The Role of SACCO in Growth of Youth Entrepreneurship in Kenya: A Case of Nairobi County

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Research Article

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ABSTRACT

This paper presents findings from a study that focused on establishing the role of Savings and Credit Cooperatives (SACCOs) in the growth of youth entrepreneurship in Kenya. This study set out to determine whether access to finance, products and services and entrepreneurship education offered by SACCOs influence growth of youth entrepreneurship. The study used a descriptive research design where the target population comprised SACCOs that target youth owned enterprises. The findings indicate that there was increased growth of youth entrepreneurship as a result of different aspects employed by SACCOs to increase access to finance and that entrepreneurship education inculcated positive attitudes and improved business management skills. Products and services offered by SACCOs faced constraints and challenges that hindered growth of youth entrepreneurship. The study concludes that SACCOs play a key role in the growth of youth entrepreneurship and this can be enhanced through increased access to finance by youth entrepreneurs, provision of relevant entrepreneurship education and provision of quality products and services that address specific needs of youth entrepreneurs.

Keywords: Youth, Entrepreneurship, SACCOs, Finance, Entrepreneurship Education.

INTRODUCTION

As traditional job-for-life career paths become rare, youth entrepreneurship is regarded as an additional way of integrating youth into the labour market and overcoming poverty (ILO, 2004). Entrepreneurship and self-employment can be a source of new jobs and economic dynamism and can improve youth livelihoods and economic independence in developing countries (Maxwel, 2002). According to Schoof (2006) young people are more likely to face greater barriers than older age cohorts due to limited resources, life and work experience. Through support programmes such as access to credit, business incubators, entrepreneurship education and business training, mentorship programs and market linkages youth can acquire the needed capacities and assets that increase their chances of starting and operating their own businesses.

Chigunta et al. (2005) argue that entrepreneurship has significant benefits such as creation of employment for the young person who owns the business and fellow youth hired by these young entrepreneurs, youth-run enterprises provide valuable goods and services to society and new small firms tend to raise the degree of competition in the product market, thereby bringing gains to consumers. In addition, the enterprises may create linkages between youth entrepreneurs and other economic actors such as through sub-contracting and franchising (White and Kenyon, 2000). At global policy level, the need to promote youth entrepreneurship has culminated in the convention of a panel on the Youth Employment Network (YEN) by the United Nations as well as a civil society-driven Youth Employment Summit (YES). Both the YEN and YES have identified entrepreneurship as a key priority in the promotion of youth livelihoods and employment (Chigunta et al, 2005). At a local level, Kenya National Youth Policy (RoK, 2007) has identified employment creation as a priority strategic area. To address the issue of employment creation amongst youth, it has proposed initiating and promoting programmes that encourage youth initiatives in credit management and involvement in the cooperative movement. Youth Employment Marshal Plan has identified youth entrepreneurship as one of its strategic objectives where support for the formation of Youth SACCOs has been addressed as a means to increase financial support to youth enterprises. (ROK, 2009)

SACCOs play a critical role in entrepreneurship development, through the delivery of, responsive, affordable and market oriented financial services tailored to the specific needs of its members. They mobilize significant volumes of personal savings and channel them into small loans for productive and provident purposes at the community level (Okwany, 2010; Wanyama, 2009). According to 2010 Kenya Sacco Sub Sector data report, as at December 31st 2010 there were 2,959 registered active SACCOs with a membership of approximately 1.9 billion, share capital of Ksh.160 billion (US$ 2 billion), loans granted Ksh.143 billion (US$ 1.8 billion) and an asset base of approximately Ksh.210 billion (US$ 26 billion) (RoK, 2011). Out of the 2,959
registered SACCOs as at 31st December only 99 (45%) target youth owned enterprises. Karugu et al. (2010) argue that there have been limited resources and attention directed towards engaging the youth in SACCOs activities, yet a significant percentage of the population constitutes the youth who face the biggest brunt of challenges such as unemployment and abject poverty levels. SACCOs must promote youth entrepreneurship as a viable, poverty reduction development strategy given that most new jobs are being created through small enterprises and self-employment (Okwany, 2010).

Theoretical Development

Youth entrepreneurship is the process whereby youth become aware of the self employment career option, develop ideas, take and manage risks, learn the process and take the initiative in developing and owning a business (Chigunta, 2002). The study borrows heavily from the Schumpeter’s economic theory of entrepreneurship; since to survive and grow, youth enterprises must adopt entrepreneurial initiatives as part of their strategy by implementing a dynamic process that stimulates a continuous flow of ideas and thereby provide the potential for an ongoing competitive advantage (Krueger, 2002). Youth entrepreneurship promotes innovation and resilience as it encourages young people to find new solutions, ideas and ways of doing things through experience based learning (White and Kenyon, 2000).

McClelland’s psychological theory of need for achievement is relevant in analyzing what kind of motives and incentives are required to enforce youth entrepreneurial activity and to investigate why a young person would start a new venture (Virtanen, 2000). In addition, according to Nelson and Johnson (1992) entrepreneurial education programs are necessary to develop personal entrepreneurial traits and thereby potential entrepreneurs would be more likely to initiate action and have a better chance for success in their business ventures. Learning the necessary skills, attributes and behaviors creates positive attitudes towards entrepreneurship and has a significant impact on a young person’s decision to become an entrepreneur (Schoof, 2006). Chigunta et al. (2005) adds that effective youth entrepreneurship education prepares young people to be responsible, enterprising individuals who become entrepreneurs or entrepreneurial thinkers and contribute to economic development and sustainable communities. Schoof (2006), has identified some key entrepreneurship educative shortcomings and constraints in developing countries. These include general lack of introduction and adoption of enterprise education, inadequate curricula and study programmes, wrong learning methods, negligence of students’ personal environment (parents and family members), lack of trained/educated teachers, lack of career information and business possibilities, lack of business and education linkages; and lack of ICT infrastructure/capability.

According to Chigunta (2002) young entrepreneurs face key constraints and challenges in accessing funding for their business ventures. These include lack of personal savings and resources, lack of securities and credibility (for debt financing), lack of business experience and skills (for debt financing), strict credit-scoring methodologies and regulations, complex documentation procedures, long waiting periods (time needed to decide on an application for funding), lack of knowledge, understanding, awareness of start-up financing possibilities, unfavorable firm characteristics and industry and legal status/form of enterprise. This is in tandem with findings of Schoof (2006) and USAID (2005). Given that the resource-based view addresses the resources and capabilities of the firm as an underlying factor of performance, it was found to be a suitable theory to use in this study. Youth entrepreneurs have specific resources that facilitate the recognition of new opportunities and the assembling of resources for the venture (Alvarez and Busenitz, 2001). An abundance of capabilities in the firm ensures survival, rapid growth and profitability (Chandler and Hanks, 1994)

Methodology

The research design employed in this study was descriptive in nature. The study adopted a census involving all SACCOs targeting youth entrepreneurs within the Nairobi County. The choice of Nairobi County was arrived at given that majority (0.2%) of the SACCOs targeting youth enterprises operated within the county (RoK, 2011) and 11% of the Kenyan youth was found in Nairobi (Njonjo, 2010). The top management of these SACCOs was the study population. According to the Ministry of Cooperative Development and Marketing, there are 99 active SACCOs that target youth entrepreneurs in Kenya, out of which 20 operate within the Nairobi County (RoK, 2011). A list of these 20 registered SACCOs was derived from the Ministry of Cooperative Development and Marketing SACCOs register. Questionnaire was the main research instrument for the study and consisted of open and closed ended questions. The questionnaires were self administered. A pilot test was conducted to ensure the questionnaire’s validity and reliability. Quantitative analysis was applied using both descriptive statistics and inferential statistics. The main types of descriptive statistics that was used include measures of central tendency and measures of dispersion. Inferential statistics such as correlation test was applied to determine the degree of relationship between the variables and also determine the strength and direction of their association. Principal Component Analysis was applied to analyze groups of correlated variables representing common domains.
Demographic findings

The information collated has been analyzed from fifty five questionnaires out of a possible target of sixty distributed representing 91.6% response rate. The representation of male was higher (56.4%) compared to that of female (43.5%) in SACCO leadership. According to Schoof (2006), entrepreneurial activity significantly varies according to gender, with men more likely than women to be entrepreneurially engaged. These figures appear to suggest the existence of socio-cultural constraints, which tend to affect the participation rate of young women in entrepreneurial activity (ILO, 2004).

Age is associated with certain limitations in youth; younger youth are less likely to have the resources, social networks, business contacts, and work experience needed to engage in enterprise activities (ILO, 2004). ‘Age’ is an important factor determining the extent of youth participation in entrepreneurship because different youth sub-groups attain different levels of participation in entrepreneurship (Chigunta, 2003). Respondents between ages 20-24 years represented 7.3%, 25-29 years 36.4%, 30-34 years 49.1%, 35-39 years 5.5% and 40 years and above 1.8%. The findings were in agreement with Chigunta (2003) who assert that it is older youth who find their way into the leadership positions than younger youth.

Factors influencing Access to Finance offered by SACCOs

Okwany (2010) identified access to finance as one of the primary challenges youth face in trying to increase their employability or expand their business since they have been termed as risky in terms of loan repayments. Youth often obtain access to finance through a variety of informal sources, such as family, friends, selling labor, and informal money lenders. Young entrepreneurs face key constraints and challenges in accessing funding for their business ventures and in order to promote effective micro credit programmes, there is need both to reduce access barriers and design programmes that meet the needs of potential youth entrepreneurs and existing youth run enterprises (Chigunta, 2003). Schmidt and Kropp (1987) argue that the type of financial institution and its policy will often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.

Findings of the study show that access to finance offered by SACCOs influence growth of youth entrepreneurship. There was increased growth of youth entrepreneurship as a result of different aspects employed by SACCOs to increase access to finance. These aspects employed by SACCOs to reduce access barriers to finance influenced the levels of accessibility by youth entrepreneurs to various extents. Factors that attracted youth entrepreneurs to access to finance from SACCOs largely include; the processing time, regular savings, shares held, guarantors, interest rates and amount granted. This was in agreement with Wanyama et al. (2008) who assert that where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access. Collateral requirement, transaction costs, business experience and the documents required influence access to finance to a limited extent. This is in line with UNHABITAT (2010) who assert that SACCOs lend without tangible collateral but each loan should be guaranteed by at least one or more members of the SACCO.

The findings further established that SACCOs are a preferred source of financing for youth entrepreneurs and that majority (63.64%) of the youth entrepreneurs takes up loans to start and/or grow their enterprises. Wanyama et al. (2008) argue that SACCOs are able to offer credit which is perceived as cheaper and more accessible to young entrepreneurs. This gives the youth an opportunity to establish their business as well as grow and develop these specific businesses thus the percentage of youth actively involved increases thereby leading to growth of youth entrepreneurship. This therefore highlights the critical role the SACCOs play in promoting entrepreneurship opportunities for young people.

Aspects posing challenge in provision of Products and Services by SACCOs

Establishment, development and sustainability of SACCOs in Kenya face challenges which include traditional products, capitalization, information technology, demand for loans, non remittance and developing a competitive business model and outreach (UN-Habitat, 2010). Karugu et al (2010) further argue that inefficiency due to inadequate computerization in SACCOs and lack of product innovation are ailing SACCOs in Africa and have kept the youth who are attracted to more efficient systems out of the Cooperative movement.

From the findings, products and services offered by the SACCOs had constraints and challenges that hindered growth of youth entrepreneurship. Provision of products and services by SACCOs was largely constrained by aspects such as difficulties in servicing loans by borrowers, many financing requests, inadequate computerization, low product innovation, inadequate funding and limited payments facilitation. SACCOs administrative functions and adequate skilled personnel enhanced service delivery.
Okwany (2010) observes that the youth are perceived to have quick thirst to possess goods and service (consumerism). This has translated to the trend across Africa where employed youth are spending more and more instead of saving for the future. In mainstream banking today where banks are targeting the salaried without necessarily considering whether they are saving or not, SACCOs have the platform to advance a healthier economy by educating the youth of the importance of borrowing and saving concurrently. The study revealed that saving and borrowing concurrently enhance a saving culture amongst the youth and it offers appropriate and planned investment options to youth entrepreneurs. It is only through the pooling of savings from a large group of people that SACCOs are able to create a pool of funds that can be lent out to other members. SACCOs therefore have a critical role to play by educating the youth on the importance of borrowing and saving concurrently (Okwany, 2010).

Entrepreneurship Education offered by SACCOs

According to findings by Nelson and Johnson (1997), the emergence of limited numbers of enterprises, the high mortality rate of those that start, and the slow or stagnated growth of those that survive are clear indications that increased efforts are needed to prepare more competent entrepreneurs. Besides access to finance, youth entrepreneurs need to know how to develop a business plan, business management, financial management (budgeting), time management, stress management, improving sales, managing and reducing costs, debt recovery techniques, stock control techniques, marketing and recruitment (Chigunta, 2002). Schoof (2006) argue that, there is a lack of on-the-job training focusing on technical aspects of starting up a business (business plan preparation, project formulation, start-up administration, procedural details, forms, duration, what to do and in what order, accountancy, taxation, etc.).

The study revealed that the entrepreneurship education offered by SACCOs impacted positively on youth entrepreneurs by inculcating positive attitudes toward self-employment, improving business management skills and acquiring credit advice while accessing start-up finance. Formulation of business plan/proposals and acquisition of skills on product development were not adequately addressed by the SACCOs. Schoof (2006), sees entrepreneurship education as one of the initiatives that can be designed to enhance skills and knowledge in entrepreneurship. According to Chigunta (2003), most youth, especially younger male youth and female youth, do not bring many skills (such as technical, managerial, strategic, personnel, and marketing skills) and experience to their business from previous experience as workers which imply a limited transfer of skills. As the enterprise begins to grow, the owner/manager require new skills to take the enterprise to the next level of growth.

Based on the findings of this study majority (69.1%) of the respondents had not been trained on management of the SACCO and this could hamper their service delivery. Okwany (2010), argues that according to the cooperative principle on education, training and information, cooperatives provide education and training for their members, elected representatives, managers, and employees so that they can contribute effectively to the development of their cooperatives.

Growth of Youth Enterprises

Growth is a typical characteristic of entrepreneurial ventures where quantitative growth can be characterized by the enterprise size (turnover, added value, volume), the profitability of the company and the value of the company (shareholder value). Qualitative objectives are linked with strategic means for the realization of growth of the enterprise. The competitive position, product quality and customer service are examples of qualitative growth objectives for companies (Kruger, 2002).

Based on the findings of this study majority (81.1%) of the SACCOs targeting youth entrepreneurs had been in operation for under 5 years. There was continued registration of SACCOs that target youth entrepreneurs but with time some ceased to be active. According to RoK (2011), all active SACCOs as at December 31st 2009 represented 58% of the total registered SACCOs, many having ceased operations due to various reasons such as deregistration after liquidation, voluntary winding up or never taking off registration.

The findings indicated that there was a moderate positive relationship ($r=0.352$, $P=0.01$) between enterprise growth and access to finance. Thus an increase in access to finance by SACCOs would lead to increase in growth of youth entrepreneurship. This was in agreement with Chigunta (2002) who report that lack of finance is one of the major constraints to the formation of new enterprises and that entrepreneurs need access to both internal and external finance to survive and grow. The findings also indicated that there was a weak positive relationship ($r=0.241$, $P=0.05$) between enterprise growth and service and product provision by SACCOs hence an increase in the quality of service and product provision by SACCOs would lead to increase in growth of youth entrepreneurship.

Given their limited resources, life and work experience, young people face unique constraints and face greater barriers than older age cohorts thus variety of potential methods and measures to counter them should be more extensive than that of older entrepreneurs (Schoof, 2006). Findings further indicated that there was a strong positive relationship ($r=0.488$, $P=0.00$) between enterprise growth and entrepreneurship education. Thus increase in provision of relevant entrepreneurship education by SACCOs would lead to increase in growth of youth entrepreneurship. Schoof (2006), sees entrepreneurship education as one of the initiatives that can be designed to enhance skills and knowledge in entrepreneurship.
RECOMMENDATIONS

a) **Provision of soft, micro and guaranteed loans**

SACCOS can play a critical role in youth entrepreneurship development, through the delivery of, responsive, affordable and market oriented financial services tailored to the specific needs of youth (USAID, 2005). Soft loan approach should involve provision of low interest loans with an eligibility criteria such as having reasonable equity participation, demonstrating an ability to repay the loan, providing mentors and/or guarantors with generally no collateral requirements. Micro or small loans with lower capital requirements, limited processing time, limited business experience, simple documentation procedures and shorter repayment periods should be advanced (Chigunta, 2002).

b) **Specific package offered to members meeting specific conditions**

Youth entrepreneurship and entrepreneurial activity occur in different sectors, enterprise types and business sizes. SACCOS should focus on youth entrepreneurs as clients and be sensitive to the needs of individual youths rather than focusing on them as beneficiaries who are offered standardized products. SACCOS should also adopt use of modern information technology which would offer more customer focused and cost saving services. This would be done by adopting SACCO Management Information System which can maintain all basic customer information, have strong search capabilities and facilities to check customer behavior and one that allows the addition and modification of SACCO products and Services.

c) **Provision of tailor made entrepreneurship education**

Enterprise education is directed towards developing in young people those skills, competencies, understandings, and attributes which equip them to be innovative, to identify, create, initiate and successfully manage personal, community, business and work opportunities, including working for themselves (Schoof, 2006). Young entrepreneurs require tailor made training and counseling pertinent to their particular start up or expansion situation, their business and the sector it operates in. Training could be conducted by a university offering entrepreneurship education. The Ministry of Cooperative and Marketing development and Youth Enterprise Development Fund should seek collaborations with universities that could facilitate entrepreneurship education training. Apprenticeship could also be another option for youth enterprise owners to consider as they prepare to start their own enterprises. This will provide first hand, hands-on experience which is critical for any start-up. Care should also be taken to ensure that the individuals who receive loans actually possess the technical and entrepreneurial skills needed to succeed.

d) **Credit advisory services**

The main purpose of credit advisory services is to empower the borrower to make informed decisions on the various investment options and hence sureties of nonperforming loans as funds are put into proper use (Karugu et al., 2010). Credit advisory would target start-up youth enterprises by helping them improve their creditworthiness hence making them a desired target for lending. This can be done by establishing a unit within the SACCO with qualified personnel who would offer personalized and unbiased financial guidance to those with the intention of borrowing.

REFERENCES


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