FACTORS AFFECTING GROWTH OF SMALL AND MEDIUM ENTERPRISES OWNED BY THE YOUTH IN NAIROBI

BY

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DECLARATION

I declare that this research project proposal is my own original work and that it has not been presented to any other university or institution for academic credit.

Signed……………………………….. Date ……………………………….

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This research project report has been presented for examination with my approval as the university supervisor.

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ABBREVIATIONS

YOE	Youth Owned Enterprises
GoK	Government of Kenya
GDP	Gross Domestic Product
ILO	International Labor Office
KEPSA	Kenya Private Sector Alliance
KNBS	Kenya National Bureau of Statistics
SMEs	Small and Medium Enterprises
UN	United Nations
WEF	World Economic Forum

DEDICATION

This work is dedicated to my loving mother- Jacqueline Nalubega Nyangala, and my entire family at large.

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ABSTRACT

The purpose of this study was to determine factors affecting the growth factors affecting growth of SMEs owned by the youth in Nairobi Central Business District. The study adopted descriptive survey design. The data was collected through a self-structured questionnaire. The research instrument was piloted for validity through content related method and reliability through half-split criterion. The target population was all the youth owned SMEs operating in Nairobi CBD. The study used purposive sampling to target 67 youth owned enterprises within the Nairobi CBD. The return rate from the survey was 60 questionnaires which formed about 89.6%. Data was analyzed through the use of a computer software SPSS. The data collected was analyzed by descriptive statistics. Factor analysis was done to determine factors affecting the growth of microenterprises. Analyzed data was presented in form of tables. The study found out access to finance, innovation, government policies and non-financial factors affect the growth of microenterprise with a correlation coefficient of 0.913, 0.847, and 0.756 respectively. The study recommends that the government needs to establish avenues for youth learning on how to run their businesses successfully.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The entrepreneurial culture is growing fast across the world among the youth due to high unemployment levels (Mbithe, 2013). A huge number of youths who graduate every year end up jobless and take up entrepreneurship to create jobs. Due to lack of resources, most of the initiatives struggle to become successful brands in the market. According to Kumar, Hossain and Gope (2015), most businesses fail to kick off due to lack of finances. However, the rise of the microfinance banks that offer microloans has helped mitigate the financial challenges youths go through on their journey to become successful entrepreneurs. The microfinance banks play a crucial role in enhancing youth enterprises by improving youth's access to financial services, creating self-employment opportunities and self-reliance, promoting banking culture among groups with low-income and contribute to socio-economic development of rural and urban communities (Abdulkadir, Umar & Ibrahim, 2012).

Kenya's rate of unemployment is due to little or no experience among the youth and insufficient job creation, National bureau of Statistics (2010). Most youth employed in the informal sector are poorly paid thus continue living in poverty. Youth enterprise growth in Kenya is critical to the growth of the economy of the country and the region as well. The youth in Kenya have been on the frontline of entrepreneurship growth to an extent that it was deemed a suitable host for the Global Entrepreneurial Summit in 2015. When young people graduate in Kenya, one of the biggest challenges to starting their own businesses is the starting capital(Mbithe, 2013). Therefore, they have sought for the financial assistance from different channels but the major one is from banks. However, standard banks cannot offer them the needed financing because they are considered unworthy to repay the money. According to Osoro and Muturi (2013), banks have also experienced tough moments when clients do not repay their microloans. Therefore, banks now prefer clients who have an assurance that they will surely repay the money. Youths who may have no collateral or assets that can assure the banks that they will repay the money are sidelined and rarely get microloans from standard banks (Osoro et al., 2013). In this case, it becomes hard to start businesses. However, the microfinance banks have come to the rescue of the youths who can now access microloans to start their own businesses.

The study was be anchored on the social entrepreneurship theory which states there are individuals in the society who find creative means to address the problems people may be going through and they are thus regarded as social agents of change (Bosse& Phillips, 2016). On the other hand the poverty alleviation theory states that accessing credit under certain circumstances can assist the poor accumulate their own capital hence improving their living standard through the income generated out of investments (Babajide, 2012).

Youth enterprise in Kenya is highly practiced by young people who lack the necessary capital (Mbithe, 2013).Therefore, microfinance banks come in to help the young people to realize their dreams. Over the years, the young people have been left to struggle on their own leading to increased cases of theft or involvement in drug abuse and alcoholism (Babajide, 2012).

Due to the rise in youth enterprises, most institutions offering micro loans have come up with innovative ways to keep and attract new clients. Therefore, microloans have been instrumental both in the urban and rural areas in a bid to promote the small businesses, in the agriculture sector and other forms of blue-collar jobs.Microfinance banks have been critical in the development and the success of entrepreneurship initiatives in Kenya. With over different outlets spread across the country, the microfinance banks have been able to impact hundreds of thousands of young people who need capital to start their businesses (Nyandema& Were, 2014).

1.1.2 Enterprise Growth

The economy is changing fast in the age of technological revolution. In the same way, businesses have changed. Unlike in the past when only a few businesses were in operation, today people have chosen to start their own businesses for the purposes of countering the growing nature of unemployment (Okibo et al., 2014). Today, many people graduate without securing employment, and even after many years they still do not get jobs. As such, it is important to ensure they find alternative ways of making money. One of the ways has been through entrepreneurship which means that businesses run by people of all ages have cropped up. However, statistics have indicated that enterprise growth among the young people is at a high rate. An enterprise is deemed to be growing if it is a company that generates the cashflow that is faster than those of the overall economy of a country (Olu, 2009). The profitability of a company will also grow at a fast rate, which means that a business will record high earning each financial year.

1.1.3 Youth Enterprises in Kenya

Youth's natural disposition for change and innovation makes young people well equipped for entrepreneurship, for as long as the society gives youth the right support to counter their challenges and improve their chances of success (Olu, 2009). Any city's economic development benefits from youth entrepreneurship in terms of employment creation, market competition, product and service innovation, income generation and community revitalization. Young entrepreneurs encounter bigger challenges than older mature entrepreneurs, therefore they would benefit from programs aiming talent development to support them with networking, access to resources, skills and mentoring so as to increase their growth and success (YeshiaregDefene, 2007).

In Kenya, there are various centers like the Zawadi Youth Enterprise Program (ZYEP) that help the youth develop entrepreneurial skills. With the high unemployment rate in Kenya-40%-approximately 65% of whom are youth (18-34 years), ZYEP plays an integral part in making sure members can operate enterprises that produce income hence moving the youth closer to financial freedom and independence. Business and leadership skills developed in ZYEP help the youth become more productive and positive contributors to society.

The government has also setup a financial pools like The Youth Enterprise Development Fund (YEDF) and Uwezo Fund that help the youth access funds to venture into income generating activities. In these programs, the youth, in groups, are tasked with the management of loans offered to them by the government. They however undergo vigorous training on entreprise running and are supposed to pay these loans slowly back to the government.

1.1.4 Microloans

Microloans are loans that are provided to small businesses that are run by entrepreneurs who do not have the collateral to secure loans from the standard banks but they have ideas for business that can fetch good returns(Waweru et al., 2012). As such, the microloans act as the thrusting force that helps busiensses to grow from humble beginning. The microloans are wide spread in developing countries that have few resourecs or the economic capacity to offer jobs to all the citizens and thus some end up poor. Therefore, as the spirit of entrepreneurship continues to grow, there is need to provide them with the necessary finances for them to build themselves economically (Waweru et al., 2012).

Microloans are a component of the microfinance which involves providing the necessary credit to the poor people(Okibo et al., 2014). It also offers the young people who are starting businesses pension, insurance, savings and payment services. A person who is applying for a microloan will only be required to apply and show prove of how they intend to run the business for the purposes of ensuring they are repaying the loan(Olu, 2009). On the other hand, they will required to ensure they remain committed to repaying the loans for the purposes of ensuring he microfinance does not go bankrupt. This is because microfinance banks that provide microloans are run with an idea of empowering communities; thus must handle the finances wisely.

1.1.5 Micro-credit and Youth Enterprise Growth

Youth enterprise growth is highly dependent on the micro-credits (Okibo et al., 2014). This is because their growth and development are determined by the amount of cash available for the business to grow or expend (YeshiaregDefene, 2007). If a business is facing financial issues, it will have an easy downfall due to the lack of the much needed energy the business needs to have for it to grow. Although an idea may be pretty good, if it is not well implemented, it will still suffer due to lack of the critical factor of finance (Athanne, 2011). The microcredit thus becomes highly helpful to the youths who have initiatives on how they can carry out their business.

The key to economic growth in Kenya are youth entrepreneurs because they generate employment opportunities. Youth owned businesses have the capacity to contribute more than they are doing currently. According to the growing amount of research, countries that fail to address gender related barriers are losing out on a great portion of economic growth(Olu, 2009).

1.2 Research Problem

Availability of financial resources has been identified as one of the reasons for fast entrepreneurial growth across the globe (Aggarwal, Goodell&Selleck, 2015). Today, people have access to capital to start their businesses from banks. However, the low-income households or the youths who have no collateral struggle to access finances from banks to start their businesses. Therefore, microloan accesshas become crucial in the growth of the entrepreneurial culture among the low-income class. The microfinance banks provide the necessary capital needed to start a business to people who could have been denied access to microloans in the standard banks (Stanley & Francis, 2014). Therefore, they have played a crucial role in promoting business initiatives being run by young people.

The high levels of unemployment have also prompted youths to choose self-employment, which requires finances to start. Youths can thus easily access the microloans they require from the microfinance banks. Youths prefer microloans from the microfinance banks because there is no need for collateral. Kenyan Microfinance banks are regulated by the Micro Finance Act 2006 (Constitution, 2010). These banks have been on the rise due to the increased number of people who have no collateral, but they want to access microloans to start businesses (Wijesiri&Meoli, 2015). The microloans from the microfinance are friendly to the youths because there are customized to their economic level (Simba, 2013).

Abdulkadir, Umar and Ibrahim (2012), investigated the impact of micro-finance banks on women entrepreneurial development in the metropolis. The study findings indicated that microloans from microfinance banks contribute to entrepreneurial development. Similarly, Ekpe, Mat and Razak (2010), examined the effect of microfinance factors on women entrepreneurs' performance in Nigeria. The study findings indicated that access to microfinance had contributed immensely to the economic empowerment of women through improvement in their businesses. On the other hand, Sharu and Wario (2015), studied the factors influencing growth of youth owned SMEs in Nairobi County, Kenya. The study established that microfinance helped the youth access microloans, thereby, increasing their capital by expanding their business or establishing a business and thus employing themselves.

Mbithe (2013), carried out a study on the effects of microfinance service on the growth of SMEs in Machakos County. The study found that microfinance banks had a positive impact on the SMEs. On the other hand, Stanley and Francis (2014), carried out a study on the role microfinance in economic empowerment of the youth. The study indicated that microfinance banks contributed to the economic empowerment of the youths. Similarly, Osoro and Muturi (2013), examined the role of micro financial institutions on the growth of SMEs in Kenya. The findings indicated that provision of credit and training and a cheap savings account helps the growth of SMEs.

From the studies carried out previously, it is evident that little has been done on the factors influencing the growth of SMEs owned by the youth in Nairobi. This study therefore sought to answer the question: what factors affect the growth of small and micro-enterprises owned by the youth in Nairobi?

1.3 Research Objective

The main objective of this study was to investigate factors affecting the growth of SMEs owned by the youth in Nairobi. The study specifically sought to:

1. Find out the influence of access to finance on the growth of SMEs owned by the youth in Nairobi.
2. Investigate the influence of innovation on the growth of SMEs owned by the youth in Nairobi.
3. Determine the influence of government policies on the growth of SMEs owned by the youth in Nairobi.
4. To determine the influence of other non-financial factors on growth of SMEs owned by the youth in Nairobi.

1.4 Value of the Study

This study is assisting the youth who are seeking to better their financial positions understand how to do so by venturing into business. It is also minimizing the rate of unemployment in Kenya and reduces the rate at which the youth depend on the elderly to survive.

This research is beneficial to the managers of financial institutions as they will extensively understand their role in enhancing youth enterprises. Therefore, they implement better programs that will help them improve on the impact they have on their clients. It will also help them improve the current programs to help create better impact in the economy.

The current study is also be beneficial to the government policy-making agencies as it assists them to come up with better policies to enhance effectiveness and sustainability of lending institutions. The study thus provides a guiding framework on the policies that can be made at the different levels of governance to enhance youth access to financial services and come up with better programs that enlighten the youth on entrepreneurial skills.

The study is of great help to the scholars as they gain in-depth insight on the factors that deter and encourage youth enterprise activities. Students can also use this research as a resource during their study to better understand the factors influencing the growth of SMEs owned by the youth in Kenya

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature related to the effect of microloans on youth enterprise growth in Kenya as it has been presented by different scholars, analysts, researchers and authors. The chapter also provides the different theories underpinning the current study.

2.2 Theoretical Literature Review

This section provides the theories underpinning the current study on effect of microloans on youth enterprise growth in Kenya. The different theories that will guide the current study include the poverty alleviation theory and the Social entrepreneurship theory.

2.2.1Social entrepreneurship theory

Social entrepreneurship theory states that people with the society who become agents of change find innovative ways of impacting the society (Kuratko, 2016). Therefore, they find creative ways of solving problems that people may be going through. The social entrepreneurs find creative ways of coming up with solutions and they do not just recycle the available options. They are thus considered visionaries and pioneers of change in the society (El Ebrashi, 2013). A good example is that of Muhammad Yunus who came up with the microfinance concept by introducing the Grameen Bank. The social entrepreneurs are motivated by the desire to see a different kind of society. They work towards creating an impact in the society and developing the right mechanisms in a bid to liberate people from the chains of poverty. Another classic idea of social entrepreneurship is the refugee at work project which seeks to provide employment opportunities to refugees.

Communities around the world have been impacted by social entrepreneurs who work towards the growth and development of the community (Kuratko, 2016). The social entrepreneurs need resources to fund their project as they seek to create the change they desire in a community. The different types of impact could be covering a huge area or the population could be huge thus requiring financing from a microfinance bank (Kuratko, 2016). The focus of a social entrepreneur is to come up with solutions that would liberate people from their bondage of poverty. One of the leading causes of poverty is lack of education. Therefore, according to a

World Bank Report (2014), poverty levels continue to increase among people who have little or no knowledge about financial education.

When a community is educated on such issues and given a platform upon which to exercise their skills, they will be in a better position to overcome poverty. Therefore, microfinance banks play a huge role because when the communities are empowered, it will be easy for them to access education. This is because when poverty strikes a community, it will be hard for them to get basic or higher education (Grimes, McMullen, Vogus & Miller, 2013).The theory is relevant to the study because entrepreneurship takes different forms. Different entrepreneurs make efforts to impact their organizations. Similar efforts made by Yunus Muhammad who was supported by different banks in establishing the Grameen Bank due to the resources needed, entrepreneurs in the current generation also need financing. There are different young people who have great ideas on how they can transform the society yet they do not have the required funds(Grimes, McMullen, Vogus& Miller, 2013).In most case, the ideas that may sound simple in the agricultural sector, security or education may end up becoming revolutionary. Therefore, it is important to invest in such ideas and microfinance banks are in the forefront of funding such businesses.

2.2.2 Poverty alleviation theory

The poverty alleviation theory has been used for decades to argue that the poor who do not have the right savings to start their own businesses end up in poverty all their life. However, if they are given the microloans they will be in a position to empower themselves (Babajide, 2012). The rural areas have bene faced with poor economy plus high levels of unemployment and young people only wait to be employed. However, with the new entrepreneurial spirit in the world today people are desiring to start their own business and it becomes critical for them to access loans. While employment or daily wages do not provide the right or sufficient income that could earn them the saving to start their own business(Babajide, 2012). Therefore, when they get the loans it becomes easy to start their own businesses. The theory is relevant to the study because the study deals with the specific people who are in rural and urban areas yet they do not have the capacity to acquire finances in commercial or standard banks due to their poverty level. The microloans have also been set up for the purposes of coming up with solutions to alleviate the high levels of poverty. When people cannot access the right amount of cash to start their business, they may end up in a cycle of poverty but with the emergence of microloans solutions, it is now easy for the poor people to walk away from poverty.

2.3 Empirical Literature Review

2.3.1 Global Literature

Abdulkadir, Umar and Ibrahim (2012), investigated the impact of micro-finance banks on youth entrepreneurial development in the metropolis. The study findings indicated that microfinance banks contribute to entrepreneurial development. Similarly, Ekpe, Mat and Razak (2010), examined the effect of microfinance factors on youth entrepreneurs' performance in Nigeria. The study findings indicated that access to microfinance had contributed immensely to the economic empowerment of women through improvement in their businesses. On the other hand, Simba (2013), carried out a study on the role of microfinance institutions in enhancing women entrepreneurship. The study found that microfinance helped them access microloans, thereby, increasing their current capital by expanding their business or establish a business in the way of employ themselves.

According to Awojobi (2011), microfinance banks have become a tool upon which poverty is reduced. The poor people also have ideas on how they can run businesses and overcome the chains of poverty. However, according to a study by Hermes, Lensink and Meesters (2011), due to lack of funds, they end up helpless thanks to the microfinance banks that have helped businesses to grow exponentially. The case study of Yunu Mohammad has become a classic example of how the life of poor people can be transformed if they are given the necessary funding and banking facility custom-made for them. According to a study carried out by Berhane and Gardebroek (2011), in Ethiopia, there is need to ensure the entrepreneurs are given the necessary funding. Berhane et al., (2011), have also labeled microloans as tools for the change that is projected in the Millennium Development Goals. Therefore, microloans have become critical in the process of enhancing entrepreneurship.

2.3.2 Local Literature

Mbithe (2013), carried out a study on the effects of microfinance service on the growth of SMEs in Machakos County. The study found that microfinance banks had a positive impact on the SMEs. On the other hand, Stanley and Francis (2014), carried out a study on the role microfinance in economic empowerment of the youth.

The study indicated that microfinance banks contributed to the economic empowerment of the youths. Similarly, Osoro and Muturi (2013), examined the role of micro financial institutions on the growth of SMEs in Kenya. The findings indicated that accessibility of credit and training and a affordable savings account helps in the SMEs growth.

Entrepreneurs encounter different challenges in the process of establishing their own businesses successfully. Waweru and Spraakman (2012), explain that one of their sources of money is the local money laundering services which end up charging high interests and take away their assets if they default. According to a World Bank Report (2013), lack of proper channels of funding for entrepreneurs have remained a challenge in setting up successful businesses. When the entrepreneurs fail to get the necessary funding, they end up in a cycle of poverty. However, past studies have concluded that the even the vulnerable groups like women have progressed financially when they get the necessary funding. Other case studies that remain as undisputed scenarios include those of SMEs. Although they may not get the funding from the standard banks, microfinance banks have been on their side to offer the necessary financial help.

2.3.3 Factors Affecting Growth of Small and Medium Enterprises

2.3.3.1 Access to Finances

Entrepreneurs face the challenge of lack of finances when they are starting businesses. According to a report published by World Bank (2014), young people face the challenge of funding when they are starting SMEs. This is because they become discouraged once they do not get the necessary funds they require to buy stock or assets for their businesses. In the past when the banking system was poorly developed and access to microloans was low, the number of new businesses cropping up was small. However, since the introduction of a vibrant credit system in

Kenya, the number of businesses carried out has increased drastically. According to Olu (2009), access to microfinance microloans has helped youths to grow their businesses. This is because they have access to the funds. On the other hand, Ekpe, Mat and Razak (2010), carried out a study on the effect of microloans on the development of entrepreneurship among women. The study findings indicated that women were able to be empowered due to the access to microloans. It is thus easy to conclude that when the youths access the funds they require for their business, they are also empowered.

Osoro and Muturi (2013), have also argued that the microfinance institutions have remained critical in the growth of the SMEs. The specific kind of growth referred in the study is the financial growth which helps businesses to become empowered. This is because in many instances business growth is measured by the profit or loss it is making. With the increase in the access to microloans and other credit facilities, businesses have been able to grow exponentially. Studies have been carried out on how the bank amendment act 2016 has affected business growth. This is because businesses are not able to access microloans from the standard banks. Therefore, it is easily conclusive that businesses grow when they get easy access to funds. They buy more stock, insure their products, expand their business scope, open more branches, employ more people and increase their production. According to a study carried out by Babajide (2012), business growth among entrepreneurs is inevitable when access to microloans is made easy.

Awojobi (2011), carried out a study on the role of microfinancing for poverty reduction and economic development: a case for Nigeria. The study concluded that the microfinances were critical in reducing poverty and empowering a community. One of the types of empowerment induced by the microfinance banks is that entrepreneurs are able to access microloans which help them to build businesses, increase their savings, buy insurance, expand their businesses, increase their production and ultimately increase their profit. Oni (2012), also carried out a study on the role of the government funds and other financial institutions on the development and the success of SMEs. This study findings concluded that the SMEs were able to grow exponentially when they had easy access to the funds. This is because funds are considered to be the lubricating oil of a business.

Without funds, even good ideas would fail. The case study of Yunus Mohammad in establishing the Grameen Bank in Bangladesh is a clear illustration that funds are required for the purposes of running a business. The Grameen Bank in Bangladesh was highly supported by different financial institutions and the government which offered financial support.

It is therefore easy to conclude that businesses, especially entrepreneurship among the youths who are in school or they are simply graduates is very critical. This is because they have great ideas but they have little or no savings to start the businesses.

In the case of women who have been empowered by other microfinance banks like the Kenya Women Finance Trust (KWFT), it is clear that access to finances help business to grow among the entrepreneurs.

According to case studies of KWFT success stories, it is evident that women who had less income or savings were able to grow their business once they were able to access microloans easily. It is the same case with the youths in Kenya who can and will grow their enterprises if they are able to access microloans. This makes it easy to first implement their business, market their products and services, buy the necessary assets and start the production process. However, without financing the youths would still have ideas that cannot be implemented until access to finances is available.

2.3.2 Innovation

People come up with creative ideas on how to end their life of poverty once they get access to the funds necessary to promote their business ideas. One of the success stories of microfinance innovation is that of Grameen Bank in Bangladesh. The Grameen Bank was able to end the abject poverty that was gnawing the citizens of Bangladesh. When Yunus Mohammad came up with the idea and started finding out the best way to solve it, it was evident that a solution was needed. Finally, when the bank became a success, it was able to help the people living in abject poverty to promote their businesses, increase their savings, boost their profits and thus spur business growth. India has also been trailing behind in terms of economic growth due to the many people who have no jobs or live below the poverty line. However, according to a study carried out Devi, Prabakar and Ponnarasi (2011), the level of poverty has gone down since the people realized the benefits of microfinance funds. Today, people come up with creative ideas on how to solve poverty and the funding from the microfinance banks have been helpful to them. According to a study carried out by Berhane and Gardebroek (2011), in Ethiopia, poverty levels reduce with the introduction of microfinance funds. The findings of the study indicated that access to affordable finances is able to help a community increase its financial strength through solving problems within the society. Entrepreneurship has also been highly boosted by the availability of funds from the microfinances. Unlike the businesses that start with an intention of making pure profit, microfinance innovation deals with businesses that are geared towards creating change and impact in the society.

According to Berhane and Gardebroek (2011), microfinance institutions have been labeled as perfect solutions to reach the Millennium Development Goals. Although the world have already reconfigured the Millennium Development Goals into Sustainable Development Goals, there is a clear indication that the impact of microfinances on microfinance innovation is still essential. According to a World Bank Report (2012), the poverty levels in India have reduced with the introduction of microfinance institutions that avail the microloans for creative ideas. The poverty levels have reduced due to the easy access to necessities like water, health services, banking services and increased access to education.

Waweru and Spraakman (2012), carried out a study on the performance of microfinance institutions in impacting communities. This concluded that the microfinance banks were responsible for the huge impact realized in the development of communities. A number of projects being run in the rural and urban areas, based on innovation were funded by microfinance institutions. According to a study by Hermes, Lensink and Meesters (2011), the microfinance banks have been labeled as efficient in the process of spurring innovative projects. This is because the standard banks only focus on the wealthy individuals and stable companies that have collateral for their microloans. However, microfinances are able to spur the growth and development of innovative ideas. Kono and Takahashi (2010), argue that microfinances have also revolutionized their operations through group lending. This is part of the mechanism to deepen the impact microfinances continue to create in a community.

2.3.3 Government Policy

Governments over time have structured different rules and laws to enhance better decisions and get rational outcomes in order to control the operations of SMEs. Thus, the government controls the way these entities compete. The government sometimes limits the amount of land that a person or business can own. This therefore, lowers the ability of the SMEs to provide required collateral for loan requests.

Assets are the backbone of every business (Boateng, Boateng&Bampoe, 2015). Boateng et al., (2015), continue to argue that the expansion of every business is in terms of the assets it has acquired. This is because businesses require assets such as buildings or stores, vehicles to transport their products or deliver services. Other assets businesses require include land or structures for the people carrying out agricultural activities. When the government supports the growth of youth enterprises, the youth are able to develop and grow their businesses. This is because they will buy the required assets and find ways of expanding the scope of their business. Banerjee, Duflo, Glennerster and Kinnan (2015), explains on the miracle of the microfinance and states that the microfinances have a huge impact on businesses. The access to affordable finance spurs businesses and develops the assets already acquired ones. However, governments can control these with various policies each country has in place.

Okibo and Makanga (2014), explain that microfinance institutions remain critical in the poverty reduction due to the improvement on the businesses already existing. According to Okibo et al., (2014), family businesses that are already struggling to make an impact on the society can expand their assets and make a considerable impact. The process of creating impact has been labeled as a critical factor in the process of growing a business. Governments usually set up a minimum wage employees should receive. This can be a headache to most SMEs since they might not be able to meet these set standards. According to a study carried out by Wijesiri, Yaron and Meoli (2017), microfinance institutions have helped businesses to expand their assets regardless of their size. Therefore, businesses that are small or big are all given the opportunity to buy assets that they desire and thus making it easy for them to develop and expand their scope. Wijesiri et al., (2017), continue to argue that businesses remain successful if they keep growing and expanding. The business growth will thus be experienced if the necessary assets are acquired. It is thus easy for the entrepreneurs to find an easy pathway through which to access funds and thus grow their business. Olu (2009), explains that businesses are able to grow when they are given the necessary funding to buy different assets that they require. Although tax, interest rates, licensing costs may affect a lot of SMEs, the government may be able to assist by offering incentives and subsidies to particular industries to enable these SMEs perform positively.

2.3.4 Non-financial Factors

Non-financial factors are integral to the characteristics of the youth business owners. They include social networks and government support initiatives for youth in groups. Historically the proportion of youth entrepreneurs to older population has been basically un-proportional due to the fact that many societies' youth have limited opportunities (Greene, 2012). Other researchers have shown that the propensity for new start-ups to grow has also highly been defined by the age of the owners. Arenius (2009) argued that performance of youth owned enterprises was low compared to men owned enterprises.

Robinson (2012) noted that women face a 'double burden' in performing both business and reproductive roles in the society. Robinson (2012) explained that the double burden in social roles are the reasons behind the disparities in performance between male owned enterprises and women owned enterprises as due to barriers that women entrepreneurs face in. In order to explain gender influence on entrepreneurial performance, Becker (2012) suggested that this aspect can be explained from the gender roles perspective.

Micro financing banks have been on the front line of educating their clients on different business aspects. According to Berg and Zia (2017), entrepreneurs who have been working with micro-finances have gained a lot of knowledge due to the different types of training carried out on the clients. At the heart of every microfinance institution is the desire to have a highly informed client who can make wise financial decisions. The microfinance banks argue that if they give a client financing yet he or she does not have financial skills, the money may fail to be used wisely. The various skills to be taught include risk management and financial literacy. Clients thus get a better understanding of the financial knowledge they need to come up with the relevant projects they require to become successful. According to Berg and Zia (2017), when clients are educated, they become wise and thus the decisions they are informed.

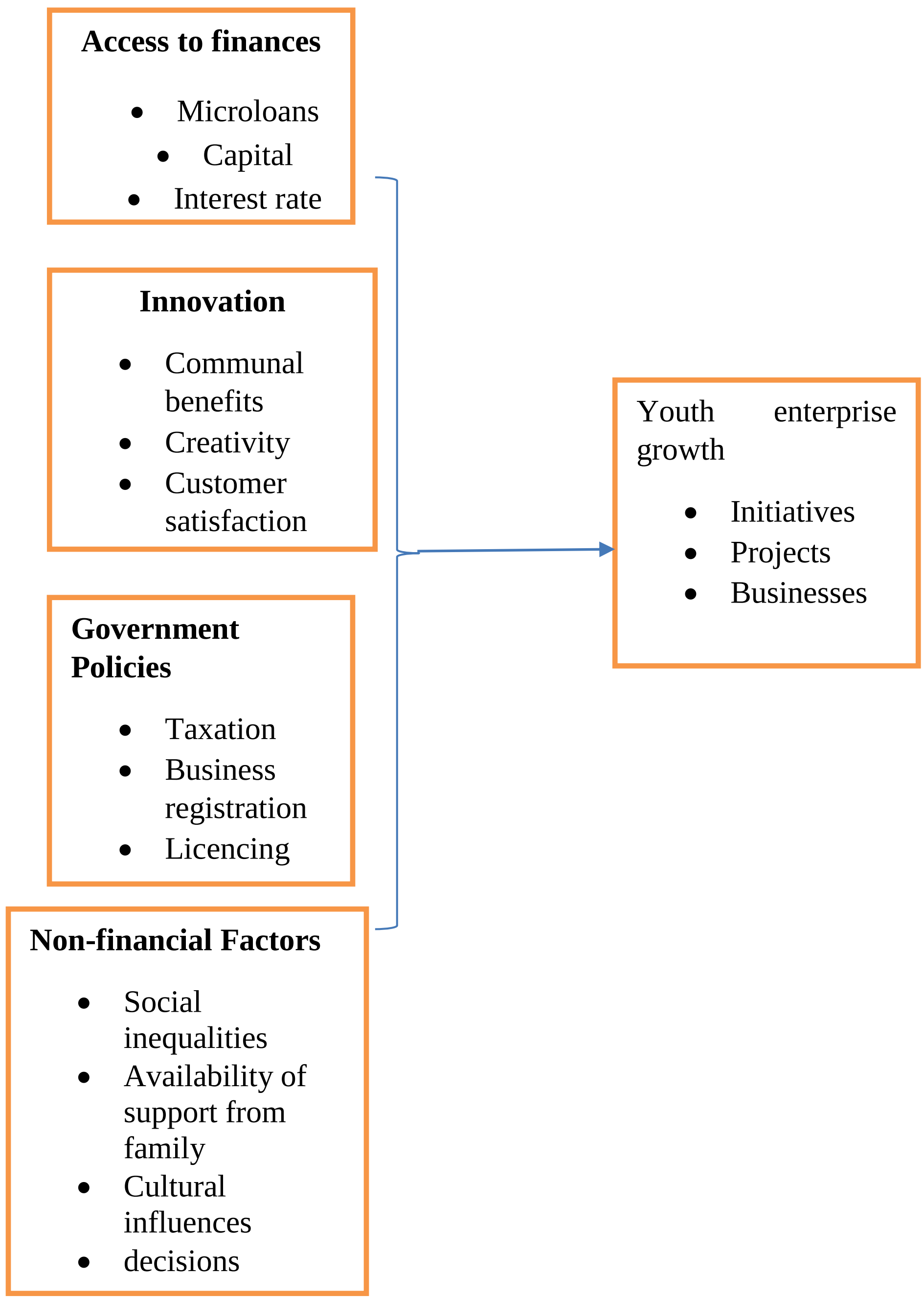
Hastings, Madrian and Skimmyhorn (2013), argue that financial literacy is closely related with the financial outcomes. Therefore, microfinance institutions have been crucial in shaping the success of a business by giving the clients the information they need. Clients who are educated on how to invest make proper use of the financing the get. It is also critical to understand that the wise decisions will lead to growth of business and timely repayment of the microloans.

Therefore, even if the entrepreneur did not have the necessary funds at first, through client education on financial issues, it becomes easy to improve the business success (Hastings et al., 2013). The process of changing a community through financial empowerment thus becomes a success. According to a study carried out by Lusardi and Mitchell (2014), one of the benefits of financial literary is community empowerment. This is because when an individual entrepreneur or a group of entrepreneurs is impacted, it is easy to change the society.

2.4 Conceptual Framework

The conceptual framework in a research study is a diagrammatical presentation of the different variables being analyzed in the research study. The conceptual framework provides a clear outline of the interrelationship that exists between the dependent and independent variables in the study. The independent variables in the study are access to finances, microfinance innovation, expansion of assets and access to non-financial products while the dependent variable is youth enterprise growth in Kenya.

Independent variables **dependent variable**



Independent variable **Dependent Variables**

Source: Author

2.5 Summary of the Literature Review and Research Gaps

The different studies that have tried to study the factors affecting growth of SMEs owned by the youth have given conflicting results. Moreover, most of the studies that have been carried out have been based in different regions in Kenya and thus their conclusions cannot be generalized to Kenya. Osoro and Muturi (2013), examined the role of micro financial institutions on the growth of SMEs in Kenya. The findings indicated that accessibility of credit, training and affordable savings account helps SMEs grow. Other studies available on effect of microloans in enhancing entrepreneurship among the youths are those of Abdulkadir, Umar and Ibrahim (2012), Osoro and Muturi (2013), Ekpe, Mat and Razak (2010) and Mbithe (2013). These studies focused on different locations in the country and outside the country and different variables. A study was conducted on factors affecting financial performance of youth owned enterprises Kisii Town. The dependent variable in this particular study was financial performance which differs from SMEs growth. However, the current research study shifts focus from Osoro and Muturi (2013) on the role of micro financial institutions on the growth of SMEs and seeks to fill in the gap by investigating the factors affecting growth of SMEs owned by youth in Kenya. The government coming up with ways of promoting youth owned enterprises in Kenya, though little has been achieved. These have been through the affirmative action like establishment of Youth Enterprise Development Fund (YEDF) in 2007 and Uwezo Fund.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1Introduction

This chapter presents a discussion of the research methodology that was employed in the current study. The chapter focused on the research design, target population data collection sample design and data analysis and data presentation methods that were applied in the current study.

3.2 Research Design

The research design forms the backbone of the details on how the research was carried out regarding the data collection for the purposes of addressing the research questions. The research design is critical for data collection purposes, measurement and analysis of the data that has been collected. The central focus of the research design is to help find solutions for the problems identified in the research. It is composed of the outline of the research, the hypothesis and how the data has finally been analyzed (Creswell & Clark, 2007).

The current study applied the descriptive research design. The descriptive research design was critical for the current study as it enabled the researcher to describe the different characteristics under study in the current research. The current research study is about the factors affecting growth of SMEs owned by the youth in Kenya. A survey was crucial for the purposes of ensuring that the large population to be involved in the current study is well studied. It was thus justifiable and important to apply the descriptive survey in this study. According to Creswell (2013), the surveys help in collecting information from a group of people through interviews or questionnaires to a representative sample of a large group of people or elements involve in data collection.

3.3 Target Population

Population means an entire group of elements events, things and people that a researcher would wish to investigate. Therefore, in a research study, the study population defines the entire collection of the units or the people that the researcher wants to use for the purposes of drawing conclusions. To formulate a research design, the researcher needed to know the scope of the audience in line with the objectives of the study. The target population included the people or the population who have the information that the researcher intended to use for the purposes of drawing conclusions. While describing population, Ngechu (2004), explains that it is a set of people, events or activities being studied. The target population of the study was the youth owned micro-enterprises based in the Nairobi CBD operating in the target streets which were Koinange, Moi Avenue and Luthuli Street with monthly income of ksh (100,000 - 200,000) with 5 employees and below. According to the Nairobi County ministry of youth and sports, there are 200 youth owned registered under their database operating within the CBD operating in the target streets with monthly income of ksh (100,000 - 200,000) with 5 employees and below.

3.4 Sample Design

A sample design is described as the structure of the design that was followed in the process of selecting the specific participants or the respondents for a research study (Cooper & Schindler, 2011).The sampling process refers to the clearly set out selection of a specific definite number of elements to be used. The focus of using a sample design is to get a sample that was used for the purposes of drawing the conclusions for the entire population.

Based on the Yamane's formula, 67 employees of the Micro and Small Enterprises of the licensed enterprises formed the sample size from which inferences from the population were drawn. Yamane (1967) statistical formula was used to derive the sample size from the youth owned micro-enterprises operating in the CBD (Koinange, Moi Avenue and Luthuli Streets)

n= N/{1+(N)*(E*E) }

n –sample size, N -Size of population, E – 0.1, at 90% confidence level.

n=200/1+200(0.1*0.1); n=67

3.5 Data Collection and Data Collection Instruments

The current study relied on the primary data to make conclusions. The research prepared and administered structured questionnaires for the purpose of collecting the primary data. The researcher was tasked with the role of administering the questionnaire in the four microfinance banks in Nairobi. The data collection involved research assistants who helped the respondents by clarifying the questions, which may be unclear. In cases when the process of filling the questionnaire did not occur immediately, the research assistants left the questionnaires and picked them up at a later time. The questionnaires were structured using the five-point Likert scale, Objectives and narrative questions.

3.6 Data Analysis

The data analysis process applied the descriptive statistics. The descriptive statistics were composed of the mean, standard deviation, the frequency, multiple regression and correlation. The data analysis was done efficiently using the SPSS (Statistical Package for Social Sciences). The SPSS was used to regroup and reduce the data in a summarized form for the purposes of easier interpretation for the purposes of analyzing the factors affecting growth of SMEs owned by the youth, mean scores was critical.

3.6.1Conceptual Model

According to Hoffer et al., (2010), a conceptual data model is a representation of organizational data. The aim of a conceptual data model is to show as many laws about the meaning and interrelationships among data as are possible. The model adopted was:

$$Y = f(X_1, X_2, X_3, X_4)$$

In this model, Y= Youth Enterprise Growth, f= function of $X_1, X_2, X_3,$ and $X_4,$ X_1= Access to finances, X_2= Innovation, X_3= Government policies, X_4= Access to non-financial products

3.6.2 Analytical Model

The regression model below was used for the study:

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

y = Youth Enterprise Growth (Return on investment (ROI), Return on Sales (ROS) and Return on assets (ROA)

β_0 = Constant Term, β_1= Beta coefficients, X_1= Access to finances, X_2= Innovation

X_3= Government policies, X_4= Access to non-financial products, e= the standard error

The study analyzed factors affecting growth of SMEs owned by the youth in Nairobi.

3.6.3 Measurement and Parameterization

Variable	Measurement
Access to finance	The number of youth with enterprises saving, receiving loans and making payments.
Innovation	Revenues from new products or services introduced by youth enterprises.(return on product development expense=gross margin-product dev. Cost/ Product dev. Cost
Government Policies	Amount paid in terms of taxes, licences and duties
Access to non-financial products	It will be measured through the savings generated from improved financial trainings (risk management, financial literacy, advanced transaction models).

3.6.4 Diagnostics Tests

Scatter plots and partial regression plots were recommended tests for linearity. Standardized predicted values were be plotted against standardized residuals. The term *standardized* simply means that the values are expressed in terms of the number of standard deviations away from the first moment which ought to be zero. Where linearity is not observed, the researcher should then run a nonlinear regression analysis or transform the data using Stata (Laerd Statistics, 2017).

An understanding on the sampling procedure and data collection is important when assessing independence of the observations. This assumption is warranted when simple random sampling was adopted by the researcher. The Durbin Watson Statistic will be necessary to test for this assumption. The D-W score ranges between 0 and 4 but the ideal score should near 2 (Laerd Statistics, 2017).

When examining homoscedasticity, the researcher needs to assess the plot generated while testing for linearity. Any observable clustering of observations would depict that the data does not conform to the assumption of homoscedasticity (Laerd Statistics, 2017).

When independent variables are highly correlated to each other, the researcher may not easily identify which among them contributes to the variance explained in the outcome variable. The researcher should examine the data for correlation coefficients and Tolerance/VIF values so as to ascertain if the data holds the assumption. From the correlations table in Stata, take note that none of the correlations exceeds 70% as this would be very high. Similarly, inspect the data through VIF statistics in the coefficient table. Multicollinearity may be present where the VIF score is higher than 10 (Laerd Statistics, 2017).

A normal QQ plot was useful to test for normality. This assumption verified that the error term is random. (Laerd Statistics, 2017).

The QQ plot also pointed out significant outliers, highly influential points or high leverage points which can be described as unusual observations within the data set. These points may have a negative effect on the regression equation and diminish the accuracy of both results and statistical significance.

Testing for outliers entails assessment of residuals. One of the residual values that can be examined is the standardized residual. Ninety nine percent of the values in a normal distribution lie within ± 3 standard deviations of the mean. Data points lying outside the range can be regarded as outliers.

CHAPTER FOUR

DATA ANALYSIS, RESULT AND DISCUSSION

4.1 Introduction

This chapter is on data analysis, presentation and interpretation. The first part of this chapter is on the response rate of the respondents. Section two of this chapter shows the profiles of respondents. Section three of this chapter gives the analysis, presentation and interpretation of the relationships under investigation. The presentation and interpretation was in line with the study's objective. The findings are presented in the form of tables showing frequencies and percentages as well as descriptive statistics and regression analysis results. For each research objective, descriptive analysis was first done presented in form of means and standard deviations.

A sample size of 67 micro-entrepreneurs was selected. Questionnaires were administered to a sample of micro-entrepreneurs as respondents. Out of the 67 questionnaires that were administered, 60 questionnaires were duly filled and returned and therefore regarded as the responsive instrument and formed the basis for data analysis. This formed a questionnaire return rate of 89.5%. Saunders (2003) indicates that a minimum of 50 percent response rate is reasonable enough for statistical generalizations.

4.3 Profiles of the Respondents

This section profiles the respondents in respect to gender, age, level of education, business duration of operation, number of employees, and type of business. Profiling of the respondents was informed by the items in the research instruments used in the study.

4.3.1 Distribution of Respondents by Gender

Data was sought on whether respondents were males or females. The study found it important to analyze gender distribution of the respondent so as to compare the level of participation in business enterprises among the youths in Nairobi. The study gave no preferential consideration to any of the gender in the selection of respondents. The responses were as shown in Table 4.1

Table 4.1: Distribution of Respondents by Gender

	Frequency	Percent
Male	35	59%
Female	25	41%
Total	60	100%

Table 4.1 indicates that 41% of the interviewed were females while 59% were males. Thus, respondents in this study were skewed in respect to gender spread. There are more male (59%) involved in microenterprise than females in Nairobi.

4.3.2 Distribution of Respondents by Age

Respondents indicated their age group in years. This was done to comprehend the age distribution of the respondents. Age groups were put into three categories: 18 – 23 years, 24 – 29 years, and 30 – 35 years. The results were as shown in Table 4.2.

Table 4.2: Distribution of Respondents by Age

Age	Frequency	Percent
18 – 23 years	15	25%
24 – 29 years	19	31%
30 – 35 years	26	44%

Table 4.2 indicates that 25% of the respondents were between the ages of 18 and 23 years; 31% between 24 and 29 years; and 44% of the respondents between 30 and 35 years. This confirms that all respondents were youths. Moreover, the study confirms that there are more senior youths in the enterprise industry compared to junior youths.

4.3.3 Distribution of Respondents by Level of Education

Each respondent was asked to indicate their highest education level. This was considered important in this study in respect to responding to the questions as well as understanding the SME growth. The options that were provided in this item were: high school; certificate; diploma; bachelor's degree; post graduate degree; and others. The responses were as shown in Table 4.3.

Table 4.3: Distribution of Respondents by Level of Education

	Frequency	Percent
High School	4	6%
Certificate	10	16%
Diploma	19	31%
Bachelor Degree	22	36%
Post Graduate Degree	7	11%
Total	60	100%

The results in Table 4.3 indicate that 6% had high school certificate, 8% of the respondents had tertiary certificate, 31% had diploma certificate, 36% had bachelor degree certificate and 11% had post graduate degree. Therefore, data collection procedures used in this study were based on the assumption that the respondents were literate and exhibited basic know how of the purpose and importance of research and thus would voluntarily act as the respondents in the study.

4.3.5 Distribution by number of employees

Respondents were asked to indicate how many employees were working in the business enterprises. The data was categorized as shown in Table 4.4.

Table 4.4: Distribution of Respondents by Duration of business in operation

No of employees	Frequency	Percent
1 – 3	34	57%
4 – 6	18	30%
7 – 9	8	13%
Total	60	100%

The results in Table 4.5 indicate that 57% of the businesses had 1-3 employees, 30% had 4-6 employees while 13% had 7-9 employees. The results show that most of the businesses are operated with less than 4 employees and confirm the limited growth of such businesses.

4.4 Results by Objectives

Various aspects were assessed in regard to how they affect the growth of youth owned SMEs in Nairobi. Various items were used to measure the extent to which they youth owned SMEs. The first objective sought to determine the impact of access to finance on the growth of SMEs owned by the youth in Nairobi the second objective sought to determine the impact of innovation on the growth of SMEs owned by the youth in Nairobi while the third objective was to determine the influence of non-financial factors on the growth of SMEs owned by the youth in Nairobi. The assessment used a Likert scale analysis measuring every item on a scale of five; with 1 representing strongly disagree, 2 representing disagree, 3 representing Neutral, 4 representing Agree and 5 representing strongly agree.

4.4.1 Access to Finance

The first objective was to determine the effectes of access to finance on the growth of SMEs owned by the youth in Nairobi. The study started by determining the amounts that each of the youth owned SME has been able to access since they started. The results obtained were as shown in the table 4.5.

Table 4.5 Amount Accessed by Youth SMEs

Amount Accessed	Frequency	Percent
Below 50,000	13	21%
50,000-100,000	26	44%
100,000-250,000	12	20%
250,000-500,000	6	10%
500,000-1,000,000	3	5%
Above 1,000,000	0	0%

From the study findings, a good number of youth enterprises (44% n=26) reported they had been able to access loans ranging between 50,000-100,000 while 21% could only get loans of amounts below 50,000 as 20% reported accessing loans of between 100,000-250,000. The study also established that few businesses (10%) accessed loans of 250,000-500,000 while only 5% accessed loan of between 500,000-1000,000. The study however did not get anyone accessing finance of above 1,000,000.

The study used other items to assess how factors related to access to finance affected their business growth. This was done using descriptive statistics. The Table 4.6 below outlines the findings in this regard. Factor analysis was also used to determine the most prominent factor on access to finance that affected the growth of youth owned SMEs in Nairobi.

Table 4.6: Descriptive Statistics for influence of financial access on growth

Financial Factors	N	Min.	Max.	Mean	Std. Dev.
High interest rates charged on loans affect my business growth	60	1	5	3.47	0.67
Ability to access external finances improves business growth	60	1	5	3.575	1.01465
Acquiring information on the cost of obtaining business training services will enable my business growth	60	1	5	3.475	1.525
Acquiring awareness of existing credit schemes will improve my business growth	60	1	5	3.35	1.625
Clear payback plans for acquired loans helps to better business performance	60	1	5	3.535	1.08844
Lengthy and vigorous procedures for Loan applications are a challenge for my business success	60	1	5	3.5	0.71611
Challenges due to inability to access credit	60	1	5	3.405	0.97763
Availability of financial products such as insurance for my business, Borrowing, saving and the like will enhance my business performance	60	1	5	3.7157	0.67889
Lack of collateral slows growth hence lack of expansion capital	60	1	5	3.395	1.17297

Descriptive statistics for financial factors affecting performance of women owned enterprises was computed as shown in the Table 4.6 above. High interest rates charged on loans had a mean of 3.47 and standard deviation of 0.67. Ability to access external finances for business improvement had a mean of 3.575 and std deviation of 1.01465.

Another factor was acquiring information on the cost of obtaining business training services with a mean of 3.475 and std deviation of 1.525.

Factor Analysis

Of the 9 items, factor analysis was done in order to determine the most prominent financial factor affecting growth of youth owned enterprises.

Table 4.7: Factor Communalities for Financial Factors

Communalities	Initial	Extraction
Ability to access external finances improves business growth	1	0.63
Lengthy and vigorous procedures for acquiring loans challenge business success	1	0.584
Challenges due to inability to access credit	1	0.559
High interest rates charged on loans affect business growth	1	0.502
Financial products such as insurance enhance business growth	1	0.491
Awareness on existing credit schemes improves business growth	1	0.482
Lack of collateral slows growth hence lack of expansion capital	1	0.471
clear payback plans for acquired loans helps to better business growth	1	0.431
Training improves business growth	1	0.425

Extraction Method: Principal Component Analysis.

Of the 9 financial factors that were tested in the factor analysis, four factors were proved to prominently affect growth of youth owned enterprises as per the factor communality extraction values obtained. These factors were; ability to access external finances improves business growth with extraction value of 0.63, lengthy and vigorous procedures for acquiring loans challenge business success with extraction value of 0.584, challenges due to inability to access credit with extraction value of 0.559 and high interest rates charged on loans affect business growth with extraction value of 0.502.

In order to determine the most critical financial factors affecting growth of youth owned enterprises in Nairobi, a scree plot was generated to indicate the leveling off of the eigen values.

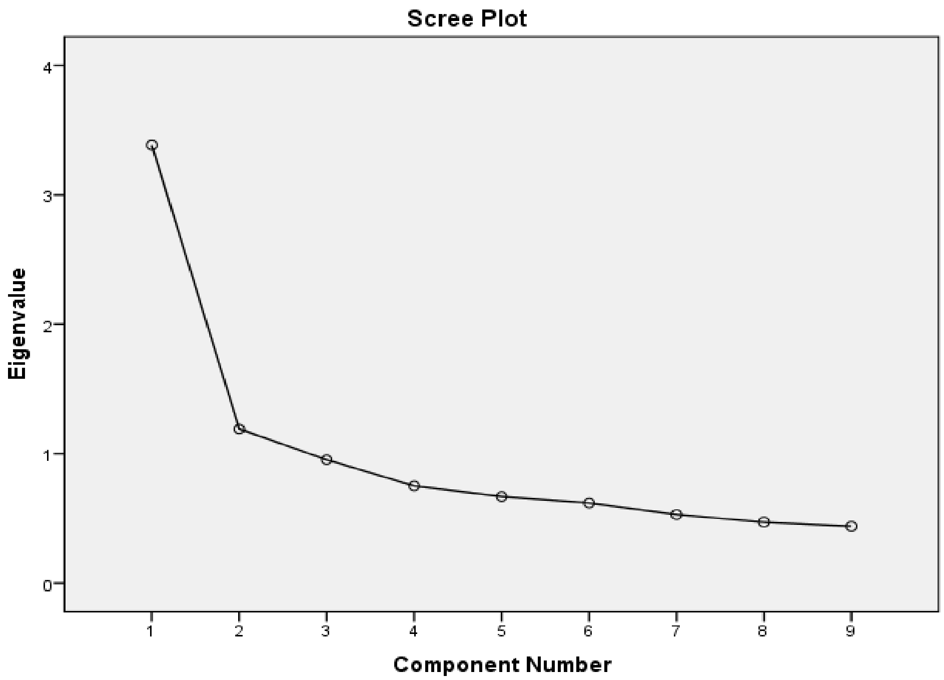


Figure 4.5: scree plot for financial factors

The scree plot shows that during the extraction several items were eliminated since they did not contribute to a simple factor structure and hence failed to satisfy the minimum criteria of having a low primary factor loading. From the scree plot, the study findings can only identify two prominent financial factors that affect growth of youth owned enterprises. The two prominent factors were also measured in terms of the extent to which they affected growth by computing the variance of the items.

Table 4.8: Total Variance for financial factors affecting growth of youth enterprises

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.384	37.605	37.605	3.384	37.605	37.605
2	1.190	13.224	50.829	1.190	13.224	50.829
3	.952	10.582	61.411			
4	.751	8.341	69.752			
5	.668	7.420	77.172			
6	.618	6.869	84.041			
7	.528	5.869	89.910			
8	.470	5.225	95.135			
9	.438	4.865	100.000			

Extraction Method: Principal Component Analysis.

From the study findings as shown in table 4.7, the two most prominent financial factors affecting growth of youth owned enterprises are ability to access external finances and lengthy and vigorous procedures for acquiring loans.

4.4.2 Influence of Innovation on Growth of Youth Owned enterprises

The respondents were tasked to rate how much innovation factors influenced growth of youth owned micro enterprises in Nairobi. The results are as detailed in the table 4.9 below;

Table 4.9: Descriptive Statistics for influence of Innovation on growth of YOE

Innovation Factors	N	Min.	Max.	Mean	Std. Dev.
Training on trend analysis will help my business to perform better	60	1	5	3.615	0.90046
Knowledge in Customer and employee consultation will help improve in operating my business	60	1	5	3.585	1.0335
Knowledge in business planning will enable my business to improve in performance	60	1	5	3.525	0.96125
Access to information that can help me Exploit business opportunities will improve expanding my business	60	1	5	3.34	0.91024
Low-level management skills have negatively affected my ability to undertake many business activities	60	1	5	3.245	1.14522
Access to different business trainings has enabled me to improve my success in business	60	1	5	3.231	1.04293
Lack of information on how to go about securing a loan has affected my business growth	60	1	5	3.135	0.9908
Business diversification is a major challenge that affects my business growth.				3.12	1.35454
My business performance is affected by lack of experience and exposure.	60	1	5	3.11	0.99643
Hiring external services for support services affects my income and business growth.	60	1	5	2.905	1.1544

Descriptive statistics for the innovation factors affecting the growth of youth owned enterprises in Nairobi were computed and analyzed using means and std deviation. The results obtained were that training on trend analysis will help my business to perform better, knowledge in

Customer and employee consultation that helps improve in operating and knowledge in business planning will enable my business to improve in performance with means of 3.615, 3.585 and 3.525 respectively with standard deviations of 0.90046, 1.0335 and 0.96125 respectively.

Factor analysis on knowledge factors was however done to determine the most significant factors affecting performance of the women owned enterprises in Soweto slums.

The first step was to compute the communalities for the 10 items used to measure the effect of innovation factors on growth of the youth owned enterprises. The table 4.10 below shows the results for the communality analysis.

Table 4.10: Communalities for the innovation affecting growth of YOE

Item	Initial	Extraction
Access to business trainings improves success in business	1.000	.659
Exploiting business opportunities expands business	1.000	.405
Business performance is affected by lack of experience and exposure	1.000	.375
Lack of information on securing loans affect business growth	1.000	.272
Low level management skills affects the undertaking of business activities	1.000	.181
Planning skills improves business performance	1.000	.131
external services for support services affects business growth	1.000	.052
Budgeting skills improves business operations	1.000	.033
Business diversification is a challenge to business growth	1.000	.019
Trend analysis helps in better business performance	1.000	.002

Extraction Method: Principal Component Analysis.

The communality for the items as in the table 4.10 gives the proportion of variation in that variable explained by the dependent variable. In this case it was deduced that access to business trainings was the most prominent knowledge factor with extraction value of 0.659 followed by knowledge for exploiting business opportunities with a value of 0.405. a scree plot was generated to determine the eigen values for the knowledge factors as shown below.

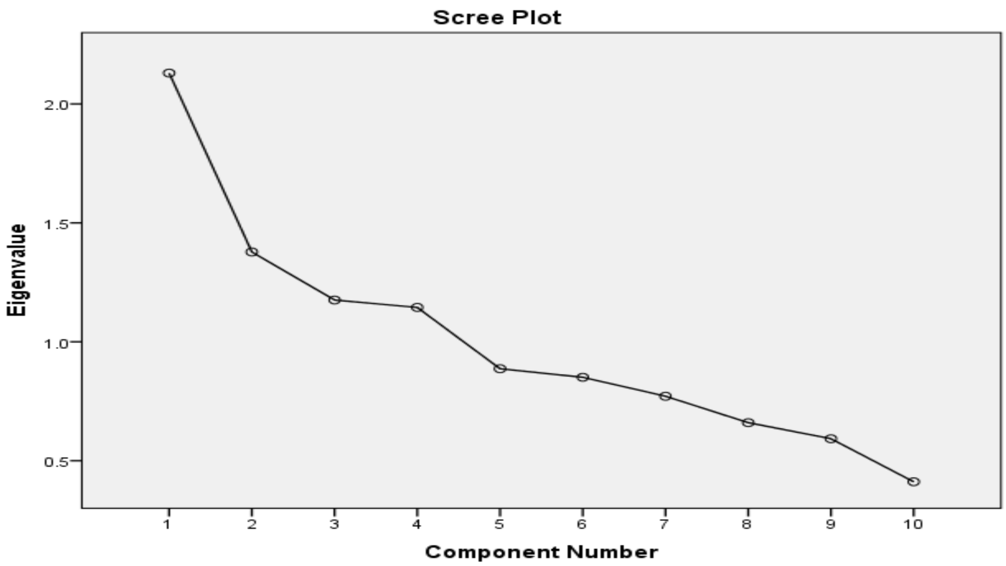


Figure 4.7: Scree plot for innovation factors

From the scree plot the curve starts to bend at the second item which means from the data only two items could significantly affect growth of YOE among those tested. The table 4.10 of variance below shows the variation of the various knowledge factors that were tested in the study.

Table 4.10: Total Variance for Innovation factors affecting growth of YOE

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.130	21.300	21.300	2.130	21.300	21.300
2	1.378	13.777	35.077			
3	1.176	11.756	46.834			
4	1.144	11.444	58.278			
5	.887	8.866	67.144			
6	.851	8.508	75.652			
7	.771	7.711	83.363			
8	.660	6.599	89.962			
9	.592	5.924	95.886			
10	.411	4.114	100.000			

Extraction Method: Principal Component Analysis.

From the analysis of variance as shown in the Table 4.10, knowledge on access to business trainings was the most significant factor that affected growth of YOE in Nairobi with a variance of 21%. The second factor was knowledge for exploiting business opportunities with a variance of 14%. The third factor which was business performance is affected by lack of experience and exposure had a variance of 11.7% while the fourth factor, lack of information on securing loans affect business growth had an almost similar variance at 11.4%.

4.4.3 Influence of Government policy on growth of YOE

Objective three of the study sought to determine the effects of government policy on growth of youth owned enterprises. Five items were used to assess the influence of government policy in this regard. The responses for each of the five statements pertaining to Government policy and regulations variable based on a likert scale of 1 to 5 were summarised on table 4.11 below.

Table 4.11 Government policy and regulations consolidated means and standard

Likert scale rating(1-5)	N	Minimum	Maximum	Mean	SD
Incubation policy	60	1	5	2.82	0.938
Social security and risk mitigation regime	60	2	5	3.11	0.741
MSE business registration regime	60	2	4	3.39	0.912
Technology upgrading	60	1	4	3.01	0.738
Tax and licence regime	60	2	5	3.64	0.921
Overall Government policy and regulations rating	60	2	5	3.195	0.52260

Tax and license regime had a minimum response of 2 and a maximum of 5 on the likert scale, with the highest mean of 3.64 and standard deviation of 0.921. This was followed by MSE business registration regime which had a minimum response of 2, a maximum of 5 and mean of 3.39. The lowest mean of 2.82, minimum response of 1 with a maximum of 5 and a standard deviation of 0.938 was attained concerning incubation policy. The overall response had a minimum of 2, a maximum of 5 with a mean of 3.195 and standard deviation of 0.52260 which indicates above average rating on the likert scale for Government policy and regulations variable.

4.4.4 Influence of non-financial factors

The respondents were asked to rate the non-financial factors that affected growth of youth owned enterprises. Various items were used to measure the extent to which the factors affects growth of the youth owned enterprises. The results are as detailed in the table 4.12 below;

Table 4.12: Descriptive Statistics for non-financial Factors

Non-financial factors	N	Min.	Max.	Mean	Std. Dev.
Support from family improves business growth	200	1	5	3.86	1.03234
Keeping better contacts with outsiders enhances business growth	200	1	5	3.60	1.20342
Ability to integrate well within the community enables business growth	200	1	5	3.55	0.94974
Perception of youth entrepreneurs affects the environment for business operations	200	1	5	3.13	1.20847
Social responsibility affects business growth	200	1	5	3.11	1.16221
Benefits from youth funds enhances business growth	200	1	5	3	1.40709
Balance between family and business responsibilities affects commitments to expand the business	200	1	5	2.88	1.33586
Harassments during business interrupts the gain in business	200	1	5	2.88	1.29382
Business is affected by social inequalities	200	1	5	2.66	1.3435
Cultural influences affect business growth	200	1	5	2.59	1.41489
Insecurity affects business performance	200	1	5	2.5	1.42836

The mean scores (3.8600) and standard deviation (1.03234) of the respondents in table 4.12 shows that the support that youth get from family improves their growth in business. Similarly, the respondents rated ability to integrate well within the community as an enabling factor for business to grow favorably showing a mean score of 3.5500 and standard deviation of .94974. The other factor from the descriptive statistic results was the contact (networks) that youth entrepreneurs have with outsiders is fairly good too with a mean score of (3.5950) and standard deviation of (1.20342).

On the other hand, there were moderate factors such as social responsibility which affects business growth with a mean of (3.1050) and standard deviation of (1.16221) these moderately influences growth. Perception of youth entrepreneurs too moderately affects the environment for business operations which affects the growth of their enterprises. This aspect was depicted by a mean score of 3.1300 and std. deviation of 1.20847 the respondents indicated that they approach to moderately agree in the idea that balance between family and business responsibilities affects commitments to expand the business with a mean of (2.8800) and standard deviation of (1.33586).

With regard to the attitude of the society, the interviewed youth decided that the attitude of the society is not positive towards their products or services. This was indicated by a mean score of 2.6550 and standard deviation of 1.34350. The lowest non-financial factors affecting growth of youth enterprises included cultural influences also moderately affect business growth as shown by a mean score of 2.5900 and standard deviation of 1.41489. Respondents were also indifferent in terms of whether insecurity in the city affects their business growth. This item had a mean score of 2.5000 and a standard deviation of 1.42836. Principal component analysis results for the communalities of the non-financial factors was computed and presented as shown in table 4.13.

Table 4.13: Communalities for the Non-Financial Factors Affecting Growth of YOE

Item	Initial	Extraction
Business is affected by Social inequalities	1.000	.770
Support from family improves business growth	1.000	.767
Cultural influences affects business growth	1.000	.700
Keeping better contacts with outsiders enhances business growth	1.000	.646
Insecurity affects business growth	1.000	.624
harassments during business interrupts the gain in business	1.000	.585
Perception of youth entrepreneurs affects the environment for business operations	1.000	.577
Ability to integrate well within the community enables business performance	1.000	.575
Social responsibility affects business performance	1.000	.554
Benefits from youth funds enhances business performances	1.000	.539
Balance between family and business responsibilities affects commitments to expand the business	1.000	.443

Extraction Method: Principal Component Analysis.

From the communalities, it can be deduced that gender inequality was a major non-financial factor that affected the growth of youth owned enterprises in Nairobi with an extraction value of 0.770 followed by support from family members with an extraction value of .767 which significantly improved the growth of YOE. The third factor was the influence of culture which had an extraction value of 0.700. Total variance was computed to assess the effect of each item when all factors are tested jointly. The total variance table is as shown in the table 4.14.

Table 4.14: Total Variance for Non-Financial Factors Affecting Performance of YOE

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.402	21.839	21.839	2.402	21.839	21.839
2	1.916	17.416	39.255	1.916	17.416	39.255
3	1.306	11.874	51.130	1.306	11.874	51.130
4	1.155	10.504	61.634	1.155	10.504	61.634
5	.945	8.588	70.222			
6	.765	6.952	77.175			
7	.654	5.948	83.122			
8	.650	5.905	89.027			
9	.466	4.236	93.263			
10	.451	4.104	97.367			
11	.290	2.633	100.000			

Extraction Method: Principal Component Analysis.

When all the items are combined, the variance of the three most significant non-financial factors affecting growth of YOE which were; social inequalities, family support and cultural influences had variance of 22%, 17% and 11% respectively.

4.5 Results of Correlation Analysis

The correlation analysis for the variables was computed against growth indicator (sales return). The table 4.12 shows results for the relationships among variables.

Table 4.15 Correlation Results for Relationship among Variables

		Access to finances	Nonfinancial factor S	Government policies	Innovation	Growth (sales returns)
Access to finances	Correlation	1	0.86	0.64	0.54	0.78
	Significance (2-tailed)	0	0	0	0.001	0.07
	Df	0	59	59	59	59
Nonfinancial factor s	Correlation	0.86	1	0.61	0.49	0.79
	Significance (2-tailed)	0	0	0	0.002	0.001
	Df	59	0	59	59	59
Government policies	Correlation	0.64	0.86	1	0.89	0.79
	Significance (2-tailed)	0	0	0	0	0.02
	Df	59	59	0	59	59
Innovation	Correlation	0.54	0.49	0.88	1	0.91
	Significance (2-tailed)	0.001	0.002	0	0	0.002
	Df	59	59	59	0	59

The Pearson's correlation matrix above indicates that the relationship between each of the variables of Access to finances, Innovation, Government policies and Access to non-financial products was positive, all showing high Pearson's (r) value above 0.7 which is therefore argued that each of the variables have a strong relationship with growth. This correlation explains the how one variable moved along with another in elaborating the contribution of each to growth of the youth owned enterprises. Highest correlation to growth was recorded for the Innovation with coefficient factor of 0.913. The Pearson's r value relative to growth for Access to finances, Access to non-financial products and government policies were 0.784, 0.787 and 0.786 respectively which all indicated positive relationship to growth.

4.5 Results of Regression Analysis

The study was done to evaluate the influence of each of the variables on growth of youth owned enterprises through examining the variables and growth indicator which was the number of employees by applying linear regression through SPSS.

Table 4.16 Model goodness of fit

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.049	4	1.262	6.278	.0001a
Residual	124.497	126	.988		

a. Predictors: (Constant), Access to finances, Nonfinancial factor, Innovation

At 95% confidence interval, a significant value (p-value) of 0.0001 and F-value of 6.278 was recorded as shown in Table 4.13. This shows that the regression model has a probability of less than 0.0001 of giving the wrong prediction. Therefore, the regression model used is a suitable prediction model for explaining the factors influencing growth of youth owned enterprises.

Table 4.17 Results of ANOVA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.633	.401	.400	98.26	.401	315.897	1	59	.000
2	.680	.462	.460	84.26	.061	53.637	1	59	.000

a. Predictors: (Constant), Access to finances, Nonfinancial factor Innovation

b. Predictors: (Constant), Government policy, Access to finances, Nonfinancial factor Innovation

In a model summary, the "R" value is used to indicate the strength and direction of the relationship between the variables. The closer the "R" value is to 1, the stronger the relationship. In this case as shown in model 1 in Table 4.13, R= 0.633. This means that in overall, there was a strong and positive relationship between the variables. The R-Square in the study was found to be 0.401. This value indicates that the independent variables (Access to finances, Nonfinancial factor Innovation) can explain 40.1% of the variance in the growth of youth owned enterprises in the Nairobi CBD.

The "R" for the moderated model summary is .680 indicating a stronger relationship between variables as a result of introducing the government policy variable. Thus, the independent variables now account for 46.2% of the growth of youth owned enterprises in the Nairobi CBD. When Government Policy was added a 0.061 change in R square was reported as shown in Table 4.18. Addition of Government Policy explains this 6.1% increase in the variation.

Table 4.18 Co-efficient of Determination

Model	Unstandardized Coefficients		Standardized Coefficients		(P-value) Sig.
	B	Std. Error	Beta	T	
(Constant)	.017	.087		5.197	.000
Access to finances	.108	.086	.112	2.260	.026
Nonfinancial factors	.013	.086	.014	1.155	.250
Innovation	.150	.091	.147	2.655	.009
Government policy	.080	.093	.081	2.868	.005

All the predictor variables except non-financial factors ($p = 0.250$) produced statistically significant results $p < 0.05$ Access to Finance ($p = 0.026$), Innovation ($p = 0.009$), and Government Policy ($p = 0.005$).

The results of the regression equation show that in case all the predictor variables were rated zero, growth of youth owned enterprises could be 0.017. All the predictors however had a positive relationship with the dependent variable. One unit increase in access to finance would lead to increase growth by 0.112 while one unit increase in non-financial factors would increase growth by 0.014. One unit increase in the innovation would increase business growth by 0.147. A unit increase in Government Policy would increase growth by 0.081. The Stochastic Error Term was assumed to be zero.

4.6 Discussion

The study showed that access to finance is crucial for growth of youth owned enterprises. However, many entrepreneurs face challenges in accessing the much needed funds mainly due to unfavorable terms and conditions associated with such loans as well as lack of financial information about alternative sources of finances. The findings espouse Orser (2000) that poor financial information about alternative sources of finances was one of the main problems facing the microenterprises. The study also mirrors Mambula (2002) conclusion that limited financing remains a major hindrance to MSE growth.

The study has showed that innovation is critical to youth owned enterprise growth. Moreover, the study has indicated that entrepreneurs engage in continuous environmental scanning looking for new trends and technologies as well as consulting with customers and employees for ideas on improving their businesses; seek advice from business advisors; open to new ideas and adaptive to change; and have strategic and responsive plan for their businesses which promotes progress in the entire business. Such findings reinforce Davila et al. (2006) that innovation improves quality and market growth, promotes product variety and efficiency, and reduces environmental damage. The findings also share in the Ernst (2004) opinion that innovation gives microenterprises competitive advantage, promotes profitability and success indicated by graduation to higher employment category such as SMEs.

4.7 Summary

The study revealed that non-financial factors have positive influence on the youth owned enterprises growth. This confirms Hite (2005) assertion that non-financial factors positively influence the process of business start-up and growth. The study has shown that many youth entrepreneurs join associations to champion their interest as well as take advantage of regular forums and trade fairs to improve their business performance. This echoes Hoskison (2004) work that strategic networking helps microenterprises create alliances and joint ventures which add value to their businesses.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the main findings, conclusion and recommendations arising from the results of this study. The first objective sought to determine the influence of access to finance on the growth of SMEs owned by the youth in Nairobi the second objective sought to determine the influence innovation on the growth of SMEs owned by the youth in Nairobi while the third objective sought to determine the influence of non-financial factors on the growth of SMEs owned by the youth in Nairobi.

5.2 Summary of Findings

The major financial factors that affect youth owned enterprises in Nairobi according to the study were access to external finances and lengthy and vigorous procedures for acquiring loans. This is the increased access to banking by the small business owners and rise of micro-finance institutions which less financial risk guidelines. These findings bode with Chandler (2010) argument that only a small percent of youth entrepreneurs' access commercial credits. Chandler (2010) established that when youth have access to credit it is usually in small amounts and rarely fits their needs. From this perspective, it can be deduced from the study that it is imperative for youth entrepreneurs to have access to financial assistance of some kind to enable them to pursue their ventures, whether it is a formal bank loan or money from a savings account.

The study proved that innovation is critical to microenterprise growth with a correlation coefficient of 0.913. 57% of the respondents showed that they conduct environmental trends analysis on customers' wants and needs as well as on competitors. 70% also showed that they involved the customers and employees through consultation concerning ideas and advice that can improve their businesses and 65% further pointed that they seek expert opinion and advice from business advisors and assistance to promote innovation in their businesses. In addition, 66% indicated that they are receptive to new ideas as well as adaptive to change while 61% pointed that they have strategic and responsive plan for their businesses which promotes progress in the entire business.

Descriptive results indicated that the overall mean response of youth owned enterprises as it pertains to the five likert scale statements of 1-5 options for Government policy and regulations independent variable was 3.195 and standard deviation of 0.5226. This represent above average response concerning the effect of Government policy and regulations on the growth of youth owned SMEs. These findings are in support of Masafo (2009) and Kenya Association of Manufacturers (2016), who aver that a high system of tax regime with the resultant enforcement and administration costs make tax compliance unnecessarily expensive and usually have a negative effect on the development of SMEs as they are tempted to camouflage in to forms that offer a lower tax burden or none at all and this results in tax system that imposes high expenses on the business community. Although there are several policy measures directed towards MSE growth in Kenya for instance, business incubation, technology upgrading through exchange visits and market support measures as illustrated in several Kenya Government sessional papers- RoK (1992,1997,2005 and 2012a), the support needs to be increased, actualized and standardized for all MSEs in order to mitigate against the negative effect of policies that reduce the profitability of MSEs through added operation costs.

The major socio factors that affect the youth owned SMEs in Nairobi according to the study were; social inequalities, availability of support from family and cultural influences. The study findings can be linked to Welter (2013) who explained the reasons behind the disparities in growth of businesses owned by youth entrepreneurs. The study therefore suggested that youth focus on character building to enhance their networks and hence their capacity to do business in the type of environment that exist. It is the point of view that Steinmetz (2008) argued that the characteristics of the founders of an enterprise highly determine the business growth. These challenges as per the findings of this study can be solved both at individual level and at policy level. At individual level, youth entrepreneurs will need to get training that will shift their mind set and be able to overcome the negative social norms and beliefs that hinder them to get fully committed to their businesses. At policy level there is need for proper government support mechanisms to improve the social environment. These measures will be able to solve the social challenge that faces many youth enterprise owners.

5.3 Conclusion

The major factor that negatively affects growth of youth owned SMEs was lack of access to finance. Problems associated with lack of finance include the stringent collateral requirements. Other factors were innovation and government policies.

Financial factors have greater effects on the growth of youth owned SMEs operating in Nairobi, improvement in financial management. Use of better management approach and attracting more finance from other sources including the micro finance institutions were some of the major financial aspects that can enhance better growth for the SMEs.

For the youth owned SMEs to be strong and serve as a springboard for the positive growth of a strong private sector in Kenya access to external finance and information and awareness flow are necessary conditions.

5.4 Recommendations for Policy

According to the findings of this study and the conclusion made, the study makes the following recommendations for policy implementation:

The government needs to come up with a supportive policy for the establishment of documentation centers and information networks to provide information to SMEs entrepreneurs.

The government needs to enact and implement proper regulatory policies that that focus on the small businesses to carter for their unique needs.

The government needs to establish training centers offering entrepreneurial training to SMEs entrepreneurs and managers.

There is need to promote business incubator initiatives so as to promote and support viable innovations which would otherwise be unable to access start-ups.

The government should create policy framework that reinforce marketing of goods and services produced by the youth run business.

5.5 Limitations of the Study

The study focused on youth owned SMEs in Nairobi CBD and the time availed was not enough to collect data from all of them. Most business owners were reluctant to fill the questionnaires after establishing that financial information about the businesses was required in the questionnaire. Since figures were not provided from audited published financial statements, sales figures could not form a reliable basis to analyze the growth. Cost constraint was also encountered through material printing and transportation; hence the sample of 60 youth owned SMEs was on the lower side. Most respondents could not be interviewed and as a result the validity of their responses could not be confirmed. Majority of the sole proprietors claimed to get their financing for the businesses from family and were satisfied as long as the businesses continued to operate and were not threatened to close down.

5.6 Suggestions for Further Research

The empirical study overlooked a number of pertinent issues on the growth of SMEs that require further research. Thus, the researcher suggests the following issues for further research:

A study need to be carried out on how external financiers screen their clients and are able to separate between symmetrical and asymmetrical information.

The challenges faced by SMEs and the necessary steps that can be undertaken by stakeholders to manage the challenges identified.

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APPENDIX I: QUESTIONNAIRE

FACTORS AFFECTING GROWTH OF SMALL AND MEDIUM ENTERPRISES OWNED BY THE YOUTH IN NAIROBI

Please note that these questions are for the academic research purposes only. No respondents will be identified using any of the responses below.

Part A: Demographics

i) Location and type of business ………………………………………………………

ii) Please mark your response by typing a cross (X) in the appropriate box

Age of respondent	18 – 25	26 – 30	31 – 40	41 – 50	50+
Gender	Male		Female		
Years of operation in business	0 - 1 yrs	2-5yrs	6-10yrs	11-15yrs	16+yrs
Education level	None to Form 4	Certificate	Diploma	Degree	Masters Degree

Part B: Access to Finances

i) Do you have access to credit? Yes ☐ No ☐

ii) If yes, which type?

Bank ☐ Sacco ☐

Table Banking ☐ Other (please specify) ☐

……………………………………

iii) How much have you been able to access in the past one year in terms of credit? (Amount in Ksh)

a) Below 50,000 ☐ b) 50,000-100,000 ☐ c) 100,000-250,000 ☐

d) 250,000-500,000 ☐ e) 500,000-1,000,000 ☐ f) Above 1,000,000 ☐

iv) To what extent do you agree with the following statements:

v) 1 strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 strongly agree.

No. Statement	**1**	**2**	**3**	**4**	**5**
High interest rates charged on loans affect my business growth					
Ability to access external finances improves business growth					
Acquiring information on the cost of obtaining business training services will enable my business growth					
Acquiring awareness of existing credit schemes will improve my business growth					
Clear payback plans for acquired loans helps to better business performance					
Lengthy and vigorous procedures for Loan applications are a challenge for my business success					
Challenges due to inability to access credit					
Availability of financial products such as insurance for my business, Borrowing, saving and the like will enhance my business performance					
Lack of collateral slows growth hence lack of expansion capital					
High interest rates charged on loans affect my business growth					
Ability to access external finances improves business growth					

Challenges due to inability to access credit					
Availability of financial products such as insurance for my business, Borrowing, saving and the like will enhance my business performance					
Lack of collateral slows growth hence lack of expansion capital					
Challenges due to inability to access credit					

Part C : Innovation

i) Have you introduced new or unique products or processes in your business?

Yes ☐ No ☐

ii) If yes how has/ will this benefit your business?

New products ☐

New suppliers ☐

New branch ☐

A new way of handling customers ☐

iii) To what extent have these financially benefitted your business?

……………………………………………………………………………………………

…………………………………………………………………………………………..

iv) To what extent do agree with the following statements:

No. Statement	**1**	**2**	**3**	**4**	**5**
Training on trend analysis will help my business to perform better					
Knowledge in Customer and employee consultation will help improve in operating my business					

Knowledge in business planning will enable my business to improve in performance					
Access to information that can help me Exploit business opportunities will improve expanding my business					
Low-level management skills have negatively affected my ability to undertake many business activities					
Access to different business trainings has enabled me to improve my success in business					
Lack of information on how to go about securing a loan has affected my business growth					
Business diversification is a major challenge that affects my business growth.					
My business performance is affected by lack of experience and exposure.					
Hiring external services for support services affects my income and business growth.					

Part D: Government Policy

i) Has the government supported your business in any way? Yes ☐ No ☐

ii) If yes, through what means?

Youth Fund ☐ Uwezo Fund ☐ Reduced cost of licensing ☐

Other (please specify) ☐ ……………………………………………………

Are there any government legislative policies which have interfered with your business? Yes
No ☐ ☐

iii) If yes, what are they?...
…………………………………………………………………………………………

iv) To what extent do you agree with the following attributes as they affect your business growth

Incubation policy					
Social security and risk mitigation regime					
MSE business registration regime					
Technology upgrading					
Tax and license regime					
Overall Government policy and regulations rating					

Part E: Non-financial factors

v) Have you been trained on how to operate your business? Yes ☐ No ☐

vi) If yes, what type?

Formal education ☐ Workshops and seminars ☐ Experience ☐

vii) To what extent do agree with the following statements?

No. Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Support from family improves business growth					
Keeping better contacts with outsiders enhances business growth					
Ability to integrate well within the community enables business growth					
Perception of youth entrepreneurs affects the environment for					

business operations					
Social responsibility affects business growth					
Benefits from youth funds enhances business growth					
Balance between family and business responsibilities affects commitments to expand the business					
Harassments during business interrupts the gain in business					
Business is affected by social inequalities					
Cultural influences affect business growth					
Insecurity affects business performance					

THANK YOU.