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Original Research Article

DEVELOPMENT OF YOUTH LED MICRO AND SMALL ENTERPRISES IN KIRINYAGA COUNTY, KENYA

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Abstract: - This descriptive study sought to analyze how; finance availability, management skills, technology adoption and laws and regulations affect the development of youth-led MSEs in Kenya, Kirinyaga County. Stratified random sampling was used to select 96 respondents out of a target population of 481. Questionnaires were used to collect data. The multiple regression results depicted the following coefficients; finance 0.018, management 0.114, technology -0.431 and laws and regulations 0.142, at 95 percent confidence level. The study recommends deliberate efforts be made by the Government to sensitize the Youths on availability of Government loans for their uptake. MSE specific courses/trainings should be introduced in secondary schools to prepare the Youths on the necessary business skills needed to start and run a business. The Government should subsidize the cost of technology adoption to enable youths embrace the same. The National and County Governments should endeavor to enact and operationalize laws and regulations which enhance business initiatives. The above recommendations may help the enhancement of development of the initiatives so as to spur the growth of MSEs.

Key Words: Development, Micro-Enterprise, Small Enterprise, Youth

Introduction

The major problem facing many governments in the world is inadequate Employment opportunities for youths who graduate from universities and colleges every year. Approximately 88 million youth around the world are unemployed and underemployed (World Youth Report, 2005). Micro and Small Enterprises (MSEs) sector has over the years played a pivotal role in addressing the youth unemployment problems all over the world. In the last 10 years, policy makers and other proponents of economic growth and development have underscored the significance of MSEs as critical catalysts for economic growth and development through provision of employment and improved living standards for the people (Sharma and Wadhawan, 2009).

Studies documented from around the world attest to the importance of MSEs to the economies. Kuratko and Hodgetts (2001)

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demonstrates the importance of MSEs by pointing out that on average 600,000 new businesses are created every year through start-ups, expansions or development in form of self-employment. The MSEs, according to Kuratko and Hodgetts (2001) translated to creation of more than 34 million new jobs between 1980 and 2001 in various countries throughout the world. In 1996 alone, MSEs created about 1.6 million jobs, representing about 94 percent of the net jobs created in the world during that period (Organization for Economic Co-operation and Development (OECD, 2014). According to the OECD (2014), about 40 percent of young people who finish colleges had interest in forming their own businesses**.** In the USA for example, every year, about 67 percent youths who graduated from colleges had keen interest in participating in starting a new venture. Whereas in the United Kingdom, a survey conducted by OECD (2014), showed that in the entire Europe, the United Kingdom was the leading in terms of self employment creation through MSEs. More than 75 percent of the youths in the United Kingdom had a desire to start their own businesses each year. Irene (2009) asserts that in the United Kingdom, about 50,000 youths start MSE businesses which in turn employees about 14 percent of youths per a year.

In Africa, young people are about three times more likely as adults to be unemployed (OECD, 2014). MSEs in the African context are not viewed as a source of employment, but rather as a waiting place for youths who are looking for employment in the formal sector after clearing colleges. The youths in Africa view MSEs as a means of helping them to be busy and assert themselves in the world of work, as they search for formal employment. It is also argued that some youths in Africa view MSEs as a means of economic empowerment for the betterment of their living standards (Kiraka, Kobia and Katwalo, 2013). In Kenya, the importance of MSEs as an engine for economic development has always been embraced since independence. In 2003, the Economic Recovery Strategy for Wealth and Employment Creation 2003-2007 underscored the importance of MSEs for faster economic growth and development by mainstreaming the aspirations of MSEs in the country's medium term plans. The MSEs have been viewed as having enormous capacity to create more employment opportunities for youths and thus propelling the engine of wealth creation (Ministry of Planning and National Development [MPND], 2003). A study done by Karakezi and Majoro (2002) estimated that by 2002 there were 900,000 micro and small enterprises employing 2 million people and generating about 20 percent of the country's GDP. The study further found out that the MSEs employed about 64% of the urban employment. In 2003, the MSEs accounted for 74.2 percent of the total employment opportunities, contributing to about 18.4 percent of the Kenya's GDP (Kenya National Bureau of Statistics, 2003).

In order to ensure youth participation in MSEs, the Government of Kenya created the Youth Enterprise Development Fund (YEDF) to work jointly with the Ministry of Youth Affairs and Sports (MOYAS, 2009) in enterprise development among the youth. The Kenya Vision 2030 (MPND, 2007) further recognizes the YEDF as one of the flagship projects under the social pillar targeting people aged between 18 and 35. The fund has partnered with various financial intermediaries, from which the young people seek funds to start or expand viable businesses. Growth in youth -owned enterprises is expected to improve as the government implements its procurement policy requiring that 30% of all public contracts be reserved for the youth and women (YEDF, 2013).

According to Irene (2009), the specific entrepreneur skills of the youths in coming up with vibrant MSEs has always been underestimated. The International Finance Corporation (IFC) (2011) has identified various challenges faced by MSEs including lack of innovative capacity, lack of managerial training and experience, inadequate education and skills, technological change, poor infrastructure, scanty market information and availability of finance.

Statement of the Problem

The important role played by micro and small enterprises is demonstrated by the effort of the government to support youth enterprises by setting up the Youth Enterprise Development Fund (YEDF), Uwezo Fund and the 30% procurement preference provision for youth and women in all government tenders and contracts. Although some entrepreneurs in MSEs have received both financial and non financial assistance, many are still small or are facing viability problems in Kirinyaga County.

This study therefore sought to evaluate whether access to startup finance, having the right management skills, adoption of appropriate technology and having conducive laws and regulations in place contribute to the development of youth led MSEs in Kirinyaga County.

Research Objectives

i. To assess the effect of finance availability on the development of youth-led MSEs.
ii. To analyze the extent to which management skills contributes to the development of youth-led MSEs
iii. To explore the influence of technology on the development adoption of youth-led MSEs.
iv. To analyze the effect of laws and regulations on development of youth-led MSEs.

Literature Review

Penrose's theory on the Growth of the Firm was reviewed to support the study. Penrose (1959), attached great importance to human resources, in particular management. She saw managerial constraints as limiting the rate of growth of firms. In Penrose's approach, managers are prime actors whose preferences are shaped by; the internal dynamics of firms, managers' perception of the external and internal reality, and their own motivation.

This theory is relevant for this study because the youth led MSEs rely on management which is a human resource element in running the day to day business. From Penrose's theory, experience in working together, teamwork and external networks can help growth and development of the firm. For any firm to develop there must exist shared vision and clear organizational structure which supports the decision making to achieve set goals.

Empirical Analysis of Variables

Financial services acts as a catalyst to the development of the micro and small enterprises. Studies done by Ligthelm and Cant, (2002) indicated that financial services availability to the MSEs is limited as they are young and have got no solid business record. This is contrasted by the ease of availability of financial services and credit to large and mature firms. They explain that limited access to external financial services and credit constrained the level of productivity of the small firms.

Gachuiri and Bwisa (1997) in their research on the challenges facing youth entrepreneurs in accessibility to credit; after analyzing the various components of credit availability found that 63% of the youth entrepreneurs interviewed felt that loan processing fee was high. On the other hand, 90% of the youth entrepreneurs opined that the rate of interest at which the financial institutions extend credit to them is high. This shows that finance availability plays a critical role in the development of youth led MSEs.

Micro and small enterprises majorly driven by the youth are always viewed as lacking adequate managerial skills to spur their growth and development. Cheung (2008) explains that the MSEs entrepreneurs are not always equipped with the requisite experience and relevant training in business management. This leaves the enterprises vulnerable to collapse and stunted growth.

Odhiambo (2013) while studying factors that influence performance of 43 youth owned MSEs in Kajiado North district in Kenya, found that managerial skills was a critical factor that most of the MSEs were not properly equipped with. Out of the four variables (entrepreneurship training, networking, leadership styles and managerial skills) under study, the author established that managerial skills was the most robust variable for enhanced performance of youth led MSEs. In addition, there still exists a massive managerial skills gap in the micro and small enterprises sector even though there were massive capacity building and training engagements being offered by different institutions to the sector (Kayanula and Quartey, 2000).

A study by Kiveu and Ofafa (2013) in Kenya established that massive chances exist for the MSEs to enhance their growth and development through application of communication information and technology (ICT) in their operations. The researchers argued that the businesses should adopt ICT in areas of online selling, market research and analysis, production processes, networking amongst others so to avert the problems of limited market access. The resultant gain is low transaction costs, enhanced availability of information and efficient communication.

The laws and regulations governing the registration, regulation, management and taxation of business enterprises should be favourable to the entrepreneurs to promote their development given the importance of the businesses in the country. On the other hand, these regulations and laws have become constraints to business developments in developing countries (Beck, Kunt and Maksimovic, 2006).

In a benchmark survey done by K'Obonyo, Ikiara, Mitullah, Ongile and McCormick (1999) on compliance with business regulations and laws in Kenya by the MSEs; the study found that the unregistered businesses spend about Ksh 356 million of money in payment for 'public relations' to enforcement officers for non compliance with regulations and Acts. On the other hand, the unregistered firms spend about Ksh 273 millions in bribes to avoid actions such as evictions, arrests or confiscation of goods by the enforcement officers. The findings show that a lot of finances and time is lost by the MSEs for either paying the public relations fees or in running battles and playing hide and seek games with the enforcement officers. The researchers found further that non compliance to the laws is due to the centralization of the registration offices in Nairobi hence high cost in registration process.

Operational Framework

The operational framework for the study looked at the variables and their corresponding parameters of research. Figure 1 provides the operationalization of the variables for the study.

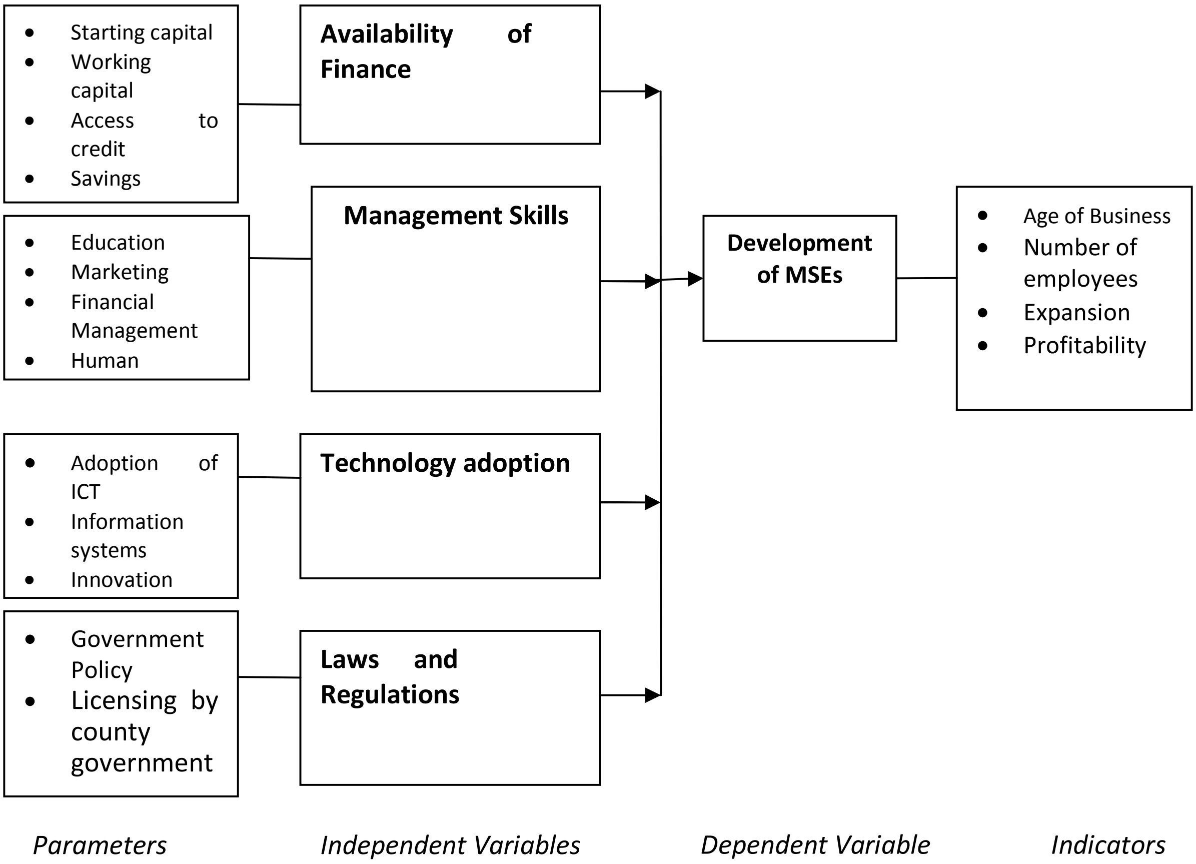

Figure 1: Operational framework

Materials and Methods

This study adopted the descriptive research design. According to the County Youth and Gender Development Office in Kirinyaga County, there are 481 registered youth led MSEs in the county who were the primary respondents for the study. Stratified random sampling technique was employed to select 96 youth-led MSEs for the study. This entailed dividing the total population into sub-populations where the business was categorized as agribusiness, service provision, commercial and manufacturing. Table 1 below presents the sample frame.

Table 1: Stratified Sample frame

Category	Number	Percentage	Sample Size
Agribusiness	235	20%	47
Service provision	82	20%	16
Commercial	148	20%	30
Manufacturing	16	20%	3
Total	**481**	20%	**96**

To select the actual respondents in each strata, the researcher used interval sampling by Kothari and Garg (2014) where;

N = Total population,

n = Target population and

N ÷n = the actual sample interval,

Therefore the sampling interval was 5 (481/96).

A self-administered questionnaire was used to collect data from the 96 respondents.

The data was processed using Statistical Package for Social Sciences (SPSS) version 20.0. Descriptive analysis used measures of central tendency such as means, median and other measures of standard deviation and variance. Inferential techniques of data analysis such as Pearsons' correlation were used to analyze correlation and relationships among the variables.

Multiple regressions used in this study was expressed by the following equation:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon_{it}$$

Where:

Y = the development of micro and small enterprises

β_0 = the constant term

β_1 - β_4 = the coefficients of the independent variables.

X_1 = Finance Availability

X_2 = Management Skills

X_3 = Technology Adoption

X_4 = Laws and Regulations

ε_{it} = the error term

Permission to conduct research was obtained from the Ministry Science and Technology to carry out the research in the field.

Results and Discussion

The findings indicate that 55 (57%) of the respondents were female while 41 (43%) of the respondents were male.

Table 3: Respondents' Characteristics

Type of Business	**Frequency (N)**
Agri-business	31
Commercial Activities	30
Service Provision	26
Manufacturing	9
Total	**96**
Number of Years in Business	**Frequency**
<1 year	6
1-3 years	43
3-5 years	30
5-10 years	14
over 10 years	3
Total	**96**
Monthly Income (US Dollars)	**Frequency**
Below $ 115	25
$ 116 to $ 570	48
$ 571 to $ 1140	12
$ 1141 to $ 2850	8
$ 2851 to $ 5700	3
Total	96

Availability of Finance

From the responses by youth MSEs indicated that raising finance for starting the business was important for the development of their businesses with a mean score (4.64) and standard deviation (0.60); accessibility to credit with a mean score (3.89) and standard deviation

(0.96); and working capital with a mean score (4.17) and standard deviation (0.50).

The results of the study attests that lack of financial resources was a major barrier for MSEs and entrepreneurs who have to mobilize their own finance or their own resources to establish or expand their business which concurs with Harvie and Lee (2005). The study therefore found out that access to finance helps all firms to grow and prosper. Furthermore, the study confirms that firms with greater access to finance are more able to exploit growth and investment opportunities. This is in agreement with Beck *et al*, (2006).

Contribution of Management Skills

Forty seven percent of the respondents strongly agreed while 53% agreed that management skills were important for the development of MSEs. The results showed management skills with a mean score of 4.47 and standard deviation 0.502.

This is in accordance with Lefebvre and Lefebvre (2002) as well as Peterman and Kennedy (2003) who stipulated that managerial competency and skills are important for new firm formation.

Influence of Technology Adoption

From the responses, 77 (80%) indicated that they had adopted ICT in business operations while 19 (20%) had not. For those who were using ICT in their business, the respondents identified record keeping, banking and online marketing.

As to whether current technological advancements affect the growth of youth owned MSEs, 52% of the respondents agreed, 33% strongly agreed while 14% were non-committal in their responses. This is supported by Brynjolfsson and Hitt (2000) whose finding suggest that investments in technology are required in order to build up existing capacity and to improve the quality and productivity of production which will generate in higher value-added products that will improve the competitiveness for firms.

Laws and regulations

Ninety six of the respondents indicated that they were aware of the government policies affecting their businesses. As to whether documentation of a business needed by the government affects youth entrepreneurship development 50% of the respondents agreed, 39% strongly agreed, 9% were non-committal while 2% disagreed. Licensing by the local county government authorities also affected youth entrepreneurship development as 65% of the respondents agreed while 31% of the respondents strongly agreed. On the number of licenses required to operate a business 69% of the respondents indicated two licenses 23% indicated three while 9% indicated one license.

Conclusion

The results of the multiple linear regression equation were as follows:

$$Y = 2.316 + 0.018X_1 + 0.114X_2 - 0.431X_3 + 0.142X_4$$

The multiple regression result showed that there is a positive relationship between development of MSEs (Y) and Finance availability (X_1), Management (X_2) and laws and regulations (X_4). On the other hand, the multiple regression result demonstrated a negative relationship between the development of MSEs (Y) and technology (X_3).

Specifically, the results indicated that;

i. If all the other independent variables are held fixed except finance, then for each change of 1 unit in Finance (X_1), the development of SMEs (Y) changes by 0.018 units.
ii. If all the other independent variables are held fixed except management, then for each change of 1 unit in management (X_2), the development of SMEs (Y) changes by 0.114 units.
iii. If all the other independent variables are held fixed except technology, then for each change of 1 unit in Technology (X_3), the development of SMEs (Y) changes by -0.431 units.
iv. If all the other independent variables are held fixed except laws and regulations, then for each change of 1 unit in laws and regulations (X_4), the development of SMEs (Y) changes by 0.142 units.

Additionally, the value of R2, 0.96, showed that 96% changes in the dependent variable (Y) can be explained by changes in the independent variables.

From the study it is evident that finance, management skills and business laws and regulations generally have a positive impact on the development of youth led MSEs in Kirinyaga County. Based on the findings, the following recommendations are made:

i. Deliberate efforts should be made by the Government of Kenya, at National and the County Levels, to sensitize the youths on the availability of Government loans for their uptake.
ii. The Government should also subsidize the cost of technology adoption including the necessary equipment to enable the youth to comfortably access and adopt the same.
iii. The National and County Governments should endeavor to enact and operationalize laws and regulations which are friendly and enhancing business initiatives.

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