

**EFFECTS OF ACCESS TO CREDIT ON THE FINANCIAL PERFORMANCE OF  
YOUTH ENTERPRISES IN NAIROBI, KENYA**

**BY**

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**DECLARATION**

I hereby, declare that this research project is my original work and has not been presented to any other university or institution for the award of degree.

Sign..........

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This research project has been submitted with my approval as the University supervisor

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Date.....09/11/2012.....

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## **DEDICATION**

I dedicate this work to all my family members for having been supportive throughout and for their understanding in my inability to take them out during the weekends.

## ACKNOWLEDGEMENT

First of all, I would wish to acknowledge the almighty God for giving me the resources I needed for the completion of this study.

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## ABSTRACT

The Microfinance institutions (MFI) and commercial banks offering financial credits do not provide credit access to the low income youth population due to inadequate collateral security. The objective of the study was therefore to find out the effectiveness of access to credit on the financial performance of youth enterprises in Nairobi, Kenya. Simple random sampling was used to select a sample size of 30 youth enterprises participants from the entire population of youth entrepreneurs in Nairobi. There was no need for a percentage sample size representative to the target population for this study, but the selected sample was deemed adequate for the study findings were used to make conclusions and recommendations of the study. This study targeted all youth enterprises within Nairobi, Kenya. Simple random sampling was used to select a sample size of 30 youth enterprises participants from the entire population of youth entrepreneurs in Nairobi. Questionnaires were used to collect data. A questionnaire for youth enterprises was structured with closed-ended and open ended items. The questionnaire had questions in groups of the various independent variables of the study. The study concludes that access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi to a very great extent; that lack of access to long-term credit for Youth entrepreneurs in Nairobi forces them to rely on high cost short term finance to a great extent, that access to credit increases the number of goals achieved in businesses owned by Youth entrepreneurs in Nairobi to a great extent and that lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to diversify their products to a great extent. The study recommends commercial banks in Kenya and other financial institutions to increase access to long-term credit for Youth entrepreneurs in Nairobi so that they are not forced to rely on high cost short term finance, that they also harmonize lending conditions where credit is available and give the Youth entrepreneurs in Nairobi freedom of choice on what to do with the money. Commercial banks in Kenya should also avail credit facilities to increase the number of goals achieved by businesses owned by Youth entrepreneurs in Nairobi. Commercial banks in Kenya should avail credit facilities to Youth entrepreneurs in Nairobi to enable them to diversify their products to a great extent and that Product diversification in businesses owned expand the output.

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## **ABBREVIATIONS AND ACRONYMS**

AMFI	Association of Microfinance Institutions
CBK	Central Bank of Kenya
CBS	Central Bureau of Statistics
CDTF	Community Development Trust Fund
EDF	European Development Fund
ERS	Economic Recovery Strategy
EU	European Union
FSA	Financial Services Association
FSD	Financial System Development
GDP	Gross Domestic Product
GOK	Government of Kenya
ILO	International Labor Organization
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KWFT	Kenya Women Finance Trust
KYBED	Kenyan Youth Business Enterprise Development
MFI	Microfinance Institutions
MOYAS	Ministry of Youth and Sports
MSE	Micro and Small-Scale Enterprises
NCAPD	National Coordination Agency for Population and Development
NGOs	Non-Governmental Organizations
SAGAs	Semi-Autonomous Government Agencies
SHG	Self Help Groups
SME	Small and Medium-scale Enterprises
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
YBED	Youth Business Enterprise Development
YEDF	Youth Enterprise Development Fund

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the study

Financial institutions are convenient in the provision of financial services and products to the low capital and low income generating Micro and Small-scale Enterprises (MSE) [(Central Bank of Kenya (CBK), 2008)]. Research evidence proves the wide belief that the informal banking Microfinance Institutions (MFI) evolves out of a vacuum that is left out by the formal banking macro financial institutions namely; commercial banks' failure to adequately provide financial credit access in support of MSE (Government of Kenya (GOK), 2009).

About 50% of Kenyan youth and other elderly people in the country are poor; therefore their low incomes cannot support their lives and leave some money worth banking (Financial System Development (FSD)-Kenya, 2008). However, the informal banking MFI have proven that poor people are "bankable" that is they are able to mobilize funds, operate businesses and bank money for savings (FSD-Kenya, 2008). Formal financial commercial banking institutions are therefore rapidly absorbing the lessons learnt about doing small-scale banking transactions (Financial Access Initiative, 2011).

Projects aimed at reducing the youth unemployment and help in promoting youth business enterprises have been implemented throughout Kenya for a number of years, challenges facing these projects abound (Mbatia and Mbugua, 2009). Challenges facing these projects include inadequate access to finance and financial service components from the wealthier well established Commercial Banks. However, challenges facing the credit access by MSE projects are unlimited; hence the impact of credit access in the development of MSE has not been fully explored in Kenya (Government of Kenya (GOK), 2007).

To date, very few studies have been conducted in Kenya which specifically addresses development of youth business enterprises and their credit access. Therefore, the extent of youth's credit access from formal and informal (MFI) financial services has been unclear [(International Labour Organisation (ILO), 2004)]. Research conducted by Nagrajan (2005), on effects of access to finance on the development of youth entrepreneurs in other African

countries, has generally shown that while the majority of MFI do serve young people, they are not recognized as a specific client niche and specific products are not typically developed to meet their financial needs (Nagrajan, 2005).

Based on several initial surveys of credit access documented information the youth tend to make up a smaller proportion of overall MFI clients than their overall population demographic proportion dictates (Killick, 1981). This is also the case in Kenya, where the majority of formal sources of finance require collateral, land title deed or steady employment in order to make and qualify for credit access in the form of Commercial Bank loans. The unequal credit access opportunities between the youth business entrepreneurs is to a large extent, this has been due to the youth's lack of collateral as opposed to the well financially established adult business entrepreneurs (Nagrajan, 2005).

However, the Kenyan education sector is slowly responding to this anomaly by turning into training and bringing out job-creators and not job seekers. However, with approximately 50,000 graduates from various tertiary institutions in Kenya entering the scanty job market annually, there is evidence of high rate of educated youth unemployment crisis (Government of Kenya CBS, 2009). As such many of the youth have resorted to using their savings or borrowing from relatives and friends. Mbatia and Mbugua, (2009) have noted that, often the informal sector is said to be discriminated against in the capital market and is unable to obtain funds, no matter what the interest rate.

Youth Entrepreneurship is a creative, innovative, competitive but slow youth business enterprise process that demands amongst other factors calculated risk-taking, patience and above all the youth's commitment to the ensuing business enterprise venture. It is gratifying to note that the youth of this country can now be gainfully be employed through self-setting up of their own business enterprises with credit access facilities from the MFI and the recently instituted government Youth Enterprise Development Fund YEDF through the Ministry of Youth Affairs and Sports (MOYAS) (Mbatia & Mbugua, 2009). Although, credit access to finance any new business enterprise development venture is of paramount

importance, it may be necessary to consider other factors that may hinder sustainable youth entrepreneurship (Mbatia & Mbugua, 2009).

Trade industry in Nairobi-Kenya is characterized by low levels of trade growth and development. Most of these are small in nature with only a few falling into the formal category (Mbatia & Mbugua, 2009). Majority are informal Micro-to-Small Enterprises (MSE) and hawkers. Some of the factors impeding trade development in the country include poor infrastructure, unavailability of trading premises, high levels of poverty and low credit access facilities. Shortage of trading premises is especially evident in Nairobi and its estates, which otherwise has huge potential for growth in trade owing to its strategic location and many existing opportunities(GOK, 2007). It is against this background that this study is investigating the effects of credit access on performance of the youth business enterprises in Nairobi, Kenya.

## **1.2 Statement of the problem**

Although, it has been alluded to in the background information that credit access is a critical factor in developing self employment opportunities for the youth, there has been very little effort to create easy youth credit access avenues to start self business enterprises. The Microfinance institutions (MFI) and commercial banks offering financial credits do not provide credit access to the low income youth population due to inadequate collateral security. However, the extent of Kenyan commercial banks and MFI service provision to youth entrepreneurs has not been quite examined. About 32% of the Kenya's bankable youth population is totally outside the orbit of credit financial services while many more are being served by informal financial system (FSD, Kenya, 2009). A survey conducted by USAID (2005) indicates that only 24 per cent of the youth entrepreneurs access credit. As such it is difficult to solve all the youth entrepreneurship challenges if the problem of poorly educated and ignorant youth, still exists. Although, majority of the youth in Kenya know about the YEDF, they still lack essential details about the process of financial credit access enhanced by same fund (Mbatia & Mbugua, 2009).

Comic et al, (1996) notes that, "Small scale enterprises require much less capital to start off than the medium and large-scale enterprises and therefore, more potential entrepreneurs can

start business if they have credit facilities and the know-how to operate the business”. Thus it is against this background, that this study seeks to explore the effects of credit access on financial performance of youth business enterprises in Nairobi, Kenya.

### **1.3 Objective of the study**

The objective of the study was to find out the effect of access to credit on the financial performance of youth enterprises in Nairobi, Kenya.

### **1.4 Importance of the Study**

In particular, the study would be an important reference for the Youth entrepreneurs in Nairobi in understanding how the access to credit will be enhanced. The suggestions and recommendations from the study would offer valuable input in addressing any gaps and/or issues related to credit access for businesses owned by Youth entrepreneurs in Nairobi.

This study would also guide Commercial Banks in knowing what the challenges faced by businesses owned by Youth entrepreneurs in Nairobi in terms of credit access.

The study findings are expected to arouse curiosity to researchers and scholar and add more literature on the field of study. Further, the study findings are expected to contribute to the global knowledge on effectiveness of access to credit; the study would also indentify and suggest areas for further studies.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the literature review in four sub-headings. The first section reviews literature related to credit access. The second section reviews literature financial performance. The third section contains empirical study. The fourth section contains the conceptual framework has been developed to show the relationships between the independent and dependent variables of this study.

#### **2.2 Theoretical Review**

The Central Bank of Kenya regulates and supervises the 43 licensed commercial banks which form the bulk of Kenya's formal private financial sector. Though only four commercial banks currently engage in microfinance, the Central Bank expects this number to rise as the microfinance and banking industries grow. In an effort to encourage the growth of the microfinance industry outside of the commercial bank sector, the government of Kenya issued new regulations governing MFI in 2006.

The Microfinance Act of 2006 established a new regulatory category for deposit-taking MFI on which it imposed licensing and transparency requirements, deposit protections, dissolution mechanisms, corporate governance, performance, and accounting standards, and supervision by the Central Bank. The 2008 revisions of the 2006 Act relaxed some of these requirements for smaller MFI operating in limited geographic regions by dividing deposit-taking MFI into two categories: "community microfinance institutions" and "nationwide microfinance institutions." Only three institutions– Faulu, and KWFT – are currently licensed as deposit-taking MFI, though as of the end of 2009, over 30 more institutions had passed the first stage of approval (CBK, 2010).

Despite its scale, Kenyan microfinance is not integrated into the world wide "best practice" movement of the last fifteen years, which embraces international performance standards and full range of transparent practices which have led to significant advancement in profitable outreach and innovation in financial services for the poor worldwide. The majority of microfinance institutions in Kenya are characterized by poor portfolio quality, weak



management skills, lack of efficient systems, and lack of effective supervision or support structures.

With a few notable exceptions, MFI do not target or serve the youth entrepreneurs, but rather serve salaried youths in order to mitigate risk. Rural areas in Kenya are still largely devoid of financial services for low-income populations. 32% of Kenya's bankable population is totally outside the orbit of financial services while many more are being served by the informal financial system. Much of this is the result of a lack of capacity to design products and efficient delivery systems to make microfinance financially viable outside densely populated urban areas or for non-salaried populations (FSD, Kenya, 2009).

The key role of finance in the development process is universally well recognized, especially in the developing countries where a great deal of emphasis has been on capital accumulation, with particular concern over savings, and the need to raise the level of investment. In a fundamental sense, and central to business development, capital is commonly viewed as the provision of funds for investment. This should be a pointer to two functionally related dimensions of finance namely, savings and credit. It is through savings that credit or funds to invest become available (McCormick et al, 2008)

Developing a mind-set that respects the role of all market actors is very important in promoting "win-win" relationships in targeted markets. If MFI can develop this attitude then their ability to partner with youth entrepreneurs to bring increased benefits to the poor will improve (Puneetha et al, 2006). The youth demand more of savings than credit from MFI compared to the adults. They value savings and other financial services more than credit.

In comparison to the adults, while some youth have access to credit, their demand for savings and other financial services remain unmet because of lack of credit worthiness. Youths usually don't proceed to MFI's for start-up capital; instead, demand for microfinance loan exists when there is a need to diversify (Nagarajan, 2005). Also it is important to note that not all youth require microfinance loans. However, saving and deposit services are significant in developing assets of youth and be self-employed in their later stages of life.

Within the systems framework there are four broad categories of services that can be provided to microfinance clients, they are: Financial intermediation or provision of financial products and services such as savings, credit, insurance, credit cards and payment systems; Social intermediation or the process of building the human and social capital required by

sustainable financial intermediation for the poor; Enterprise development services or non-financial services assist micro entrepreneurs. They include business training, marketing and technology services, skills development and sub sector analysis. Social services are likely to require on-going subsidies, which are often provided by the state or through donor supporting NGOs. The degree to which an MFI provides each of the services depends on whether it takes a 'Minimalist' or 'integrated' approach (Legerwood, 1998). Research findings on this study will help microfinance institutions to adopt service approach that will not only ensure their sustainability but also enhance their outreach programs to youth entrepreneurs and facilitate effective partnership between them and other stakeholders such as the Government and the NGOs.

Poor people need a variety of financial services, not just loans. In addition to credit, they want savings, insurance, and money transfer services (Helms, 2010). Various approaches to credit for micro and small enterprises have been tried in Kenya by different institutions with varying degrees of success or failure. Major approaches include: minimalist versus integrated approaches; group based lending versus lending to individuals; village banking and linkage programs. Minimalist approaches and group-based lending have been very popular and much tried by leading NGOs in the field of micro-finance, like KWFT. Minimalist approaches basically concentrate on the provision of loans, giving no or at most some functional attention to training or technical assistance, (Pederson & Kiiru, 1997).

Group-based lending schemes have been very often based on the Grameen Bank method. This method has been designed and developed in Bangladesh with a view to deliver financial services to the poor, who have no access to formal banking services. Key features of the Grameen Bank method as applied in Kenya are: Group-lending approach; Character-based credit appraisal and focus on micro-enterprises: a special focus on financing very small businesses and the poor.

A number of NGOs have also promoted Self Help Groups (SHG) registered under the department of Culture and Social Services. These groups have been formed with the objective of developing inter-group associations and linkages with banks. In the last three

years, Financial Services Associations has introduced a new type of agency, based on membership in order to diversify its clientele and increase outreach in rural areas: Financial Services Associations. These associations were started in poor rural areas that were neither covered by the solidarity credit systems of the Grameen model nor by the co-operative societies that mainly operate in cash-crop areas. Financial Services Associations are based on internal resources of members who buy shares to form a credit fund. Although they are still at the experimental stage, the low cost of their establishment and running indicates that they might achieve autonomy despite the weak economic environment. The evaluation study of Miller (2000), however, rather suggests the contrary.

The informal sector is dominated by youth entrepreneurs who require small amounts of starting capital. Dorothy McCormick (1996) notes, "Small-entrepreneurs support cannot be merely a central government policy developed bureaucratically and implemented by decree; to be successful, the support effort must engage many partners in dialogue: central government ministries, local governments, NGOs, donors, financial institutions, large enterprises, labour and entrepreneurial organizations, research and training institutions, and the small entrepreneurs themselves". It is from this background that the proposed study seeks to explore the views, opinions and perception of youth entrepreneurs. According to Spring et al (1998), "Informal sector serves as an employment incubator for jobs that help to reduce disparity and increase domestic consumption capacity.

Comic et al, (1996) notes that, "Small scale enterprises require much less capital to start off than the medium and large-scale enterprises and therefore, more potential entrepreneurs can start business if they have credit facilities and the know-how to operate the business". Operational know-how therefore, calls for relevant training and technical education at earlier stages of the education system to encourage potential entrepreneurs.

At initial stages of starting up a business, entrepreneurs have two key options to choose from for funding. These are: Debt and Equity funding. Youth entrepreneurs, having very little or no savings to go for equity financing, more often than not resort to debt funding. According to Bamford et al (2006), "Funding any small business, starts with the founder(s) and their

resources. However, at some stage (often prior to actual start-up) the firm will need to find other sources of funding". The proposed study in response to this; seeks to explore the ways and means by which youth entrepreneurs in Nairobi town have been debt financing their businesses. Intra firm credit represents a large fraction of firm financing, especially for small firms and others with limited access to bank finance. Successful credit providers in Africa recognize the continuing importance of a relationship model of credit. Such lenders rely on (a) multidimensional evaluations of creditworthiness in making the loan or credit sale and (b) flexible enforcement (Fchamps & Gubert, 2004) and (Biggs & Shah, 2006).

Reputation is a widely discussed aspect of credit within tightly knit communities. Scholars of contemporary and historical businesses have explored the ways in which a poor payment record of one member of even a far-flung network of merchants can be reported and result in ostracism from the whole group (Greif, 1993). Once trust has been built in this way, it represents a valuable bilateral relationship that can underpin future lending. Reflecting this trust, surprisingly lengthy credit relationships predominate in African markets (Fchamps & Gubert, 2004).

The Youth Enterprise Development Fund (YEDF) is a recent initiative by the Kenya government to reduce youth unemployment. It targets youth in ages 18-35 years. The objectives of the fund include providing funds to micro-finance institutions for on lending to youth enterprises, to attract and facilitate investment in MSEs-oriented commercial infrastructure such as business and industrial parks and business incubators, to support MSEs of youth to develop linkages with large firms, to facilitate marketing of products and services of youth enterprises in domestic and international markets and to facilitate employment of youth in the international labour market.

The funds have already been accessed by youth entrepreneurs as indicated by the soaring number of beneficiaries. As at 30th September 2008, Ksh. 1.335 billion to finance 47,722 youth enterprises had been disbursed through financial intermediaries. The fund had also disbursed Ksh. 322 million to 7,840 youth groups spread across the Kenyan provinces (Government of Kenya, 2009). One of the hurdles the funds may face is evidence of poorly developed entrepreneurial culture in Kenya. For example, the integrated labour force survey

of 1998/99 indicates that a majority of job seekers (94%) were looking for paid employment. Only 3 per cent sought to be business operators with or without employees. This has however changed, according to survey carried out by Synovate, (2011), which estimates that 82% of Kenyans prefer self-employment.

Therefore there is need to intensify and sustain the on-going entrepreneurship training initiatives for better outcomes of the funding programmes. One recurring theme concerns the ideal channel of disbursing the funds. It would be beneficial to study the best strategies for disbursement of the funds to maximize its effectiveness. The Community Development Trust Fund (CDTF), established in 1996, is a joint initiative of the European Union (EU) and the Government of Kenya (GoK). CDTF supports poverty reduction in Kenya by funding community-based development projects. CDTF's mandate is to oversee transfer of EU funds, provided from the European Development Fund (EDF), for community development in Kenya. CDTF also receives funds from other donors.

The objective of the CDTF is poverty reduction among the poor communities by enabling them to have access to social and economic services, improved livelihoods and employment opportunities. The focus of this programme is to provide direct capital investment funds and technical assistance to support poverty alleviation projects in Kenya.

There are numerous NGOs operating in Kenya. The UN Directory of African NGOs (2004), for instance, lists 167 NGOs registered and operating in Kenya. A considerable number of these organizations are involved in initiatives/activities that could have a positive impact on youth entrepreneurship in Kenya.

### **2.2.1 Financial Performance of Youth Business Enterprises**

To identify appropriate interventions, policies and programmes, it is important to take stock of policy, regulatory and operational efforts by stakeholders in addressing the problem of youth unemployment. There are numerous national and international stakeholders. The primary stakeholders include: the Government of Kenya; MFI; Local, National and International NGOs; and Youths themselves. Other stakeholders are faith-based organizations, educational and training institutions, and communities.

The Government of Kenya Recognizes the Importance of the MSEs to Employment Creation and Economic Growth Kenya's informal economy is vibrant and growing. Total employment in the informal sector is estimated to have reached more than 5 million by 2002 (an increase from 3.7 million in 1999). The formal sector saw hardly any increase from its 1.74 million employees over the same period (Government of Kenya, 2003). The government of Kenya is committed to growing the MSEs, noting in the ERS that the "policy focus during the recovery period will be increasingly on the small business enterprises" (Government of Kenya, 2003). Most Kenyan enterprises still operate informally, yet the 1999 National Micro and Small Enterprise Survey highlighted the growing contribution that MSEs are making to Kenya's economy. Their contribution to GDP increased from 14 percent in 1993 to more than 18 percent in 1999. Global evidence suggests that the smaller the firm, the greater the obstacles it faces in relation to financing, taxes, regulation, inflation, corruption, street crime, and anticompetitive practices (World Bank, 2007).

The government has the roles of the employer and the regulator through the Ministry of Youth and sports. The Ministry of Youth and Sports was established to represent and address concerns of the youth in Kenya to utilize their full potential. The mandate of the Ministry is to design policies and programmes, facilitate training of youth with the main focus being the revival of youth polytechnics and providing training in leadership and entrepreneurship skills; and coordinate youth organizations in Kenya to ensure orderly structures, collaborations and networking. The Ministry's strategic themes are: employment, empowerment and participation.

The government has developed the National Youth Policy in which several measures to tackle youth unemployment are highlighted. These include: Encouraging companies to offer temporary employment, internship and volunteer opportunities to the youth; Encouraging the establishment of agricultural production and cottage industries, and informal sector employment; Encouraging the government, civil society organizations and the private sector to provide friendly micro-finance credit facilities and to develop business incubators and mentorship for the youth; Imparting accessible and affordable education and vocational skills; and, Protecting Jua kali innovations through patent.

The Ministry of Planning, National Development and Vision 2030 occupies a key position in the overall structure of government and administration in Kenya. Its mandate is to facilitate and coordinate the national development planning process and to provide leadership in national economic policy management. It also oversees the operations of several semi-autonomous government agencies (SAGAs), including the Community Development Trust Fund, Poverty Eradication Commission, the National Coordination Agency for Population and Development (NCPD) and Kenya Institute for Public Policy Research and Analysis (KIPPRA), among others.

The Vision 2030 is the long-term development blueprint for the period 2008- 2030. The Vision aims to transform Kenya into “a globally competitive and prosperous nation.” The Vision is based on economic, social and political pillars. The Vision 2030: First Medium Term Plan (2008-2012) succeeds the ERS, 2003-2007 as the National Medium Term Plan. The Vision 2030 National Medium Term Plan recognizes that faster job creation is required to address the high rate of unemployment and to take care of the increasing number of youths leaving learning institutions, yet unable to find gainful employment. The National Medium Term Plan identifies Human Resource Development, Labour and Unemployment to be one of the foundations for national transformation. Some of the initiatives proposed therein to develop human resources and tackle unemployment include: revitalization and expansion of youth polytechnics; increase in the Youth Enterprise Fund; and deliberate efforts to boost labour intensive infrastructure projects, including road projects and tree planting programmes.

The micro and small enterprises /informal/ jua kali sector was to create most of the 500,000 jobs envisaged in the ERS. To achieve this, the government set out several measures in the Session Paper No. 7 of 2005 on Employment Policy and Strategy for Kenya, including increasing funding to training institutions; promoting greater involvement of the private sector, and formulating job restructuring and re-deployment programmes to provide credit, guidance, counselling, skills and entrepreneurship training.

The proposed study will help in formulation of a national policy on access to financial services that can be used by the Government to develop and secure consensus on a coherent policy and strategy for micro and small business finance. This will help define the respective role of the government and Microfinance stakeholders in providing and broadening access to basic financial services.

### **2.3 Empirical studies**

Strong (2008) in his research titled "Beyond Microfinance: Entrepreneurial Solutions to Poverty Alleviation" concluded that although microfinance has become extremely popular as an approach to poverty alleviation, there are still various controversies associated with it. For instance, he argued that microfinance is primarily used for debt and consumption rather than real investment in revenue-generating businesses.

With an estimated 110 million micro entrepreneurs around the world, receiving loans through many thousands of organizations, often in remote and impoverished regions, it is unlikely that we will ever have definitive data regarding exactly what percentage of the loans result in investment versus what percentage are used for consumption. It is fair to assume that insofar as individual borrowers are freely choosing to take loans from microfinance organizations rather than borrowing money at exorbitant rates from local loan sharks, it is likely that microfinance does, in fact, benefit the world's poor, even if much of the money is used for consumption rather than investment. But merely "better than loan sharks" is not quite the beautiful dream that has inspired so many people to support microfinance.

Dichter et al as cited in Strong (2008) in their research on the contribution of microfinance to economic growth concluded that not much contribution came from that angle. They observed that developed societies are wealthy because they are efficient. Today a tiny percentage of the U.S. population produces many times as much food as did 40 percent of the U.S. population who were farmers a hundred years ago. Most poor nations remain largely agricultural nations, whereas all wealthy nations experienced a transition from primarily rural to primarily urban, with a corresponding decrease in the percentage of population that are farmers. Realistically we can expect all poor nations to experience a transition from primarily rural to primarily urban. As agriculture around the world becomes



as efficient as U.S. agriculture, a tiny percentage of the world's people will grow far more food than is grown today.

If Dichter is correct, then microfinance is a stop-gap measure that does not accelerate the pace at which economies transition from rural to urban, from populations largely engaged in agriculture to populations largely engaged in manufacturing or IT careers (In the last ten years many in both India and Ireland leaped directly from agriculture to IT careers, skipping the manufacturing stage).

Marek (2003) as cited in Matovu (2006) – “Microfinance and Poverty Alleviation - a case study of Uganda finance trust”. In his research on how the social capital findings relate to micro- enterprise development and specifically to microfinance used Chambers (1983) literature to help him to put together the “poverty trap”. Marek argues that poverty is a complex web of disempowering relationships, which don't work. Households trapped in this spider's web suffer from material poverty, vulnerability, powerlessness, physical weakness, isolation and spiritual poverty. Therefore, addressing the problem of material poverty through microfinance services is vital and critical, but it will not be enough for the poor households to escape from the poverty trap. Marek argues that it is not possible to neglect other aspects of human nature and the multi-sided nature of poverty.

Hulme et al (1996) carried out a study on poverty and savings. According to Hulme most institutions regard low-income households as “too poor to save”. He suggested that in order to generate higher incomes, savings and more investment, there is need to inject capital in the form of microfinance. However capital is only one ingredient in the mix of factors necessary for a successful enterprise. Most importantly it requires entrepreneurial skills and efficient markets to reduce poverty.

Roth (1997) in his study on microfinance and successful enterprise was critical of the microfinance evangelists who create a vision of the rural poor as a collection of budding entrepreneurs, waiting for salvation from credit agencies, which on receipt of credit, will develop successful micro enterprises and leave poverty forever. Their promotional activity

gives rise to worrying spectre of a return to a “blueprint”, implicit in the new microfinance approach to development. To respond to a potential demand for a good or service, a rural micro-entrepreneur may need access to one or more of the following: transport, communications, power, water, storage facilities, a legal system for enforcing contracts and settling disputes. *Apart from infrastructure, micro entrepreneurs need access to information about market trends and skills to run their macro enterprises.*

Roth cited Weber (1958) who argued that hard work, skills and enthusiasm are essential ingredients for an enterprise to be successful. Non-numerate people struggle to start enterprises by themselves as it is extremely difficult for them to keep track of the flows of income in their enterprise.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents research methodology in the following subheadings; introduction research design, target population, sampling procedures and sample size, research instruments, reliability and validity of the instruments, data collection procedures, data analysis, logistical and Operationalisation of the study variables.

#### **3.2 Research design**

A simple random sampling was used.

#### **3.3 Target population**

This study targeted all youth enterprises within Nairobi, Kenya.

#### **3.4 Sampling procedures and sample size**

Simple random sampling was used to select a sample size of 30 youth enterprises participants from the entire population of youth entrepreneurs in Nairobi. Due to the nature of this study there exists inability to estimate the total youth population in Nairobi. Therefore, there was no need for a percentage sample size representative to the target population for this study, but the selected sample was deemed adequate for the study findings were used to make conclusions and recommendations of the study (Mugenda & Mugenda, 2003).

#### **3.5 Research instruments**

Questionnaires were used to collect data. A questionnaire for youth enterprises were be structured with closed-ended and open ended items. The questionnaire had questions in groups of the various independent variables of the study.

##### **3.5.1 Validity**

Validity depends on how the research tool items have samples significant aspects of the general objective of the study (Orodho, 2005). Content validity of the instrument was determined by research methodology experts, who were requested to do so from the

University of Nairobi. The research methodology expert looked at the measuring technique and coverage of specific areas (objectives of the study). Lecturers from the Department of Project Planning and Management in the University of Nairobi ascertained the validity of the questionnaire. Then corrections identified were incorporated in the items of the questionnaire so as to increase its validity (Mugenda & Mugenda, 2003).

### 3.5.2 Reliability

To establish the reliability of instruments, a split-half method was used by a means of a pilot study. During the pretest the questionnaire will be administered on a random sample of 20 sampled youth from one of the five Districts in Nairobi. The participants in the pilot study will not be included in the actual sampling for the study. The data values will be operationalized and split into two halves using the 11-old/11-even item numbers' half-divide. A correlation coefficient will be calculated using Pearson Product-Moment Correlation. If the correlation coefficient calculated will be greater than 0.73. The questionnaire will have a sufficient high pre-test reliability tests (Orodho, 2005).

### 3.6 Data collection procedures

A research authorization permit was obtained from the Provincial Director of Education (PDE) in Nairobi in order to be allowed to collect data within the whole region. A copy of the permit was submitted to the District Youth Officers (DYO) in Nairobi. The youth enterprises were pre-visited by the researcher to establish rapport before the actual data collection date. This allowed familiarity with the respondents. The questionnaire was personally administered by the researcher to the selected youth enterprises who filled in the data and the researcher collected the filled in questionnaire before leaving each of the selected youth enterprises (Orodho, 2005).

### 3.8 Data analysis

Data was analyzed using descriptive statistics, utilizing the frequency distributions; percentages and averages. Statistical tally system was used to generate frequency counts from the responses so as to prepare frequency distributions. The Percentages in the 5-point rating likert scale response out of the total study sample response per item was calculated. Averages were also calculated in respective items. As a measure of central tendency, average will be used to decide the concentration of responses within the 5-point likert rating scale

range. Averages will support the calculated percentages in depicting the general trend of the study findings. The findings were presented in frequency distribution tables followed by the explanations of the study results per table (Orodho, 2005).

### **Model Specification**

#### **Capital base**

Under this the model will bring the different aspects of Capital base and their relationship with Access to credit in businesses owned by Youth entrepreneurs in Nairobi.

#### **Entrepreneurial skills**

Under this the model will bring the different entrepreneurial skills and their relationship with Access to credit in businesses owned by Youth entrepreneurs in Nairobi.

#### **Goals achieved**

Under this the model will bring the different aspects of goals achieved and their relationship with Access to credit in businesses owned by Youth entrepreneurs in Nairobi.

#### **Products diversification**

Under this the model will bring the different aspects of product diversification and their relationship with Access to credit in businesses owned by Youth entrepreneurs in Nairobi.

The regression equation ( $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$ )

Whereby  $Y$  = Access to credit in businesses owned by Youth entrepreneurs in Nairobi

$\beta_0$  = Constant

$X_1$  = Capital Base

$X_2$  = Entrepreneurial skills

$X_3$  = Goals achieved

$X_4$  = Product diversification

$e$  = Error Term

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATIONS

#### 4.1 Introduction

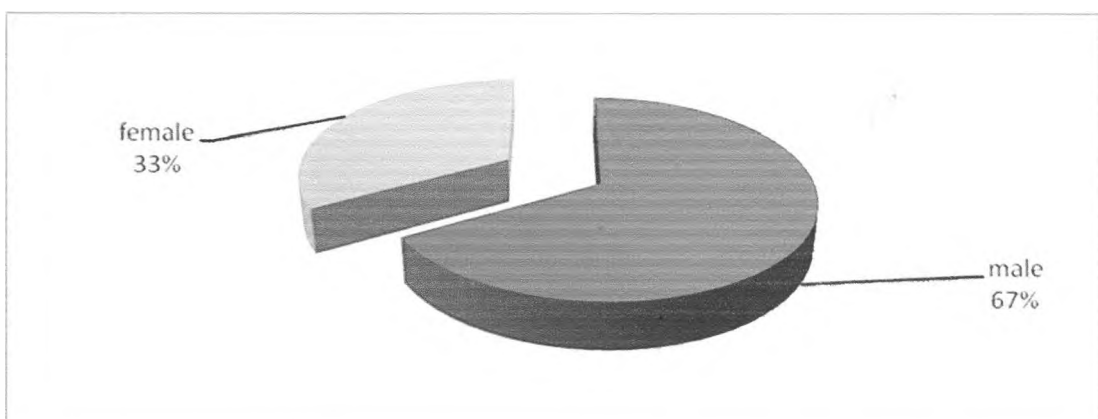
This chapter presents the findings from the data collected from the sampled youth enterprises in Nairobi city on the effect of access to credit on the financial performance of youth enterprises in Nairobi, Kenya. The study sampled 30 respondents who owned youth enterprises in Nairobi. The data was interpreted according to the research question. The analysis was done through descriptive statistics and findings of the study are presented in this chapter in form of frequency tables and percentage charts.

##### 4.1.1 Response Rate

Out of the thirty questionnaires distributed to the youth enterprises operating within Nairobi twenty eight (28). This was a 93% response rate among the targeted sample from the demand side. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

#### 4.2 Demographic Information

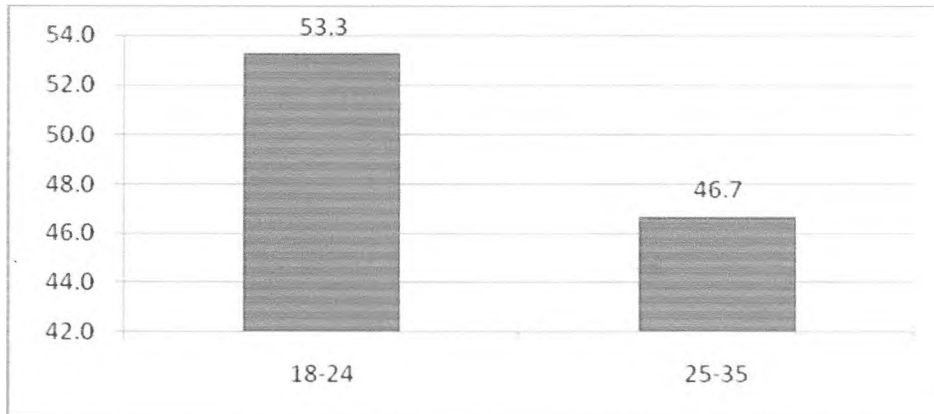
##### Gender of the respondents



**Figure 4.1: Gender of the respondents**

The study sought to find out the gender of the respondents. From the findings, 66.7% of the respondents were male while 33.3 % of the respondents were female.

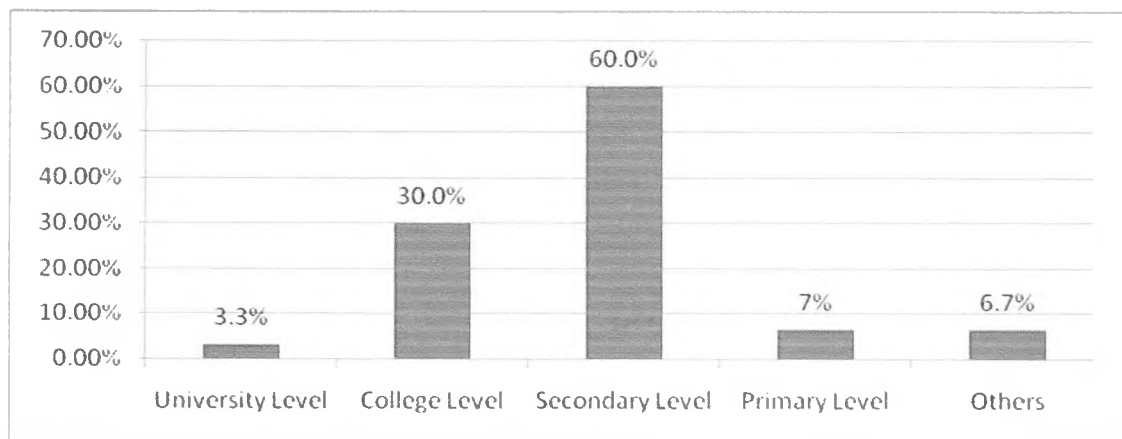
### **Age of the respondents**



**Figure 4. 2: Age of the respondents**

The study sought to find out the age of the respondents. From the findings the youth entrepreneurs interviewed had their ages ranging from 18-35 years with the highest percentage (53.3%) of respondents falling between the ages of 18-24 years. This shows that younger youths participate more in entrepreneurship than older youth.

## Level of Education



The study sought to find out the level of education of the respondents. From the findings, 60% of the respondents had reached secondary school education

**Figure 4. 3: Level of Education**

**Table 4. 1: Nature of business**

Nature of the Business	Frequency	Percentage
Retail Trade of Non-Durable Goods	10	33.3%
IT & Service	5	16.7%
Machinery and Equipment	3	10%
Electronics	3	10%
Textile	4	13.3%
Metal and Metal Products	3	10%
Others	2	6.7%
<b>Total</b>	<b>30</b>	<b>100</b>

From the responses given in the questionnaires and the results in Table4-2 and 4-3 above, most of the youth entrepreneurs sampled engage in retail trade of non-durable goods (33.3%)



such as hawkers items, Kiosks and shops followed by those in IT and Service (16.7%). This is probably because of small capital required to start such business and because most youths are IT Savvy. The data above also reveals that majority of youths (60%) engage in business after their secondary education. Perhaps this group is larger than those in College level and university level because those who do not pursue further education are limited in choice of other options. 6.7% of the youth entrepreneurs had their level of education below secondary school. 30% of the entrepreneurs have some vocational training besides completion of secondary education; only 3.3% of the sampled had attained university training. This clearly shows that majority of graduates in Nairobi city do not consider entrepreneurship as a viable employment option.

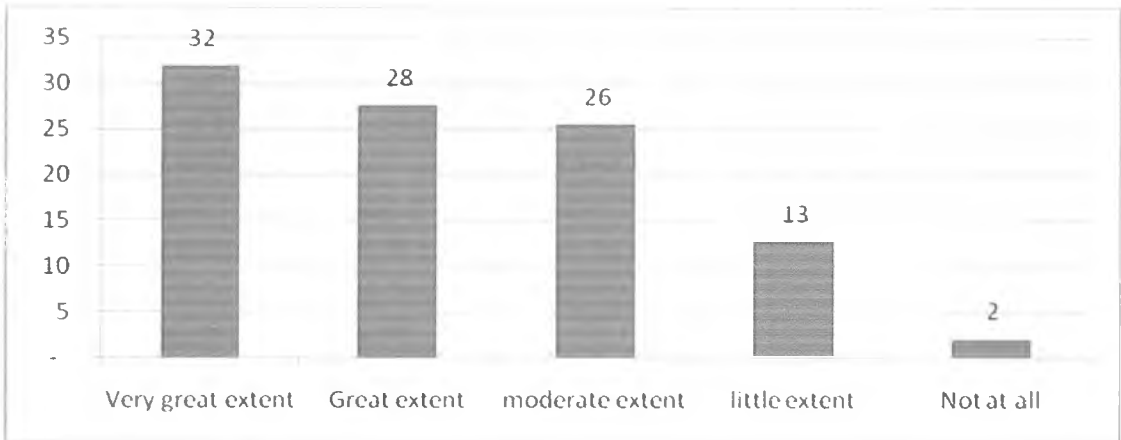
### **Source of Business Start-up Capital**

Most youth entrepreneurs started their businesses with amounts as low as KSHS 1,000.00 while the highest amount used was KSHS 50,000.00. As shown in Table 4-4, the youth entrepreneurs in Nairobi had diverse source of their business start-up capital. The study therefore sought to find out the majority of youth entrepreneurs (66.7%) started their businesses with funds from their own savings and other (20%) borrowed funds from friends and relatives, another 6.7% started with funds from informal sources. 3.3% of them purchased initial goods on credit or borrowed from MFIs and Commercial Banks. Findings from the field shows that majority of the proprietors (41%) had fears of businesses uncertainties not knowing whether the business will make profits enough for pay-back of the loans and would rather start very small from savings and borrowing from friends, then apply for loans after the businesses breakeven.

## Effectiveness of Access to Credit On Financial Performance

### 4.3 Capital Base

**Extent that the access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi**



**Figure 4.4: Extent that the access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi**

The study sought to find out the extent that that the access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi. From the findings, 32% of the respondents indicated that access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi to a very great extent, 28% of the respondents indicated that access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi to a great extent, 26% of the respondents indicated that access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi to a moderate extent, 13% of the respondents indicated that access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi to a little extent while only 2% of the respondents indicated that access to credit did not at all increase the capital base of businesses owned by Youth entrepreneurs in Nairobi.

**Table 4.2: Extent that respondents agree with statements about the influence of capital base on performance of businesses owned by Youth entrepreneurs in Nairobi**

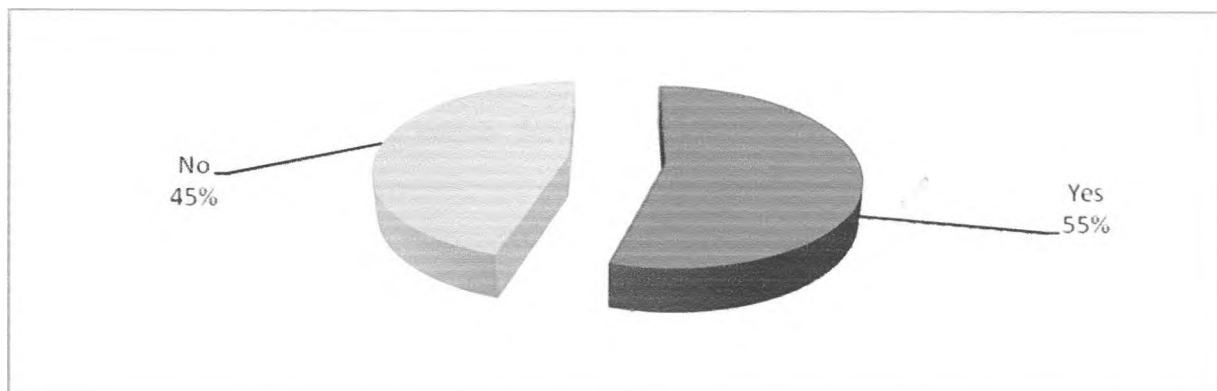
	Very great extent	Great	Moderate extent	Little extent	Not at all	Mean	Stdev
Due to fears of businesses uncertainties and not knowing whether the business will make profits enough for pay-back of the loans Youth entrepreneurs in Nairobi would rather start very small from savings and borrowing from members than take a loan.	36.7	27	12.2	12.2	12.2	3.6	0.3
Credit has been made affordable through stabilizing interest rates and has actually grown by 18%.	30.6	31	16.3	12.2	10.2	3.6	0.2
More money than required can be much of a problem as less money and it means high cost for money in terms of interest and may also lead to un-worthwhile investments.	40.8	31	16.3	8.2	4.1	4.0	0.3
Capital is therefore necessary for the long-term survival and growth of Youth entrepreneurs in Nairobi.	22.4	33	26.5	8.2	10.2	3.5	0.1
Lack of access to long-term credit for Youth entrepreneurs in Nairobi forces them to rely on high cost short term finance.	38.8	35	16.3	4.1	6.1	4.0	0.3
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.	32.7	24	22.4	18.4	2.0	3.7	0.2

The study sought to find out the extent that respondents agree with statements about the influence of capital base on performance of businesses owned by Youth entrepreneurs in Nairobi. From the findings, respondents indicated that lack of access to long-term credit for Youth entrepreneurs in Nairobi forces them to rely on high cost short term finance to a great

extent as shown by a mean of 4.0, that more money than required can be much of a problem as less money and it means high cost for money in terms of interest and may also lead to un-worthwhile investments to a great extent as shown by a mean of 4.0, that 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 to a great extent as shown by a mean of 3.7, that Due to fears of businesses uncertainties and not knowing whether the business will make profits enough for pay-back of the loans Youth entrepreneurs in Nairobi would rather start very small from savings and borrowing from members than take a loan to a great extent as shown by a mean of 3.6, that Credit has been made affordable through stabilizing interest rates and has actually grown by 18%. To a great extent as shown by a mean of 3.6 and that Capital is therefore necessary for the long-term survival and growth of Youth entrepreneurs in Nairobi to a great extent as shown by a mean of 3.5

#### 4.4 Entrepreneurial Skills

**Whether access to credit increase the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi**



**Figure 4.5: Whether access to credit increase the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi**

The study sought to find out whether access to credit increases the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi. From the findings, 55% of the respondents indicated that access to credit increases the entrepreneurial skills of businesses

owned by Youth entrepreneurs in Nairobi while 45% of the respondents indicated that access to credit did not at all increase the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi.

**Table 4.3: Respondents level of agreement with the following statements about the influence of capital base on performance of businesses owned by Youth entrepreneurs in Nairobi.**

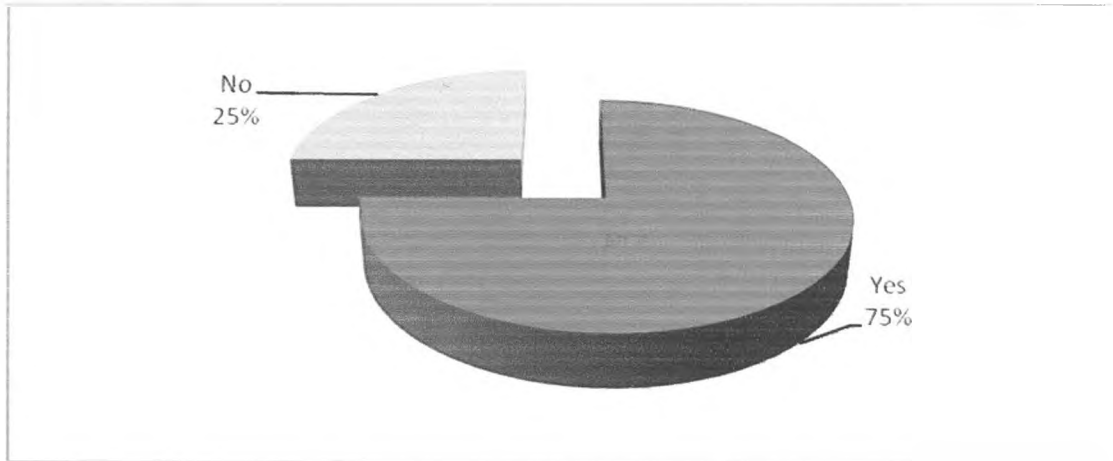
	To a great extent	To some extent	Not sure	To a small extent	Not at all	Mean	Stdev
Access to credit increases the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi	40.8	35	8.2	14.3	2.0	4.0	0.2
Entrepreneurship and economic growth take place when the economic conditions are favorable	55.1	29	8.2	6.1	2.0	4.3	0.3
lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to create capital	34.7	29	14.3	18.4	4.1	3.7	0.3
Entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage	73.5	16	6.1	2.0	2.0	4.6	0.1

The study sought to find out respondents level of agreement with the following statements about the influence of capital base on performance of businesses owned by Youth entrepreneurs in Nairobi. From the findings, respondents indicated that entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage to a very great extent as shown by a mean of 4.6, that entrepreneurship and economic growth take place when the economic conditions are favorable to a great extent as shown by a mean of 4.3, that access to credit increases the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi to a great extent as shown by a mean of 4.0, that lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to create

capital to a great extent as shown by a mean of 3.7.

#### 4.5 Goals Achieved

##### Whether access to credit increases the achievement of goals in businesses owned by Youth entrepreneurs in Nairobi



**Figure 4. 6: Whether access to credit increases the achievement of goals in businesses owned by Youth entrepreneurs in Nairobi**

The study sought to find out whether access to credit increases the achievement of goals in businesses owned by Youth entrepreneurs in Nairobi. From the findings, 75% of the respondents indicated that access to credit increases achievement of goals in businesses owned by Youth entrepreneurs in Nairobi while 25% of the respondents indicated that access to credit did not at all increase the achievement of goals in businesses owned by Youth entrepreneurs in Nairobi.

**Table 4.4: Respondents level of agreement with the following statements about the influence of capital base on performance of businesses owned by Youth entrepreneurs in Nairobi.**

	To a great extent	To some extent	Not sure	To a small extent	Not at all	Mean	Stdev
Access to credit increases the number of goals achieved in businesses owned by Youth entrepreneurs in Nairobi	65.3	22	4.1	6.1	2.0	4.4	0.3
Access to credit is important for businesses owned by Youth entrepreneurs in Nairobi to attain one or more of its goals and attain a superior performance.	40.8	35	8.2	14.3	2.0	4.0	0.2
lack of access to credit by Youth entrepreneurs in Nairobi limits goal achievement in businesses owned by Youth entrepreneurs in Nairobi	55.1	29	8.2	6.1	2.0	4.3	0.3
Entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage	34.7	29	14.3	18.4	4.1	3.7	0.3

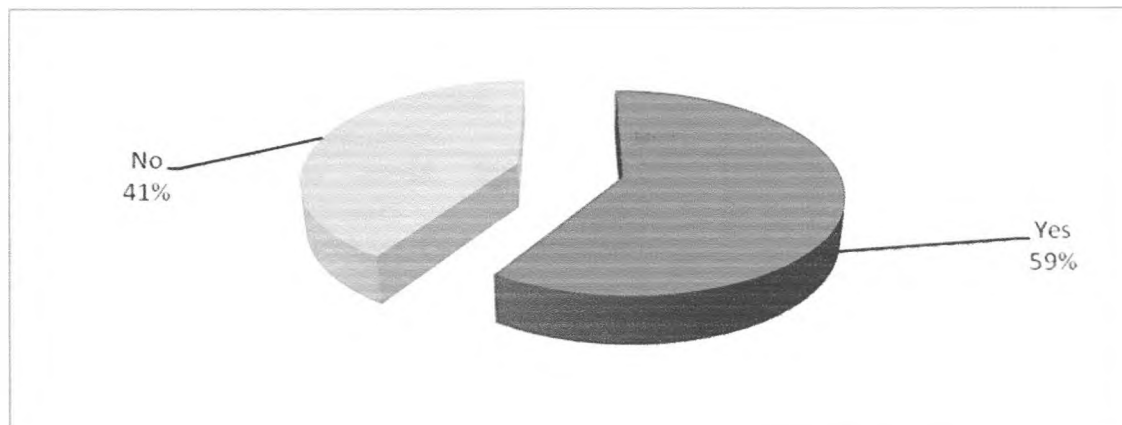
The study sought to find out respondents level of agreement with various statements about the influence of capital base on performance of businesses owned by Youth entrepreneurs in Nairobi. From the findings, respondents indicated that access to credit increases the number of goals achieved in businesses owned by Youth entrepreneurs in Nairobi to a great extent as shown by a mean of 4.4, that lack of access to credit by Youth entrepreneurs in Nairobi limits goal achievement in businesses owned by Youth entrepreneurs in Nairobi to a great extent as shown by a mean of 4.3, that Entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage to a great extent as shown by a mean of 4.1, that access to credit is important for businesses owned by Youth entrepreneurs in Nairobi to attain one or more of its goals and attain a superior performance to a great extent as shown by a mean of 4.0 and that entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are



defined by their personal characteristics as opposed to the activities in which they engage to a great extent as shown by a mean of 3.7

#### 4.6 Products Diversification

**Whether access to credit increases products diversification of businesses owned by Youth entrepreneurs in Nairobi**



**Figure 4.7: Whether access to credit increases products diversification of businesses owned by Youth entrepreneurs in Nairobi.**

The study sought to find out whether access to credit increases products diversification of goals in businesses owned by Youth entrepreneurs in Nairobi. From the findings, 59% of the respondents indicated that access to credit increases products diversification in businesses owned by Youth entrepreneurs in Nairobi while 41% of the respondents indicated that access to credit did not at all increase products diversification in businesses owned by Youth entrepreneurs in Nairobi.

**Table 4. 5: The extent to which access to credit influences products diversification in businesses owned by Youth entrepreneurs in Nairobi**

	To a great extent	To some extent	Not sure	To a small extent	Not at all	Mean	Stdev
The nature of product diversification can lead to additional access barriers for unbankable clients, especially related to financial costs and information asymmetry.	80	12	4	4	0	4.7	0.1
Lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to diversify their products	28	58	12	2	0	4.1	0.3
Product diversification in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage	28	38	24	8	2	3.8	0.2

The study sought to find out the extent to which access to credit influences products diversification in businesses owned by Youth entrepreneurs in Nairobi. According to the findings, respondents indicated that the nature of product diversification can lead to additional access barriers for unbankable clients, especially related to financial costs and information asymmetry to a very great extent as shown by a mean of 4.7, that lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to diversify their products to a great extent as shown by a mean of 4.1 and that Product diversification in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage as shown by a mean of 3.8.

### 4.7 Regression Analysis

In addition, the researcher conducted a linear multiple regression analysis so as to test the relationship among variables (independent) on the Access to credit in businesses owned by Youth entrepreneurs in Nairobi. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

**Table 4. 6: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.897 <sup>a</sup>	.880	.133	.3195

**Source: Research, 2011**

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Access to credit in businesses owned by Youth entrepreneurs in Nairobi) that is explained by all the four independent variables (Capital Base, Entrepreneurial skills, Goals achieved, Products diversification).

The four independent variables that were studied, explain only 88% of the Access to credit in businesses owned by Youth entrepreneurs in Nairobi as represented by the  $R^2$ . This therefore means that other factors not studied in this research contribute 12% of the Access to credit in businesses owned by Youth entrepreneurs in Nairobi. Therefore, further research should be conducted to investigate the other factors (12%) that affect Access to credit in businesses owned by Youth entrepreneurs in Nairobi.

**Table 4. 7: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.534	5	2.878	52.400	.0073
	Residual	186.555	27	2.129		
	Total	198.089	32			

The significance value is .0073 which is less than 0.05 thus the model is statistically significant in predicting Capital Base, Entrepreneurial skills, Goals achieved and Products diversification. The F critical at 5% level of significance was 3.23. Since F calculated is greater than the F critical (value = 52.400), this shows that the overall model was significant.

**Table 4. 8: Coefficient of determination**

Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
		B		Beta		
1	(Constant)	3.657	1.033		0.787	0.255
	Capital Base	1.654	0.107	0.159	1.091	0.002
	Entrepreneurial skills	0.988	0.139	0.085	0.687	0.005
	Goals achieved	0.568	0.097	0.145	0.97	0.013
	Products diversification	0.444	0.069	0.210	0.349	0.032

**Source: Research, 2011**

The researcher conducted a multiple regression analysis so as to determine the relationship between Access to credit in businesses owned by Youth entrepreneurs in Nairobi and the four variables. As per the SPSS generated table 4.11, the equation ( $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$ ) becomes:

$$Y = 1.654X_1 + 0.988X_2 + 0.568 X_3 + 0.444 X_4 + 3.657$$

Where Y is the dependent variable (Access to credit in businesses owned by Youth entrepreneurs in Nairobi),  $X_1$  is the Capital Base variable,  $X_2$  is Entrepreneurial skills variable,  $X_3$  is goals achieved and  $X_4$  is Products diversification. The regression equation ( $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$ )

According to the regression equation established, taking all factors into account (Capital Base, Entrepreneurial skills, control activities and Products diversification.) constant at zero, Access to credit in businesses owned by Youth entrepreneurs in Nairobi will be 3.657. The data findings analyzed also show that taking all other independent variables at zero, a unit increase in Capital Base will lead to a 0.451 increase in Access to credit in businesses owned by Youth entrepreneurs in Nairobi ; a unit increase in Entrepreneurial skills will lead to a 0.27 increase in Access to credit in businesses owned by Youth entrepreneurs in Nairobi , a unit increase in Goals achieved will lead to a 0.15 increase in Access to credit in businesses owned by Youth entrepreneurs in Nairobi and a unit increase in Products diversification will lead to a 0.121 increase in Access to credit in businesses owned by Youth entrepreneurs in Nairobi . This infers that Goals achieved contribute more to the Access to credit in businesses owned by Youth entrepreneurs in Nairobi followed by the Entrepreneurial skills.

At 5% level of significance and 95% level of confidence, Capital Base had a 0.002 level of significance; Entrepreneurial skills showed a 0.005 level of significant, Goals achieved showed a 0.013 level of significant, Products diversification had a 0.032 level of significant, hence the most significant factor is Capital Base.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter discusses the summary of the findings, conclusions reached and the recommendations as per the response from the respondents. The study set out to establish the effect of access to credit on financial performance of businesses owned by youth entrepreneurs in Nairobi, Kenya..

#### **5.2 Summary of key findings of the study**

##### **5.2.1 Capital Base**

The study found out that access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi to a very great extent; that lack of access to long-term credit for Youth entrepreneurs in Nairobi forces them to rely on high cost short term finance to a great extent as shown by a mean of 4.0, that more money than required can be much of a problem as less money and it means high cost for money in terms of interest and may also lead to un-worthwhile investments to a great extent as shown by a mean of 4.0, that 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 to a great extent as shown by a mean of 3.7, that Due to fears of businesses uncertainties and not knowing whether the business will make profits enough for pay-back of the loans Youth entrepreneurs in Nairobi would rather start very small from savings and borrowing from members than take a loan to a great extent as shown by a mean of 3.6, that Credit has been made affordable through stabilizing interest rates and has actually grown by 18%. To a great extent as shown by a mean of 3.6 and that Capital is therefore necessary for the long-term survival and growth of Youth entrepreneurs in Nairobi to a great extent as shown by a mean of 3.5.

### **5.2.2 Entrepreneurial Skills**

From the study, it was observed that entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage to a very great extent as shown by a mean of 4.6, that entrepreneurship and economic growth take place when the economic conditions are favorable to a great extent as shown by a mean of 4.3, that access to credit increases the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi to a great extent as shown by a mean of 4.0, that lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to create capital to a great extent as shown by a mean of 3.7.

### **5.2.3 Goals Achieved**

Further, it was observed that access to credit increases the number of goals achieved in businesses owned by Youth entrepreneurs in Nairobi to a great extent as shown by a mean of 4.4, that lack of access to credit by Youth entrepreneurs in Nairobi limits goal achievement in businesses owned by Youth entrepreneurs in Nairobi to a great extent as shown by a mean of 4.3, that Entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage to a great extent as shown by a mean of 4.1, that access to credit is important for businesses owned by Youth entrepreneurs in Nairobi to attain one or more of its goals and attain a superior performance to a great extent as shown by a mean of 4.0 and that entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage to a great extent as shown by a mean of 3.7.

### **5.2.4 Products Diversification**

The study also found out that the nature of product diversification can lead to additional access barriers for unbankable clients, especially related to financial costs and information asymmetry to a very great extent as shown by a mean of 4.7, that lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to

diversify their products to a great extent as shown by a mean of 4.1 and that Product diversification in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage as shown by a mean of 3.8.

### **5.3 Conclusions**

The study concludes that access to credit increases the capital base of businesses owned by Youth entrepreneurs in Nairobi to a very great extent; that lack of access to long-term credit for Youth entrepreneurs in Nairobi forces them to rely on high cost short term finance to a great extent, that more money than required can be much of a problem as less money and it means high cost for money in terms of interest and may also lead to un-worthwhile investments to a great extent, that 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 to a great extent, that Due to fears of businesses uncertainties and not knowing whether the business will make profits enough for pay-back of the loans Youth entrepreneurs in Nairobi would rather start very small from savings and borrowing from members than take a loan to a great extent, that Credit has been made affordable through stabilizing interest rates and has actually grown by 18%. To a great extent and that Capital is therefore necessary for the long-term survival and growth of Youth entrepreneurs in Nairobi to a great extent.

Further, the study concludes that entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage to a very great extent, that entrepreneurship and economic growth take place when the economic conditions are favorable to a great extent, that access to credit increases the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi to a great extent, that lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to create capital to a great extent.

It was also concluded that access to credit increases the number of goals achieved in businesses owned by Youth entrepreneurs in Nairobi to a great extent, that lack of access to credit by Youth entrepreneurs in Nairobi limits goal achievement in businesses owned by



Youth entrepreneurs in Nairobi to a great extent, that entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage to a great extent, that access to credit is important for businesses owned by Youth entrepreneurs in Nairobi to attain one or more of its goals and attain a superior performance to a great extent and that entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage to a great extent.

The study finally concluded that the nature of product diversification can lead to additional access barriers for unbankable clients, especially related to financial costs and information asymmetry to a very great extent, that lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to diversify their products to a great extent and that Product diversification in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage.

#### **5.4 Recommendations**

The study recommends commercial banks in Kenya and other financial institutions to increase access to long-term credit for Youth entrepreneurs in Nairobi so that they are not forced to rely on high cost short term finance, that they also harmonize lending conditions where credit is available and give the Youth entrepreneurs in Nairobi freedom of choice on what to do with the money. Credit should be made affordable through stabilizing interest rates since Capital is very necessary for the long-term survival and growth of Youth entrepreneurs in Nairobi.

Further, the government should ensure the economic condition in the country is friendly, because entrepreneurship and economic growth usually take place when the economic conditions are favorable to a great extent. Commercial banks in Kenya should avail credit facilities to increase their entrepreneurial skills.

Commercial banks in Kenya should also avail credit facilities to increase the number of goals achieved by businesses owned by Youth entrepreneurs in Nairobi

The study finally recommends Commercial banks in Kenya to avail credit facilities to Youth entrepreneurs in Nairobi to enable them to diversify their products to a great extent and that Product diversification in businesses owned expand the output.

### **Suggestions for further research**

This study has assessed the effect of access to credit on the financial performance of youth enterprises in Nairobi, Kenya. To this end therefore a further study should be carried out to assess factors that influence success of youth enterprises in Nairobi.

Moreover, a further study should be done to investigate the factors influencing MFIs in funding business start-ups for youth entrepreneurs in Nairobi.

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## APPENDICES

### **Appendix 1: Letter of Introduction**

**Evans Nyatogo**

**P. O Box 41352 –Nairobi: Phone No. 0727381793**

**Email enyakundi76@yahoo.com**

**31<sup>st</sup> Aug, 2011**

**Dear Respondent:**

### **RE: CREDIT ACCESS AND PERFORMANCE OF YOUTH OWNED BUSINESS ENTREPRENEURS IN NAIROBI**

I am a graduate student from the University of Nairobi, School of Business, Finance and accounting department. I am conducting a research study on the effect of access to credit on the financial performance of youth enterprises, A case of Nairobi. I am conducting a research study to obtain more information about your opinion, experiences and particular issues on the youth access to Microfinance. Your business story and particular experiences in accessing microfinance products and services will be invaluable to this study. I am asking you to participate by answering the questions in this questionnaire. It will take about 30 minutes to answer the questionnaire that is enclosed. When you are done with the questionnaire, please keep the questionnaire in the provided envelope for collection. Your participation in this study is voluntary. If you choose not to participate or to withdraw from the study at any time, there will be no penalty. The questionnaire is anonymous and the results of the study may be published but your name will not be known.

**Yours faithfully,**

**Evans Nyatogo**\_\_\_\_\_

**Appendix II-Questionnaire**

**ACCESS TO CREDIT AND FINANCIAL PERFORMANCE**

**PART A: GENERAL INFORMATION**

1. Please indicate your Gender.

Male  Female

2. Your department .....

3. Your designation.....

4. What is your age bracket?

19 – 24 Years  30 – 34 Years

40 – 49 Years  35 – 34 Years

25 – 29 Years  Over 50 years

5. What is your highest level of education?

Secondary  Masters Degree

College diploma  Others (please state) .....

University degree

6. How many years have you worked in this **institution**?

1-5 years  16-20 years  26-30 years

6-10 years  21-25 years  Over 30years

11-15years

**PART B: EFFECTIVENESS OF ACCESS TO CREDIT ON FINANCIAL PERFORMANCE**

**a) CAPITAL BASE**

7. To what extent does the access to credit increase the capital base of businesses owned by Youth entrepreneurs in Nairobi?

- Very great extent      ( )    Great extent                      ( )  
 Moderate extent        ( )    little extent                      ( )  
 No extent                      ( )

8. To what extent do you agree with the following statements about the influence of capital base on performance of businesses owned by Youth entrepreneurs in Nairobi? Use a scale of 1-5 where 5 is to a great extent and 1 is to no extent.

Statement	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Due to fears of businesses uncertainties and not knowing whether the business will make profits enough for pay-back of the loans Youth entrepreneurs in Nairobi would rather start very small from savings and borrowing from members than take a loan.					
Credit has been made affordable through stabilizing interest rates and has actually grown by 18%.					
More money than required can be much of a problem as less money and it means high cost for money in terms of interest and may also lead to un-worthy investments.					
Capital is therefore necessary for the long-term survival and growth of Youth entrepreneurs in Nairobi.					
Lack of access to long-term credit for Youth entrepreneurs in Nairobi forces them to rely on high cost short term finance.					
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.					

**b. ENTREPRENEURIAL SKILLS**

9. Does access to credit increase the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi?

- Yes                      ( )  
 No                        ( )

10. To what extent does the access to credit increase the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi? Use a scale of 1-5 where 5 is to a great extent and 1 is to no extent

Statement	To a great extent	To some extent	Not sure	To a small extent	Not at all
Access to credit increases the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi					
Entrepreneurship and economic growth take place when the economic conditions are favorable					
lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to create capital					
Entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage					

**GOALS ACHIEVED**

11. Does access to credit increase the achievement of goals in businesses owned by Youth entrepreneurs in Nairobi?

Yes ( )

No ( )

12. To what extent does the access to credit increase the entrepreneurial skills of businesses owned by Youth entrepreneurs in Nairobi? Use a scale of 1-5 where 5 is to a great extent and 1 is to no extent

Statement	To a great extent	To some extent	Not sure	To a small extent	Not at all
Access to credit increases the number of goals achieved in businesses owned by Youth entrepreneurs in Nairobi					
Access to credit is important for businesses owned by Youth entrepreneurs in Nairobi to attain one or more of its goals and attain a superior performance.					
lack of access to credit by Youth entrepreneurs in Nairobi limits goal achievement in businesses owned by Youth entrepreneurs in Nairobi					
Entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage					

## PRODUCTS DIVERSIFICATION

13. Does access to credit increase the products diversification of businesses owned by Youth entrepreneurs in Nairobi?

Yes ( )

No ( )

14. To what extent does the access to credit influence products diversification in businesses owned by Youth entrepreneurs in Nairobi? Use a scale of 1-5 where 5 is to a great extent and 1 is to no extent

Statement	To a great extent	To some extent	Not sure	To a small extent	Not at all

The nature of product diversification can lead to additional access barriers for unbankable clients, especially related to financial costs and information asymmetry.					
lack of access to credit by Youth entrepreneurs in Nairobi constrains entrepreneurship and restrict their ability to create capital					
Entrepreneurs in businesses owned by Youth entrepreneurs in Nairobi are defined by their personal characteristics as opposed to the activities in which they engage					

**This is the End**

**Thank you for your cooperation**

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**Evans Nyatogo.**