Youth Entrepreneurial Groups and Support Mechanisms in Nairobi:

Access and Needs

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AMFI – African Network for Micro Finance Institutions
ASCA – Accumulating Savings and Credit Association
CDF – Constituency Development Fund
FDI – Foreign Direct Investment
GNI – Gross National Income
GTZ – Deutsche Gesellschaft für Technische Zusammenarbeit
HBEA – Home Based Economic Activity
HDI – Human Development Index
ICA – Institute for Cultural Affairs
IGA – Income Generating Activity
K-Rep -Kenyan Rural Enterprise Program
KSH – Kenya Shilling
MFI- Micro Finance Organizations
NGO – Non-Governmental Organization
PPP – Purchasing Power Parity
ROSCA - Rotating Savings and Credit Associations
SACCO – Savings and Credit Co-Operatives
SME – Small and Micro Enterprises
SSA – Sub-Saharan Africa
UNDP – United Nations Development Program
YEDF – Youth Enterprise Development Fund
YIKE – Youth Initiatives–Kenya
1 Introduction

1.1 Background, relevance and purpose of study

“...youth unemployment poses grave economic and social problems for the African continent. The overall situation of youth in Africa requires urgent attention; youth should be made a priority group for employment and development programs if their socio-economic situation is to improve. “

(Okojie, 2003: 8)

Kenya’s population consists of roughly 9.1 million youth which totals 32% of the whole population (Haji, 2007:12) but employment opportunities are not sufficient to absorb the youth entering the labor market. According to the Ministry of Home Affairs, Heritage and Sports roughly 75% of all Kenyan youth are currently facing unemployment (2002). As a response youth are entering self-employment and youth entrepreneurship has become a way of alleviating youth from poverty, a survival mechanism or a profit generating activity and a social-psychological tool to stop youth from engaging in delinquent and illegal activities (Ibid). In compliance with the new focus of development on teaching people how to catch the fish, rather than catching it for them, approaches such as micro entrepreneurship are being fostered from governments, development agencies and donors. They are considered as efficient ways to reach out to the poorest and most vulnerable and to help them achieve economic and social empowerment.

Despite the increased interest in youth entrepreneurship the focus on these micro and small enterprises only recently began to flourish. There are a variety of problems these young entrepreneurs face and these are often more pressing for youth than for adults (Ibid) and do not only include lack of skills such as idea development, business administration and organization (Motts, 2000) but mainly access to finance via loans and savings (Nagarajan, 2004). Youth inclusive services and support mechanisms are rare and literature and research on youth entrepreneurs is still sparse and focuses primarily on individual youth entrepreneurship and the socio-economic benefits it can have or on the lack of basic skills and need for training. In this sense research on a
detailed definition of youth groups’ needs and their access to support mechanisms is needed.

Consequently the challenge is to find out youth entrepreneurial group's needs, support mechanisms available to them and the extent to which they access these. To do so in an appropriate manner the research further aims to analyze how far the support mechanisms address the needs of youth groups and how this could be improved by asking the youth to design their own support mechanism. The research focuses on 19 youth groups in Nairobi’s informal settlements\(^1\) that are currently working with Youth Initiatives Kenya, engage in a variety of entrepreneurial activities and find themselves at different stages of entrepreneurial advancement. My findings show that youth entrepreneurs have a number of entrepreneurial, financial and material needs that are influenced by their stage of economic advancement, the cluster of the group and also the different IGAs. Support mechanisms available to youth groups operate mainly in the sphere of financial and material support and only few offer entrepreneurial support. Several dimensions determine access and they link to practical reasons, perceptions and attitudes. When assessing whether the support mechanisms have succeeded in addressing the needs there is a clear gap when looking at entrepreneurial needs of more advanced groups. Basic entrepreneurial and advanced and basic financial needs are insufficiently met.

These findings are able to outline a nuanced definition of their needs that questions existing definitions of youth entrepreneurs, explain a number of determinants of access to available support mechanisms, as well as challenge the believe in the potential of micro entrepreneurship on economic growth which is embedded in neo-liberalism and consider the negative aspects of aid. By doing so this research will add to conducted research and theory on youth entrepreneurship but also assess the usefulness of grass-root concepts such as social capital, the informal sector, self-help groups and microfinance in the light of youth entrepreneurial groups. It will aid support mechanisms who work with youth groups by raising and studying issues important to them.

\(^1\) This thesis will use the term informal settlements as other synonyms such as slum and ghetto carry negative connotations, whereas the term informal settlement is far more neutral.
1.2 Research Question and Approach

The research question for this study was:

How do youth entrepreneurial groups in Nairobi's informal settlements access formal support mechanisms to address their needs and how successful are these support mechanisms in addressing the needs of the youth?

In order to answer the research question in a systematic and thorough way four sub questions (outlined in chapter 3) were designed as a guiding tool through the research process and data analysis. These sub-questions are centered around the general characteristics of youth entrepreneurial groups and their needs, as well as support mechanisms available, access to these and the impact they had on the youth. The final sub-question focuses on the difference between the support mechanism designed by the youth and existing support mechanisms. To outline the relationship between the key concepts of youth entrepreneurial groups, needs, access and support mechanisms the conceptual scheme as shown in figure 1.1 was developed. It shows that youth entrepreneurship firstly generates needs which have to be addressed by support mechanisms and secondly leads youth to access such services. Access and needs are intertwined as the needs themselves cause the attempt to access support mechanisms and these support mechanisms therefore have an impact on youth entrepreneurial groups. Taking into consideration the ontological and epistemological stance of constructivism and hermeneutics a qualitative research approach was adopted, focusing primarily on the use of interviews and workshops. Furthermore quantitative methods were applied through individual surveys as well as elements of quantitative analysis.

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2 Youth, groups, youth entrepreneurs and youth entrepreneurial groups will be used interchangeably throughout this thesis unless stated otherwise and apart from the theoretical framework, where youth and (youth) entrepreneur refer to individual entrepreneurs.
1.3 Youth Unemployment and Poverty

According to the GTZ the world is currently facing a ‘youth unemployment crisis’ (GTZ, 2008: 3) and youth employment has been made target 16 of Millennium Development Goal 8. Exact numbers are not available but it is assumed that youth unemployment is three times as high as adult unemployment in Sub-Saharan Africa (Besnard, 2009) and estimates suggest that in the whole of Africa the youth comprise between 40 to 75% of all unemployed (Chigunta, 2002: 11). Current World Bank statistics state that 54.4% of youth in Kenya are living under $2 a day (2009: 1). Such high numbers have a variety of negative consequences on the state and the youth themselves. Unemployed youth are further marginalized in society which can result in idleness, drug and alcohol abuse or engagement in criminal activities and thus carries social and economic costs for any society (GTZ, 2008).

There are a variety of explanations for youth unemployment which link to institutional factors such as education, as well as to the overall economic situation in
SSA. Many scholars criticize the current education system as it focuses too much on academic careers and does not offer enough vocational training (Chigunta, 2002). Hence youth are lacking crucial practical skills and work experience which will disadvantage them in comparison with experienced older workers. Other institutional factors are the non-existent or badly equipped labor market institutions, the lack of coherent national employment strategies and the missing links between formal and informal markets as the informal markets are employment generators in many developing countries (GTZ; 2008), as well as the negative effects of corruption (Ministry of Home Affairs, Heritage and Sports, 2002). Due to the current economic crisis of the majority of Sub-Saharan states, most of their economies have underdeveloped private sectors that do not have the capacity to employ all available labor and there is an extreme lack of formal sector jobs (Chigunta, 2002). Adding to this are fast population growth and an increased rural-urban migration which has led to high urban unemployment as urban centers are not able to absorb all labor arriving (Okojie, 2003).

1.4 East Africa’s Powerhouse: Kenya

Kenya has roughly 38 Million inhabitants3 with a population growth of around 2.6% annually (Ibid) and there are more than 42 different tribes (Chege, 2008). GNI per capita according to the World Bank’s Atlas method was 730$ and according to GNI per capita in PPP terms 1.560$ in 2008. On the HDI Kenya ranks 123 out of 169 which classifies as low human development according to the UNDP but means that it is above SSA average4. Since April 2008 Kenya has been governed by a coalition government between the National Party with Mwai Kibaki as President and the Orange Democratic Movement with Raila Odinga as Prime Minister. After the fraudulent elections of 2007 the country erupted into a brief period of ethnic violence of which most took place in Rift Valley Nyanza Province and Nairobi and between those that had voted for Kibaki (Kikuyu, Embu and Meru) and Odinga (Luo, Kalenjin) (Harneit-Sievers, 2008). The effects were a shock to society and economy

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due to the destruction of crucial infrastructure and the loss of trust in the security of the country. FDI decreased from 729 Million US-$ in 2007 to only 96 Million in 2008\textsuperscript{5} and on the micro level many local business were ruined and suffered from looting and loss of stock.

Map 1.1: Political Map of Kenya\textsuperscript{6}:

Kenya is not a country to be summed up in a few words. With an economic growth of 7\% many pinned their hopes on East African economic development in the country


\textsuperscript{6} www.mapsofworld.com, accessed 12/11/2010
but despite plenty of opportunities it still faces a long list of social, economic, cultural, ethnic and environmental problems. On the Corruption Perception Index 2010 published by Transparency International Kenya ranked 154 out of 178 countries\(^7\). Even though Kibaki has been trying to fight corruption it is still part of everyday operations. Other issues include environmental degradation, tribalism, insufficient infrastructure and poverty in the Northern and rural areas which has led to an influx of rural to urban migration over the years (Government of Kenya, 2005).

This high rural-urban migration caused an overpopulation of Nairobi’s informal settlements and in 1993 more than 55% of Nairobi’s population lived in the various informal settlements\(^8\) (see map 2) (La Ferrara, 2002). Living conditions are dire and housing is basic and simple, infrastructure is partly non-existent and education possibilities are limited. Sanitation is poor with only a small number of functioning toilets and showers for a large number of plots and waste disposal is simply done on the street (Ibid). Whilst certain informal settlements are said to operate as a communities others are known as no-go areas. In general crime levels have decreased since Kibaki became president. Whereas in 2006 most participants in a study on perceptions on crime rates rank them as high or very high in the informal settlements of Kianaiko, Huruma, Kariobangi and Korogocho, they were rated as medium or low in the same areas in 2009 (YIKE, 2009) due to improved police presence and neighborhood patrols. The Kenyan government describes the key challenges in the informal settlements as following:

“inadequate shelter, tenure regularization in informal settlements, unemployment, delinquency, crime, unavailability of clean water, inadequate drainage and sanitation, lack of adequate public transport, environmental degradation, urban poverty”

(Government of Kenya, 2005: 173)

\(^7\) [http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results](http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results), last accessed 07.11.2010

\(^8\) Informal settlements that I worked in include: Kibera, Mathare, Kariobangi and Dandora as well as smaller informal settlements that were situcated in Westlands and around the area of Hurlingham.
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Map 1.2: Map of Nairobi


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1.5 Policy framework

The Kenyan government has recognized the challenges that lie ahead of it regarding youth under- and unemployment and the new constitution accepted on the 27th of August 2010 includes the focus on youth and the importance of guaranteeing their access to employment (Government of Kenya, 2010). One of the core values of the National Youth Policy of 2002 is to mainstream youth issues:

The needs, opportunities and challenges facing youth are concerns for the whole society. The youth policy aims at ensuring that youth issues are reflected at all sectors of national development both on micro and macro levels within the public, private sectors and civil society. It emphasizes affirmative action for the youth as a strategy of participation and empowerment.

(Ministry of Home Affairs, Heritage and Sports, 2002: 8)

They developed a list of obligations by the state which include the creation of adequate employment opportunities and offering sufficient education. Most important to this research is the plan to foster initiatives from youth groups to provide them with the necessary technical and financial assistance. To support approaches by individual youth groups, the *Youth Enterprise Development Fund* was introduced by the government in May 2007. Its main objective is to provide loans to youth groups. In 2009/2010 the Youth Fund released one Million KSh per constituency which adds up to 210 Million KSh for 210 constituencies. Loans were given to youth groups, individual members of youth groups that had already repaid a loan and to financial intermediaries who pass the loans on to youth groups and account for the possible risks. Loans given through the latter have a repayment rate of 98% whereas the loans given directly to groups or their members have a lower repayment rate. This lower repayment rates is explained in terms of physical distance to repayment deposit points, long maturity periods of investments and the issue of members gaining formal employment and groups falling apart (YEDF, 2010).

Apart from its youth policies Kenya has also developed a Vision 2030 which wants to see Kenya as a newly industrialized middle-income country with high living standards by the year 2030. The plan is based on economic, social and political pillars. However there is no specific reference to youth. The only part which briefly mentions youth is
the social aspect of increasing possibilities of wealth creation for the most vulnerable groups such as women and youth but no further details are given (Government of Kenya, 2007).

1.5 Youth Initiatives Kenya (YIKE)

“YIKE exists to encourage and strengthen collective social, economic, cultural and environmental initiatives developed by youth groups in the informal settlements” (YIKE, 2007: 3)

YIKE is an NGO that currently provides 45 groups from all informal settlements across Nairobi with entrepreneurial and financial support. These groups pass through a three year training program and, once they graduate, become partners of the organization and can access Youth Desk, which was established in 2007 to provide struggling groups with loans (YIKE, 2008). During the three year training period the youth receive an annual grant or ‘equipment boost’ that is used to buy equipment that the groups need (YIKE; 2007). Table 1.1 outlines which trainings and equipment boosts are offered at which stage of working with YIKE. Every year 8-10 new groups are selected from an average of 50 applicants. The pre-requisites for the groups are to be registered as a youth group, to operate for longer than a year (measured in terms of regular/weekly meetings) and to preferably be engaged in an income generating activity.

Table 1.1: Trainings offered by YIKE

<table>
<thead>
<tr>
<th>Year</th>
<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td>-Peace Building -Basic Financial Management -Basic Group Management</td>
<td>- Financial Management -Business Management -Marketing</td>
<td>Skills where previous training is not sufficiently utilized&lt;sup&gt;10&lt;/sup&gt;</td>
</tr>
<tr>
<td>Grant Received</td>
<td>15,000 KSh</td>
<td>25,000 KSh</td>
<td>35,000 KSh</td>
</tr>
</tbody>
</table>

<sup>10</sup> At the beginning of the final year a health check is conducted to see how well the groups are applying the knowledge they gathered from the trainings. Outlined weaknesses are then addressed in the course of the third year training (YIKE, 2008: 13).

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1.6 Structure of this thesis

The next chapter, Chapter 2, is centered around the theoretical framework that introduces the key theories required for the analysis and understanding of the data. These theoretical approaches are self-help groups, youth entrepreneurship, informal sector, microfinance and social capital. In chapter 3 the research design is explored, outlining the research question and the sub-questions derived from it, focusing on the operationalization of the core concepts, the theoretical methodological foundations, the methodology and the methods applied. Finally chapters 4, 5 and 6 include the data analysis where chapter 4 serves as setting the scene and answering the first sub-question. Chapter 5 is based on the second sub-question considering the available support mechanisms and access to these and chapter 6 tackles the third and fourth sub-questions by looking at the success of the attempts to address the needs and by comparing the existing support-mechanisms to those designed by the youth. Chapter 7 concludes with a summary of findings, theoretical considerations in relation to the data, the answering of the research question, final considerations regarding youth entrepreneurship and suggestions for further research.
2 Theoretical Framework

As this thesis focuses on youth entrepreneurial groups the theoretical framework will first briefly outline the concept of self-help groups on which these groups are based. It will then combine literature on youth entrepreneurs specifically and entrepreneurship in general to give the reader a definition and an understanding of the processes involved, needs and challenges. Next it will explain and define the informal sector, looking at characteristics, economic activities and the link between formal and informal sector. Microfinance is the content of the next part, starting with a definition and then moving on to practical issues. At last social capital will be described and its advantages and disadvantages analyzed in relation to the four previous theoretical concepts.

2.1 Self-Help Groups: life insurance in the informal sector

Self-help groups are a social concept that can be found in numerous African urban and rural settings and their formation is often encouraged by governments as for example in Kenya (Mwaniki, 1986). However there is only little literature that focuses on self-help groups and therefore this section will mainly draw on two studies situated in rural and urban Kenya. This thesis focuses merely on youth self-help groups that generate some form of income through providing members with employment and of which some operate basic forms of ROSCAs or ASCAs.

2.1.1 Definition and types of self-help groups

The concept of self-help groups incorporates the idea of individuals pooling their resources and working together to attain something that would have been impossible or taken much longer to acquire on their own. Research has pointed out that such groups are an important income generator for those that are excluded from any other formal and informal entrepreneurial activity whilst they can also serve as saving and lending facilities (La Ferrara 2002; Mwaniki, 1986).
La Ferrara differentiates between religious, political or economical self-help groups and outlines four types of self-help groups in the economic dimension (2002). The first one are funeral or burial societies where individuals pool their resources to be able to afford unplanned events such as funerals. Women groups often engage in microenterprises or other forms of mutual support. Farmers associations are traditionally situated in rural settings and help farmers with problems concerning agricultural production and fertilizers. The last type of self-help groups are build on a financial basis in the form of Rotating Savings and Credit Associations (ROSCAs) or Accumulating Savings and Credit Associations (ASCAs) (Ibid). In her research on economic self-help groups in Nairobi La Ferrara founds that self-help groups have evolved from simply facilitating credit and financial support to offering employment opportunities for members (2002).

Groups that mobilize savings are known as ROSCAs in general and/or merry-go-rounds in Kenya. Each member pays in a daily, weekly or monthly amount and every week or month one member receives the total sum. The order of members is determined by ballot, age or seniority or other forms of rotation. Such services do not generate any long-term savings and do not offer higher loans than the money that is collected in the specific period after which the money is handed out. ROSCAs are perceived as highly efficient and as a prime example of group solidarity (Buckley, 1997; Johnson, 2007). ASCAs on the other hand do not pay out savings to individual members but rather pool them in a central fund from which members can loan with interest. Thanks to continuing contributions and received interest the fund grows and larger loans can be given to members (Johnson, 2007). Schreiner considers such forms of informal finance as the “bottom-up demand of the poor for appropriate financial services (2001: 637) that were designed in response to the absence of any accessible formal services (Ibid). If these groups did not exist many in the informal sector would only be able to access financial capital through moneylender (Littlefield, 2004) who apply extremely high interest rates (Atieno, 2001) to mitigate risks because screening of applicants is not applied (Buckley, 1997).
2.1.2 Participation and organizational structure

Participation in self-help groups usually depends on individual characteristics such as vulnerability and income but also on the composition of the specific community and its degrees of heterogeneity and inequality (Alesina, 2000). Poor people are more likely to be involved (La Ferrara, 2002) and in the case of Nairobi especially women and youth engaged in such groups (Ibid).

Despite their informality such groups are highly organized. One of the most crucial aspects of self-help groups is face-to-face contact and physical proximity (Smets, 2004) as they are based on trust and interpersonal relationships. Virtually all groups are headed by a chairman or – woman and employ a secretary and a treasurer. The amount of members varies amongst groups, however most groups follow strict procedures when accepting new members. In most cases members have to pay a registration fee to join (La Ferrara, 2002; Mwaniki, 1986) and application decisions are usually based on commitment (50% of the groups La Ferrara studied in Nairobi), ability (22%), need the member currently has (22%) and friendship (6%) (2002: 86). These screening practices are all based on personal knowledge, personal ties and physical proximity (Aryeety, 1998) so that these groups have a large amount of information on their members (Atieno, 2001).

2.1.3 Challenges for self-help groups

In his study on self-help groups in rural Kenya, Mwaniki found a number of internal and external challenges. The external challenges are mainly connected to an insufficient infrastructure and inadequate markets whereas internal challenges occur on a variety of levels. Poor organization and weak leadership can cause internal fights, allegations and disagreement amongst members, corruption, and an inappropriate use and allocation of group funds which can eventually all lead to the break-up of groups. Furthermore the lack of capital, financial needs and insufficient access to capital undermine the potential of a group to engage in an IGA. Members might demand financial remuneration immediately after the inception of the group and possibly want to share all financial income amongst the members rather than investing it which
might negatively affect their potential of growth. Furthermore, if members do expect to see the financial fruits of their commitment immediately but the group is not able to reward them soon enough it might lead members to reduce their commitment and their contribution. Looking at IGAs, Mwaniki points out management problems and lack of skills when running the projects, accounting and keeping track of income and expenses and when assessing the potential and feasibility of an income generating activity (IGA) (1986). A study in Kenya found that interaction with outsiders is crucial to the success of a group in terms of sales and production (Woolcock, 2000).

2.2. Last resort or promising opportunity: youth entrepreneurship

„Youth are without doubt the 'new women' of development“
(Ennis, 2008: 9)

In general it has been found that more people in Africa than in developed countries are self employed (Fafchamps, 1997) and even though the majority of these are low skilled, they have emerged as an important source of employment and a way to achieve wellbeing or livelihoods (Chigunta et al 2005). Entrepreneurship and youth entrepreneurship have been adopted as bottom-up development approaches that address the needs of the poorest and thus aid economic development by including them into the general economy and helping them to achieve a certain level of wellbeing. Apart from its economic benefits and the generation of income for its beneficiaries youth entrepreneurship has also been said to have positive social effects. Engaging the youth in enterprises is assumed to play a role in reducing crime (YIKE, 2009).

2.2.1 Defining an entrepreneur

There is no clear-cut definition of entrepreneurship and a rather basic definition has been given by Littunen who states that entrepreneurship simply refers to ‘owning and managing a business firm’ (2000). Gartner collected participants’ definitions of entrepreneurship which included factors such as owner-managed businesses, innovation and risk taking. He concluded that dominant characteristics were the
creation of a business and the development of a new venture (1990). Burch goes into far more detail when profiling an entrepreneur. He claims that not everybody can be an entrepreneur but those who want to achieve by solving problems and venturing successfully, are hard workers, accept moral, legal and mental responsibility for their venture, want to be rewarded in terms of money, recognition and/or respect, are optimistic, thrive for excellence, are organized and able to be in charge and are somehow profit-oriented (1986). Chigunta has outlined the following definition of entrepreneurship

“…the term entrepreneurship is used to denote a way of thinking, reasoning and acting that is opportunity oriented. It is much more than starting a new business. It is the process whereby individuals 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 et al, 2005: v)

2.2.2 Becoming an entrepreneur

Motivations for entrepreneurship differ according to the circumstances in which the entrepreneurial activity occurs. Manimala found that key motives were the desire for independence, development and utilization of skills, knowledge and capabilities, the urge to be involved in decision making, to achieve targets and standards and to simply enjoy the work (1998). Such an array of motivations however does not apply in the global South. Gomez points out, that especially micro entrepreneurs do not pursue expansion and are not driven by entrepreneurial goals but display ‘non-entrepreneurial motivations’ such as simple survival and sustainability (2008).

Differences in motivations, the individual capability and financial capital at start-up determine the kind of entrepreneurship micro entrepreneurs in the Third World engage in. Start-up capital has been singled out as one of the main factors determining the type of business that will be set up (Gifford, 2004). Another reason is that many entrepreneurs like to avoid risks and thus copy activities that others in their community have successfully engaged in (Gomez, 2008). In a study on the business choices made by Ethiopian entrepreneurs Jemal found that education, feasibility,
personal motivation and previous background have the highest impact on the type of business created. External factors are financial restrictions, the lack of support in terms of advice and information and the missing link between education and vocational training targeted at small and micro enterprises (SMEs) (1996).

2.2.3 Being an entrepreneur

Entrepreneurship mainly occurs in the realm of the informal sector and can take place in a variety of forms and settings, some engage in it through workshops, shops and small business whereas others start home based economic activities (HBEAs). Such enterprises can be owner-managed and have zero employees or have a number of employees. In his study on informal economic activity in Accra Hart outlines a non-exhaustive list of entrepreneurial opportunities that are presented in table 2.1. Many are only marginal and simply serve to assure survival for their owners, whereas others, due to the use of well-placed middlemen and the production of high quality and innovative products prosper and become profit- and employment-generators to their owners. The success of an enterprise strongly depends on local support that can provide help on the spot (Portes, 1989).

Table 2.1: Entrepreneurial activities in the informal sector

<table>
<thead>
<tr>
<th>Form of activity</th>
<th>Activities engaged in</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary and secondary activities</td>
<td>Farming, market gardening, building contractors and associated activities, self-employed artisans, shoemakers, tailors, manufacturers of beers and spirits</td>
</tr>
<tr>
<td>Tertiary enterprises with relatively large capital inputs</td>
<td>Housing, transport, utilities, commodity speculation, renter activities</td>
</tr>
<tr>
<td>Small-scale distribution</td>
<td>Market operatives, petty traders, street hawkers, caterers in food and drink, bar attendants, carriers, commission agents and dealers</td>
</tr>
<tr>
<td>Other services</td>
<td>Musicians, launderers, shoeshiners, barbers, night-soil removers, photographers, vehicle repair and other maintenance workers</td>
</tr>
</tbody>
</table>

(Hart, 1973: 69)

2.2.4 Challenges and Needs

_Sustainability and Growth_
A large number of microenterprises appears and disappears on an annual basis (Gomez, 2008) and, in their study on HBEAs in Pretoria, Napier found that most stopped their enterprises because they did not generate enough income and had to little customers, lacked assistance, were disadvantaged by infrastructural conditions such as the scarcity of electricity, lacked bookkeeping and business knowledge and/or found formal employment (2001). It is obvious that the poorer one is the more likely it is that social and economic shocks have detrimental effects on SME survival (Allen, 2007).

In terms of growth Gomez found that “micro-enterprise graduation is an exception rather than a rule”. He used employment generation as a proxy for growth and graduation of an enterprise and refers to Mead who found that 64% of SMEs in seven SSA countries were one-worker companies and only 1% of businesses in four countries in SSA that employed 1-4 workers at the start was able to employ ten or more on a long-term scale (2008). More specifically, the World Bank found that the Kenyan rate for such graduation was 10% (Ibid).

Financial and material needs

Lack of credit is a key constraint for all micro and small entrepreneurs. They need financial capital to restock and/or to improve their economic activity (Tipple, 2007). Their access to formal finance however is limited and thus they mostly rely on informal financial support through family and friends, money lenders and informal saving and credit clubs (King, 1999). In a study on enterprises in SSA Bigsten et al found that out of a 100 micro enterprises 92 did not apply for a loan and of the eight that did only two received a loan. 34% of the firms did not apply because they did not need a loan, 14% were concerned about running into debt or increase their debt and 12% did not think that it was worth applying because they would not get a loan anyway. Furthermore 9% stated the lack of sufficient collateral as a reason and 8% considered the application procedure as too difficult. Another 9% felt that interest rates were too high (2003: 111). Aryeety found in a study on adult entrepreneurs in Ghana that 53% of these entrepreneurs saw finance as their biggest constraints, but also considered unsuitable policy frameworks and non-accessible financial mechanisms (1998). When starting up most of the entrepreneurs relied on their own savings but the
availability of loans is crucial for the growth of the business as otherwise investment plans will either be reduced or fully abandoned (Ibid).

Entrepreneurial Needs

The dimensions of entrepreneurial needs are far more diverse than those of financial needs. Entrepreneurial needs mainly involve training for certain business and management skills or access to market problems which inhibit many SMEs from growing (Gomez, 2008). A lack of sufficient infrastructure and the lack of access to networks are the prime reasons that stop SMEs from gaining access to these markets. Two key constraints that negatively affect entrepreneurs throughout their entrepreneurial lifecycle are marketing and innovation. Kumar claims that branding, market research, distribution, promotion, pricing and strategy variations are crucial to any successful marketing strategy. But she found negative results for all when assessing the marketing strategies of SMEs. Findings included no systematic branding, limited or absent market research (even though this might be unnecessary as many SMEs know the local markets in which they operate), a focus on direct sales and thus limited promotion, absent strategy variations and cost-plus pricing\(^\text{11}\) (1998).

Innovation relates to the “dominance of copyists rather than innovative businesses” (Kristiansen, 2003: 22) which leads to a saturation of markets with certain products and decreases demand and prices. Reasons for this overemphasis on copying existing business are the motivations as outlined previously- the constraints in terms of time and resources that survivalist entrepreneurs face and the lack of skills and knowledge of how to innovate as training predominantly focuses on imitation rather than innovation (Gomez, 2008).

The specific case of youth entrepreneurs

All of the previously outlined needs and challenges can also be found in youth entrepreneurship, however some of the problems affect youth stronger than adults. Most of the research on the needs of youth entrepreneurs focuses on their financial

\(^{11}\) Cost plus pricing refers to a form of pricing where the producer takes the production costs and adds something on top of them to generate profit. Such a form of pricing is easy to calculate and requires only a minimal amount of information but it does not allow for recognition of the customer and the competition.
needs and their limited access to financial services. Hence not too much can be said about entrepreneurial needs. Chigunta designed a hierarchy of three subsequent stages of entrepreneurial activity that determine needs: pre-entrepreneur, budding entrepreneur and emergent entrepreneur (2002). Pre-entrepreneurs are at the first, formative stage where they are still not settled onto one kind of entrepreneurial activity and are trying different things. The characteristics of this stage are the lack of resources, skills, social networks, business contacts and work experience, which all negatively affect the access to finance and the success of the entrepreneurial activity. Therefore the pre-entrepreneur requires support with start capital, business plans, strategic business skills, guidance through the formative and developmental stage and launching help during the start-up phase. The budding entrepreneur will already be more stable in his/her activity, has made first business contacts through networking and has acquired a decent amount of skills. However they are still likely to be engaged in marginal entrepreneurial activities and thus they require training regarding tactical skills and financial support. The emergent entrepreneur has moved beyond these problems and is now facing the issue of trying to access formal markets. It is at this stage when the entrepreneurial activity moves beyond a simple survival tactic and evolves into a small business that allows for employment and expansion to make profit (Chigunta et al., 2005). What is striking about his stage model is that it is solely concerned with individual youth entrepreneurs and therefore it will be interesting to see to what extent it can be applied to entrepreneurial groups.

Access to financial capital is a key issue for youth entrepreneurs (Haan, 1999) as they work in a climate where it is hard to gain trust from financial services. The perception of youth entrepreneurs by adults as risk takers and the common belief that “youth will never pay back, youth are too risky” (Hildebrand in Ennis, 2008: 10) play a role in this. It is based on the consideration of youth entrepreneurs as high risk takers due to their lack of experience, knowledge and skills (MFO, 2009) and the concern that youth are more likely to fail and go bankrupt even though business success does not automatically correlate with age (Ennis, 2008). Furthermore youth as an unstable group due to their lack of attachment leads to the assumption that they will not continue lending and simply drop out of the program (Nagarajan, 2004). It has to be noted however, that youth entrepreneurs themselves partly determine their lack of
access- many youth do not know about MFIs and their programs or are not confident enough to approach them (Besnard, 2009). Practical reasons also play a role. Due to their lack of financial and entrepreneurial experience it is seen as counterproductive to simply give youth loans, so that they require special training and staff (Nagarajan, 2005), which increases costs (Making Cents, 2009). Also, many MFIs do not sponsor the kind of entrepreneurial activity the youth engage in (Nagarajan, 2004).

2.3. A highly structured informality: The informal sector

“African market realities are much richer than often recognized”

(Fafchamps, 1997: 733)

The informal sector is often underestimated in its role for livelihoods and income, which it has especially in developing countries. It consists of complex structures with their own rules, norms and regulations that are hard to understand for outsiders and there is not much knowledge about how the informal sector functions (Straub, 2005; Tripp, 2001). The potential of economic activity in the informal sector, the productivity of labour in the informal economy is often lower due to the lack of modern and more productive techniques (Castells, 1989) but examples of its capacity show that the informal sector in SSA contributes to around 77.4% of non-agricultural employment (Charmes in Chigunta, 2005) and more to the GDP of many African countries than their formal manufacturing sectors (Tripp, 2001).

2.3.1 Definition and characteristics

Why exactly the informal sector evolves is hard to say but Portes suggests an interplay of an increasing urban population that cannot be absorbed by the formal labour market and of a response to state regulation (1993). The most basic definition is that the informal sector is unregulated by actors and institutions of a given society or state (Castells, 1989). Castells places the differentiation between the formal and the informal sector on the mode of production where the informal sector employs an illegitimate behaviour by avoiding state regulation and restrictions during production but creates similar output than the formal sector (Ibid). Robert sees the division between informal and formal markets in the form of employment. He claims that it is

2.3.2 Economic activity in the informal sector

The different forms of economic activity in the informal sector have been outlined in the previous sub-chapter on entrepreneurship so this section will focus solely on trade. In a study on networks, communities and markets in SSA, Fafchamps gained an insight to how trade relations in the informal sector are formed and how they function. He explains that informal sector trade depends on a large number of small transactions that are primarily carried out on a cash-and-carry-basis where compensation happens immediately. Trust is outlined as a key feature in forming trade relationships and it is exactly those relationships and access to networks which allow for exporting products. Market participants enter long-term trading relationships which are beneficial to both actors who would not run the risk of losing such advantageous relations through cheating or stealing. As information amongst these networks is shared, referral plays a key role in creating someone’s reputation as a trader or a seller, so betraying a trading partner can have negative affects outside this particular engagement as one runs the risk of losing their reputation within a community (2001).

Figure 2.1 exemplifies how a middlemen that acts as an intermediary between markets and enterprises can connect SMEs to domestic and international markets whilst networks amongst the SMEs provide checks and balances on middlemen. In a study on informal economic activities in Indian cities Benjamin found positive direct and indirect effects in terms of employment but also in terms of political influence. The cases he outlines are distinct due to the tight-knit networks that enable such impact and effects (2000).
2.3.3 The relationship between the formal and informal sector

The formal and informal sectors are intrinsically linked because neither would exist without the other and membership is not exclusive to one. A majority of the global population uses both sectors to different degrees. International companies outsource production which will eventually turn into informal forms of production and formal employees employ informal staff for housekeeping and other services. Extras for the state such as tax do not have to be paid in informal employment and thus employers benefit from lower costs even though income levels between those employed formally and informally only vary slightly (Roberts, 1989). Many employees pool formal and informal income by switching between the two sectors in the course of a day (Lanzetta de Pardo, 1989) and applying ”petty capitalism, often as a supplement to wage-employment, offers itself as a means of salvation” (Hart, 1973: 67). Employment in the informal economy is often used as an entry into formal employment (Lanzetta di Pardo, 1989) and Bond goes as far as claiming that a better connection between the two markets can be a powerful tool in poverty alleviation (2007). The example described in textbox 2.1 shows how the effective use of connections created through informal economic activity can lead to gaining formal employment.

The size of the informal sector depends on formal restrictions and capabilities. Johnson and Kaufmann found that in countries with low quality institutions and high regulations the informal market was larger as the costs of becoming formal increased.

Text Box 2.1: Individual benefits from the informal economy

Henry I. from Naivasha started selling tapes to people when he was 16. As Naivasha is en route between Nairobi and Kampala a high number of overland trucks regularly passed through the town who bought their tapes from him. The drivers got to know him and asked him to mix specific tapes or run other errands for them. After a while he became aware of the fact that one of the overland companies needed someone to work for them so he applied and due to knowing the drivers he began to work in that specific company’s workshop. From there he was trained and started a career as an overland driver himself.

(Interview 41)
in a way that did not match the benefits gained (2000)\textsuperscript{12}. Also informality does by no means convey that companies cannot benefit from public goods, they can simply ‘free ride’ (Straub, 2005). Even though the informal sector causes financial losses to the state and is usually repressed and harassed by the state (Chigunta, 2005; Tripp, 2001), the state nevertheless accepts and on rare occasions even stimulates the informal sector. Castells uses urban informal settlements in developing countries as an example of how the state tolerates the informal sector for its benefit. Informal settlements solve the immense housing crisis created by rural-urban migration and can create political patronage (1989).

\textbf{2.4 The ‘miracle cure’: Microfinance}

Microfinance has been one of the most celebrated approaches in development practice over the recent years. It has become so popular that its founder Muhammad Yunus was awarded with a Nobel Peace Prize in 2006 and that the year 2005 itself was announced as the Year of Microfinance. AMFI estimates that membership of mainstream MFIs in Kenya includes roughly 2.1 Million savers and 0.5 Million borrowers as well as 0.5 Million members who work with MFI schemes that have not been registered with AMFI (Johnson, 2007: 62). Magner offers a brief and basic summary of the ideals and values of microfinance:

\begin{quote}
"At its core, microfinance can be viewed as an innovative segment of the banking sector to provide financial products and services, primarily credit, to the poor – bridging the gap that commercial banking has not been able to fulfil (...). However, microfinance itself was conceived with a different purpose than just providing the poor with access to capital. Microfinance and microcredit do not provide consumers with loans to simply increase their consumption; instead, they provide loans for the specific purpose of creating self-employment for the poor, thereby enabling the poor to build their own microenterprises and move themselves out of poverty. In short, microfinance is an income producing tool rather than a consumption aid."
\end{quote}

(Magner, 2007: 2)

Microfinance was invented by Muhammad Yunus who designed the pioneering Grameen Bank in Bangladesh which was to be copied by MFIs across the globe.

\begin{flushright}
\textsuperscript{12} Straub outlines the case of the Dominican Republic where the process of becoming formal requires 21 procedures, 80 days and 436\% of GDP (2005).
\end{flushright}
Grameen is based on the principle of support groups. Groups of five are formed and two loans are given to two members of each group. After six weeks of successful repayment by the first two members the next members receive a loan. Peer pressure replaces collateral and if one member defaults, the group is not eligible for larger loans until all members have returned to a successful repayment rate. Loans last up to one year, all instalments are paid on a weekly basis, the grace period ends one week after the loan was handed out, the required debt service is 2% of the full loan amount to be paid weekly and the interest rate is 20% (Yunus, 2007: 69). Another key principal is that Grameen offers little training to borrowers (Yunus, 2007) because it rejects the assumption that poor people are poor because they lack skills but are simply because they are unable to keep the returns of their products.

An increasing number of microfinance institutions have turned into profit-generating organizations (Hul, 2004) and after initial reluctance banks also have come to adopt MFI lending practices. In his study on the microfinance program offered by the Co-Operative Bank in Kenya, Bell outlines a number of reasons why banks first were hesitant to enter the microfinance sector. The key concern was that banks are held accountable for their actions by their shareholders and need to assure that maximum return is achieved. Furthermore the practices of microfinance were not considered to be in accordance with the bank’s own lending practices and the poor were rated as ‘unbankables’ (2002: 36). The Co-Operative bank still introduced a microfinance program because they realized that it was a large and so far untapped market and, if successful, high returns could be expected.

2.4.4 The (broken) promise of microfinance

The commercialization of microfinance
Opponents fear the loss of the original mission of microfinance due to its commercialization and worry that profit generation will be at the core of too many organizations. Considering it from an ideological viewpoint, one may argue that it is unethical to generate profit out of other people’s misery, from a practical viewpoint several issues arise. First and foremost the loss of microfinance original mission: the empowerment of the poor. New wave microfinance does not focus on the most
excluded anymore; it involves a stronger focus on the less poor which turns out to be simply more profitable and safer to lend to (Bateman, 2010). Huhne claims that virtually all MFIs in Kenya feature higher proportions of non-poor clients (in relation to the national poverty line) and found that out of 13 interviewees who worked with an MFI all owned a car. The introduction of commercial MFIs has led to an increase in interest rates that are now often higher than those of banks, despite the original idea of microfinance of offering credit to the poor to avoid the extortionate interest rates charged by money lenders, and many poor oppose this subjection of theirs to market-based interest rates because they fear it will only leave them with marginal profits (Bateman, 2010). Tipple reports a case in Bolivia were lenders demonstrated against interest rates that translated into 200% per annum (2007). Such loss of sight of the mission is the most quoted concern by microfinance advocates when talking about the future of microfinance and the establishment of a variety of monitoring bodies, of which one is lead by Dr. Yunus himself, shows that this is no threat to be trifled with.

The lending process and its use of solidarity groups

Harper explains that when talking about microfinance he likes to pose the following question which sheds a negative light on the use of self-help groups:

“How would you like a new kind of bank account? You will be required to join a group and attend a meeting with a dozen or so other new account holders every week, you will have to take a fixed weekly savings deposit to every meeting, and if you fail to show up you will be fined. You will be responsible for repaying other group members’ loan if they default. If you decide to close the account you will only get back your savings, without interest. The interest rate on any loans you take will be two or three times the usual commercial rate in your country. Are you interested?”

(Harper, 2007: 35)

Offering such an account to someone who is used to traditional forms of loan attainment might most likely result in a decline but for those that otherwise would not be able to get a loan this might be the only option. Mayer claims that “solidarity groups function foremost to cut costs and introduce financial discipline through peer pressure” (2002: 805). In a situation where no collateral can be given it is far more economical for any lender to virtually ‘outsource’ the collection of payments and the control to minimise default to group members (Harper, 2007) and otherwise screening
would hardly be possible (Karlan, 2007). But the high number of meetings cost a lot of time, as Harper found that members of Grameen replicas in India spent 53 hours a year in MFI meetings compared to self-help group members who only needed to give up 17 hours and individual borrowing which only requires 16 hours (2007). Tipple concludes that many lenders would prefer the use of individual loans as group can incur problems and they disagree with the punishment they receive when other members default, in his study the majority of participants considered group loans as a burden (2007).

The use of loans and the increase of micro-debt
A clear distinction has to be made between microcredit which solely describes loans for business purposes and microloans which also include loans for personal needs and consumption (Bateman, 2010). Due to the commercialization the enforcement of loan use has become more lax and the number of microloans spend on personal needs is rising. In Uganda for example, only 15% of borrowers actually used the loan for an IGA (Bateman, 2010: 29). Main reasons to take out loans are to buy food or pay for funerals, school fees and/or medical expenses (Ibid). If lenders do use their loans for business purposes it is not automatic that the outcome is a positive one as the business might fail and generate insufficient income or none at all. In all cases the money loaned cannot be retrieved from the initial purpose of the loan which can cause difficulty in repayment. Vanroose states that „micro-credit could also be looked at as micro-debt“ (2007: 5) because more lenders end up in debt traps where they take out new loans to repay old ones.

So, what do the poor actually want?
In order to improve their situation a high number of poor people will take what is on offer rather than being picky and waiting around, they often do not have the means or the time to wait for something better to come along (Bateman, 2010). Many have openly stated their desire for grants rather than loans and justified this by claiming that their starting position is so bad that they should be given increased financial support (Ibid). Additionally, there is an inherent need amongst poor people to save (Hul, 2004; Mahajan, 2007). Microfinance focuses primarily on lending rather than saving, the group dynamics and the economics of MFIs who need to present strong
loan portfolios (Huhne, 2007) require their members to be in debt. Harper found that members are usually only allowed to go for two weeks without loaning (2007) and those that stop taking loans and only focus on savings were balanced out and excluded (Huhne, 2007). For a high number of poor people it is however not profitable or required to take out a loan as they have established a certain amount of savings. In the example outlined in textbox 2.2 Sigalla found that women were reluctant to take out loans as such was considered an embarassment for a respectable family (2009). Dichter claims that to be in debt can translate into the loss of respectability, “to be seen by others as less independent, less self-relient, or in the power of control of others” (2007: 11).

The focus on microenterprises that is the key to microfinance carries the assumption that everyone can be an entrepreneur - but does everyone actually want to be an entrepreneur. Many would much rather be employed and work in a stable environment with regulated working hours and a guaranteed pay check at the end of each month (Bateman, 2010) which can be seen in the fact that many use informal sector work as a means to access formal employment and is reinforced by Sigalla’s findings described in textbox 2.3. It is impossible that all poor can become entrepreneurs and all will have successful businesses (Gomez, 2008). Those that do run businesses need loans larger than microloans to expand existing business because the small size of loans keeps the businesses on a level only enough to sustain a family, household or an individual.
Poverty alleviation and economic development

The reasons for poverty differ in all parts of the world (Krishna, 2003) and thus a blueprint approach might not be the right option for economic development. Microfinance does not have the capacity to combat poverty and foster economic development as it claims to do and simplifies the problems poor people face by pinpointing them to the lack of access to credit (Dichter, 2007). In order to combat poverty one has to consider that macro-factors play an important role in this, such as social inclusion, adequate infrastructure, effective education systems, a sufficient health system and a suitable macro-economic framework (Huhne, 2007).

On the household and individual level the success of microfinance are also debatable. Mahajan refers to an impact assessment carried out by the MFI BASIC which found that after six years of inception only 52% of borrowers indicated an increased level of income, 23% stated no change and 25% actually reported a decrease in income. The reasons they quoted were unmanaged risks, low productivity and the inability to get a decent price for their output (2007). As they have little or no barriers for entry into self-entrepreneurship the previously described problem of copying rather than innovation is a predominant issue that leads micro borrowers to “end up in cut-throat competition with each other” and drives down demand and prices (Ellerman, 2007: 154).

2.5 Handle with care: Social Capital

“…the glue that holds society together” (Harris, 2001: 115)

Social capital lies at the core of all other four theoretical ideas described in this chapter. It forms the basis for self-help groups and therefore also for youth entrepreneurship, influences most informal sector activities and determines the access to microfinance.
2.5.1 Definition

Due to its increased popularity in development studies social capital has been applied so widely and broadly that it has lost its distinct meaning and is understood in a variety of terms and at different levels (Portes, 1998; Woolcock, 1998). Furthermore the confusion over a clear definition also stems from the difficulty to measure social capital in empirical analysis (Alesina, 2000). Despite the academic debate over its definition, its importance to economic activity (Putnam, 1993) and its impact on the livelihoods and wellbeing of the poor (Meikle, 2002) are not contested.

The sources of social capital have been one of the arenas for academic debate. The question is whether it is an endowment or it is constructed (Narayan, 1999). According to Bourdieu’s Marxian definition social capital is not acquired by choice but one is born into it (Rankin, 2002) but the most common definition of social capital follows Putnam's notion that trust, norms and networks construct social capital (1993). Portes outlines a dichotomy between two sources of social capital: consummatory and instrumental. Consummatory refers to internalization and adherence to social norms that lead others to form trust in members of their community whereas instrumental describes how social capital is based on the norms of reciprocity where those who give only do so because they expect something in return (1998). Instrumental sources can be in the dimension of reciprocity transactions or enforceable trust where members adapt certain norms and act according to expectations within a group because they fear to be punished otherwise or expect reward (Portes, 1993). Two examples of consummatory sources are value introjection where individuals feel they have to behave in a certain way due to their socialization and bounded solidarity where group-oriented behaviour makes people behave in a certain way (Ibid). Thus consummatory involves socialization processes in families, kin networks and class and occupational groups (Narayan, 1999).

There are different types of social capital that operate at different levels. On the micro level of communities and households which is of importance to this research, social
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Access and Needs

capital is linked to networks and the “norms that govern interactions among individuals, households and communities” (Verrest, 2007: 227). Textbox 2.3 lists a number of examples of social networks that can be found in urban areas and apply to this research. These different examples offer different outcomes of social capital which can be information of the behaviour of other people inside and outside the network, knowledge of the ‘non-behavioural environment’ such as prices and technologies, and collective action which enables groups to pool and manage common resources, exchange information to reduce transaction costs and minimize the chance of opportunistic behaviour (Collier, 2002: 25).

In order to achieve the best flow of information and other results it is important to have a mixture of different forms of social capital, to have the “optimal combination of weak and strong ties” (Verrest, 2007: 228). Strong ties or bonding capital refer to the relation one has with close friends, family members and neighbours, whereas weak ties or bridging capital occurs amongst individuals that do not leave in such close proximity and probably enjoy different social status, even they might have a similar demographic or ethnic background. (Woolcock)13. Weak ties are “vital for an individual’s integration into modern society” (Granovetter, 1983: 203) and enable them to access other possibilities. Poor people often rely heavily on strong ties (Granovetter, 1983) and their inability to access different social networks and organization is a key feature of their poverty (Verrest, 2007).

2.5.1 The good, the bad and the ugly of social capital

The good

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Social capital overcomes the limitations of a purely economic approach to development (Portes, 2000) and adds a crucial dimension to poverty alleviation (Knack, 2002). Collier states that it enables the poor to do and reach what they otherwise would not be able to (2002) and the World Bank has fully embraced its concept and offers an array of positive aspects: it replaces forms of formal or overt control (Narayan, 1999:8), it increases productivity (Grootaert, 2001), it reduces costs and generates higher returns for the poor (Ibid) and it is an important asset in their portfolio (Ibid).

The bad and the ugly
However such a basic definition of social capital fully ignores the complexities of it and runs the risk of not addressing complex structures which can impact its use and benefits. Fukuyama highlights that social capital can have an extremely negative impact for insiders due to its hierarchies and for outsiders as it can cause tensions between different communities/ethnicities (Fukuyama, 2002). Bordieu warns that it can lead to unequal treatment and outcomes for different members of a given social structure as certain hierarchies are always embedded in any social capital (Rankin, 2002). It is also naive to assume that social capital will always be used in a positive manner; it also lies at the core of mafia or terrorist groups (Putnam, 2001).

2.5.2 Social capital in relation to the previous theoretical concepts

Social capital and self-help groups
Self-help groups are based on social capital and apply it in horizontal and vertical relations of which each have their own dynamics. In horizontal relations members often share the same values and power status but they can cause "enjoy, jealousy, ineffective leadership (and the) pressure of different ethnic and religious identities" (Smets, 2004). Vertical relations involve members with different values and power statuses and there is usually a leader involved who influences the allocation of resources and solves conflicts (Ibid). But such leaders can turn into a problem when they become ‘self-serving bosses’ (Portes, 2000: 546) that try to maintain power and push their own agenda. Groups often involve unequal power relations (Smets, 2004) and free-riding can occur were less engaged members still receive the same benefits
Youth Entrepreneurial Groups and Support Mechanisms in Nairobi: Access and Needs

as other members (Portes, 1993). These problems are especially critical in self-help groups that deal with financial capital as those who contribute more or loan less might be disadvantaged. Unequal power relations that bias the allocation of credit, fraud in terms of bookkeeping and stealing, and the difficulty to sanction close family members or friends in case of default all negatively affect the stability and the outcomes of such groups (Johnson, 2007).

Social capital and entrepreneurship
Starting up and running a member-owned business often depends on the support of family and friends. However once such business prospers social capital might turn into excessive demands of employment and loans on the owner (Portes, 1993).

Social capital and the informal market
In the informal markets reputation serves as a form of social control (Smets, 2004) that assures people do not betray their trading partners. Trading depends strongly on trust and information individuals have about other trading partners. This can lead to the restriction of market entry to outsiders and new entrants (Collier, 2002; Fafchamps, 2001) and can thus maintain less profitable trading relationships. Furthermore such a reliance on referral means that connected agents make more profit and have advantages over those that lack crucial connections or weak ties (Fafchamps, 2001).

Social capital and financial services
Debt between friends or relatives can negatively affect their relationship (Dichter, 2007) and possible misuse of social capital in savings and credit groups have been outlined previously. What is far more pressing is the issue of the oversimplified use of social capital in microfinance’s solidarity groups which neither accounts for the power social capital has as a tool for control in financial institutions (Smets, 2004) nor does it consider the underlying power relations and hierarchies that might determine the use of the loans. Patriarchal hierarchies affect the use of loans and it is often the case that men control and manage loans rather than women (Klenk, 2004: 71). Starting their own business will also put a far higher workload on the women as it does not mean that they will be freed from their other responsibilities and chores (Rankin,
2001) and can increase the pressure on them to afford certain household expenditures (Mayoux, 2001: 453). It has to be taken into account that women do not just receive a higher social status by engaging in an IGA but that they need to understand the complexities which affect their status (Rankin, 2001).

In the case of default the negative use of social capital can have detrimental effects for the affected individual and can even cause the loss of their social capital, the only asset they have had. If a member fails to repay they run the risk of being marginalized by their group and their community (Harper, 2007) and losing important relationships (Karlan, 2007). Due to the commercialization of MFIs the pressure on group leaders and group members has increased to a level that violence, humiliation and threats are now a common practice (Huhne, 2007; Tipple, 2007). It has been reported that especially in India suicide rates amongst female lenders have increased (Blume, 2010) due to the humiliation and the losses they incurred in the case of default. Mayoux suggests that in order to assure a positive use of social capital by microfinance it has to be build further and increased (2001), but assessment on the impact of NGO attempts to build social capital in Kenya found that they were either negligible or even negative (Gugerty, 2002).

2.5. Conclusion

This theoretical framework has outlined and drawn on five theoretical concepts that are crucial to understanding the broader framework in which this thesis is based. Due to their specific focus on the micro level they all relate to each other (see figure 2.2). Social capital lies at the core of self-help groups, affects informal markets and entrepreneurship and is used by solidarity groups applied in microfinance. The concepts of informal markets, entrepreneurship and self-help groups will help to place the youth’s entrepreneurial and financial needs into context and micro finance will be crucial to understanding the financial support systems and access to them. Social capital is important for understanding the youth groups’ organization and the challenges they face, but also plays a role in their access of support mechanisms. All five are linked to the ideas of local capacity building and local self-reliance (Rankin, 2002) and fill the hole that occurs in the process of hollowing out the nation state, i.e.
in adopting neo-liberal approaches and are thus fully entrenched in neoliberal objectives.

Figure 2.2: Linking the theoretical framework
3 Research Design

„Qualitative research generally starts with the assumption that individuals have an active role in the construction of social reality and that research methods that can capture the process of social construction are required.“ (Boeije, 2010: 6)

3.1 Research Question and Sub-Questions

The main research question is defined as the following:

| How do youth entrepreneurial groups in Nairobi's informal settlements access formal support mechanisms to address their needs and how successful are these support mechanisms in addressing the needs of the youth? |

In order to answer the research question in a systematic and thorough way four sub questions were developed to guide the research process and data analysis:

1. What are the characteristics and specific needs of youth entrepreneurial groups?
2. Which kind of entrepreneurial and financial support mechanisms are available to the youth and what factors determine their access to and use of these?
3. How do these support mechanisms affect the needs of the youth?
4. How can a support mechanism designed by the youth themselves address their needs and how would such a structure compare to available support mechanisms?

3.2. Operationalization of key concepts

Youth

There are a variety of dimensions of the definition of youth, such as cultural (concept of adulthood), biological (stage of puberty), economic (ability to provide for oneself) and social (achievement of maturity or ability to get married) (Chigunta, et al, 2005). The most clear-cut and most used definition is the demographic one which differs amongst countries and amongst countries and international actors. Demographically
the Kenyan government considers anyone aged 15-35 years a youth (Ministry of Home Affairs, Heritage and Sports, 2007)\textsuperscript{14}.

\textit{Entrepreneurship}
As explained in the theoretical framework entrepreneurship denotes an individual engaging in a certain entrepreneurial activity. In this thesis entrepreneurship will be measured through the proxy of youth entrepreneurial groups.

\textit{Entrepreneur}
The concept of an entrepreneur has already been outlined in the theoretical framework, so this part will only focus of how it will be measured in this thesis. This thesis will not consider individual entrepreneurs but only look at entrepreneurs that are engaged in a youth entrepreneurial group.

\textit{Self-Help Groups}
Due to the nature of this research the concept of self-help groups will be used in the light of youth entrepreneurial groups. As explained in the theoretical framework these are the youth version of self-help groups that engage in some form of entrepreneurial activity through income generating activities (IGAs). These groups have different numbers of members from different age and ethnic groups and genders and usually enable their members to either engage in an IGA or to save and borrow money from the group. This thesis will look at youth groups in terms of the variables of their start-up, their IGA(s), their organizational structure and their financial organization as well as their challenges and needs.

\textit{Group Dynamics}
Group dynamics in this context include the organizational structure of a group, as well as the financial organization and income distribution. This thesis is concerned with the analysis of group dynamics in youth entrepreneurial groups, describing the characteristics of dynamics as well as challenges and needs that arise.

\textsuperscript{14} This thesis uses the official Kenyan definition of youth as aged 15-35.
Youth Entrepreneurial Groups and Support Mechanisms in Nairobi:
Access and Needs

Needs
Needs have to be defined and measured in order to answer the research question. First of all a clear distinction has to be drawn between different types and scopes of needs. The first differentiation is between the dimensions of needs which can be either personal or entrepreneurial. A clear cut has to be made between the two dimensions even though they are closely linked as personal needs are most likely to be the reason why youth engage in entrepreneurship in the first place. However if they are mingled together one cannot answer the question whether support mechanisms address the entrepreneurial needs. The second distinction is based on the variables – the type of needs which in this situation can be material, financial and, again entrepreneurial. These three types are by no means conclusive; however they are the ones relevant to this study.

In order to measure the different variables of needs one has to take into account the indicators for each one of them which is either the material, financial or entrepreneurial need required for the planning, production and/or distribution of the final product. For material these can be everything from raw commodities needed to create the final product or from certain goods that are needed to transport the final product to consumers. Financial needs can incorporate paying the rent for an office, paying for leasing a truck or looking for capital to buy new machinery. It will happen that financial and material needs are associated as satisfying material needs relies on financial capital. Entrepreneurial needs refer primarily to training needs such as mentorship, specific trainings and guidance, and the access to markets, distribution circles and networks. The differentiation between entrepreneurial and personal needs is rather simple. Personal needs will only include material and financial needs on an individual, family or household level whereas entrepreneurial needs will refer to all three dimensions outlined in the previous paragraph.

Support Mechanisms
Support mechanisms in this thesis incorporate three different dimensions: governmental, non-governmental and financial institutions. In order to measure them it will be assessed what they offer that is relevant to youth entrepreneurial groups in
Nairobi’s informal settlements, so variables can include training, credit, saving facilities or equipment for example.

**Access**
Conceptualizing access in this context involves two dimensions: The first one is descriptive by assessing how many youth entrepreneurial groups access or have tried to access which support mechanism. The second dimension is more explorative, looking at the reasons why youth entrepreneurial groups have either tried or not tried to access certain support mechanisms and what has determined their success or failure when trying to do so. In trying to understand the key reasons for success or failure, both support mechanisms and youth entrepreneurial groups will be analyzed to see where possible access problems lie. Inductive variables derived from literature and previous research are lending practices, availability and perceptions. Other deductive variables will be outlined in the data chapters.

**Availability**
Availability simply refers to whether support mechanisms that offer a certain form of support exist, i.e. whether they are available to youth groups.

**Perceptions**
The concept of perceptions includes two dimensions by looking at perceptions of both actors in this research – youth entrepreneurial groups and support mechanisms – trying to understand their perception in relation to each other. Perceptions can be measured through a variety of variables such as trust and distrust, experiences, knowledge, fear and dislike.

**Lending Practices**
Lending practices are measured in terms of rules and regulations different support mechanisms apply.

**Success**
Success in this research is meant to analyze whether support mechanisms managed to successfully address specific needs of youth entrepreneurs. It will do so by analyzing
experiences and outcomes from past interaction between youth entrepreneurs and support mechanisms and by assessing how and if needs were addressed by looking at challenges they face and the organizational and financial situation of the group after intervention from support mechanisms.

3.3. Ontological and Epistemological Stances and Theoretical Framework

Ontology is concerned with the “nature of reality itself” (Sumner, 2008: 55) and looks at “knowledge about the nature of being and reality” (Grbich, 2007: 2). This research will adopt a constructivist approach which includes that no universal objective reality exists (Ibid) but rather that meanings are socially constructed and change from individual to individual. Constructivism looks at how interactions change people and views reality through social relations which modify those who take part in these social relations. Research should focus on the way people give meaning to actions and experiences in their world and how events and situations have impacted on these. In this research the fact that a constructivist approach has been adopted can be seen by the focus on different factors and actors that play a role in youth entrepreneurs’ access to support mechanisms and by looking at the different levels on which these support mechanisms try to address needs, as well as assessing whether these needs are actually addressed.

Epistemology on the other hand aims at understanding the “nature of knowledge itself” (Sumner, 2008: 55), it basically asks how we know what we know of our reality and how we can actually know reality. The epistemological stance in this research will follow the approach of hermeneutics which claims that in order to gain knowledge, one has to place it in the context of the historical and social events and situations in which it was produced and that social life itself is produced through a variety of processes in which the individual constantly renegotiates their position. A hermeneutic approach tries to establish an account of participants’ social life by assessing the concepts they use (Summers, 2008) and putting oneself into a position where one tries to understand their social realities and the underlying assumptions of it. It is important to note that according to hermeneutics there is not truth behind an action or an event and truth is neither a final nor an absolute thing - rather than
establishing factual knowledge of the participant’s behavior one will only be able to gain an understanding of their social behavior. It is like “a dance in which the interpretations of the observer and the observed are repeatedly interwoven until sophisticated understanding is developed” (Ezzy, 2002: 25).

The theoretical framework is based on the approach of grounded theory, adopting the Strausian notion of it, which focuses on theory verification rather than Glaser’s pure focus on discovery which rejects the use of any theoretical orientation prior to research (Grbich, 2007). Grounded theory has an explorative nature where data is systematically generated and analyzed to develop a theory or an understanding. In grounded theory “data became centre-staged in reaching a theoretical description of a phenomenon and explaining it” (Boeije, 2010:8). But it is often the case that grounded theory findings do not produce theory but produce descriptions of certain social behavior and themes of particular groups of people (Ibid).

3.4. Methodology and Methods

By adopting a constructivist ontological stance and a hermeneutic epistemological approach a qualitative methodology is the inevitable option. When studying social sciences qualitative research is considered most useful by many theorists as it actually enables the researcher to gain an understanding of the complex interactions that are at the core of a certain social phenomenon, behaviors or events. Boeije legitimizes the use of qualitative research by claiming that it can offer exploration (can be changed according to new findings), description (can describe a variety of reasons), explanation (can lead to interpretation) and use (reflect participant’s opinions and
perspectives) (2010), which all appeal to this research design. Despite the ontological and epistemological stance adopted I will include a small element of Q² approach by using some quantitative methodology, however the hierarchy here is clearly QUAL → quan. Using Q² has been highly debated as some ask whether any additional knowledge can actually be gained from combining data from different methodologies and methods (Boeije, 2010) but according to Johnson a mixed methods approach should try to fit together the “insights provided by qualitative and quantitative research into a workable solution” (2007: 16).

This study can be considered as a case study as it is concerned with the case of youth groups that are working with an NGO and also because such an approach is relevant to gathering knowledge about contemporary groups and social phenomena (Yin, 2009). Quantitative and qualitative methods and analysis can both be applied and case studies draw on methodologies from all kinds of research methods (Ibid). Even though this research does not follow a purely ethnographical approach it is in line with the ethnographic belief that people construct their social world (Hammersley, 2002: 67) and research tools are needed that allow the researcher to gain a deep and thorough understanding of a specific group of people. The ethnographic methods applied in this research includes the deep involvement with the social setting the research takes place in, the observation of the behavior of the participants in that setting, the engagement in in-depth conversations through the interviewing of informants and a thorough understanding of the group’s behavior in the specific setting.

3.4.1. Semi-Structured Interviews

The most prominent method used are semi-structured interviews. There have been two rounds of interviews with the youth groups, one interview with each control group and one or more interviews with the different stakeholders from support mechanisms. I applied semi-structures interviews because I knew which topics I would like to discuss and which themes were important but I wanted to let the interviewees decide how much prominence they gave to which themes. Furthermore, specifically in this case and keeping the assumptions of hermeneutics in mind, each
interviewee has different matters of importance. Allowing for variations in the interviews meant that more detailed knowledge was gained on a variety of topics and by going into more detail and growing more confident when speaking, respondents also talked about more sensitive topics that they probably would not have done otherwise. Table 3.1 shows the number of interviews conducted in total and a full list of all interviews can be found in the appendix. All interviews were conducted in English.

Table 3.1: Number of Interviews

<table>
<thead>
<tr>
<th>Interview Subject</th>
<th>Number of Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth Entrepreneurial Groups Year 1</td>
<td>14</td>
</tr>
<tr>
<td>Youth Entrepreneurial Groups Years 2 and 3</td>
<td>12</td>
</tr>
<tr>
<td>Youth Entrepreneurial Groups Partner Stage</td>
<td>11</td>
</tr>
<tr>
<td>Control Group</td>
<td>3</td>
</tr>
<tr>
<td>Stakeholders NGO</td>
<td>4</td>
</tr>
<tr>
<td>Formal Financial Services</td>
<td>5</td>
</tr>
<tr>
<td>Other (consultants etc)</td>
<td>4</td>
</tr>
</tbody>
</table>

3.4.2 Workshops

Following the first round of interviews with the youth groups I conducted four similar workshops with two representatives from each youth group (in total four or five groups per workshop). Through the purpose and nature of these workshops I included some elements of action research into my study, which involves the identification of a problem and the aim to try and resolve the problem in collaboration with participants (van Dijk, 2009). All workshops were held with youth groups that were divided into sub-groups based on the findings from the previous interviews (see table 5). During the workshops the groups were asked to discuss the usefulness of vignettes of four different options\textsuperscript{15} of financial services. Then based on the findings from the discussion, groups were asked to design their own support mechanism in collaboration with all participants. The following criteria were discussed:

- Membership

\textsuperscript{15} The vignettes used have been included in the appendix.
Youth Entrepreneurial Groups and Support Mechanisms in Nairobi: Access and Needs

- Savings
- Collateral
- Requirements for receiving a loan
- Order of loans
- Loan Amount
- Interest Rate
- Repayment Period
- Grace Period
- Trainings
- Dealing with Default
- Organizational Structure

The aim of these workshops was to find out how the youth themselves would design their own support mechanism to address their needs. Such a support mechanism could then be compared against existing ones to assess differences between services. In order to avoid the negative impact of hierarchical structures within the groups all four services were re-evaluated with each group in the second round of interviews where groups were asked to discuss and debate the advantages and disadvantages of the services and each individual was to make their own choice between the four options for each of the different criteria.

Table 3.2: Participants of Workshops

<table>
<thead>
<tr>
<th>Workshop Subject</th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Groups that operate like companies or combine IGAs and lending, 2nd year to partner stage</td>
<td>4 groups</td>
</tr>
<tr>
<td>Groups that operate like an NGO</td>
<td>4 groups</td>
</tr>
<tr>
<td>Groups that operate like a mixture between a company and an NGO</td>
<td>4 groups</td>
</tr>
<tr>
<td>Groups that operate like a company or combine IGAs and lending, 1st year</td>
<td>4 groups</td>
</tr>
</tbody>
</table>

3.4.3: Survey

A basic survey\textsuperscript{16} was applied to double-check the findings from the workshops. This survey was handed out amongst all groups that participated in the workshop and each

\textsuperscript{16} A sample survey has been included in the appendix.

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member of each group filled one in anonymously. A total of 184 surveys were collected.

3.5 Unit of Analysis and Sampling

This thesis incorporates two units of analysis and thus has two different sets of respondents: youth entrepreneurial groups in Nairobi’s informal settlements that work with YIKE and support mechanisms that work with youth entrepreneurs. 19 youth entrepreneurial groups were chosen as well as three control groups that do not work with YIKE but live in the same conditions as the other groups. The support mechanisms consisted of the government, five financial institutions and three stakeholders from one NGO and one NGO/government/bank run program working with youth.

For the youth entrepreneurial groups the technique of stratified random sampling was used in order to assure that different youth groups from different stages were incorporated. The advantage of such a sampling method in this case is that it enables equal representation of all target groups (Nichols, 1995) and therefore gives equal weight to the different YIKE stages. As it was the beginning of the year when this research was carried out the first year groups had just begun to work with YIKE. I decided to choose six groups from each of three sub-groups as can be seen in table 3. The reason why I clustered groups of the second and third year into one is because trainings are very similar at this point. A seventh group was added through non-random sampling to the sample taken from partner groups because this group was known to be extremely advanced. In order to assure true random sampling of the other groups their names were written down on a list and blindly picked.

Table 3.3: Sampling frame

<table>
<thead>
<tr>
<th>Sub-Group</th>
<th>Number of groups chosen</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Year Groups</td>
<td>6</td>
</tr>
<tr>
<td>Second and Third Year Groups</td>
<td>6</td>
</tr>
<tr>
<td>Partner Groups</td>
<td>7</td>
</tr>
</tbody>
</table>

For the sampling of the control group non-random snowball/chain sampling was applied due to access problems that would have occurred otherwise. I asked the youth
groups that I worked with to introduce me to other youth groups. A form of snowball/chain sampling was also applied for the support mechanisms as I learned which support mechanisms exist through the course of the research.

3.6 Data Analysis

In the light of the ontological and epistemological stances and the theoretical framework a qualitative data analysis approach has been used by engaging in two coding cycles that will lead to an interpretation of the data. However in a few cases some of the raw findings and the survey have been analyzed in a quantitative way, which has been considered as beneficial to the quality of the research. The coding process was based on grounded theory and the first cycle coding method applied was initial coding followed by axial coding as second cycle coding method. Within the coding process the findings of the participating youth groups were compared against the findings the analysis of the control group data generated in order to achieve validity.

Initial coding as a first cycle coding method divides large data sets into smaller data segments which are examined and compared for similarities and differences amongst each other. Its goal is to “remain open to all possible theoretical directions indicated by your readings of the data” (Charmaz in Saldana, 2009: 81) and it is meant to guide the researcher into the right direction for further coding. It can vary between being descriptive, conceptual or theoretically focused- depending on the personal experience, the data available and what can be observed and drawn from the raw data (Saldana, 2009). In this research it seems most applicable because rather than being focused on merely one theory the research drew on five different debates and was of an explorative nature, guided by the process of the research itself. Initial coding paves the way for the second cycle method of axial coding where the most frequent codes drawn from the initial coding cycle are used to see which of them make the most analytical sense and should be worked with further. It relates categories to sub-categories and explores the conditions, causes and consequences of a particular process or setting through which the research can understand “if, when, how and why something happens” (Saldana, 2009: 159).
Types of phenomena that were coded were **activities**, **meanings** in terms of significance and meaning given to certain situations and events, **participation** as in involvement in a certain situation, **relationships and interactions** and **conditions or constraints**.

### 3.7 Limitations, challenges and ethical considerations

Despite the potential of case studies there are certain challenges that need to be addressed and overcome due to the specificity of such studies. These include the issues of internal and external validity (Yin, 2009). Schofield suggests that external validity in the traditional sense of generalization of findings is impossible in social science (2002). In order to generate external validity in social science one has to offer a transparent and clear account of the theoretical stance and research techniques applied and give a detailed description of the units of analysis, concepts generated, characteristics of the population and the setting (Ibid). Internal validity considers whether explanations found in the research are valid and Yin advises to do so by looking for coherent patterns during the analysis stage that support explanation building (2009). Another way of creating validity is the use of control groups that match the characteristics of the participants. These different methods have all been applied in this research.

Reliability refers to the degree of consistency of findings within the research (Silverman, 2007). One way of doing so is triangulation where findings are tested through different ways using the same participants, for example by mixing methods. Despite arguments over its effectiveness Patton argues that the use of triangulation is to test consistency rather than wanting it to lead to similar results because flaws in the consistency invite the researcher to find out about the reasons for these flaws and can be of advantage (Patton in Boeije, 2010). Triangulation has been applied in this research by using a survey to double-check findings from the workshops anonymously. The two sets of findings differ but rather than dismissing the research on the grounds of low reliability I have used these differences to aid understanding some problems and they have been included in the last data analysis chapter.
Additionally, a number of interviews were held in which experiences described by different groups lead back to similar foundations.

Another, important methodological issue that is prone to qualitative research and case studies is the research bias concerned with the role of the researcher (Yin, 2009). During the data collection stage it can have implications on participants’ answers due to my appearance as a white and female student. This might have affected the youths’ willingness to work with me but also the findings in some cases as they might have been more eager to say many positive things which they believed I wanted to hear. Therefore I filtered out biased responses by leading long discussions and interviews with the youth through the course of which their attitude and the topics usually changed and became more in-depth. In the analysis stage the research bias is especially applicable in a hermeneutic approach where the researcher has to try to put himself in the shoes of the researched to aim at understanding how they make sense of the world (Ezzy, 2002). Simply ignoring the role of the researcher is no solution, but one has to reflect on the impact of one self’s role on the research and to include where one might have made an impact on the study or put a bias on it through own interpretation. I did so by leaving my data for a while and then when transcribing it thinking about the different situations and checking which data was fully useful and which was obviously too strongly impacted by researcher bias. During the process of analysis and writing I checked my own sentiments towards the data and leveled them out. Another way of dealing with researcher bias is to include it in the findings to see what can be learned from it which was done in chapter 6.

One last methodological constraint might arise in the use of a quantitative survey in a constructivist hermeneutic study which are opposing methodologies. Critics of the application of different methods argue that it can lead to unclear results; whereas Boeije claims that it can be of great benefit to the study as long as the study in itself remains consistent (2010). In this particular case I feel that the use of surveys has aided the study as it paved the way for new insights. The survey was applied to see if certain findings will be consistent without the influence of the researcher and by findings different findings a negative impact of researcher bias in certain aspects has been found that can now be included in the findings and accounted for.
The last concerns are of an ethic nature. One links to the categorization of people which is inevitable in social science research. It comes with certain problems as classifying people automatically assumes that people in the same category will have the same experiences, needs and will share a similar understanding of these experiences (Ezzy, 2007). There is not much that can be done about the issue of categorizing apart from acknowledging the implications of it and assuring that when referring to people in categories one always keeps in mind that these categories by no means imply a set of shared characteristics but need to be seen as fluid entities that evolve over time and include a number of extremely different individuals that have only one characteristic in common. Secondly the issue of hopes and expectations created by this research arises. In order to avoid these I thoroughly explained what I will be doing and was open about my work from the start and even asked YIKE staff to reinforce my position and explain what I do.
4 Setting the Scene

The first of three data analysis chapters aims to answer the first sub-question and thus looks at the characteristics and needs of youth entrepreneurial groups, trying to understand their motivations for engaging in such groups and challenges they face regarding their start-up, their IGAs, their organizational and financial structure and financial services they offer. It thus links to the overarching concepts of youth entrepreneurial groups and personal and entrepreneurial needs. The chapter will start by outlining the personal needs that serve as a motivation to engage in youth entrepreneurship. It will then continue by explaining how the youth groups were formed. After it will display the various IGAs groups engage in, their organizational and financial structure and lastly financial services they offer within groups, as well as challenges and needs arising in all of these.

4.1 Motivations

Motivations to join or form a youth group lie mainly in the sphere of economic empowerment and, in a few cases, outreach to the community to solve environmental and social issues. Most of the youth that were asked about why they got involved in a youth group and what their vision for the members of the group is, rated employment as one of the key issues. As one group said: “We want to find jobs for us because that is a big challenge in Kenya. There is no employment” (Interview 16) and another group explained how the youth in Nairobi’s informal settlements suffer from exclusion from the formal job market (Interview 4). Before joining groups, the majority of the youth made a living as hawkers and survived on day-to-day jobs that only generated little income, some even engaged in illegal activities. Those youth that were trained in a specific profession were either unable to carry them out or did so on their own which entailed financial struggle. The youths’ lives are affected by dire living conditions, poverty and inability to sustain families, social issues such as HIV and drug and alcohol abuse, environmental issues that cause illnesses and high crime rates. Thus groups have been concerned with either purely empowering the youth economically by offering IGAs and facilitating a loan scheme, offering youth a
chance to collaborate in a specific profession or as a tool to reach out to the community and “be part of the solution” (Interview 5). Many groups combine community outreach and empowerment by asking “what can we do for this community and at the same time how can we sustain ourselves” (Interview 1). Hence the groups have a variety of missions of which a few are listed below:

“…to be self-sufficient and generate employment for all members.” (Interview 17)

“The main aim is number one to sustain the organization. Secondly to enable young people to earn income from these activities so they engage actively in those areas.” (Interview 1)

“The goal is to bring it up from an informal thing to a formal thing. … we will be creating employment.” (Interview 16)

“The goal of the group is to grow to finance a better future for our families and us.” (Interview 20)

“We are not a non-profit organization; we are here to make money” (Interview 14)

“The first purpose of the group is to serve the community but we also have to make a living out of it” (Interview 7)

“That you get paid regularly and get a salary” (Interview 3)

Looking at these different motivations at group and individual level, three clusters of groups appear that have been outlined in more detail in textbox 4.1: NGOs, companies and IGA/financial service groups. Only three groups engage strictly in one IGA and fall into the second cluster and only three groups operate purely like NGOs. Most other groups are in the second cluster by offering different IGAs and a financial service. Apart from that most youth groups do involve some form of community outreach in different ways by focusing on the community as a whole or specific target groups such as youth, children or women. Such motivations are similar for the groups that were interviewed in this research as part of the unit of analysis and those that were interviewed as a control group.
4.2 The start-up phase

The start-up of each group is always unique and strongly depends on the group cluster. Groups in the first cluster (NGOs) often evolved as a response to a particular problem that different youth that knew each other decided to work on. Third cluster groups (IGA/financial service) were mostly formed by a number of youth from the same community that were friends coming together to change their current situation. These groups were often inspired by other youth groups in their community or surrounding areas and on many occasions copied successful IGAs of other youth groups, in a few cases these youth also came together to work on a specific problem in their community. Those groups that are in the second cluster and operate as companies usually evolved through different youth knowing each other because they all engaged in a specific activity. Other than the previous two clusters the youth did not have to be close friends before but established a relationship due to their engagement in the same profession. Despite the reduced importance of previous friendship, locality still matters as members would have not gotten to know each other otherwise.

There are many obstacles that groups have to overcome when starting up. The first and primary one is the lack of financial credit as they do not only need to buy basic equipment for their IGA but also need to register as a youth group with the Ministry of sports and cultural affairs. Groups either solved it by collecting member donations, receiving donations and small loans from friends and relatives or by using income

Textbox 4.1 Group clusters

Cluster 1: *NGOs* – groups that do not focus on an IGA but engage in an (entrepreneurial) activity that reaches out to the community. These groups do not receive any income from their activity.

Cluster 2: *Companies* – groups that operate like companies and focus on one specific (and often higher skilled) economic activity where they employ all members. In order to carry out the specific IGA the members will have had some form of training.

Cluster 3: *IGA/financial service* – groups that employ their members on a part-time basis through engaging in a number of IGAs that often require little or no previous skills and trainings. Additionally these groups offer a financial service, either in terms of a loan scheme or a basic ROSCA or ASCA, to support their members.
from the first basic carrying out of an IGA. Asking members to contribute money turned into an often quoted problem that led to disagreements and caused many of the members to leave the group as they were hoping to gain fast income from it rather than having to pay to be part of it. Furthermore many members did not agree with using income from IGAs for reinvestment as they expected a quick pay-off from their engagement in the group. Other problems that occurred at the groups’ inception were the clash of different interests and organizational problems that led to flaws in transparency, commitment of individual members and was linked to issues of trust. One group stated how they were 100 members at the beginning but faced so many challenges that the initial group collapsed so that they had to restart with a smaller number of members. Reasons for the collapse were mainly the issue of trust, the start-up capital and the absence of any form of organization. They described how in the beginning members simply stole from the group and were too unreliable so that they would not carry out their assigned tasks. Furthermore, groups in the third and first cluster often struggle with their IGAs as they have no prior experience in them.

From the experiences the groups described it seems easier if the number of members at the beginning is small and if expectations, requirements and a basic set of rules and regulations are outlined from the start in order to avoid disappointment and dropping on a large scale. Group management, cohesion, conflict management and leadership become important to assure that groups do not fall apart because of bad leadership and management and bookkeeping and financial management assure transparency and an overview over finances that make it easier for the group to assess income and expenses. Innovation is also an issue because only few groups have truly original ideas and thus most compete with already existing groups that operate in a specific IGA. In order to allow for the carrying out of the IGA certain entrepreneurial skills have to be achieved and a number of material needs have to be satisfied.

4.3 The core of each group: Income Generating Activities

During the start-up phase groups usually identify the first form of economic activity they engage in and soon after might start focusing on a variety of IGAs. Clusters do determine what form of IGAs groups engage in. Skills intensive IGAs such as
performing arts or producing music instruments and some forms of production of ornaments and souvenirs are carried out by groups that operate as companies. All other IGAs apart from health services that are carried out by NGOs, have lower entry barriers in terms of skills and are carried out mainly by groups that combine IGAs and financial services. The type of IGA also determines the market these groups are likely to aim at operating in. Whereas certain IGAs such as performing arts and products such as music instruments, clothes or ornaments and souvenirs are suitable to target the local, domestic and global market, other IGAs operate best in the local market due to the nature of work. Table 4.1 shows which IGAs groups engage in and all of these will be described in table 4.2. The list is by no means conclusive but shows IGAs relevant to this research. The IGAs were grouped into clusters of different IGAs that link and are often closely related. As the table shows, many groups engage in a variety of IGAs rather than purely focusing on one which is in line with the distinction amongst different types of groups outlined in the previous chapter. Such a differentiation makes distinguishing between groups on the basis of their IGAs difficult as many draw on activities from several clusters.

Table 4.1. Income generating activities

<table>
<thead>
<tr>
<th>IGA</th>
<th>Groups Engaged In It</th>
<th>Groups Wanting To Engage In It</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garbage collection</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Recycling</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Water points</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Providing sanitation services</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Production and Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Music Instruments</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Ornaments and Souvenirs</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Clothes production and/or trade</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Selling products</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Social Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Services</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Arts and Entertainment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performing arts</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Sports</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>DSTV Stations</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>
Table 4.2 Descriptions of IGAs

<table>
<thead>
<tr>
<th><strong>Others</strong></th>
<th>1</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hairdressing/Beauty products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet and Computer Services</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Renting out halls</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Renting out flats/houses</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Renting out equipment</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Funeral transport</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Food and beverages</strong></th>
<th>3</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Livestock</td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

**Environmental Services:** (targeted at local market)

**Garbage collection** as an IGA is extremely straightforward. Youth groups collect trash from households in a specific area once or twice per week. They do so by handing out plastic or paper bags to these households and collecting them later. Money collection is usually done once per month and prices vary from area to area but can be as low as 25KSH per plot until up to 150KSH. Groups that engage in garbage collection usually also provide community clean-ups free of charge and with the help of their community.

**Recycling** is an extremely profitable business but the machinery is costly. Most groups that engage in garbage collection also engage in basic recycling by sorting out plastics and scrap metals from the trash and selling them on to recycling plants. In the previous table only one group is noted down as engaging in recycling. This has been done because this IGA is meant to represent more advanced forms of recycling. This one group has a shredder which can cut plastics down into small pieces that are then being sold on for further production at a higher price rather than selling the plastic as a whole. This group even buys plastic from other groups to shred it.

**Water points** are points where community members can fetch water. In order to start one the groups need a large tank and a safe place to store. Water usually goes for around 2KSH per 20litres.

Providing **Sanitation Services** refers to providing clean toilets and showers to plots where people pay roughly 5 KSH per visit.

**Production and Sales:** (partly targeted at local (clothes and products), partly targeted at local, domestic and global market (music instruments, ornaments and souvenirs))

**Music instruments** refer to the production, distribution and export of any kind of
Youth Entrepreneurial Groups and Support Mechanisms in Nairobi: 
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<table>
<thead>
<tr>
<th>Musical instruments.</th>
</tr>
</thead>
</table>

**Ornaments and souvenirs** incorporate any form of souvenir or ornament produced and distributed by a group. Some groups do this IGA on the side whereas one group is at a more advanced stage of ornament production and has build a whole company around it, using different machines.

**Clothes production and/or trade** are done in different forms by a number of groups. Some groups produce their own clothes such as African traditional dresses and sell them from their workshops whereas other groups simply engage in dealing with second hand clothes that they sell via a stall or a shop.

**Selling products** in this instance refers mainly to hawking, which a lot of members of groups do as their additional IGA. However a few groups have also begun to produce and distribute their own products, such as soap for example.

**Social Services:** (targeted at local market)

**Health Services** refer to two different kinds of health services. One group engages in health services by caring for HIV positive patients in their community whereas another group does so by treating patients with minor complaints such as a cold and selling medicine. Both forms of health services are currently not income generating.

**Education** is a “ghetto school” for children (Interview 2). The school is run by voluntary teachers and pupils only pay a minimal school fee according to what their parents can afford.

**Arts and Entertainment:** (partly targeted at local (DSTV) and partly targeted at local, domestic and global market (sports and performing arts))

**Performing arts** refer to acrobatic performances, puppetry, music, dance and theatre shows. Some of these are income generating whereas others are primarily for community outreach and do not directly generate income but are funded by NGOs.

**Sports** refers to football. One group engages in professional football where the team currently plays in the second official Kenyan league.

**DSTV Stations** are outlets where people can watch important sports events such as the Champions League after paying a small fee.

**Others:** (targeted at local market)

**Hairdressing/ Beauty products** means providing such services to members of the community via a workshop.
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Internet and Computer services includes all kinds of IT services that groups offer to their members and their community.

Renting out halls is something many groups engage in by simply renting out their office and meeting halls for parties and the like. The most common to use this service are churches to hold their weekly assemblies which can pay up to 1,500KSh a month.

Renting out flats/houses in this sense is rather basic. The group ‘owns’ a number of basic sheds that they rent out. The groups planning to engage in this IGA want to do so by building concrete multistory buildings that they rent out to members of their community.

Renting out equipment refers to all sorts of equipment such as tents and chairs or public speaking systems and small stages.

Funeral transport includes buying and adapting a matatu so that corpses can be transported.

Food and beverages: (targeted at local market)

Food and beverages can either refer to restaurants run by the groups or catering done by them. When talking of a restaurant this means a shed where basic meals such as chapati, rice or ugali with sukuma or beans and meat, poultry or fish stew are served.

Agriculture in this sense cannot be understood as agriculture as we see it. It is usually restrained to small flowerpots in nylon bags where certain plants, mainly sukuma, are grown. However the group planning to engage in agriculture actually has a plot of land that they want to use.

Livestock includes either rearing or trading livestock and in these cases focuses on poultry, pigs and goats – thus smaller animals.

Income

The income groups receive is strongly affected by seasonality that creates fluctuating income and general low levels of income. These problems vary amongst different IGAs and also amongst clusters. Certain IGAs, especially those in arts and entertainment and production and sales of music instruments and ornaments and souvenirs have highly fluctuating incomes as the sales depend on certain seasons. Virtually all IGAs, apart from music instruments and some performing arts generate low income and include many transactions, whereas the previous ones have fewer transactions but higher income per transaction. In terms of income those groups in
cluster 1 face the highest challenge as they often do not have IGAs and thus do not generate income which means they cannot sustain their members and their organization independently but depend on outside grants for equipment and finance. Groups in cluster 2 would be able to receive higher income as their activities are targeted at a larger customer base, however due to their lack of access and the nature of their IGA they suffer from limited access to larger markets and fluctuating income due to seasonality. Those groups in cluster 3 suffer from low income as most of their activities are low skilled and focus merely on the local informal sector. An issue that keeps the income of most groups in cluster 3 at a low level is fierce competition as their businesses are often not innovative and in some cases they lack equipment, experience and customer base adult entrepreneurs have. Only in some cases, innovation does not matter that much because there is enough capability in the local sector for a variety of groups to engage in similar activities or because the area is known for a certain products so the groups are sure to find a market. One group for example operates a beauty salon in an area with three other beauty salons run by adults. Their competitors do not only have more experience but also have an existing customer base which makes it hard for the youth-run beauty salon to attract customers. On the other hand, another group is planning to start a pig farm even though there are plenty of pig farms in their area. Due to the reputation of their area as one where most pig farming occurs they already have connections with local slaughterhouses and will not be disadvantaged by local competition as there is enough need for pigs.

Consequently the fluctuation of income severely affects the sustainability of groups and the stagnating low levels of income have left groups unable to pay and sustain their members. “At the moment the members can survive. What we have been doing for the last 14 years is survival. (…) what we get sometimes is hand to mouth and you don’t know when you’ll get the next coin” (Interview 3). A further issue that arises from the low levels of income is that general and IGA related expenses can be met but virtually all groups struggle to afford for emergencies or sudden expenses such as repair. During the post-election violence stock and IGAs were destroyed and groups did not have the financial capital to rebuild these, in other cases the groups faced extreme difficulties when having to pay for repairing expensive machinery.

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MSc International Development Studies, University of Amsterdam
Solutions for the different challenges depend strongly on IGA and also cluster. NGOs will only be able to generate income if they either also engage in IGAs or if they manage to receive continuous funding. For groups that operate as companies or those who produce products suitable for the international market or who depend on seasons, targeting the international and domestic market would be able to maintain sales on an even level and increase prices as customers outside the local economy are able to pay higher prices. In order to do so the groups require knowledge of different markets and membership to networks. Furthermore all groups would benefit from an easier access to formal markets in terms of their own registration as being informal limits them from carrying out larger transactions and also creates certain perceptions. Becoming formal increases the size of customers even for those IGAs which have to be carried out in a close locality, as many informal settlements are situated to formal estates. On the other hand it also carries long registration procedures, taxation and subjection to financial regulation with it which many groups have no capacities for yet. Innovation is especially important for groups in the third cluster as these are often not formed by youth experienced in a specific profession but rather by copying other IGAs. Thus these youth need to be supported in advancing their IGAs into offering original and new products and ideas and marketing these sufficiently. Training in marketing would enable the youth to successfully present their products on a broader scale. Additionally one should consider the potential of offering insurance to these groups which secures them again sudden costs and emergencies.

**Future plans**

In order to expand all groups have a future plan that depends on their IGA, their stage and their cluster. If the group falls into the cluster of companies the future plan will depend on the IGAs the group currently has and their aim is usually to expand the existing production, tap international markets for larger export chances and to increase distribution and sales through appearance and marketing. When focusing on IGAs and financial services most groups try to increase existing IGAs but mainly focus on developing new and bigger ones that will bring more income. NGOs aim at starting any form of IGA that will enable them to generate any income. When trying to turn their future plans into reality groups usually face severe financial constraints.
due to the lack of financial capital, as well as the lack of knowledge and training when taking up a different industry. Applying for loans requires knowledge of proposal writing and the ability to carry out risk-assessments as well as sound financial management skills to assure adequate use of the loan. Their answers to critical questions regarding repayment and default show that youth they not thought their projects through and often do not include risk assessments which can lead to default. As an MFI consultant puts it that “youth often do not have the right training, hence they need more monitoring and training alongside of taking out the loan“ (Interview 43). Marketing becomes another issue, as they do not know how to promote and broadcast their new product. One group for example received a loan and bought a public address system with it in order to rent it out. However due to an inappropriate and non-innovative marketing strategy they have not made any sales yet. The more advanced a group is the more specific is the needed training and thus many groups require mentorship from experts in their specific field, especially in the case of those groups that specialize in one economic activity. Such experts and mentors could also serve as middlemen between the groups and potential buyers.

4.4 Organizational Structure

Despite their informality the youth groups feature elaborate organizational structures that are developed after the initial start-up phase. It is exactly these organizational structure and the dynamics that differentiate entrepreneurial youth groups from individual youth entrepreneurs who work on their own and do not need elaborate decision making procedures and organizational structures. Key positions are chairman (and vice chairman), secretary and a treasurer or accountant. Adding to these are various positions such as an organizing secretary, board of directors, directors for different departments and in cases where a financial service of any kind is involved they usually also feature a loan officer. Annual or bi-annual elections are in place where all positions of responsibility are up for (re-)election. Despite the use of a chairman and certain personnel that is in charge, decision making is done by the whole group in all cases and a high focus is placed on equal decision making power where all members vote on decision. Apart from organizational schemes and rules and
regulations trust essential in order for groups to function and to survive – “trust is the most important” (Interview 17).

There are issues that can negatively affect the groups and these are caused by a variety of reasons and often relate to the advancement of the group. They involve hierarchical structures caused by age differences or power relations and the lack of transparency. Whilst most groups operate on a horizontal hierarchy, unequal power relations in terms of leadership and hierarchies based on age can cause vertical hierarchies. These can create a platform for conflict and negatively affect a group in terms of income distribution, decision making power and can bring a halt to positive change and new ideas. None of the groups mentioned problems relating to age hierarchies and only few groups pointed out issues in regard to group leadership based on unequal power relations, but when observing the interaction amongst group members there were cases where such problems appeared. Those in charge did not only answer most of the questions but also managed the group discussions and asked members when it was obvious that I wanted more opinions on a topic. In those cases it seemed that other members were waiting to be appointed to speak. Transparency is mainly concerned with recordkeeping and bookkeeping and assures that no funds are stolen from the groups as a whole, and individual members, but also gives members the security that benefits are equally distributed. A lack of transparency can lead to corruption and money stealing, so that groups come close to falling apart due to the high levels of internal conflict. In groups where different departments are used, a potential concern of inequality exists in case one department starts earning more money than another one; however most groups that apply the use of different departments feel positive about this issue and show little or no concern.

Thus it is important to assure that leaders and members know how to deal and settle conflict and that a flow of information is maintained that enables all members to participate equally. Furthermore transparency needs to be achieved by sufficient record- and bookkeeping that is accessible to all members of the group so that they all know the group’s current state. Hence leadership and group management and conflict training, as well as skills in record and bookkeeping are crucial to the survival of a group based on equal decision making power.
The number of members varies from group to group and can be anything between five and 200 but in most cases is between ten and 20 members. What all members have in common is that they are part of the community the group is situated in. Age average differs between 18 and 35 years even though a few groups have the odd members that is older or younger than that. There are different criteria and processes that groups adopt when accepting new members and these are not related to clusters or IGAs. At the start-up groups do not yet apply such procedures but when they organize themselves and advance as a group they adopt methods such as annual recruitment drives where they accept applications for a predetermined number of new members or accept members on an ad hoc basis where interested individuals can simply come and apply. However this is not to say that the acceptance process is a simple one, groups thoroughly observe the behavior of new members before accepting them. As one group put it in a rather blunt way: “not just every nigger walking around can be a member. We have to know the person. We all know each other from the community. So we wouldn’t take somebody who just moved here but somebody we can trust” (Interview 18). Despite the strong words used this quote outlines the importance groups place on selecting their members and how long they have known new members. In order to become a member those interested have to show commitment to the group for a long time prior to acceptance into the group and need to participate in public group actions and support the group in any way they can without being a member. In other instances they are asked to work with the group for some time before it is decided whether they gain membership status (Interview 13). A central factor always seems to be membership of the specific community, virtually all groups point this characteristic out. Once new members have been accepted they usually need to pay a registration fee of an amount that differs from group to group and can be as high as a 1000KSH (Interview 1) or as low as 50KSh (Interview 20). The average is around 350 or 500 KSh.

An issue that can threaten sustainability of a group is members gaining formal outside employment. It is hard to generalize how many members are needed to keep an IGA running and which groups would be affected the most. Most groups do not sustain their members and thus it is normal for members to have outside employment. Such
employment though is mostly informal and does not interfere with the group work. The more educated a member, the more likely they are to gain formal employment and when doing so they will face higher time constraints, reducing their ability to participate in group work. As NGOs are not able to pay their members it is more likely for them that members search for outside employment, however their members are highly committed to their work. If the group operates as an IGA/financial service it is less likely to fall apart as long as there is a core of members that is able to maintain the IGA as otherwise the IGAs of the group will collapse. It is mainly members from this cluster that aspire and gain formal employment. If a company loses members to outside employment it is more detrimental for them as they employ their members on a full time basis and rely on that person’s skills. Those who work in groups that operate in companies are also more focused on bringing their group up to a formal company that can sustain them rather than looking for outside employment. Out of the 19 groups, members of 16 of them have informal employment next to the group and only in three, those that operate like a company and fully employ their members, are members not employed on the side.

4.5 Financial Organization

Income distribution depends on the organizational structure of the group. In some groups where each member has the same amount of work all members earn exactly the same and income is equally shared after expenses and savings are deducted. In other cases income is divided per department where only the members of each department receive the income after paying the expenses and usually a share of it goes into the group’s savings account. Another case is where members are paid according to the activities they are doing, for example when they engaged in garbage collection the group will automatically pay them a certain amount. In one group that engages in garbage collection a completely different process of income distribution was adopted: each member has the same size of a plot with different numbers of households and each member receives the income generated from his or her plot. Those members that are now joining the group must find other IGAs within the group as the plots have already been divided. Such a form of income distribution seems rather unfair when regarding new members as it is an unequal allocation of resources and disadvantages
them by not being able to benefit fully. In order to avoid such income distribution or inequalities in the distribution of the income in general financial transparency has to be achieved by open bookkeeping and accounts that every member can check. Also the way the income is divided should be voted on by all members and should be adapted when large changes within the group occur to be congruent with new dynamics. Thus a fair income distribution requires sound group management and leadership as well as financial transparency in terms of record- and bookkeeping.

In order to make investments, pay for emergencies or run financial schemes groups have to save which is not always a peaceful process. In a number of groups conflict around the size and use of savings occurred where several members did not support the idea of savings but rated its importance as negligible and wanted the income to be distributed amongst all members without deducting savings. There are a variety of ways these groups save. Some save for the group, some save for the members. In some the members pay a weekly contribution, in others some of the income from the IGAs is automatically taken to savings. Contributions vary but usually add up to around 100KSH a month per member. The use of savings differs from group to group. When it is for the members it is used wholly for the financial schemes or the slightly unofficial emergency help outlined below. Otherwise it is either used to cover emergencies within the group’s IGAs, high costs that are out of the usual, or it is saved in order to invest into future plans or new projects.

A key question is whether the groups do actually save. When being told that the groups all claim to engage in some form of savings one member of YIKE stated:

“For me the surprising thing is that the groups say that they save. For us, when we ask them about their savings they usually say that they have zero savings. So for me I was a little bit surprised because did they tell you this because you wanted to hear this and they wanted to seem sophisticated or is it actually the truth.”

(Interview 44)

It is not entirely sure whether these groups save as I could only see a few statements, other groups did not want to disclose this information. Some groups, especially those that function as NGOs, do not have the income capacity to save, others might not be
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aware of its importance. In order to engage in the crucial activity of savings groups need to be encouraged to do so by understanding the importance of budgeting and adapting sound and forward-looking financial management rather than planning on a short-term hand-to-mouth basis. To save successfully groups need to have learnt record- and bookkeeping to maintain transparency and need to have a well-functioning leadership and checks and balances to avoid misuse of savings.

Intergroup financial services

Most groups in cluster 2 offer an inter group financial scheme and the three main forms are a) ROSCAs/merry-go-rounds, b) ASCAs/loan schemes or c) financial support mechanisms. Merry-go rounds or ROSCAs in the traditional form are adopted by one group and planned to be introduced by another. Loan schemes take a variety of forms. One group has adopted the traditional Grameen approach where members have to form sub-groups of five and after saving a 1.000 KSh receive loans at 10% interest on the basis of social collateral and after the other members of the sub-group have started repaying. Three other groups offer more basic loan schemes where members can take out a loan from the group if they have been saving regularly and in one case have three guarantors that are also members of the group. These loans are available for emergencies and all sorts of personal investments the lender plans to undertake. One group currently has a support scheme in place where they pay school fees for one child of each member. Other groups, who do not officially have a loan scheme, often support their members through unofficial financial support from the group’s savings in terms of emergency such as illness or sudden death of a family member.

The loans groups can disburse are extremely small - the highest loan amount quoted was 12.000 KSh so that higher financial capital is needed to increase the size of loans. Additionally, a lot of loans are used for consumption rather than for entrepreneurial activities, which means that members who take out these loans do not generate any income through them. This does not pose a problem as long as they are able to repay but due to the lack of regular income from the group activities such capabilities are questionable. In order to run a successful and transparent loan scheme or financial support scheme there needs to be a clear structure and allocation of tasks within the
scheme and checks and balances have to be in place to assure transparency and avoid fraud. It requires knowledge in record- and bookkeeping and sound and efficient group management and leadership.

4.7 Conclusion

Youth groups have been developed by youth as a response to current unemployment in Nairobi’s informal settlements and as a way to address personal needs. The concept of youth entrepreneurial groups is in line with the concept of self-help groups outlined in the theoretical framework as these youth groups are used as a tool to pool resources of the most excluded to enable them to make a living. In terms of defining these groups they belong into the realm of informality even though they are registered. Their mode of production, the form of employment, their organizational structure and the markets in which they operate clearly place them in the informal sector.

All the youth groups vary in terms of membership, IGAs, income, stage and also in terms of motivation. Analyzing the data three forms of youth groups appear according to which they can be divided and clustered: groups that operate like NGOs (NGOs), groups that operate like companies and focus solely on one IGA (companies) and groups that mix and match a variety of larger and bigger IGAs with a financial service such as an ASCA or ROSCA (IGA/financial service). The main focus of this thesis lies on groups that operate as companies or IGA/financial service as NGOs are not that interesting for the research question due to their lack of income and also due to their specific characteristics. Focusing on youth entrepreneurship puts groups of the second and third cluster in the spotlight of this research.

When looking at the stages of advancement the groups find themselves in, it can be seen that Chigunta’s concept of three entrepreneurial stages has some shortcomings as it does not include differences amongst types of entrepreneurial activity and clusters. Accordingly it is also not able to fully account for the needs youth groups have. The stage of entrepreneurial advancement does matter but in a far more basic way than Chigunta suggests. Furthermore, the division of entrepreneurial stages seems to be more useful when differentiating between groups that have just started and those that
have advanced, combining Chigunta’s concepts of emergent and budding entrepreneur in the latter. It is apparent that his concept also does not account for the group dynamics within youth groups that do not matter to the needs of individual youth which his concept is addressing. These group dynamics create a number of organizational and financial challenges and needs that have to be incorporated in a model trying to explain and cluster needs and are the distinguishing feature between individual youth and youth entrepreneurs.

The main aim of this chapter was to find out about the needs of the youth. Engaging in youth entrepreneurship is a way of addressing personal needs each individual youth has. All youth entrepreneurial groups at all stages face an array of financial, material and entrepreneurial needs which affect their ability to sustain their members, increase production and sales, realize new business ideas and pay for emergencies. Financial needs are obviously concerned with the lack of capital and the only thing that differentiates amongst groups is how much capital they need. These needs are closely linked with material needs that mainly focus on raw materials, equipment and machinery needed for IGAs. Entrepreneurial needs highly vary amongst groups and depend on stage, cluster and IGA. Those that have just started still have basic entrepreneurial needs that can be satisfied by providing training that created a practical and theoretical knowledge of entrepreneurship and group management, whereas those that have developed past the starting phase require skill and product specific training and are faced with severe problems when it comes to innovation, accessing markets outside their local market, marketing and networking as well as issues that derive from being informal. The needs, challenges and characteristics outlined by participating youth groups were also described by the control groups when being asked about their experiences. Looking at needs that have to be addressed, the financial and entrepreneurial dimension should be given equal importance even though it seems that entrepreneurial needs are more complex as they received more attention in this chapter. This is due to the fact that financial needs are far more straightforward, whereas entrepreneurial needs incorporate a high number of variables. Purely financial support might aid a group in the short term but will not sustain them in the long-run when they have to begin to survive without it. On the other hand a group can entrepreneurially be as advanced as an international company
but it will not be of much help if they face a constant lack of capital to put their ideas into practice. The matrix in figure 4.3 and table 4.2 offer an overview of the needs outlined in this chapter.

Table 4.3 Overview over challenges and needs

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Need</th>
<th>Way of Addressing Specific Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>All stages</td>
<td>Entrepreneurial Need</td>
<td>Organizational Training</td>
</tr>
<tr>
<td>All clusters</td>
<td></td>
<td>Leadership Training</td>
</tr>
<tr>
<td>All IGAs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power inequalities</td>
<td>Entrepreneurial Need</td>
<td>Organizational Training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leadership Training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bookkeeping</td>
</tr>
<tr>
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<td>Recordkeeping</td>
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<tr>
<td></td>
<td></td>
<td>Financial Management</td>
</tr>
<tr>
<td>Lack of transparency</td>
<td>Entrepreneurial Need</td>
<td>Organizational Training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leadership Training</td>
</tr>
<tr>
<td>Inability to sustain</td>
<td>Financial Need</td>
<td>Increased income from IGAs</td>
</tr>
<tr>
<td>members</td>
<td></td>
<td>Grants/Loans</td>
</tr>
<tr>
<td>Inability to afford for</td>
<td>Financial Need</td>
<td>Higher savings</td>
</tr>
<tr>
<td>emergencies</td>
<td></td>
<td>Insurance</td>
</tr>
<tr>
<td>Hierarchical relations</td>
<td>Entrepreneurial Need</td>
<td>Organizational Training</td>
</tr>
<tr>
<td>Equipment</td>
<td>Material Need</td>
<td>Grants, loans or savings to buy material</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equipment boosts</td>
</tr>
<tr>
<td>Financial capital</td>
<td>Financial Need</td>
<td>Savings, grants, loans</td>
</tr>
<tr>
<td>Members leaving</td>
<td>Entrepreneurial Need</td>
<td>Organizational Training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leadership Training</td>
</tr>
<tr>
<td></td>
<td>Financial Need</td>
<td>Start-Up Grant</td>
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<td>Equipment Boost</td>
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<td>Loans</td>
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<tr>
<td>Start-Up Stage</td>
<td></td>
<td></td>
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<tr>
<td>All clusters</td>
<td></td>
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<tr>
<td>All IGAs</td>
<td></td>
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<tr>
<td>Lack of start capital</td>
<td>Finance</td>
<td>Start Up Grant</td>
</tr>
<tr>
<td></td>
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<td>Equipment Boost</td>
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<tr>
<td>Lack of knowledge of how to carry</td>
<td>Entrepreneurial Need</td>
<td>Business training</td>
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<tr>
<td>out a business</td>
<td></td>
<td>Entrepreneurial Training</td>
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<tr>
<td>More advanced stages</td>
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<tr>
<td>All clusters</td>
<td>All IGAs</td>
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<td></td>
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<tr>
<td>Lack of knowledge of how to market IGA</td>
<td>Entrepreneurial Need</td>
<td>Marketing training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IT training</td>
</tr>
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<td></td>
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<td>Market research training</td>
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<tr>
<td>Lack of knowledge of how to apply for loans</td>
<td>Entrepreneurial Need</td>
<td>Loan training</td>
</tr>
<tr>
<td>Lack of knowledge of how to write a business proposal</td>
<td>Entrepreneurial Need</td>
<td>Proposal Writing Training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IT training</td>
</tr>
<tr>
<td>Lack of knowledge of how to manage and repay a loan</td>
<td></td>
<td>Risk assessment training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial Management Training</td>
</tr>
</tbody>
</table>

| All stages | All IGAs but especially those like garbage collection etc |
| All stages | Mainly 3rd cluster |
| Low levels of income | Financial Need | Grants to sustain business |
| | | Increasing access in local market |
| | | Marketing |

| All stages | IGAs especially depending on seasonal sales |
| All stages | Mainly 2nd cluster |
| Fluctuating income | Financial Need | Grants to sustain business |
| | | Access to international and domestic markets |
| | | Linking to formal sector |
| | | Marketing |

| All stages | Can affect all IGAs |
| All stages | Mainly 1st cluster, but partly other clusters as well |
| Lack of income | Financial Need | Grants to sustain business/group |
| | | Marketing |
| | | Innovation |

<p>| All stages | Especially 1st and 3rd cluster |
| All stages | All IGAs |
| Lack of knowledge of | Entrepreneurial | IGA specific training |</p>
<table>
<thead>
<tr>
<th>how to carry out IGA</th>
<th>Need</th>
<th>Mentorship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of new ideas</td>
<td>Entrepreneurial Need</td>
<td>Innovation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market research training</td>
</tr>
<tr>
<td>More advanced stages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mainly 2nd cluster</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All IGAs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inability to increase production and sales</td>
<td>Entrepreneurial Need</td>
<td>Mentorship</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Access to international and domestic markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Linking with the formal sector</td>
</tr>
<tr>
<td>More advanced stages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mainly 3rd cluster</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All IGAs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>Entrepreneurial Need</td>
<td>Innovation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marketing</td>
</tr>
</tbody>
</table>
Figure 4.1: Entrepreneurial, Financial and Material Needs of Youth Entrepreneurs

Entrepreneurial Needs
- Training
- Access to Markets
  - Skills
  - Entrepreneurial
  - Financial
  - Bookkeeping
  - Leadership
  - Group Cohesion
  - Accounting
  - IT
  - Marketing
  - Proposal Writing
  - Sales
  - Conflict Management
  - Mentorship
  - Risk Assessment

Financial Needs
- Group Specific Needs
- Money for material needs
  - Current Expenses
  - Member Sustainability
  - Future Investments

Material Needs
- Raw Products
- Equipment for existing IGAs
- Equipment for new IGAs

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5 Youth and Support Mechanisms: Availability and Access

90% of youth groups have never applied for formal finance and the only forms of financial support youth groups have received so far is in terms of informal finance, grants, and loans from the government or NGOs in a few cases (Interview 42). The second data analysis chapter focuses on available support mechanisms in Nairobi and how youth have accessed these. Whilst doing so the main focus will be on financial support mechanisms, not because they are more important or more interesting but simply because availability of entrepreneurial support mechanisms is rather limited, only few exist. The chapter will also assess a variety of determinants of access to each support mechanism: NGOs, government and financial services. This chapter is aiming to answer the second research question and its conclusion will lead to answer the first part of the research question.

5.1 Existing Support Mechanisms in Nairobi

Government and Banks

There are a variety of support mechanisms available that focus on youth entrepreneurs in Nairobi’s informal settlements. The first one is the ‘Youth Enterprise Fund’ developed by the Kenyan government in 2007 and aimed at supporting formally registered youth entrepreneurs. The initial loan is 50,000 KSH with an interest rate of 1% and the further advantage that they do not want collateral. A lot of the 19 youth groups have applied for the government loan but only six of them received it. Most of the youth groups apply for the youth fund loan at an early stage of their entrepreneurial activities, usually pretty soon after the startup phase has been finished. A second form of funding available from the government is via the Community Development Fund (CDF) which disburses grants for the development of communities, usually in terms of community resource centers and the like. Two groups have benefitted from the CDF, one in terms of a community center that was build and that they are allowed to use a room in and the other one in terms of a six Million KSh grant for a new hall. Other financial support mechanisms are banks that
have begun to adopt MFI lending schemes or even have started to focus on youth as in the case of Equity bank. Table 6.1 will outline what services these banks offer and what their requirements are. None of the groups have ever received a loan from a bank and only six have tried and were rejected on different grounds.

Non-Governmental Organizations
Apart from government and banks there a plenty of NGOs working with groups registered as youth groups. Collaboration with NGOs differs amongst groups, some work with a number of NGOs whereas others have not succeeded in findings any non-governmental support apart from YIKE. YIKE and its Youth Desk Department are crucial support mechanisms to all of these youth groups – they offer trainings, equipment boosts and loans. When issuing loans Youth Desk does not ask for any security but keeps the business assets as collateral until the loan has been fully repaid. They offer a grace period of three months and a twelve months repayment period with an interest rate of 10% annually for large loans of up to 300,000 KSh and 12-15% for smaller loans. Five groups have been given loans of which three received 300,000 KSh and two received small loans of 25,000 KSh and 10,000 KSh. In order to receive a loan a group has to be a member of YIKE and has to write a business proposal. Interestingly none of the partner groups want to take out loans and one group has even refused a loan. So even though these loans are accessible to all youth groups in this research only six groups have used this offer.

Other NGOs the youth work with usually offer entrepreneurial support or financial and material support in terms of grants. Only few other NGOs have extended loans to the youth groups and there is not one youth group that works with an MFI. However there is a high number of NGOs and a few cases will be outlined here which show how groups have accessed these. One group is working with Skillshare International and Comic Relief. From these collaborations the group has been able to receive entrepreneurial support in terms of a development worker who comes to see the group, mentors them and works with them. Secondly they have benefited from a grant that totals four Million KSh and has enabled them to buy a truck and afford many of the expensive investments needed for their IGAs. Previously this group received a first truck and funding to build their initial water points and toilets from the Institute.
of Cultural Affairs. Another group applied for a UN Habitat competition from which they will receive 5,000 US-$ to start their new project. Slightly smaller but nevertheless significant is a loan of 700,000 KSh from Pamoja Trust that indirectly bought a recycling machine for one of the youth groups. These three groups received the largest grants from NGOs but this list is by no means conclusive as many other groups received smaller grants, equipment or entrepreneurial training in their specific area as well as the access to networks. Other grants have included a group being paid for to perform and train abroad or specific outreach events such as working on human rights issues with an NGO or on women’s rights. Two groups have been able to access NGOs that distribute their products on an international market and one has been able to do so in the domestic market. Thus the way these NGOs support the youth groups is either through grants or by working with them in advocacy and networking.

There is a discrepancy between those groups that regularly work with NGOs and those that do not. For example those three groups that function as NGOs and have little to no income have been trying to apply for continuous donor support for years but have not yet been lucky. Their support mainly relies on well-wishers from their communities and a few Europeans they met by chance and who support them financially. On the other hand the group that received the grant by the CDF works with a total of four NGOs that have all supported them financially. Thus it is hard to say how groups access NGO as they are large differences between groups and it is probably save to say that half of the groups that have applied for grants and to work with NGOs have not succeeded whereas the other half has succeeded.
Table 5.1: Financial products offered by banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Product on offer</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| Equity| Individual loans for youth within groups registered with the specific Ministry   | - groups should have between 15 and 30 members and have to be registered  
- need to save 100KSH and above a week for two months before receiving their 1st loan  
- members of the groups are able to borrow 10x their savings  
- savings and household assets serve as collateral  
- a chairman, treasurer and secretary are assigned to the whole group  
- apply Grameen procedure with sub-groups of five, consecutive lending and social collateral  
- repayment period is six months  
- grace period is 30 days  
- interest rate is 8% annually  
- business plans are assessed  
- bank only allows start-ups if 70% of the group already have their own business  
- personal knowledge of member by others and sales records play a role in the screening procedure  
- the minimum loan is 5,000 KSh, the maximum 500,000 KSh  
- after the 1st loan lenders can always borrow twice the amount of the previous loan  
- if a member has a title of deed they can borrow for a maximum of 36 months and over 200,000 KSh  
- only support individual projects as it is easier to follow individuals, bank always needs one owner  
- in case of default the bank freezes savings, turns to guarantors, and might take household assets |
| K-Rep | Lending schemes mainly for individuals in investment groups                       | - groups should have between 25 and 35 members and need to be registered  
- members should all have a business  
- loans of up to 4x the savings but the maximum first loan is 30,000 KSh  
- eight weeks compulsory savings before loan disbursement  
- 1.4% interest per month  
- loans are given to SMEs who have registered together as self-help groups |
|       | Ungana products for                                                               |                                                                                                                                                                                                                                                                                                                                             |
| Micro Finance Products | individual startup loans | -groups are divided into sub-groups  
- lenders need collateral like logbooks for cars or a title of deed 
- do not accept business assets collateral  
-loans of up to 20,000 KSh to one member of a savings group  
-borrowers needs to be guaranteed by other members and offer household assets as collateral  
-16% interest rate  
-repayment period of six months for 1st loan and one year for any consecutive loan  
-weekly visits for monitoring and business appraisal purposes |
|------------------------|--------------------------|----------------------------------------------------------------------------------|
| Co-operative Bank of Kenya | Individual lending scheme that does not provide start-up funding | -business has to exist for at least eight months and has to be registered  
-need to have a bank account with co-operative for at least six months because bank assesses cash flow and turnover for screening practices  
-they need to have collateral in terms of a title of deed, business stock or household assets  
-there is no grace period  
-repayment period of six to 24 months  
-interest rate of 16.5% annually  
-loan amounts are between 50,000 to 3 Million KSh |
| Family Bank | Individual business loans | -lender needs to have an operational account for three to six months because loan size depends on the capability reflected in the account operations and needs to be registered  
-collateral is needed in terms shares, logbook of car or a title of deed  
-interest rate is between 8-10%  
-there is no grace period and repayment period is between 12 – 24 months |
| River Bank | Individual business loans | -offers fast and easy loans  
-asks for no collateral  
-charges 13% interest daily for risk mitigation which adds up to 1000% annually |
5.2 Determinants of Access

Based on the findings that only nine groups have applied for loans with either YIKE or banks, but plenty applied to the Youth Fund and all are eager to find NGOs to support them it can be seen that the youth’s attitude towards loans plays a role in the determinants of youth groups’ access to support mechanisms. Many groups find themselves in favor of loans as they believe that these will make the groups work harder and create commitment, self-sufficiency and sustainability as well as increasing the seriousness of the groups. One group claims that “groups have to work hard from the beginning” because if it is made too easy for them “it will make them go to hell” (Interview 15) and they believe that they only came such a long way as a group because they worked hard for all of their achievements and fully understand the value of money. Groups that are used to grants to support their activities are said to lack a strong backbone and to collapse easily. Grant’s most obvious advantage on the other hand is that they are free and cannot negatively affect the financial situation of the group whereas loans can put immense pressure on groups due to deadlines and interest rates. What a group needs financially is dependent on the cluster. If a group operates more like an NGO a grant is the more suitable tool for them as their entrepreneurial activities do not generate income but serve to help members of the community. However if a group operates like a company or a mixture between a company and a financial service a loan might be better for them; “it keeps you on your toes” (Interview 16). Many youth actually advocate the use of grants at the start to boost and train the group financially and then change to using loans. But when looking at the findings from the surveys a different picture is painted as 55% of youth claim that they would prefer grants. It can be assumed that when there is fewer researchers bias most groups do actually prefer grants to loans which would explain why they are keener on applying for NGO grants rather than loans.

Apart from that there seems to be a general concern about taking out loans: “The problem with loans is on our own side, it is our own fear” (Interview 10). Specifically the fear of not being able to repay and the concern over conflict within the group in case of default plays a role in this. Some are worried that in case of default all, including innocent members, are punished even though it might just be one person’s fault. Another fear is that nobody will be held accountable and the pressure will rest on one individual in the end: “Nobody has an idea of how to pay so everyone will disappear. So at the end I would stand alone” (Interview 11). Several groups do not feel ready to apply for a loan yet, they do not know where and how to
apply for a loan and are unsure and worried about making mistakes in the application process: “It is always better to apply for a loan when we have the knowledge of where we are applying for the loan” (Interview 16) and “since we do not know how to deal with banks we are not working with them. We do not know anything about them” (Interview 8). Furthermore some groups believe they are not yet at the stage where it makes sense for their group to take out a loan, their businesses are too small and they need smaller investments such as equipment boosts rather than a large scale loan or they simply do not feel ready to take up such a large responsibility. Such concerns relate mainly to groups at their start-up whilst most advanced groups are confident in taking out a loan.

When looking at the determinants of access to the support mechanism in more detail a variety of factors can be outlined. Registration was not such an issue in the case of these groups as they have all been formally registered as youth groups, however one of the control groups has not yet been registered which automatically eliminates them from all support mechanisms. Regarding the government funded loan the issue of a general distrust in governmental operations appears immediately. Many groups do not believe that the decision over the approval of applications is based on the quality of the business proposal but rather on connections groups have within governmental circles. The group that received the six Million KSh grant from the CDF states that they only did so because they know a board member of the CDF. Furthermore groups state corruption as a main problem in governmental affairs, claiming that a lot of money is used for personal needs of government officials even though when it is meant for the youth. They also believe that government support is often linked to political patronage when parties need to attract voters. Apart from that, the funds made available by the government are also not enough to successfully serve all needy youth groups within the specific constituencies and thus availability becomes another determinant of access. However these findings do not account for the high number of groups that apply for the youth fund and that stands in no proportion to those who apply for other loans. The reason for that is most likely that the government loan is a rather small loan and most groups apply for it at the beginning of their entrepreneurial activity. Thus the fear of repayment is not such an issue as the amount is smaller and seems easier to manage and groups that have just started do not know which NGOs they can approach and how to approach them – they have no other alternative. Groups that are at a more advanced stage of their entrepreneurial activity usually have planned large-scale investments for which they need larger sums of money to fund the project than offered by the government, as an NGO official put it: “they want to start up big
and they do not want to grow slowly” (Interview 44). Furthermore advanced groups know which channels to tap to receive the more attractive grants. When asking about ways to simply consider a smaller investment that will grow bigger by time groups often reject this idea by claiming that a smaller investment will not generate the income they need.

In terms of NGOs, availability can also be considered as one of the key constraints. Even though there are plenty of NGOs working with youth in Nairobi’s informal sector, there are not enough to support all youth groups. What is striking though is the discrepancy between groups that work with NGOs and those that do not. Groups that work with NGOs often collaborate with a variety of different ones whereas other groups fail to apply to any NGOs or only work with extremely small ones that cannot provide much support. It seems that in order to tap as many as possible and especially to succeed in working with international NGOs groups have to have certain weak ties which enable them to access networks that provide platforms through which they are introduced to different NGOs. Furthermore rather than clusters, stages, IGAs and locality seem to matter. Groups at more advanced stages know more about different NGOs operating whereas groups that have just started only learn about these possibilities when advancing. IGAs play a role in NGO access as many NGOs focus on specific topics such as environmental sustainability, which is the most prominent topic, and thus purely support groups operating in that sector. In terms of locality many NGOs do not have access to information in smaller and lesser known informal settlements whereas areas like Mathare have turned into ‘hotspots’ for NGO engagement. Table 5.2 visualizes how these factors are linked, regarding nine groups working in garbage collection (i.e. attracting NGOs that focus on environmental sustainability) and their stage, locality and weak ties in terms of networks with other NGOs. The last column shows their level of NGO access and weak ties are determined in yes (access to NGO networks) and no (no access to NGO networks). The reason why all groups have been able to work with YIKE is possibly because the organization operates on a grass-roots level and its staff themselves were members of youth groups and/or grew up in informal settlements and thus they know the situation on the ground and where youth groups operate. Information an international NGO can hardly access.

Table 5.2 Determinants of access to NGOs

<table>
<thead>
<tr>
<th>Stage</th>
<th>Locality</th>
<th>Weak Ties</th>
<th>NGO Access</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>Mathare</td>
<td>Yes</td>
<td>3</td>
</tr>
<tr>
<td>Partner</td>
<td>Mathare</td>
<td>Yes</td>
<td>3</td>
</tr>
</tbody>
</table>
5.3 Banks and Youth Entrepreneurial Groups: A difficult relationship

The determinants of access regarding the case of banks can be broken down into three dimensions: practical reasons, perceptions of banks by youth entrepreneurs and perception of youth entrepreneurs by banks. There are a number of practical issues which keep the youth from taking out a loan and which can be seen when comparing the requirements bank products on offer have to characteristics of the youth groups and what they can offer – a comparison that reveals a clash between the two.

- One needs a minimum amount to apply for a loan with a bank and youth often do not have sufficient funds that would enable them to take out a loan.

- Youth lack physical collateral that is accepted by banks, the assets they can offer are often not seen as meaningful by banks. One of the groups that applied for a loan with a bank offered their title of deed to their land but it was rejected on the notion that land in the informal settlements is simply not a suitable asset in the eyes of a bank. Other machinery and equipment the groups own would only certify as business or household assets, but most groups have none.

- Even if groups have assets as collateral many are worried of giving it as security as these items are usually what their IGA depends on and losing them would mean they would have to end production and restart from scratch.

- High interest rates are unattractive and unaffordable for youth.

- Youth operate in groups and there is no single person to be held accountable in case of default, whilst banks need someone directly responsible for the loan.

- Banks have begun to incorporate microfinance into their lending schemes however it does not provide a viable option for the youth as they want larger loans that are given to them as a group. Such microfinance schemes that focus on youth specifically such
as the one offered by Equity Bank might only be attractive to a small number of youth groups that have been looking at increasing their inter group lending scheme. However as it has been pointed out previously such schemes are often used for consumption loans rather than business loans and thus do not comply with the rules and regulations of the banks’ microfinance schemes.

- Banks do not finance start-ups which is what most groups want their loans for.
- Some of the banks do not offer any grace period which is seen as negative by the youth as they need time to start their new IGA and to generate income from it.

Apart from the practical issues perceptions on the side of the youth matter. The following list of perceptions shows that youth show little trust in the motives of banks and are shy and uncomfortable in approaching a bank and lending with them.

- Many youth mistrust banks and believe that banks withhold information from the lender. They worry that their lack of understanding would lead them to sign something that would negatively affect the group.
- Youth believe that banks do not care about the youth, the groups or the individual and would not offer any support in case of default.
- Youth believe that banks have motives that are not for the beneficial to youth because they purely exist to generate profit.
- Youth are shy to approach banks due to their lack of knowledge of how to approach them and their lack of understanding of formal financial services and procedures.
- Youth do not want to rush working with banks because this is a serious matter for them and they want to be well prepared to do so in order to avoid any possible mistakes.
- Youth believe that banks also do not trust them and see them as unreliable.

But one has to keep in mind that perceptions are twofold and do not only address the youth but also the banks, which have their own reasons for being reluctant to lend to youth groups.

- Banks lack understanding of the youth market which means they have not yet embraced it. Apart from Equity Bank none offer services fully focused on the needs of youth entrepreneurs.
Youth Entrepreneurs and Support Mechanisms – Access and Needs

- The adult market is not yet exhausted and thus when applying microfinance as a banking practice it is far more attractive and profitable to focus on adults as it involves lower risks and is perceived as leading to a higher repayment rate.
- Youth are seen as a risk group because they are in-experienced, mobile and hard to track down and usually want investments in start-ups which are riskier. Many youth groups fall apart and the banks fear to lose their money in such cases.
- Youth is seen as a transition period and thus investing in it is only profitable if the investment cycle will continue after the youth enter the adult stage.

Drawing on these different points it can be seen that perceptions matter on both sides but more importantly that the services banks offer that youth can access are not suitable for youth groups. Those services attractive to groups have requirements they cannot fulfill.

5.4 Conclusion

There are eight interwoven dimensions to why youth have problems accessing support mechanisms: weak ties, entrepreneurial activity, locality, availability of support mechanisms, practical issues, perceptions of support mechanisms on youth, perceptions of youth on support mechanisms and youth’s general attitude towards loans. The first three relate to access to NGOs, the third dimension links to all support mechanisms and the final four dimensions regard banks, even though the last one is also related to NGOs as their distribution of grants is assumed to have partly determined it. Weak ties and perceptions of youth on support mechanisms also play a role when assessing access to government services. The clusters outlined in the previous chapters are not as important in these but do give a guideline on what kind of support is suitable for which kind of groups, i.e. that grants are more suitable for cluster 1 and loans more suitable for clusters 2 and 3. IGAs seem to affect access to NGOs but in this chapter the entrepreneurial stage is very important as it determines knowledge of available support mechanisms and the confidence and desire to access these, as well as the loan size groups want to take out which makes them prefer certain support mechanisms over others.

A stronger emphasis was placed on support mechanisms that addressed financial needs, which is in contrast to the previous chapter where entrepreneurial needs dominated. This is
based on the fact that there are far less support mechanisms available that offer entrepreneurial needs and when assessing youth groups’ access to support mechanisms that focus more on the entrepreneurial aspects then their access possibilities are severely restrained by the simple absence of support mechanisms that offer such services. YIKE is the only organization that offers wide-spread and overarching entrepreneurial support on the grass-roots level. Apart from that only few other NGOs offer skills training and if they do so it is either in a very specific field of expertise that does not relate to all youth groups or they are difficult to access. Success of an application can depend on connections, spatial conditions, and entrepreneurial activity. Many groups that work with a number of NGOs claim that once they started working with one or two they met other organizations through different opportunities to network.

Looking at financial support mechanisms a number of available actors become apparent and the reasons for access or the lack of access are multidimensional with a number of different variables related to each service. Banks still face high access restraints to youth entrepreneurs despite an increased focus on youth friendly and micro loans. However the loan products they offer that the youth would be able to access are simply not what they need and focus on individual youth rather than groups, and the loan products the youth would want to use are out of reach for the youth due to strict lending practices. Perceptions of each other also play an important role when trying to understand the relationship between banks and youth. The only loan program virtually all groups applied to is the government loan scheme, but only a third of the groups received a government loan due to the small amount distributed in each constituency. As a concluding thought one should keep in mind that many of the youth groups have chosen not to access a loan scheme that is easily available to them: the Youth Desk loan program. Thus the importance of the attitude of youth towards loans should not be underestimated. It can involve a fear of lending money and a lack of knowledge of loan management for some groups, a general lack of interest in loans, and a lack of interest due to the size of the loan that some groups do not consider as helpful. As in the previous chapter it has to be remembered that there are vast differences amongst groups and reasons for not accessing or not wanting to access entrepreneurial and financial support mechanisms vary from group to group. Discussions with the control group generated similar findings.
6 Addressing needs: Do existing support mechanisms succeed?

The last of three data analysis chapters aims to understand whether existing support mechanisms manage to successfully address financial, material and entrepreneurial needs outlined in the first data analysis chapter. It will do so by firstly considering experiences from past interactions between youth and support mechanisms, and secondly by comparing the existing support mechanisms against a support mechanism designed by the youth themselves, that has been evaluated by practitioners in the field. To evaluate the success of a support mechanism two things will be taken into consideration: whether the support mechanism actually addressed the specific needs and if the outcome as a whole was a success for the groups. By doing so the chapter will add insights needed to answer the second part of the research question.

6.1 Experiences from previous support mechanisms

Entrepreneurial Support Mechanisms

Due to the absence of support mechanisms that focus on entrepreneurial needs these are clearly not met sufficiently, especially when addressing the needs of more advanced groups. In terms of entrepreneurial needs it can be said that YIKE’s training scheme addresses the most basic entrepreneurial needs of the groups and puts them into a position from which where they are able to apply basic enterprise and group management skills and develop further. However many groups still struggle with certain entrepreneurial needs and have not fully applied the skills they have learnt. Looking at the organizational structure of the groups YIKE has tried to train the youth how to solve issues related to leadership and group management. Whilst most groups do display a high level of horizontal and equal relationships some still struggle with unequal power relations and hierarchies so that training has not been that successful. It is hard to measure the impact because only few groups have been able to overcome such problems and in those that do not feature these issues it cannot be verified whether this is based on training or initial group dynamics. But on a more positive stance such training is helpful when groups are newly formed as it offers them the chance to form regulative structures. Furthermore YIKE is currently not able to provide sufficient support for more advanced groups in terms of marketing training, innovation and by introducing them to
a mentor that can help them in more specific skills training and aid them in growing further and beyond subsistence levels. In order to access markets a higher focus on marketing is needed and groups need to be able to benefit more from networks of youth groups, companies and organizations operating in the same industrial sector through which they can find new channels of distribution. The bad repayment rate of larger loans that has been described above shows the insufficient loan training groups have received, they are rather naive when designing their business proposals and do not know about risk management. The lack of savings in many cases and the lack of sound financial management and budgeting also show that more advanced financial needs have not been met. Some of the other NGOs that focus on certain sectors (especially environmental sector) have managed to enable groups to access networks and a few have even created international linkages so that the groups could export their products. However once the groups advance to a higher entrepreneurial level and want to begin tapping domestic and local markets they are so far left alone with the constraints they face and have not been able to receive sufficient support.

**Financial and Material Support Mechanisms**

Experiences from the loan side of support mechanisms paint a bleak picture. First of all there are only few ways through which youth can access loans as banks do not offer the products they need. The only loan products that they could access through banks would be microfinance loans that focus on individual members; however this is not what the youth want. The government run Youth Fund has supported some groups, however the amount is rather small and not enough for more advanced groups. It seems more suitable for groups that have only recently been formed and need a boost for the start of their IGA. Most groups claim that they are either in the course of repaying the 50.000KSh borrowed from the government, nearly finished, or that they had finished repaying it some time ago. When looking at the larger loans of 300.000KSh that were given out by Youth Desk the outlook is rather negative. Four large loans were given out and in all four cases there was an issue of repayment. Only one group has been able to meet all scheduled repayment even though they did not succeed in doing so by using the income from the IGA the loan was spent on but by being able to use income from other IGAs.

The role of grants is hard to assess because other – entrepreneurial and group specific – factors also play a role in this as they determine how well the grant will be used. When looking at the groups that have received the two largest grants and are in touch with the most
NGOs it is clear to see that they fare best of all youth groups. Both of them generate enough income and support their members in a way that the members can almost sustain themselves. Whether the groups are sustainable however is questionable as so far they have depended on grants and it is unclear what will happen when these run out. One intervention that has proven to be successful are equipment boosts as distributed by YIKE. Even though these are rather small they were especially helpful at the beginning when providing groups with much needed equipment, material and tools.

6.2 A support mechanism designed by youth entrepreneurs

The youth were asked to design their own financial service to outline how they would address their most apparent needs and textbox 6.1 shows the result:

Textbox 6.1: A support mechanism designed by the youth

<table>
<thead>
<tr>
<th>Membership Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>- need to have a business plan or an income generating activity</td>
</tr>
<tr>
<td>- need to be registered (i.e. have a physical address and registration certificates)</td>
</tr>
<tr>
<td>- have to have a functioning bank account</td>
</tr>
<tr>
<td>- have to exist for at least one year</td>
</tr>
<tr>
<td>- 95% of members have to be aged 15-35 years, 5% can be older than this</td>
</tr>
<tr>
<td>- need to have a committee and need to be governed by a constitution</td>
</tr>
<tr>
<td>- have to do record keeping</td>
</tr>
<tr>
<td>- pay a registration fee of 500-1000 KSh (administrative fee)</td>
</tr>
<tr>
<td>- each group will be monitored through field visits before being accepted</td>
</tr>
<tr>
<td>- need to be gender neutral unless they have a valid explanation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Saving Requirements for participating youth groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>- groups can save monthly or weekly as long as they reach a minimum of 50 KSh per week/200 KSh per month per member per group</td>
</tr>
<tr>
<td>- groups are able to determine the saving amount on their own as long as they reach the minimum requirement</td>
</tr>
<tr>
<td>- savings will determine the size of the loan which will make them more determined</td>
</tr>
<tr>
<td>- groups will receive a 2% bonus after saving for one year</td>
</tr>
<tr>
<td>- members have to pay a fine in case they default their savings contribution</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Collateral</th>
</tr>
</thead>
<tbody>
<tr>
<td>- no physical collateral needed but it can be offered if the group has certain assets and is willing to use them</td>
</tr>
</tbody>
</table>
Youth Entrepreneurs and Support Mechanisms – Access and Needs

- group savings
- business plan that is accepted by organization
- all members of the group have to guarantee their group's loan (contested)

<table>
<thead>
<tr>
<th>Requirements that need to be fulfilled to receive a loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>- group has to write a proposal/business plan that is accepted by the financial service</td>
</tr>
<tr>
<td>- have to have 20% of the requested amount saved up already</td>
</tr>
<tr>
<td>- need to have been saving for at least 3 months</td>
</tr>
<tr>
<td>- need to have an active bank account, intact records and need to provide quarterly financial reports</td>
</tr>
<tr>
<td>- need to have had financial (including record keeping) and entrepreneurial training</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How to decide which groups will receive the loan first</th>
</tr>
</thead>
<tbody>
<tr>
<td>- monitors and loan officers collaborate to see which groups perform best and thus qualify</td>
</tr>
<tr>
<td>- ballot if all groups are qualified equally and there are not sufficient funds for all groups or assign a certain spot (e.g. a month) for each group during which they can apply and during which it will be assured that they receive the loan (it is important not to stir competition amongst the youth)</td>
</tr>
<tr>
<td>- do not split loans</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>- the 1st loan given to each group will be between 50,000 and 200,000 KSh</td>
</tr>
<tr>
<td>- after repaying the 1st loan groups will be able to take out a higher loan, so after each repayment the loan size increases</td>
</tr>
<tr>
<td>- there are clear categories which determine how much each group can take out after repaying each loan where the new loan size can always be up to double of the previous loan</td>
</tr>
<tr>
<td>- groups have to have 20% of the requested amount saved</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Repayment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>- groups can decide how fast they want to repay but there is a fixed maximum amount for each loan (categories depending on loan size but with an overall maximum of 24 months)</td>
</tr>
<tr>
<td>- groups have to continue saving whilst they are paying back their loan</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grace Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>- standard of three months but groups can apply for longer if they have reasonable circumstances</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trainings the organization should offer to youth groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>- training in entrepreneurial skills, finances, bookkeeping/recordkeeping, ICT, marketing,</td>
</tr>
</tbody>
</table>
Dealing with Default

- sign an agreement with all groups
- closely monitor loan usage during the entire period
- offer extensive training throughout the loan period
- in case of default members of the groups have to pay and the organization can freeze 20% of the savings until the defaulted rate has been paid
- do not accept any excuses for default as groups need to do a risk assessment beforehand (in their proposal/business plan)

Organizational Structure

- youth ownership and equal opportunities
- important to have a committee that involves representatives from all youth groups (i.e. executive committee where each member group provides one representative)
- good to have an objective monitor such as YIKE who can monitor decision making in the executive committee
- good idea to use experts/advisors who can help with legal, financial and conflict matters
- all staff are trained youth from the different groups
- director and deputy director are elected annually
- in order to make decisions the specific department has to consult the experts and the directors after which the decision is proposed to the executive committee that votes on it

When comparing this support mechanism to existing support mechanisms there are a number of key differences that are immediately apparent. First of all it relies fully on youth ownership and is run by youth, only involving adults as objective experts, mentors and monitors. All
decision making is made by youth which means their needs will be at the forefront of the organization. Involving only youth in such an organization will lead to a greater template of networking and to more possibilities of collaboration amongst the groups that might make it easier to tap new markets. In terms of training the service also offers some alternatives to the existing ones, for example by suggesting mixed workshops and by placing high importance on networks and mentors. The trainings outlined incorporate all of those that had been found during the stage of assessing the needs of the youth. All three – interest rate, grace period and repayment period – are extremely youth friendly and strongly differ from any other service. Letting the youth negotiate their own repayment and grace period seems to be a good option in order to leave them to judge how much time they will need and allow them to plan according to their own needs. Longer grace and repayment periods and a low interest rate put less pressure on the groups which is important as many claimed that they were shy to access loans and it thus helps them to overcome their fear.

On the other hand the designed financial service is extremely strict in certain aspects where practitioners in the field would suggest to be far more relaxed and show greater understanding of the more difficult situation youth find themselves in. For example in case of dealing with default where the service clearly states that no excuses for default are accepted. An MFI practitioner and consultant suggested that a service that lends to youth “should not be mainly about the actual repayment but about teaching the youth how to deal with loans, use them effectively and how to repay. Therefore the contracts should be constantly re-negotiated” (Interview 43). Another NGO practitioner points out from her own experience that it is important to not simply use a one-size fits all approach but to actually account for the different needs of different youth entrepreneurs (Interview 47). Membership requirements are also rather strict and would only allow groups of a certain entrepreneurial level to participate in such a service, excluding many groups. It would thus be helpful to couple such a service with an organization like YIKE so that groups can already work on their entrepreneurial needs and receive some financial support. With claiming that all members need to guarantee the loan before it is given out, the youth do generate ownership of the loan amongst the groups which was seen as important by all youth groups. But such a technique can also negatively affect the dynamics of the groups and can cause conflict amongst members if one defaults. Thus it would possibly be more helpful to simply do away with the clause of collateral and rely more on trust, close monitoring of loan usage, and alertness to any possible repayment problems. Where such a support mechanism could also not help the more advanced groups
would be when it comes to creating innovation and accessing domestic and international markets as certain networks and middlemen are required for such access. Furthermore, drawing on the groups’ problems of meeting sudden emergency financial needs it would be suitable to offer the groups some form of insurance against the loss or breakage of machines and tools and the influence of outside forces such as political violence, theft and environmental disasters. A last point to consider is that such a service would be beneficial to the financial needs of groups in cluster 2 and 3, due to the absence of a grant giving mechanisms the financial needs of groups in cluster 1 however will not be satisfied with such a service.

The loan amount, the requirements and the savings component are of extreme importance as the findings from the workshops differ from the findings from the first round of interviews and surveys. The groups say that the first loan should be between 50,000 and 200,000 KSh which is lower than what they are being offered by the Youth Desk loan at the moment and is not congruent with what many of them claimed in interviews, where they demanded loans of over one Million KSh to successfully satisfy their financial needs and start a new IGA. Furthermore it does not make sense that if they themselves would put an initial loan amount at such a low number they do not access the opportunities they have. Adding to this is that the youth say that savings will determine the final loan amount and that 20% of it need to be saved up before the loan is handed out. However when asking the youth anonymously how much they would be willing to save before receiving a loan the majority said either between 16,000 and 20,000 KSh or between 6,000 and 10,000 KSh. When these are summed up to be 20% of a loan, 20,000 KSh only translate into a loan of 100,000 KSh. Hence these findings possibly show a research bias where the youth felt that they were supposed to answer in this manner as one of the examples in the workshop also included the 20% rule. When talking to the youth and from my own impressions it seems that they would rather have fast access to credit instead of having to follow complicated procedures that are seen as obstacles. They place a strong focus on entrepreneurial trainings and addressing their entrepreneurial needs but the main emphasis when asked about their needs and what they need to address them always revolves around finance. Thus the role of a researcher bias seems to have affected this part of the research but it can be accounted for by the use of a survey to check the other findings from the financial service and by analyzing the first round of interviews (which were all in line with what has been outlined in the workshops, the same accounts for the control group).
6.3 Conclusion

In sum it can be said that neither the entrepreneurial nor the financial needs of the youth entrepreneurial groups are fully satisfied. The trainings YIKE offered have been crucial to the development of all groups which can be seen simply by the fact that many groups did not know how to carry out basic tasks such as bookkeeping before they were introduced to it by YIKE. However, once the groups advance and are in need of more specific skills training and mentorship YIKE is not sufficient anymore. In some niches other NGOs have been able to support the groups but in sum there is a lack of higher skilled training. Furthermore the access to markets and networks has been severely restricted by the situation the youth find themselves in and none of the training or the financial support has managed to provide help. Only three groups have been able to access outside markets through the help of NGOs, all the other groups are failing to do so. Innovation and marketing have also not been addressed by trainings on a successful level beneficial to the groups.

When turning to the issue of financial support it is clear that most of it has occurred in the sphere of NGOs and grants so far. Banks and financial services that follow the concept of MFIs would only cater to a small margin of groups, to those that operate as a financial service and hope to enable the members to become sustainable by starting their own business. Those groups that want to invest in existing or new IGAs are excluded from such loans. NGOS have only been able to provide large-scale financial support to a small number of groups and the government loans are too small. Groups at the start-up might benefit from such small loans and equipment boosts, but more attention needs to be paid specifically to the needs of more advanced entrepreneurial groups and the constraints they face. However addressing those needs is far more challenging as it requires specifically trained personnel, higher amounts of money and the access to globally active networks in different industrial sectors. When clustering the impact of support mechanisms it can be seen that those groups in the start-up phase and in clusters 2 and 3 have been mostly able to meet their needs, the more advanced a group gets the harder it is to satisfy their needs. Cluster 1 groups on the other face even higher challenges as their financial needs are based upon receiving grants. IGAs do also play a role as IGA that require less capital will be easier to carry out with little support that is easier to receive, whereas IGAs that have demand a large financial capital will be harder to start as it is more difficult to receive large loans.
Looking at the financial service designed by the youth, their focus on youth ownership becomes very apparent. The youth would also like a more holistic training schedule that teaches them how to handle a variety of situations and run an enterprise at an advanced level. It is clear that the groups want low interest rates and need flexible grace and repayment periods to cater for the time it might take them to receive income from an IGA and to give them more confidence when taking out a loan, rather than putting them under pressure. Looking at the strict rules of membership and dealing with default a more relaxed approach should be adopted though, allowing for variations amongst groups and catering for the specific situation they find themselves in. The issue of the loan amount and savings had to be re-evaluated, so that it became clear that the youth want fast and uncomplicated access to loans and are willing to engage in some level of group savings. Finally, the introduction of an insurance service was suggested as many youth seem to struggle with sudden expenditures and emergencies. As a final consideration one should also keep in mind that such a service is more suitable for groups in clusters 2 and 3 as they need loans, whereas groups in cluster 1 are dependent on grants.
In this conclusion a summary of findings will be provided which will be followed by a number of theoretical considerations. Those two will link to answer the overarching research question and last there will be a final consideration about the potential of youth entrepreneurship and suggestions for further research.

7.1 Summary of Findings

The first data analysis chapter gave a brief outline of why youth groups are formed, how they are organized and what their income generating activities are. Rather than answering the research question directly this part was required in order to generate an understanding of the situation the youths’ challenges and their needs which have to be outlined in order to see whether support mechanism address the youths’ needs. From this chapter three clusters of groups can be drawn: groups that are similar to NGOs, operate like companies or offer IGAs and financial support simultaneously. Other clusters are IGA and stages which apply far less than the previous cluster, but all three clusters have different effects on various needs and challenges. Looking at the data it is clear that these youth groups operate like other informal self-help groups and not only feature a high level of internal organization but also generate some form of income (even though it is usually very low) and sustainability to the members. However conflict and unequal or vertical power relations are apparent in a number of groups, specifically in terms of leadership, financial organization and hierarchies based on age.

In chapter two, which related to the second sub-question, three types of support mechanisms currently available to youth were described: banks’ loan schemes, the government run youth fund and a large number of NGOs. Most support mechanisms focus solely on financial support and only little and basic entrepreneurial support is available. Youth have not been able to access any of the banks’ loan programs at all and even though many have applied for the government loan only a few have received it. There is a large discrepancy amongst groups and their access to NGOs. Three groups have been able to work with a number of NGOs and have secured large grants as well as some entrepreneurial support. Other groups have failed to collaborate with any NGOs and most groups have so far only worked with smaller NGOs and
received only little support. The determinant of access were broken down into eight dimensions: weak ties, entrepreneurial activity, locality, availability of support mechanisms, practical issues, perceptions of support mechanisms on youth, perceptions of youth on support mechanisms and youth’s general attitude towards loans. The first three relate more to the access to NGOs, the third dimension links to all support mechanisms and the final four dimensions regard financial support mechanisms. Weak ties and perceptions of youth on support mechanisms also play a role when assessing access to government services. The general attitude towards loans was an interesting finding as it appears that youth do know about the long-term advantages of loans for their sustainability but still the majority would prefer to receive a grant. It is only for groups in the NGO cluster that grants seem to be more suitable due to the nature of their work.

The last chapter outlined experiences from existing support mechanisms and it was seen that both, entrepreneurial and financial needs, have not been successfully addressed for any of the youth groups. Whilst most basic entrepreneurial, material and financial needs were met, groups at an advanced level struggle to receive the entrepreneurial support they urgently need. The financial support groups received differs amongst individual groups but most groups still face financial challenges, lack sufficient financial capital and are unable to sustain members. Comparing the designed service to findings from interviews, workshops and surveys, it can be assumed that youth want fast and easy access to larger loans and are willing to engage in basic savings. After discussion with practitioners from the field it was also found important that a youth inclusive financial service has to account for the constraints the youth face and thus repayment should always be up for negotiation in case of default – the youth should not have to default as this might crush their confidence in loaning. Such a service should be about training the youth how to use and repay a loan, rather than about actual repayment. Additionally, even though the groups did not explicitly voice it, when assessing their needs and problems they face with sudden expenses it seems useful to introduce a micro insurance.

7.2 Theoretical Considerations

Self-Help Groups

The youth groups operate in a similar style as the self-help groups outlined by La Ferrara and Mwaniki, making use of their social capital in an economic manner to form groups as a
response to the exclusion from decent and sustainable employment in the formal and informal labor markets and as a tool for survival. These youth groups are merely economic self-help groups, giving their members a chance for employment whilst a few groups also offer basic loan schemes such as ASCAs, ROSCAs or Grameen microfinance. The latter loan scheme has not been included in research on self-help groups on a large scale, however it is very apparent in these groups. Even though groups are based on horizontal power relations, the emergence of vertical hierarchies based on age and power relations related to leadership negatively affect the allocation of resources and ability to govern the groups in some cases. Face-to-face interaction is crucial to the sustainability of self-help groups and many groups fall apart when members leave due to formal employment. Thus it seems that, based on educational level and training, most youth groups in the third cluster are used as a tool to overcome periods of unemployment and a way to lead to formal employment. Only when self-help groups are the exclusive possible source of income or are specialized in a way that the members can be employed in their profession (i.e. second cluster) is there little concern about members leaving.

**Youth Entrepreneurship**

Having adopted rather Westernized definitions of entrepreneurship it becomes clear that only the most basic ones suit these youth groups. They manage and own their own business and have started a new venture, however innovation and other factors related to entrepreneurship do not occur. These businesses were mainly started as survival techniques even though the youth do aspire to make their businesses grow. It is debatable who the entrepreneur is in these cases: is it the group as a whole, is it the person who started it or is it their leader. The groups are not governed in a traditional way and operate in a horizontal and collective manner. It is not suitable to outline leaders as the entrepreneur as these often change and the group was usually started by a number of individuals. Thus such a definition that focuses on the entrepreneur in general should be adapted to including entrepreneurial groups. The same account for the notion that defines entrepreneurial activities as successful when generating outside employment. In this specific case employment generation is an unsuitable proxy for the graduation of groups. Groups should be defined as advanced when they manage to sustain the economic well-being of all members.

Looking at the needs and challenges it can be seen that those that youth and adult entrepreneurs in the informal sector face are rather similar. However Chigunta’s stages model
needs to be dismissed as being too basic as that it would be suitable to provide a framework for the groups’ needs. Such a model might be adequate to link the needs of individual entrepreneurs to their economic stage but it is not sufficient to account for the complexities and dynamics within groups, their multifaceted character and also the different clusters they are in. The division into three separate clusters affects their needs equally strong, if not even more, than that of their stage. When looking at the specific case of groups that offer IGAs and financial services it is hard to categorize their stage as they often operate a number of very different IGAs and find themselves at different stages within each, as well as members who have different skills and trainings. NGOs’ needs on the other hand can also not be determined by stage as they lack any income. Looking at this research the notion of stages was drawn on in a more simplistic manner dividing only between the start-up and the advancement as this is where needs based on clusters have the highest difference and because groups mix the budding and emergent stage shortly after their inauguration. Using IGAs as a cluster proves to be tricky as many groups engage in varied entrepreneurial activities. Therefore IGAs generate specific forms of material needs and financial capital needs, however these needs can only be applied in a limited manner talking about IGAs and cluster 2 groups because they only engage in one IGA. They do not serve as a tool to generalize cluster 1 or 3 group. More interestingly though is that IGAs do play a role when considering collaboration with NGOs as many stakeholder focus solely on one specific sector. The use of clusters has been most useful as they do not only determine motivations and vision but also more general characteristics such as the level of expertise needed for IGAs.

Looking at the type of entrepreneurial activities outlined by Hart as presented in the theoretical framework this research can add a number of activities to his list:

<table>
<thead>
<tr>
<th>Form of activity</th>
<th>Activities engaged in</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary and secondary activities</td>
<td>Garbage collection, water points, sanitation services</td>
</tr>
<tr>
<td>Tertiary enterprises with relatively large capital inputs</td>
<td>Health services, education, livestock</td>
</tr>
<tr>
<td>Other services</td>
<td>Hairdressing/beauty salons, internet/computer, performing arts, sports, DTSV stations</td>
</tr>
</tbody>
</table>
Informal sector
All of the youth groups operate in the informal sector, despite being registered formally. Therefore their definition as informal is based on their organizational structure, the form of employment, the focus on and importance of networks, and the sector they operate in as well as the fact that they pay no taxes. Definitions of informality therefore need to allow for the complicated structures and patterns in the informal sector which often mean that even companies that are registered formally operate and exist informal. As found in other studies on the informal activity, the potential of youth groups relies heavily on local support during startup and the process of sophistication and their ability to access domestic and international markets is determined by their access to specific networks and middlemen. The suggestion that stronger links between the formal and informal sector are needed that generate easier access to the formal market for SMEs operating informally is supported by the findings of this research.

Microfinance
The findings from this research clearly challenge the assumption that microfinance is what the poor want and need. Microfinance has been applied as the proxy for financial support mechanisms as most support mechanisms available to youth in terms of banks are modeled on the microfinance model. However it has been found that such a model is not suitable for the youth groups due to their need for loans for the group as a whole rather than individual loans and their desire for larger loans. Several groups also voiced a concern about taking out loans that are guaranteed by members as this might cause severe conflict and punish innocent members. Small loans that microfinance typically offers will not enable the youth to start their planned investment. Microfinance’s exclusion of any training is not suitable for the youth either, as problems with repayment of larger loans have been found and from the data it is clear that the youth need and want entrepreneurial training during their initial lending phase. Furthermore microfinance offers a restricted repayment period, short grace periods and long interest rates – three things that were defied by the service designed by the youth. Only for groups that apply a microfinance scheme in their group does Grameen offer a suitable framework. Rather than microfinance, a holistic service seems more appropriate for the groups, that offers training, financial support through loans based on trust and monitoring rather than collateral and some form of insurance service to help the groups in emergencies. Such a mechanism could also include the ability to foster a microfinance program based on Grameen where individual members can take out loans for personal expenditures.
When looking at the youth’s aspirations it is obvious that they are not in line with the image of the successful individual entrepreneur microfinance promotes. Most of the youth either want to use their participation in the youth groups to gain access to formal employment or are hoping to gain steady employment within their group.

**Social Capital**
The concept of social capital is embedded in all internal and external relationships the youth groups have. In some ways it affects them positively by enabling them to form or become a member of such groups. However it also has negative aspects due to the power relations within the groups and mainly due to their exclusion from crucial trade and support mechanism networks. Group cohesion, group management and leadership are all needs that are based in the sphere of social capital and that become apparent in the youth groups. Findings from previous research show that it is hard for outside actors to change the way social capital functions in a group or network and thus, rather than trying to work with social capital directly, training should do so indirectly by teaching the groups on how to alter and improve the use of social capital themselves. However in this research it is unclear how far the training has impacted the organizational structure of the youth and how much is due to group dynamics prior to training.

Relations within the groups and amongst different groups are clearly strong ties, whereas relationships with local politicians and stakeholders from support mechanisms are weak ties. Drawing from the data only a few groups can combine strong and weak ties in a beneficial manner, most groups have a majority of strong ties at their disposal. Those groups that display an array of strong and weak ties have been able to get access to support mechanisms and some that are only in the possession of one weak tie have at least been able to make efficient use of it by, for example, tapping international markets. Weak ties also play a role in the financial service designed by the youth as they did not include ways of addressing marketing, innovative and access needs. It is important for any support service addressing youth to incorporate such a beneficial combination of weak and strong ties to create a network amongst the youth (strong ties) and connections with actors in a other position (weak ties).
7.3 Answering the research question

Drawing from the summary of findings and theoretical considerations the overarching research question can be answered:

| How do youth entrepreneurial groups in Nairobi's informal settlements access formal support mechanisms to address their needs and how successful are these support mechanisms in addressing the needs of the youth? |

It has been found that there are a number of support mechanisms available that can be accessed by the youth and these include governmental, formal financial and non-governmental services. The scope of financial and governmental support is purely financial through the disbursement of loans, and in a few cases, through the handing out of grants by the government. Non-governmental services on the other hand either offer entrepreneurial support through trainings, or financial and material support, mainly through grants or donations of equipment. Determinants of access are divided into eight dimensions including weak ties, entrepreneurial activity, locality, availability of support mechanisms, practical issues, perceptions of financial institutions on youth, perceptions on youth on financial institutions and youth’s general attitude towards loans. The specificity of the case of youth groups compared to individual youth entrepreneurs also affect the access as most support mechanisms are build on models that target individuals. But models like Grameen microfinance are unsuitable for youth groups and there has been an exclusion of youth groups from any formal financial scheme based on Grameen. Furthermore there is a large discrepancy between levels of collaboration with NGOs amongst youth, some have been able to work with a variety of NGOs whereas others have not been able to work with even one or have only worked with smaller NGOs that can offer less support. Such exclusion is often based on the spatial place where the group is situated, the IGA they engage in and the lack of weak ties.

Generalizing needs based on stage has proven to be tricky, as individual differences and IGAs do have an impact on needs that make it hard to transfer conclusions amongst groups. In order to offer a basic form to generalize one should rather consider the clusters of groups which incorporate vision and motivation as well as giving away some information about IGAs. Stages are better to be divided into two dimensions – start-up and advanced as these are the
two stages of group existence where differences are largest. Considering the needs of the youth it can be said that they have only been satisfied on the most basic level of entrepreneurship and group management. On a basic level equipment boosts and basic skills training have been able to help groups advance further. Once the groups evolve and begin to enter a more sophisticated sphere of entrepreneurship they are faced with access problems to necessary networks and middlemen to introduce them to attractive markets, they suffer from exclusion from the formal market and they lack product related skills as well as more general skills such as marketing. Looking at the organization structure the success of training is hard to measure as previous research shows the difficulty of altering dynamics from outside. Some groups have been able to resolve issues caused by unequal power relations whilst others are still struggling with these. As most groups are based on horizontal power relations from the start it becomes hard to assess how useful such training is, even though it does offer groups a guideline when developing their organizational structure. Only few NGOs have been able to act as middlemen and only a total of three groups have been introduced to foreign markets for product distribution. Consequently, hardly any of the more advanced skills are met. None of the NGOs have so far been able to support the groups in terms of innovation or the change from the informal to the formal sector. The same account for financial needs where groups have not been able to secure financial capital sufficient for them to start new IGAs or expand existing ones, only few groups said that they currently do not need any loans. However this is also based on the fact that many of the youth groups themselves are reluctant to apply for the existing loans on offer due to the size of the loan that is perceived as to small, their fear of loans and their lack of knowledge of the application procedures and management and repayment of loans. Lastly, preference of grants affect their attitude towards loans and have been determined by the grants NGOs give out, as they display a stronger desire to receive grants than loans which negatively affects their willingness to apply for loans.

The youth groups want a holistic support mechanism that provides financial and entrepreneurial support on all levels for groups at different stages, addressing the needs of a variety of youth groups. They also ask for consideration of the specific situation they find themselves in by setting low interest rates and flexible grace and repayment periods. Such a service would have to provide large loans that are easily accessible and offer a long maturity period. Based on their perceptions of a number of financial services, especially banks, they wish for a high percentage of youth ownership where NGOs and adults only serve as mentors, advisors and monitors. Such a service could not operate like a normal microfinance.
institutions, so the Grameen model would have to be adapted to cater for groups as a whole and to allow larger loans for bigger investments. Furthermore such a service requires a more complex differentiation amongst stages, allowing for the different structures and stages that occur within groups. Table 7.2 looks at what different actors outlined in this thesis can do to work towards such a service. This table also includes the youth as one should consider that higher demands can also be placed upon them.
Table 7.2: Policy Suggestions

<table>
<thead>
<tr>
<th>What They Do</th>
<th>Youth Groups</th>
<th>NGOs</th>
<th>Government</th>
<th>Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What They Do</strong></td>
<td>- engage in economic activity to tackle their personal material and financial needs</td>
<td>- most offer a variety of grants</td>
<td>- offer group loans through the Youth Fund</td>
<td>- developed financial schemes that are modeled on Grameen and thus have increased their attention to small and micro loans</td>
</tr>
<tr>
<td><strong>Challenges/ problems</strong></td>
<td>- inability to sustain members</td>
<td>- have not provided enough support to groups at the advanced level</td>
<td>- funds are not enough, many groups have failed to receive any loan</td>
<td>- MFI scheme is not suitable for youth</td>
</tr>
<tr>
<td></td>
<td>- attitude towards loans for some groups</td>
<td>- some few specialized groups have been supported whereas others haven’t been able to benefit from any support</td>
<td></td>
<td>- practical constraints for loan programs that would satisfy the youth groups’ needs</td>
</tr>
<tr>
<td></td>
<td>- entrepreneurial issues on different levels (in terms of training at start-up and in terms of innovation and access to markets at more advanced levels)</td>
<td>- high discrepancy between groups the receive support and those that do not</td>
<td></td>
<td>- negative perceptions from both sides determine the attitude towards each other</td>
</tr>
<tr>
<td></td>
<td>- lack of financial capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>What They Can Do</strong></td>
<td>- engage in higher savings</td>
<td>- offer more specific support to advanced and specialized groups</td>
<td>- improve the infrastructure and access to markets</td>
<td>- provide schemes that are specifically targeted at youth groups, not just at individual youth</td>
</tr>
<tr>
<td></td>
<td>- take smaller steps at a time</td>
<td>- offer a safe space for youth to save</td>
<td>- enable youth to access the formal labor market</td>
<td>- possibly collaborate with NGOs who hand out the first larger loan to youth groups for them to train how to manage and repay a loan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- offer loans to groups that have a long maturity period and are not so much focused on</td>
<td>- provide more small and large loans</td>
<td></td>
</tr>
</tbody>
</table>
Youth Entrepreneurs and Support Mechanisms – Access and Needs

<table>
<thead>
<tr>
<th></th>
<th>repayment but rather on learning how to handle loans</th>
<th>offer insurance services</th>
<th>and then offer consecutive loans thereafter</th>
<th>offer insurance services</th>
</tr>
</thead>
</table>

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MSc International Development Studies – University of Amsterdam, GSSS
7.4 Final Considerations: The potential of youth entrepreneurship and the problems with aid

Youth entrepreneurship, social capital, microfinance and the focus on self-help groups and the informal market are the new spheres where development takes place. Buzzwords such as grass-roots approach and bottom-up development are meant to assure that the poorest of the poor are addressed and “have become the poster child of an economic policy that celebrates informality” (Portes, 2000: 541). Such approaches are closely linked to the Washington Consensus because they give the economic policies of the Bretton Woods twins a human face and enable global capitalism to access areas it could not reach before (Mayer, 2002). Focusing on the capabilities of the individual poor and the assets they can use to assure livelihoods and economic well-being does further away with the need for state interference and can be used as a justification of the hollowing out of the nation state.

A state however cannot be based on a number of micro enterprises and the idea of social entrepreneurs who will maintain infrastructure and social services seems rather naive. Successful microenterprises might lead to economic wellbeing and enable parents to send their children to school but what use is this if the macro-economic policies do not enable suitable employment. In order to achieve long lasting development action on many economic and social fronts is required (Huhne, 2007) and needs to address the micro-, meso- and macro-structures as otherwise intervention will not be successful (Jones, 2002). To see such microenterprises as a tool for sustainable economic development that will eventually turn into social development might not only overstretch the capacities of such micro-level approaches, an over-emphasis on micro approaches can be dangerous as it might lead to a reduction in government budgets or a shift towards microfinance rather than poverty alleviation methods (Mahajan, 2007). It is far more realistic and suitable to see them as tools for poverty alleviation and address them as such. Okojie’s quote at the beginning of this thesis suggests to see youth entrepreneurship as a way of improving their socio-economic position (2003) and nothing else.

A further issue relating to youth entrepreneurship is the use of aid and the creation of dependency on the micro level. Ellerman points out that two negative aspects of aid are that it can creates needs where there were no needs and that any aid interference can twist motives over time (2007). Regarding the youth groups, one of the key points in the determinants of access was that the youth often do not want loans but grants. Such seems logical from
everyone’s viewpoint, why turn down free money and replace it with something you have to repay with an interest on top of it? But it is also part of the problem: Can subsidizing the youth groups lead to dependency? The youth in Nairobi’s informal settlements know about the capacities of the development market and the aid that is handed out and they want their piece of that cake. It happened more than once that during interviews I was asked how I could help financially. Many of the youth groups seemed more concerned with explaining the level of their community outreach and their personal sufferings rather than telling me how they have looked for solutions to their problem. The issue here is that unsustainable IGAs make the groups and their existences depend on subsidies and if these happen to stop the groups run a high risk of falling apart. It also changed their motives from actually designing an IGA to become self-sustainable to designing an IGA to attract donors. This is not to say that all groups operate in such a fashion but it is obvious that some groups have decided that rather than focusing on sustaining their IGAs it would be more beneficial for them to focus on receiving grants and thus they have created some form of IGA that might not even be suitable to sustain the group and generate income. In certain cases it can be understood why a group would need more outside support, for example when they operate as NGOs and reach out to the community for free. But when they operate like companies there should be a clear attempt from donors and the groups to make the group self-sustainable. In order to do so it will be helpful to increase the loan offers available to the youth and teach them how to use these, as well as not handing out money straight away but working with the youth to try and help them solve their financial needs in other ways.

7.5 Suggestions for further research

Due to the constraints of being a student researcher the scope of this thesis was limited in time and size. Looking at the findings and the data I feel that one of the most interesting follow-up studies that could be carried out is a longitudinal study on a selected number of groups from different clusters and stages that carry out different IGAs. Such a study would enable the researcher to get an understanding of how group dynamics are formed and change over time, how outside help and interference affects the groups and what they do to become self-sustainable. It could also incorporate a rather in-depth analysis of the informal sector and how youth group try to make the leap from informal and formal or how they link the two. Furthermore it would show how NGOs, the government and financial services adapt to the challenges posed by the increasing youth population in Kenya over time.
8 Appendix

8.1 List of Interviews

The following five tables serve as an overview of all the interviews that were conducted during the research period.

Table 8.1: Group interviews rounds one and two

<table>
<thead>
<tr>
<th>Group Stage</th>
<th>Interview #</th>
<th>Interview 1</th>
<th>Interview #</th>
<th>Interview 2</th>
<th>Location of group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner Group 1</td>
<td>1</td>
<td>02/03/2010</td>
<td>22</td>
<td>16/04/2010</td>
<td>Huruma – Ngei 1</td>
</tr>
<tr>
<td>Partner Group 2</td>
<td>2</td>
<td>03/03/2010</td>
<td>23</td>
<td>02/05/2010</td>
<td>Mathare</td>
</tr>
<tr>
<td>Partner Group 3</td>
<td>3</td>
<td>11/03/2010</td>
<td>23</td>
<td>02/05/2010</td>
<td>Mathare</td>
</tr>
<tr>
<td>Partner Group 4</td>
<td>4</td>
<td>17/02/2010</td>
<td>24</td>
<td>16/04/2010</td>
<td>Mathare</td>
</tr>
<tr>
<td>Partner Group 5</td>
<td>5</td>
<td>26/02/2010</td>
<td>25</td>
<td>22/04/2010</td>
<td>Huruma</td>
</tr>
<tr>
<td>Partner Group 6</td>
<td>6</td>
<td>18/03/2010</td>
<td>26</td>
<td>14/04/2010</td>
<td>Mathare</td>
</tr>
<tr>
<td>Partner Group 7</td>
<td>7</td>
<td>11/03/2010</td>
<td>27</td>
<td>14/04/2010</td>
<td>Kariobanig, High Ridge</td>
</tr>
<tr>
<td>3rd Year Group 1</td>
<td>8</td>
<td>14/04/2010</td>
<td>28</td>
<td>13/04/2010</td>
<td>Kariobangi</td>
</tr>
<tr>
<td>3rd Year Group 2</td>
<td>9</td>
<td>12/03/2010</td>
<td>29</td>
<td>12/04/2010</td>
<td>Kariobangi</td>
</tr>
<tr>
<td>3rd Year Group 3</td>
<td>10</td>
<td>09/03/2010</td>
<td>30</td>
<td>13/04/2010</td>
<td>Dandora</td>
</tr>
<tr>
<td>3rd Year Group 4</td>
<td>11</td>
<td>22/03/2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd Year Group 1</td>
<td>12</td>
<td>08/03/2010</td>
<td>31</td>
<td>12/04/2010</td>
<td>Kibera</td>
</tr>
<tr>
<td>2nd Year Group 2</td>
<td>13</td>
<td>09/03/2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Year Group 1</td>
<td>14</td>
<td>10/03/2010</td>
<td>32</td>
<td>18/04/2010</td>
<td>Glucola</td>
</tr>
<tr>
<td>1st Year Group 2</td>
<td>15</td>
<td>08/03/2010</td>
<td>33</td>
<td>15/04/2010</td>
<td>Mathare</td>
</tr>
<tr>
<td>1st Year Group 3</td>
<td>16</td>
<td>21/03/2010</td>
<td>34</td>
<td>30/04/2010</td>
<td>Korogocho</td>
</tr>
<tr>
<td>1st Year Group 4</td>
<td>17</td>
<td>23/03/2010</td>
<td>35</td>
<td>17/04/2010</td>
<td>Dagoreti District</td>
</tr>
<tr>
<td>1st Year Group 5</td>
<td>18</td>
<td>12/03/2010</td>
<td>36</td>
<td>11/04/2010</td>
<td>Kawangware</td>
</tr>
</tbody>
</table>
Table 8.2: Workshops

<table>
<thead>
<tr>
<th>Workshop</th>
<th>Date</th>
<th>Participating Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workshop 1</td>
<td>07/04/2010</td>
<td>Partner Group 1, 3rd Year Group 1, 3rd Year Group 3, 3rd Year Group 4</td>
</tr>
<tr>
<td>Workshop 2</td>
<td>08/04/2010</td>
<td>Partner Group 2, Partner Group 6, 3rd Year Group 2, 1st Year Group 4</td>
</tr>
<tr>
<td>Workshop 3</td>
<td>09/04/2010</td>
<td>Partner Group 3, Partner Group 4, Partner Group 6, 2nd Year Group 2</td>
</tr>
<tr>
<td>Workshop 4</td>
<td>10/04/2010</td>
<td>2nd Year Group 1, 1st Year Group 1, 1st Year Group 2, 1st Year Group 3, 1st Year Group 5</td>
</tr>
</tbody>
</table>

Table 8.3: Interviews with control groups

<table>
<thead>
<tr>
<th>Group</th>
<th>Interview #</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control Group 1</td>
<td>38</td>
<td>21/04/2010</td>
</tr>
<tr>
<td>Control Group 2</td>
<td>39</td>
<td>21/04/2010</td>
</tr>
<tr>
<td>Control Group 3</td>
<td>40</td>
<td>22/04/2010</td>
</tr>
</tbody>
</table>

Table 8.4: Interviews with NGOs and others

<table>
<thead>
<tr>
<th>Person</th>
<th>Interview #</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Henry I.</td>
<td>41</td>
<td>22/02/2010</td>
</tr>
<tr>
<td>NGO 1</td>
<td>42</td>
<td>23/02/2010</td>
</tr>
<tr>
<td>Consultant 1</td>
<td>43</td>
<td>08/05/2010</td>
</tr>
<tr>
<td>NGO 1</td>
<td>44</td>
<td>10/05/2010</td>
</tr>
<tr>
<td>NGO 1</td>
<td>45</td>
<td>11/05/2010</td>
</tr>
<tr>
<td>Consultant 1</td>
<td>46</td>
<td>11/05/2010</td>
</tr>
<tr>
<td>NGO 2</td>
<td>47</td>
<td>13/05/2010</td>
</tr>
<tr>
<td>Consultant 1</td>
<td>48</td>
<td>11/06/2010</td>
</tr>
<tr>
<td>Bank</td>
<td>Interview #</td>
<td>Date</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td>K-Rep</td>
<td>49</td>
<td>11/05/2010</td>
</tr>
<tr>
<td>Equity Bank</td>
<td>50</td>
<td>11/05/2010</td>
</tr>
<tr>
<td>Family Bank</td>
<td>51</td>
<td>06/04/2010</td>
</tr>
<tr>
<td>River Bank</td>
<td>52</td>
<td>11/05/2010</td>
</tr>
<tr>
<td>Co-Operative Bank of Kenya</td>
<td>53</td>
<td>11/05/2010</td>
</tr>
</tbody>
</table>
8.2 Sample Survey

This questionnaire is aiming to find out which criteria matter to you when choosing a financial service.

Are you currently working with YIKE?

Please indicate at which stage you are currently with YIKE:

Please indicate what the main income generating activity of your group is?

**Part 1**
Please tick the answers that apply to you (multiple answer per question are possible).

Example:
Please tick those that are most important to you when taking out a loan.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) low interest rates (below 12%)</td>
<td>x</td>
</tr>
<tr>
<td>b) long grace period (more than 3 months)</td>
<td></td>
</tr>
<tr>
<td>c) no physical collateral required</td>
<td></td>
</tr>
<tr>
<td>d) requested amount is given</td>
<td>x</td>
</tr>
</tbody>
</table>

1. Please tick those that are most important to you when taking out a loan.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) low interest rates (below 12%)</td>
<td></td>
</tr>
<tr>
<td>b) long grace period (more than 3 months)</td>
<td></td>
</tr>
<tr>
<td>c) no physical collateral required</td>
<td></td>
</tr>
<tr>
<td>d) requested amount is given</td>
<td></td>
</tr>
<tr>
<td>e) friendly and approachable staff</td>
<td></td>
</tr>
<tr>
<td>f) a lender you trust</td>
<td></td>
</tr>
<tr>
<td>g) financial training in combination with loan</td>
<td></td>
</tr>
<tr>
<td>h) use of social collateral</td>
<td></td>
</tr>
<tr>
<td>i) long repayment period (18 months minimum)</td>
<td></td>
</tr>
<tr>
<td>j) physical proximity (less than 1 hour by matatu)</td>
<td></td>
</tr>
</tbody>
</table>

**Part 2**
Please answer the questions by stating your own opinion.

Example:
What would the shortest repayment period acceptable be? (Please indicate in months)

12 months

1. How much money would you be able to save before being given a loan?

2. What would be an ideal repayment period? (Please indicate in months)

3. What would be an acceptable interest rate? (Please indicate in percent)

4. Would you prefer to receive a loan or a grant?

Part 3
Please tick the appropriate answer (only one answer per question)

Example:
What would you consider as an acceptable and reasonable interest rate?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) 2-5%</td>
<td>x</td>
</tr>
<tr>
<td>b) 6-10%</td>
<td></td>
</tr>
<tr>
<td>c) 11-15%</td>
<td></td>
</tr>
</tbody>
</table>

1. What would you consider as an ideal grace period?

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) 0-2 weeks</td>
</tr>
<tr>
<td>b) 2-4 weeks</td>
</tr>
<tr>
<td>c) 3 months</td>
</tr>
<tr>
<td>d) 6 months</td>
</tr>
</tbody>
</table>

2. How long would you be willing to save before receiving a loan?
3. Are you worried about taking out a loan and not being able to repay it?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

**Part 4**

Please indicate the degree of importance or confidence for the possible answers of the following questions. Please make sure to tick one box for each possible answer.

Example:

How important are the following factors to you when taking out a loan

<table>
<thead>
<tr>
<th></th>
<th>Very important</th>
<th>Important</th>
<th>Not important at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>low interest rates (below 12%)</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>long grace period (more than 3 months)</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>no physical collateral required</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>requested amount is given</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>friendly and approachable staff</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>financial training in combination loan</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>use of social collateral</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>long repayment period (18 months minimum)</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Physical proximity (i.e. Less than 1 hour by matatu)</td>
<td></td>
<td></td>
<td>x</td>
</tr>
</tbody>
</table>

1. How comfortable do you feel in collaborating financially with the following (i.e. saving and borrowing)?

<table>
<thead>
<tr>
<th></th>
<th>Very comfortable</th>
<th>Comfortable</th>
<th>Not comfortable at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>foreign NGOs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. How important are the following factors to you when taking out a loan?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very important</th>
<th>Important</th>
<th>Not important at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>low interest rates (below 8%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>long grace period (more than 3 months)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no physical collateral required</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>requested amount is given</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>friendly and approachable staff</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>a lender you trust</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>financial training in combination with loan</td>
<td></td>
<td></td>
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<tr>
<td>use of social collateral</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>long repayment period (18 months minimum)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical proximity (i.e. Less than 1 hour by matatu)</td>
<td></td>
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</tbody>
</table>

Thank you very much for your time. Your support is greatly appreciated.
8.3 Transcripts from the workshops

8.3.1 The four initial support mechanisms

Table 8.6: Workshop 1

<table>
<thead>
<tr>
<th><strong>Membership:</strong></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>-such an organization should be piloted with the own members of each group first and can then be extended to the community</td>
<td></td>
</tr>
<tr>
<td>-to become members youth groups have to:</td>
<td></td>
</tr>
<tr>
<td>-have an income generating activity</td>
<td></td>
</tr>
<tr>
<td>-be registered</td>
<td></td>
</tr>
<tr>
<td>-have a functioning bank account</td>
<td></td>
</tr>
<tr>
<td>-be existent for at least one year</td>
<td></td>
</tr>
<tr>
<td>-have members who are aged between 15-35 years</td>
<td></td>
</tr>
<tr>
<td>-have a committee</td>
<td></td>
</tr>
<tr>
<td>-do record keeping</td>
<td></td>
</tr>
<tr>
<td>-pay a registration fee of KSH100 (administrative fee)</td>
<td></td>
</tr>
<tr>
<td>-each group will be monitored through field visits before being accepted</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Savings:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-important to encourage savings</td>
<td></td>
</tr>
<tr>
<td>-groups need to have a certain amount on a monthly basis (can save either monthly or weekly, each group can decide how to save on its own as long as they produce the required amount)</td>
<td></td>
</tr>
<tr>
<td>-saving activity needs to be monitored</td>
<td></td>
</tr>
<tr>
<td>-minimum saving per group should be 200KSH but each group can save as much as they want (saving amount above minimum is flexible as a low minimum amount disadvantages groups who want to save more and a higher amount might be impossible to achieve for certain groups)</td>
<td></td>
</tr>
<tr>
<td>-their savings will determine the size of their loan which will make them more determined to save</td>
<td></td>
</tr>
<tr>
<td>-should receive bonus of 2% after saving for one year</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Collateral:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-their savings</td>
<td></td>
</tr>
<tr>
<td>-business plan that is accepted by organization</td>
<td></td>
</tr>
<tr>
<td>-guarantors who are members of the group that takes out the loan (i.e. each member has to guarantee the loan its group takes out)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>What to do to receive a loan:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-have to have been saving for at least 3 months</td>
<td></td>
</tr>
<tr>
<td>-financial training or proof that they have already received financial training</td>
<td></td>
</tr>
<tr>
<td>-proposal/business plan</td>
<td></td>
</tr>
<tr>
<td>-intact record keeping</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Possible Loan Amount:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>- have categories that increase every time a group pays back their loan, so after every repayment the group will be able to take out a higher amount</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Repayment Period:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-groups can decide how fast they want to repay but there is a fixed maximum amount for each loan</td>
<td></td>
</tr>
<tr>
<td>-groups have to continue saving whilst they are paying back their loan</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Grace Period:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-a grace period is needed so there has to be one</td>
<td></td>
</tr>
<tr>
<td>-length of the grace period should depend on the amount taken out (there should be clear cut categories for each loan amount)</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Interest Rate:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-5% on all loans</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Training:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-mixed workshops (i.e. members from different groups) to build trust</td>
<td></td>
</tr>
</tbody>
</table>
- training on finance, trust issues, savings, business and recordkeeping/bookkeeping
- older groups should serve as mentors to younger groups

**Who gets the loan first:**
- monitors and loan officers collaborate to see which groups perform best, the loans will not be divided

**Default:**
- guarantors, i.e. members of the group, have to pay unless there is a genuine reason

**Organizational Structure:**

<table>
<thead>
<tr>
<th>EXCOM Directors &amp; Monitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEPARTMENTS</td>
</tr>
<tr>
<td>Membership</td>
</tr>
</tbody>
</table>

**Staff:**
- each youth group selects one representative annually, all representatives are then divided amongst the different departments and the EXCOM, all representatives select the departmental staff and the members of the EXCOM
- ensures ownership and equal opportunities for all youth groups
- only the department of monitoring will have employed staff as they need to be 100% objective, they will be assessed annually though to ensure high standards

EXCOM: 7 people (4 directors and 3 monitors)
- directors are annually elected by the different departments and must be members of the youth groups
- monitors are static but their work will be assessed annually, should come from an organisation similar to YIKE

**Tasks of departments:** (each has a different size according to their activity)
- Membership: decides who can become a member
- Savings: keeps the savings accounts, negotiates saving amounts with groups, encourages members to save
- Monitoring: does all the groundwork: checks usage of loans, membership criteria and repayment
- Training: negotiates and conducts training
- Loans: checks collateral, looks at loan applications, presents qualified loan applications to monitors and EXCOM
- Bookkeeping: financial and membership records, accounts and filing
- Financial Department: financial advice to groups, deals with savings

**Table 8.7: Workshop 2**

**Membership:**
- registered youth groups
- have to exist for longer than 1 year
- need to have a bank account in the name of the group
- need to become part, i.e. register under, the financial umbrella CBO
- need to have a focus on an IGA (i.e. either already have an IGA or plan to have one) to be self
**Youth Entrepreneurs and Support Mechanisms – Access and Needs**

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**Sustainable**
- 95% of the youth group members have to be aged 18-35
- Members of the youth groups need to have ID cards
- Gender neutrality in groups unless they have a valid reason for gender bias
- Need to have a sound mind
- Focus on disability opportunity within groups (but if a group only has disabled members or none they need to explain why)
- 60% of members should come from a rural background, 40% from an urban background (to stop rural to urban migration)
- Urban youth groups must consist of mixed tribes, for rural youth it depends on where they come from as there are certain areas where there is only one tribe
- Proportions allocated to national regions should depend on the economic situation of the area (i.e. more youth groups from a poorer area than a richer one)

**Savings:**
- Youth groups need to save on their own and monthly with the CBO
- Every member has to save 50KSH a week, which means each group saves 200KSH per month per member
- Once the CBO is sustainable they should offer a bonus for savings

**Collateral/Guarantors:**
- No physical collateral
- Members of group guarantee their group's loan – will ensure group cohesion and sustainability and assures that members will work hard to pay the loan back, gives them a sense of ownership of the loan

**What to do to receive a loan:**
- Must have 20% of requested loan amount in their savings
- Need to have a business plan (which helps monitoring)
- Must have been saving for at least 6 months
- Need to receive financial training (bookkeeping, recording, financial management) by CBO
- Have to have an active bank account which serves as a financial statement

**Who gets loan first:**
- Ballot if all groups are qualified equally
- Do not split loans

**Loan Amount:**
- The 1st loan will be between 50,000 and 200,000 KSH
- After repayment of the 1st loan there will be no maximum loan amount, as long as the group has the 20% savings

**Repayment Period:**
- In categories with 24 months as the maximum repayment period:
  - 50,000 KSH – 1 year
  - 100,000 KSH – 18 months
  - 200,000 KSH (and above) – 24 months
- Repayment should be on a monthly basis and savings have to continue at the same time

**Grace Period:**
- 2 months but the group has to continue saving within these

**Interest Rate:**
- 12% applied annually
- 2% for administration
- 10% for other groups and savings bonus

**Training:**
- Depends on funds of the CBO but if possible all groups should have continuous training
- Employ trainers
- some training should mix the members of different groups, depending on the kind of training
- CBO should provide mentors for the more advanced groups

**How to avoid default:**
- intensive training and close monitoring
- no excuses are accepted for default as groups need to do a risk assessment beforehand

**Organizational Structure:**

![Organizational Structure Diagram]

Advisory Board:
- consists of non-elected qualified personnel such as the CEO of an MFI; a lawyer, an expert on youth entrepreneurship and two members of the youth groups (one male, one female) who work on a voluntary basis (receive allowances to attend meetings etc.)
- advise the board, help in fundraising and monitor the board of directors

Board of Directors:
- annually elected representatives from each province (8 province + 1 extra representative to have an odd number) who are members of the youth groups and who work on a voluntary basis (receive allowances to attend meetings etc.)
- each youth group of each province elects one member for the provincial BoD who then elect one of their members for the national BoD
- conduct monthly meetings where they assess the progress of the CBO, select which groups receive loans and give their final approval on decisions

All other staff:
- are employed youth who come from the youth groups that are members

**Table 8.8: Workshop 3**

**Membership:**
- youth groups have to be registered in the small CBO of the community
- have to have a business plan or an IGA
- have to have a bank account
- need a physical address
- need to be governed by a constitution
- must have registration certificates
- need to have an IGA or savings
- need to exist for at least 1 year
- should have been trained in bookkeeping or recordkeeping
- need a minimum of 15 members
- need to be gender neutral unless they have a valid explanation
- members need to be between 18-35 years

**Savings:**
- compulsory to save a 1000KSH per month per group
- groups can save as much as they want
- bonus depends on commitment (regularity) and amount of savings
**Collateral/Guarantors:**
- no physical collateral
- commitment and records as collateral
- can offer physical collateral but it is not compulsory, only an advantage for that group and only needed for very high amounts

**What to do to receive a loan:**
- write a proposal
- have 20% of the requested amount saved up

**Who gets loan first?**
- each group gets assigned a spot/time when they can apply for the loan so that there won’t be any competition
- offer to split money

**Loan Amount:**
- depends on savings and collateral for the 1st loan
- all loans after the 1st depend on your repayment of the 1st loan
  2nd loan should be double the 1st loan etc.
- physical collateral means you can take as much as it is worth

**Repayment Period:**
- minimum 12 months, maximum 24 months -> depending on the size of the loan

**Grace Period:**
- standard of 3 months but can apply for longer if the group has reasonable circumstances

**Interest Rate:**
- 10% applied annually

**Training:**
- provided by CBO
- especially on business management and financial
- 1st training before receiving the loan, after the 1st loan the groups get support through supervision and mentorship

**Avoiding default:**
- sign an agreement which covers default and allows the CBO to take the 20% savings in case of default
- close monitoring of loan usage

**Organizational Structure:**

```
Chairman
  |
Assistant Chairman
  |
Secretary
  |
Assistant Secretary
  |
Loan Officer
  |
Organising Secretary
  |
Committee
  |
Members
  |
Community
```

**Positions:**
-all employees should be youth
-easily accessible, central and secure office
Chairman and Assistant Chairman:
-are the project co-ordinators
-elected from member groups through annual elections
Secretary and Assistant Secretary:
-elected from member groups through annual elections
-recordkeeping/minutes
Loan Officer:
-deals with group funds and record keeping
-employed professional
-works together with the committee
Organising Secretary:
-employed professional
-monitors and does ground visits, serves as an information officer who brings all the information to members
Committee:
-consists of one representative from each member group
-decides about loans in collaboration with the loan officer

Table 8.9: Workshop 4

| Membership: | -95% of group members have to be between 15-35 years, the other 5% can be above
-need to be registered as a youth group
-need a minimum of 5 members, no maximum
-can start the moment they register
-have to have or have to plan an IGA
-target youth at national level
-groups need to be gender sensitive unless they have a valid explanation |
| --- | --- |
| Savings: | -a must for all groups
-100KSH per member per month
-groups can save more if they wish to, there is no maximum
-5% bonus after 1 year
-if an individual defaults their payment they have to pay a fine of double the amount they are supposed to pay |
| Collateral/Guarantors: | -no physical collateral
-group members act as guarantors
-need to have 20% of the requested amount saved |
| What to do to receive a loan: | -have to have saved 20% of the requested amount
-need a business plan
-have to have had training in entrepreneurial, financial, marketing, ICT and bookkeeping
-need an active bank account
-have to provide a quarterly report of their income, expenses etc.
-must have saved for at least 3 months |
| Who gets loan first: | -use a ballot if all applicants qualify equally |
| Loan Amount: | -no fixed amount |
| Repayment Period: | -no fixed amount |
Youth Entrepreneurs and Support Mechanisms – Access and Needs

-should be categories depending on loan:
  50 000 KSH - 1 year
  1 Million KSH - 5 years

**Grace Period:**
-3 months

**Interest Rate:**
- for low amounts 1%
- for high amounts 10%

**Default:**
- before giving out the loan the personal details are collected so that they can be blocked from the service in case of default
- freeze savings in case of default
- use police in case of default
- also have to pay back the loan in case of accident as they should have considered any possible risks in their risk assessment form

**Organizational Structure:**

<table>
<thead>
<tr>
<th>Chairperson</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistant Chairperson</td>
</tr>
<tr>
<td>Secretary</td>
</tr>
<tr>
<td>Assistant Secretary</td>
</tr>
<tr>
<td>Organising Secretary</td>
</tr>
<tr>
<td>Trustee</td>
</tr>
</tbody>
</table>

**Positions:**
- all positions are elected from youth groups (all staff are youth)
- trainers are employed when needed
- all members are elected officials which will create a feeling of ownership

**Treasurer:**
- serves as loan officer
- for loan decisions the treasurer and the secretary collaborate by organising a meeting with all representatives from each youth group (i.e. each youth group has one representative) who then approve the loan or not

**Trustee:**
- serve as monitors
- collect fines in case of default

8.3.2 Vignettes Used In The Workshops

Textbox: 8.1: Family Bank, Kenya

**Requirements for loan:**
- have to have an operational account for 3-6 months
- maximum amount 200,000 KSH
- need physical collateral (title of deed, land)
- interest rate 8-10%
- no grace period
Youth Entrepreneurs and Support Mechanisms – Access and Needs

- repayment rate: 12-24 months

Textbox 8.2: K-Rep „Tap and Reposition Youth“, Kenya

- targeted at girls aged 16-22 years
- the girls formed savings clubs and after 8 weeks each club selected one girl to receive the first initial loan of $200
- once the first girl paid back her loan the other girls could receive loans
- used social pressure as collateral
- very successful, repayment rate was 99%

The Kenyan bank K-Rep, established a micro finance program called Tap and Reposition Youth in collaboration with the Population Council and an MFI, in which they lend money to over a 100 adolescent out-of-school girls aged 16 to 22. The girls formed saving clubs were they learned different skills and after 8 weeks chose one of the girls of their club to be the first to receive a loan. Therefore the collateral used was the social pressure as the girl had to pay her loan back for the others to receive a loan as well. For the initial small loans of $200 the repayment rate was 99%. Even though this program only focused on girls it is still interesting to see that officials have recognized the problem and that there is room and openness for change (Nagarajan, 2004: 5).

Textbox 8.3: Pro Mujer, Bolivia

- youth formed ‘youth solidarity groups’
- each group received 1 week intensive financial and business training
- then one member received the first loan and once they paid back the other members would receive a loan
- after their initial loans youth were incorporated into the adult lending scheme

Pro Mujer targeted youth between 14-17 and 18-23 and created ‘youth solidarity groups’ that consisted of 4-6 youth who received a week’s specialized pre-credit training together. Here they took part in a business practicum and created a business planning exercise in order to pass the first stage. A further requirement was a legal guardian or parent to sign the loan and allow for the child to take part in it. After passing this stage the youth were included in the adult program enjoying the same rights as the adult participants. However this caused some problems and pro mujer found that it is more advisable to keep youth and adults separate as they have different needs and interests. Furthermore certain problems occurred such as high drop out rates due to the mobility and indecisiveness of the youth and because of the extra staff required (Pro mujer, 2009: 2-4). Chigunta points out, that skilled mentors who can
overcome the problems of small business experience, contacts and skills are rare to find in
many developing countries (Chigunta, 2002: 22).

Textbox 8.4: Bal Vikas Bank (Children Development Bank), India

- created and run by street children aged 9-18 years old
- street children of 9 years and above can safely deposit money on a daily basis
- if they safe for longer than 6 months (i.e. do not withdraw any money) they receive a bonus
  of 50%
- once they turn 15 the children can take out loans for business purposes if they,
- have been saving for at least 3 months
- have 20% of the required loan in their account

The Bal Vikas Bank in New Delhi was established in 2001 and is possibly the first bank that
was created and is run by children between the age 9 to 18. Adults only serve as facilitators
and thus this bank demonstrates the 'managerial capacity of adolescents' (Nagarajan, 2004: 4).
It provides access to any street and working child aged 9 and above and offers them a place to
safely deposit money of any amount on a daily basis to avoid stealing and irresponsible
spending. Children who do not withdraw for longer than six months receive an interest of
50% on their savings. Once the members, who have thus established a savings history with
the bank, turn 15 they are allowed to take out loans for business purposes. However in order
to be granted a loan the children must have been saving with the bank for at least 3 months
and need to have 20% of the requested loan in their bank account. The program accepts two
guarantors (shopkeepers, other working street children) as an alternative to collateral.
Furthermore the bank contributes to the personal development of the children by offering life
skills education in money management, savings and business planning (Ibid, 4). Thus this
bank is modeled on ROSCA’s but also provides necessary skills that are needed by the youth.
List of References

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- GTZ (2008) *Youth Unemployment*, Eschborn, Germany: GTZ
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• Motts, N. (2000) Current Youth Entrepreneurship Practice in Africa: Does it Work?
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- Pro mujer (2009), Exploring Youth Financial Services. A Case Study of pro mujer Bolivia, Bolivia: pro mujer


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