) confirm that a major constraint within the small business enterprise sector is financing. In the study carried in Nairobi among small manufacturing enterprises, Nyambura (1992) established that finance was rated among the biggest problem. In South Africa Eeden (2004) found finance as cited as one of the most prominent constrains. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with SMEs.

Insufficient financing is as much a problem as lack of finance and as a result of scarcity of finance, small enterprises are unable to expand, modernize or meet urgent orders from customers. The profit Margins are usually little to support growth. Harper (1984) notes that businesses like grain millers and tailors are unable to compete with large manufactures of ready-made goods because they have to wait until a customer provides them with raw material or money to buy it. Some may be unable to get started until a customer pays the deposit, which will be used to buy the raw material.

## 5. Research Methodology

A survey was found to be reliable when measuring the characteristics of a large population. Descriptive methods are unusually popular in obtaining data used in evaluating present ways of doing things and establishing basis for action. Kerlinger (1983) asserts that survey design allows the researcher to study variables as they exist. For this study the researcher has no power to manipulate the results of the variables of the study. This study basically sort to investigate in depth the financial factors affecting

performance of youth owned SMEs in Kibra constituency and adopted survey as the design.

**Table 3.1:** Sample Frame

Type	Frequency	Sample Size	Percentage
Small Enterprise	76	28	48
Micro Enterprise	100	30	52
Total	176	58	100

Source: Nairobi City County (2014)

In order to meet the objective of the study, open and closed ended questionnaires were used to collect the primary data developed by the researcher.

The questionnaires were used to obtain primary data from the sampled population, who were the departmental heads and senior managers. All the respondents were asked the same questions in the same order. The questionnaires provide both qualitative and quantitative data.

Secondary data were also used, extracted from previous research reports and company documents review. A descriptive study was analyzed based on secondary data obtained from available financial statements derived from the website of study company.

Qualitative analysis was done on the information collected from the results of the questionnaires; quantitative analysis was included, both descriptive and inferential statistical techniques were used. Descriptive statistics was used to analyze the quantitative data. The findings were presented using tables, graphs and pie charts.

## 6. Results and discussions of the findings

From the findings on having a place collateral security where youths are safe from cultural perception can lead to SMEs performance, 85% of the respondents agreed while only 15% disagreed. Having something kept in the place of funds received by the youth enables them to work extra hard for fear of losing the collateral and this will enhance performance. However, those disagree cited that loan defaulting can occur weather the collateral is in place or not.

Sources of capital in terms of equity and debt when correctly chosen, the SMEs operation will expand. 61% of the respondents strongly agreed with this statement, 31% also agreed while 8% had some reservations about it. The agreement was due to the fact that debt can be used to fund the business operations and to purchase its assets. This equity can also bring in more investors to the business.

When youths have got more lending institutions, there will bean improvement in the performance of their SMEs. This was supported by 96% of the respondents who sited that more finance institutions makes it easier to get cheap loan and they come with a variety of packages such as financial training, which is important as it helps in the management of the SMEs. Ninety six percent (96%) of the respondents also agreed that a good record keeping enables one to get access to finance easily. Most institutions will be much willing to fund an already existing business and the records are

properly kept. This ensures discipline in the financial management. However, 4% of the respondents dismissed the statement saying that when one has collateral, then record keeping is not important to the lender

## 7. Summary of the findings

The objective of the study was to determine the effects of access to finance on the performance of youth-owned small and microenterprises in Kibra constituency, Nairobi County.. From the research conducted by Mwangi (2012) on determining the effects of access to finance on the performance of youth-owned small and microenterprises in Kenya, it was concluded that access to finance and the related practices are considered significantly important to the operations and financial performance of youth owned small and micro enterprises. these commercial banking institutions, confirming the results of this studies.

The researcher used arithmetic mean and percentages when analyzing the responses. A mean of 4 and above meant that respondents strongly agreed and anything below 3 meant that respondents strongly disagreed with the statements. Most of the responses had a mean of 4 and above hence showing that The study sought to investigate if easy access to finance brings about an increase in number of SMEs, as represented in the above. 73% of the respondents agreed, citing that when all barriers are leveled so that many youths are able to approach an institution for finance, then there is a possibility of rising in the number of SMSs for self-employment. 19% disagreed claiming that the number might not reduce, as many SMSs will be started without proper planning thus die after a short period of operation. Majority sited Saccos as the easiest institution to access funding in the area as it is owned by members.

## 5.3 Conclusions

From the findings the study concludes Access to finance leads to a better financial performance of youth owned small and micro enterprises where Sources of capital in terms of equity and debt when correctly chosen, the SMEs operation will expand When youths have got more lending institutions, there will be an improvement in the performance of their SMEs in that more finance institutions makes it easier to get cheap loan and they come with a variety of packages such as financial training, which is important as it helps in the management of the SMEs.

## 5.4 Recommendations

Similar studies may be extended to other groups such women groups and the old groups opting to open up small and micro enterprises in the country such as micro finance and banking industries in order to understand the extent to which those financial factors affects the financial performance of the organization, and how their implementation may have on the financial performance of the youth owned small and micro enterprises. Similarly the studies can be done for other medium enterprises in other countries.

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