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FINANCIAL INSTITUTIONS AND THE INCLUSION OF YOUTHS THROUGH ENTREPRENEURSHIP IN KENYA

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ABSTRACT
Kenya is home to 10.1 million youths, which corresponds to almost 20.3 per cent of the country's population aged 15-24 years. According to the World Bank report released in 2017, Kenya tops in the East Africa region in youth unemployment at 17.3 per cent in comparison to Uganda and Tanzania, at 6 per cent. The majority of youths considered to have attained working age are either unemployed or engaged in low paid employment. Promoting youth entrepreneurship is one way of empowering young people to respond innovatively to the needs of society; this would consequently lead to the generation of more decent employment. While there are numerous challenges to self-employment, inaccessibility to financial support is the main hindrance to youth entrepreneurship. This study, therefore, analyses ways through which some financial institutions in Kenya are promoting entrepreneurship and financial inclusion among the youths and how this can be adopted across Africa for scaling youth self-employment.

Keywords: *Entrepreneurship, Empowerment, Financial Technologies, Policy*

INTRODUCTION

Research shows that Africa has the youngest growing population in the world. Young Africans aged between 15 and 24 make up 19.4 per cent of the total population, with children under the age of 15 years, comprising about 41 per cent of the entire population (United Nations, 2015). However, Africa's youths who are perceived as the driving force for the continent's prosperity are by and large left out on crucial development and growth programs. They are often marginalised and alienated in policy and program design, both nationally and regionally. Although Africa has made strides in areas of policy formulation and commitment, such progress has not resonated with the action on the ground. Majority of the youths still lack jobs, limited access to public resources and other public services.

International Labour Organization (2016) indicated that young people in most of the African countries continue to languish in abject poverty emanating from unemployment and lack of social protection. The report also observed that despite 37.8 per cent of young people being employed, they were still living below $2 a day. The employed youths were also found to be 1.5 times more likely to end up in poverty, and 1.2 times more likely to fall in a category of moderate scarcity. Hitherto, Africa's young people long for opportunities that offer decent wages, better work conditions, and security. However, only are few can achieve these aspirations to reality, signifying that such chances are slipping away for the continent to profit from its demographic dividend.

Despite the rapid economic growth of the continent over the past decade, characterised by improvements in technology and infrastructure, young people continue to face difficulties and challenges in areas of entrepreneurship, employment, and financial inclusion. The continent also experiences unparallel rural-urban migration, with forecasts projecting that by 2040 nearly half of Africa's population will be living in the cities, of which, the majority will be the young people.

The 2017 Global Entrepreneurship Monitoring survey indicated that young people are positive about opening new ventures. However, there is low entrepreneurial involvement among youths. In the continent, new businesses started by young people aged 18-24 accounts for less than 8 per cent. The report noted a lack of experience and awareness, inadequate knowledge, limited financial literacy, and fear of the unknown as some of the challenges that discourage youth entrepreneurship. It is, however, lack of access to financial support that deters youths from engaging in entrepreneurial activities which are coupled with regulatory issues like a minimum age for opening a bank account. Additionally, the majority of the youths' do not have collateral and credit history, which further makes it difficult for them to access capital for their businesses.

Lack of education is also regarded as a significant hurdle for young person's access to credit for entrepreneurship, lack of business skills; another critical factor follows closely (Bwisa, 2010). Majority of the youths seem to be less confident as compared to adults when it comes to starting a new business. This is coupled with the missing link between government training programs and imparting of comprehensive skills for entrepreneurship to aid in business planning, budgeting, business ideation, and marketing skills. The skills gap calls for government and stakeholders' urgent intervention through the provision of on-the-job training as well as aligning education to the needs of emerging sectors of the economy.

Youth entrepreneurship is among the top priorities by the government of Kenya due to inclusivity and continuity. That is entrenched both in the 2010 Constitution and the Vision 2030 strategic framework. Notably, the youth have been given significant focus due to their number and vulnerability. Kenya has various sessional papers focusing on youth empowerment since independence, with the latest one drafted in 2018 by the Ministry of Public Service, Youth and Gender Affairs. The sessional document defines youth empowerment as the ability of young persons aged between 18 to 35 years to create and have authority over decisions and capacities that will influence both their lives and others (The Republic of Kenya, 2018). The empowerment counters entrepreneurship and financial inclusion.

It is from this outlook that this paper offers an assessment of the interplay between banks and youth entrepreneurship in Kenya. Through innovative analysis, the paper illustrates how banks and other pertinent actors are ensuring youth-related policies are put into action to achieve meaningful entrepreneurship results.

THEORETICAL MODEL

This study uses theoretical perspectives heavily related to the Theories of Entrepreneurship to examine how various actors promote entrepreneurship and financial inclusion in Kenya. These theories are; the Mark I and Mark II theories (Nelson and Winter 1982).

With regards to the Mark I theory, by Schumpeter, the study analyses ways through which entrepreneurs or wild spirits inspire innovation and technological advancement. In particular, the study argues that entrepreneurs are the source of innovation, setting ideas in motion in the country's economy. Such concepts include discoveries in financial technologies and other products and services. Additionally, the Mark II theory, also by Schumpeter, has helped the study in understanding and bringing out how actors such as banks and government institutions endowed with resources promote entrepreneurship and innovation through capital and incubation programs. Both the Mark I and Mark II theories have been used by this study to bring out the interconnectedness between actors, entrepreneurship and financial inclusion.

FINANCIAL INCLUSION STRATEGIES AND KEY ISSUES IN KENYA

Entrepreneurship has been acknowledged as one of the significant interventions proficient to offering solutions towards youth unemployment problems in Kenya. Lisk and Dixon-Fyle (2013) recognised the flexibility of the youths concerning the changing entrepreneurial environment when they stated that: “with their ability to adapt to changes and innovate, young people have the potential to drive entrepreneurship and growth.” To realise this, Kenya will have to provide institutional support as well as facilitate reforms to enable a conducive environment for youth entrepreneurship (Mullei & Bokea, 1999).

The notable benefit of promoting youth entrepreneurship is that it generates employment by developing a cadre of young people who own enterprises. Apart from self-employment, entrepreneurship offers an opportunity for youth-led businesses to employ other young people (Hisrich et al., 2005). Employment creation ensures that previously marginalised and alienated youth are mainstreamed back into the economy.

Entrepreneurship also provides the youth with the possibilities to be innovative and creative in coming up with unique solutions and approaches to doing things — a departure from several conventional models.

Young people in Kenya face a myriad of hurdles with regards to employment. The majority of them lack the required skills that resonate with employer demands. This could as well be the case for those young people who dropped out of school. Skills constraints may as well refer to young people joining the labour market with the necessary qualifications, albeit with limited abilities. Skills in business, management, and entrepreneurship end up becoming a constraining factor, principally among them that aspire to pursue self-employment.

Financial inclusion in Kenya is considered to have grown tremendously over the past decade (Ngugi, 2015). This growth includes access to formal financial services, ranging from obtaining a bank account to credit facilities that are within reach. Coupled with the ICT revolution, a more elevated level of financial inclusion in the country is therefore attributed firstly to an increase in the number of financial service providers such as commercial banks, credit co-operatives and microfinance institutions, which are within reach — secondly, prioritizing financial inclusion by including it the National Vision 2030. The banking sector has significantly metamorphosed since the year 2007, with the revolutionary mobile phone payment systems that include M-Pesa, Airtel Money and Yu-cash, among a host of others. The revolution is acknowledged to have changed Kenya's financial landscape, which not only allows accessibility but offers an efficient and cost-effective transfer system of money and disbursing model of payments. Through this technological advancement, commercial banks can reach youths and women, the majority of whom are considered 'unbanked' (Allen et al., 2013).

Despite the model's triumphant accomplishments elsewhere, Kenya's financial institutions are still reluctant to loan youths due to the high default rate determined between 20 and 30 per cent. The private sector and government, however, should invest in a hybrid paradigm that reinforces entrepreneurship, skilling and enterprise incubation to strengthen the credit guarantee schemes approach, as is illustrated in the study.

IMPACT OF BANKS ON ENTREPRENEURSHIP IN KENYA: CASE STUDY OF KCB GROUP

Banks as financial institutions in Kenya have taken a leading role in nurturing and promoting entrepreneurship among young people. A case in point is the KCB Group, which committed Ksh 50 Billion in March 2016 to support out-of-school youths with start-up capital with single-digit interest rates. This support, commonly known as the '2jiajiri' programme, is being implemented by the bank's foundation (KCB Foundation). The group CEO Joshua Oigara observed the impact of 2jiajiri programme in December 2018 at Kasarani Stadium during the graduation of 10,000 youths. He said, “The fact is, our young people are ambitious, driven and have proven to us over and over that they can transform Kenya if only they are given a chance. The purpose of the funding is for start-up and working capital for beneficiaries under the programme” (KCB Group, 2018b).

The KCB Group's Foundation is also working with other non-governmental organisations to advance technical capacity and financial management skills among the youths in Kenya. The Foundation, in partnership with Research Triangle Institute (RTI), funded by USAID, is implementing Kenya Youth Employment and Skills Programme (KYES). The Foundation facilitates access to finance, training on business skills, financial literacy training, and linkages to markets. Its objective is to improve income and employment opportunities. KCB foundation in partnership with GIZ E4D/SOGA (Employment and Skills for Eastern Africa) is also implementing a program that aims at increasing self-employment and income generation to over 4,000 youths with a budget totalling US$ 2.7 million in the informal sectors of agribusiness and construction in Kenya. It offers young people the opportunity of accessing financial support without too many intricacies, previously serving as an obstacle. The bank is also running an entrepreneurship television series known as the 'Lion's Den' that features some of Kenya's prominent entrepreneurs. Through the programme, the youths pitch their business ideas to a panel of successful young entrepreneurs who evaluate them for possible funding opportunities.

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DEEPING ENTREPRENEURSHIP AND FINANCIAL INCLUSION IN KENYA

Eradicating obstacles to financial inclusion can lead to an increase in entrepreneurs among the youths in Kenya. Digital financial services may be the first contact within the banking industry for the majority of young people (Beck et al. 2010). Financial technology ('fintechs') has created opportunities for the generation of new business models speeding up financial inclusion and entrepreneurship among the youths in Kenya. Key among them is the way through which agency banking models have been effective in enhancing youth entrepreneurship and financial inclusion.

Financial technologies ('fintechs') can be adopted as an alternative credit scoring method, marking a departure from the conventional system that mostly relied on collateral assets as a financing prerequisite. Fintechs can be used to analyse and provide data on youths regarding their social media, mobile transaction history as well as other techniques of credit scoring divergent from the conventional collateral requirement system. New products that score young people according to talent and education rather than assets and banking history would serve best. Currently, in Kenya, borrowers are accessing small amounts of credit through their mobile phones. The mobile platforms rellie on transaction history to allocate the credit amounts attributed to the borrower. While this method is revolutionary in terms of financial inclusion, it allows access to minimal credit, which increases with the repayment experience. As a result, bank credit through the mobile platform may not necessarily address the lack of finance for entrepreneurship by the youths.

To strengthen the capacity of the young people's access to financial services, banks in Kenya can accommodate businesses in incubated and accelerator programs (FSD Kenya, 2009). Such models contribute a plethora of incentives varying from networking possibilities, expert talks, mentorship, conferences, workshops, counselling, business development, entrepreneurship training and leadership. The entrepreneurs' network is vital at or encouraging the youths to enhance innovation and in stimulating their businesses (Gravesteijn, 2014). The arrangement not only encourages entrepreneurship among youths. It also provides a platform for a mentorship experience where information sharing and dissemination thereof promote business development. A role model network further offers linkages to business associations, which in turn provide opportunities for members to access funding and markets.

To measure the effectiveness of the 'role model' approach, the government, organisations, and corporates need to work on the quality of the relationship between the mentee and the experienced entrepreneurs. As shown by research, the method tends to be more operative when the match between the 'role model' and the mentee is appropriate, since the commitment is tailored and distinct support is given. A 'role model' network can also be active through the establishment and operation of Youth Entrepreneurship Centres (YEC) at the county as well as the sub-county levels. Such replicas are successfully being instigated in some developing countries but extensively among EU and OECD member states. These YECs will avail youth-friendly training as well as programs geared towards entrepreneurship. The YECs guarantee reliable and continuous business advisory along with counselling services to youths.

The mentorship also acts as a training guide to deter crooked dealers from exploiting the budding business persons, while supporting informal investments and promoting specialisation (Muthee, 2010). All government institutions offering financial aid to youth-driven ventures have a business development arm that helps in the structure and execution of the business. The Uwezo Fund and the Youth Empowerment Development Fund (YEDF) are an excellent example of such programs. Kimando and Njogu (2012) recommended that if the YEDF put more emphasis on mentorship and training, the impact would be more significant.

This can be performed by partnering the public and private institutions that venture in both instruction and execution of business management. Owing to the two program structures, the entrepreneurs are attached to individuals or firms who form a case study for the new business.

Absence of collateral seems to significantly contribute to the youth's failure to access financing from lending institutions. Studies also show that many of these businesses lack proper records, inadequate/absence of marketing strategies, non-skilled entrepreneurs, and non-compliance with regulatory frameworks (Kenya National Bureau of Statistics, 2012). However, the lack of security (fixed assets) is constraining the youths from accessing capital from banks. It is therefore imperative to creatively explore lending strategies that emanate from the current method based on collateral – since most teenagers do not have material assets. The Credit Guarantee Scheme (CGS) is one procedure which aims at rendering access to capital without the conventional prerequisite collateral. The CGS is a guarantee scheme by the government to act as an intervention method to enable youths to access finance. The CGS offers financial risk mitigation to creditors by absorbing a percentage of the financier's losses on credit extended to the youth's enterprises in the event of non-payment at a small fee.

A good case in point is the government of Malaysia which incorporated CGS in the 1970s to encourage entrepreneurs to diversify from agriculture sector – mostly tin and rubber farming. Consequently, 445,217 guarantees worth $14.8 billion have been issued to Micro, Small and Medium Enterprises (MSMEs). To date, Malaysia boasts of more than 645,136 businesses representing 97.3 per cent of established enterprises as a result of CGS. In India, CGS was formed to offer credit to MSMEs without collateral or third-party guarantees, essentially enabling the lenders to focus on project viability and advance the credit facility based on the security of assets financed.

CONCLUSION

Kenya continues to articulate the importance of creating sufficient opportunities for employment to address the continent's increasing labour needs, particularly among young people. Nonetheless, the problem of youth unemployment continues to posit difficulties for the region. Interventions that are put forward do not work nor correspond with the degree of youth unemployment that is existent. The intervention from the banking sector can, however, be advanced in the form of working capital and business mentorship. It is a significant constraint that has hindered youths from becoming self-employed or launching their businesses. Most young people without proper education tend to need financial support for their small businesses due to being unemployable for lack of skills. Therefore, appropriate and all-encompassing financial services can equip the youths with the required resources to become economically viable and productive members of their communities.

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