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Supporting Sustainable Development through Research and Capacity Building

Focusing on Youth Entrepreneurship as an Alternative Source of Youth Employment in Kenya

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Introduction

Giving people an opportunity to develop and nurture their business idea is not only self-fulfilling but also economically viable. According to KNBS (2018), Basic labor force report, Kenya's unemployment rate is at 7.4 percent out of which, 85 per cent are the youth below the age of 35 years. High unemployment rate is a catalyst to high dependency levels which is currently at 81 per cent hence constricting savings which is core to domestic investments. Foreign Direct Investments into the country have been declining rapidly over time stagnating the modern sector of employment which accounts for 2.7 million Kenyans in employment and creates about 100 thousand new jobs annually. This is against a pool of 1.4 million unemployed people and an additional 1.1 million joining the job market annually either as school drop outs or as graduates. In addition, more than 50 per cent of the active population possesses either primary education alone or none, thereby locking them out of formal skilled labor. Besides, the informal sector which is dominated by MSMEs accounts for over 14 million Kenyans in employment and creates about 800 thousand jobs annually.

Entrepreneurship has the potential of greasing the wheels of sustainable development through improving social aspects such as poverty reduction and gender equality, and driving economic growth. It enables the youth to accumulate their human capital competencies such as self-reliance, skills development and self-satisfaction. It is also an engine for job creation, enhancing innovation and increasing competition in the market for price stabilization.If positively assimilated, young people getting into entrepreneurship will become role models and mentors to their peers who may be disadvantaged economically. Generally, countries that have a more business friendly environment, and ease of starting a business have recorded low levels of income inequalities. Therefore, there is need for a policy shift from the modern sector of employment to entrepreneurship as an alternative source for job creation for the youth in Kenya.

Micro, Small and Medium Enterprises (MSMEs) Sector In Kenya

The MSMEs sector plays a significant role in social economic transformation and industrial development. They generate employment, promote entrepreneurship and innovation, and boost investments. They also aid in developing indigenous skills and technology, enhancing local production and exports. MSMEs account for 83.5 per cent of total employment in Kenya and contribute about 34 per cent to the national output (at current prices) making them significant players in the economy.

MSMEs cut across all sectors of the Kenyan economy. However, majority of them fall under the services sector with 62 per cent being in whole sale and retail trade and repair of motor vehicles. This is followed by manufacturing with a 12 per cent share and food and accommodation services with a 9 per cent share. Agriculture, forestry and fishing account for only 3 per cent of the total MSMEs. On aggregate, 14 per cent of all MSMEs are in Nairobi county, followed by 5 per cent in Nakuru County, 4 per cent in Kakamega and 3 per cent in Kiambu county.

Majority of MSMEs are informal in nature. This is evidenced by 5.8 million establishments that are not registered against a total 7.4million establishment on record and most of them are micro sized with a startup capital requirement of less than Kes. 50,000 majorly generated from own sources and family contributions. As at 2016, 49 per cent of licensed establishments and 93 per cent of unlicensed establishments recorded a monthly turnover of less than Kes. 50,000 which is relatively low to support decent employment.

Nevertheless, it has been established that on average Kenyan establishments have an average age of 3.8 years at closure with about 80 per cent of them shutting down before their 5th year of operation and 46.3 closing during their first year of establishment. This is indeed an indictment to the country's entrepreneurship culture hence need for a comprehensive policy framework. Some of the reasons for closure include, inadequate access to affordable capital, marketing challenges, stiff competition from both established businesses and illicit trade, and stringent government regulations.

Government Sponsored Entrepreneurship Programmes

Upon formulation of Kenya Vision 2030 which promised formulation of programmes that taps into the potential of youth, the government established key entrepreneurship programmes such as Youth Enterprise Development Fund and Women Enterprise Fund which were mandated to providing affordable credit and training youth on entrepreneurship skills. Later in 2013, Uwezo fund was also created with the same mandate but majorly focusing on vulnerable groups including the youth, women and people with disabilities.

However, the number of youth who have come out to seize these opportunities are few hence youth unemployment persists. The major mandate for the programme is the provision of affordable credit to youth owned businesses, aid the youth in entrepreneurship trainings, marketing, business incubation and linking them with large and established businesses for mentorship. Further an affirmative action to allow the youth do business with government was put in place through an executive order. Procurement rules were amended to allow 30 per cent of contracts to be given to the youth, women and persons with disability without competition from established firms

As at December 2017, the three funds, Youth enterprise Fund, Women Enterprise Fund and Uwezo Fund had disbursed about Kes. 28.9 billion to about 3.6 million beneficiaries. The funds have also trained about 2.1 million people in entrepreneurship. This is a great step towards inculcating an entrepreneurial culture in the society.

Challenges Hindering Youth from Entrepreneurship

A low number of youth coming out to exploit opportunities offered by government sponsored entrepreneurship programmes can be explained by underlying challenges which hinder them from entering business and making those in business to drop out.

1. Unconducive business environment for youth owned businesses, which is characterized by long and complex start up procedures and other government bureaucracies, multiple licenses with high licensing fees and other levies by county governments, unnecessary competition from both established businesses and

illicit trade, lack of collateral or formal credit guarantee system, inadequate business infrastructure and market access challenges. These challenges increase business cost making it difficult for youth owned businesses to break even hence shut down prematurely. According to KNBS, (2016) MSMEs survey report, about 80 per cent of MSMEs close before they celebrate their 5th anniversary due to unconducive business environment. A whopping 46 per cent of establishments close during their first year of establishment.

2. Personal and societal characteristics also hamper the youth from getting into business. They range from inadequate awareness about the existence of entrepreneurship programmes and their benefits, and inadequate skills to efficiently run a business to success. Others include, individual and societal attitude towards youth entrepreneurship, lack of role models and mentors to guide the youth into entrepreneurship, stigmatization of business failure, cultural and religious factors.

3. The informality of the business environment in Kenya which is characterized by low productivity, low quality products and services, and poor wages. According to KNBS (2016), MSMEs survey report, there were about 7.4 million establishments in Kenya as at 2016, out of which 79 per cent were informal. It is on record that 94 per cent of unlicensed establishments and 50 per cent of licensed establishments generate a monthly turnover of less than Kes. 50,000 which is indeed low to support decent livelihoods.

Boosting a Sustainable Entrepreneurial Culture among the Youth

1. To address challenges hindering youth entrepreneurship in Kenya, there is need to formulate a national youth entrepreneurship strategy that will focus on unlocking the potential of entrepreneurship among the youth. The strategy will give an integrated and a comprehensive policy framework on how to motivate the youth into entrepreneurship and should focus on;

2. Improving the business environment to motivate youth into entrepreneurship. Overall, the 2017 ease of doing business report, ranked Kenya at position 80 out of 190 economies. Indeed, Kenya has made progress especially on getting credit on which it was ranked at position 29 due to reforms on credit information sharing. However, on starting a business Kenya is doing poorly, ranked at position 117 out of 190 economies. This is due to long and complex procedures involved in setting up a business. Therefore, is it necessary to work on improving the business environment to attract more youth into entrepreneurship. This can be done through reforms in starting a business process to reduce the number of days taken and the cost of registering a business. Further, consider reducing regular business levies by county governments for youth owned businesses. This will help in formalizing most MSMEs that are informal.

3. Inculcating entrepreneurship education and skills development to the youth. Currently, the education system in Kenya focuses more on the modern sector of employment with little experiential platforms and limited alignment to entrepreneurial culture development. Since the modern sector is not expanding fast enough to absorb all job seekers, entrepreneurship comes in to fill the gap. Therefore, there is need to embrace entrepreneurship education right from primary level through tertiary levels. Additionally, vocational trainings and apprenticeship programmes on entrepreneurship should be encouraged.

4. Facilitation of technology exchange and innovation programmes. As the world embraces information and communication technology, innovation has become a key driver to some sectors of the economy. This therefore, calls for the youth to be given adequate access to and training

on ICT for them to tap into opportunities associated with it. This can be done through establishment of technology incubators and research and development labs. A number of initiatives have been established by government such as I-hub and presidential digital programme, but they need to be enhanced to reach many youths. Youth innovations should also be supported through grants and tax incentives.

5. Improving access to low cost finance. According to KNBS, (2016) basic labor force report more than 50 per cent of the active population has less than primary level education. This means most people lack adequate financial literacy necessary for entrepreneurship. Cost of credit in Kenya is also high for MSMEs to afford based on their productivity and sometimes comes with excessive restrictions. This therefore calls for a development of youth friendly financial mechanisms and training the youth on financial literacy. Additionally, public private partnerships will come in handy in supporting the financial sector establish a sustainable youth friendly financing. Finally, the youth should be sensitized on available financing models such as Uwezo Fund, Youth enterprise fund and women enterprise fund.

6. Promoting awareness and networking among the youth. There exists a negative perception towards entrepreneurship among the youth, especially the educated and the society in general. Additionally, the youth do not have adequate role models in entrepreneurship to guide them through the process hence under-developed youth entrepreneurship networks. Therefore, there is need to foster apprenticeship and entrepreneurship skills exchange programmes between large and established businesses and youth owned businesses. The society should be sensitized on the importance of engaging the youth in entrepreneurship and assist the youth build their business networks.

7. Coordination strategy. It will be necessary to adopt the public private partnerships model in trying to entice youth into entrepreneurship. Therefore, a good coordination strategy of all implementers and stakeholders in the process will be key. Having a domicile Development Fund Institution will help to enhance access and effective use of resources by reducing overlaps and duplication of mandates in administration of Youth funds.

8. comprehensive monitoring and evaluation framework. The strategy should embrace a participatory monitoring and evaluation strategy to enable tracing and tracking of youth entrepreneurs and evaluating the impact of the strategy and performance of implementing agencies. Further, the M&E frameworkshouldenhancedocumentation of the implemented programmes and put in place effective feedback mechanisms to enhance effective monitoring of the government programmes.

About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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