

Mechanisms for funding Youth Businesses in South Africa: The Role of DFIs

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ABSTRACT

South Africa has been experiencing an unprecedented increase in youth unemployment in the past 5 years and the level of entrepreneurial activities amongst young people is very low reported at 8.9% below international average of 11.9 % as at 2014. This situation still manifest itself even after the government of the Republic of South Africa (RSA) took a policy stance in tasking the National Development Agency (NYDA) to place youth entrepreneurship at the core of its programs to ensure that young people in their numbers participate in the mainstream economy. Previous research conducted in the country about the state or levels of youth entrepreneurship, attributed the shortcomings to funding gaps left by commercial banks, lack of business skills, lack of concerted efforts to have curriculum that is focused on entrepreneurship in universities but at the core of it all, funding is cited as the biggest challenge experienced by young people willing to start and run their own businesses. In the country with a sophisticated financial sector and DFIs highly liquid, yet we still have funding challenges and procedural bottlenecks experienced by sectors of society interested in establishing businesses. It is out of these challenges that this research seeks to investigate into the mechanisms used by South African DFIs (NYDA and Awethu projects) to fund youth enterprises in the country. This Research used a qualitative approach to analyse primary and secondary data collected from the NYDA, Awethu projects and IDC

This research found that public DFIs have a wider reach compared to private DFIs because it is easy to set up offices in municipalities like the case of the NYDA and the IDC. Private DFIs will also struggle against public DFIs in servicing a wider range of youth enterprises because of government guarantees that could always be activated in times of financial stress. It also made a finding that Awethu projects emphasise the need for employment creation when qualifying enterprises from one funding band to the next compared to the NYDA. The three institutions have sound and functional credit committees that ensure that prejudice is eliminated from the appraisal processes. Lastly the NYDA spends majority of its budget on salaries compared to the mandate which it exists for. On average, about 39% of its budget goes to servicing internal human resource issues as compared to 8.31% budgeted to fund youth businesses.

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GLOSSARY OF TERMS

B-BBEE	Broad-Based Black Economic Empowerment
BRICS	Brazil, Russia, India, China, South Africa
CSI	Corporate Social Investment
CYBF	Canadian Youth Business Foundation
DFI	Development Finance Institution
EPWP	Expanded Public Works Programme
ERF	Enterprise Rehabilitation Fund
GB	Grameen Bank
GEM	Global Entrepreneurship Monitor
GEP	Gauteng enterprise propeller
IDC	Industrial Development Corporation
MFI	Micro finance Institution
NEF	National Economic Fund
NGO	Non-Governmental Organisation
NIF	New Investment fund
NYC	National Youth Commission
NYDA	National Youth Development Agency
PFMA	Public Finance Management Act
RSA	Republic of South Africa
SAMAF	South African Micro Finance Apex Fund
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SETA	Sector Education and Training Authority
SMME	Small, Micro, and Medium-sized Enterprises
TEA	Total Early stage Activity
USD	United states of American Dollar
UYF	Umsombovu Youth fund

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1 INTRODUCTION

1.1 Research

South Africa is facing an acute socio economic challenge owing to the rising youth unemployment recorded at 36.1% in 2014 moving 3.4 points higher than in 2008, and as consequence it limits youth participation in the economy and the ability to perform labour so as to maximize economic value for the betterment of society at large. The exigency to subsume youth into the labor force in the South Africa economy can never be overstated as the cost of lack of participation is too high to pay. Youth unemployment erodes human capital; reduce economic welfare and output (Oluwajodu, Blaauw, Greyling, & Kleynhans, 2015).

At the same time, it is worth noting that period 2008-2014 recorded an improvement of young people between ages (14-35 years) attaining education. However, this did not prevent their labor market prospects from deteriorating and young women are at a disadvantage compare to their male counterpart (Statistics South Africa, 2014). Young people hold a major share of about 42% of the RSA (Republic of South Africa) population and yet are faced with a precarious future as the impact of joblessness, inequality, poor health and poverty hit them the hardest (NYDA, 2014); therefore the extent of these challenges requires a collective effort and multi-faceted approach through government, private and civic leadership to stimulate economic participation and youth absorption by the RSA economy.

Unyielding structural mechanics in the South African economy is attributed to be one of the factors marginalising productive youth from participating fully in nation building in the context of being active participants in income generating activities (Parsons, 2009). Mismatches between skills supplied and demand, Insufficient access to effective education and skills development opportunities, deterioration of skills and motivation of individual job seekers caused by prolonged periods of unemployment, Insufficient opportunities for the unemployed to learn-by-doing or on-the-job training, lack of mobility, exacerbated by high and increasing transport costs as well as the lack of infrastructure maintenance and development, lack of sufficient social support services, resulting in high dependency rates and demand for social security grants.(Parsons 2009,p.18)

This scenario has propelled government to deploy action orientated interventions to mitigate the impact of youth unemployment on society and even ensure maximum participation of young people in the labor market and the economy at large. Some of these interventions entail the employment Tax incentive bill that was passed by cabinet in September 2013, which is aimed at giving private firms tax breaks for hiring young people. Furthermore, the Expanded Public Works Programme (EPWP) provide short-term employment to young people in need for low skills through government projects ,and also that government has mandated companies with annual payroll that Exceeds R 500 000 to contribute a 1% of the monthly payroll as per the skills Development Levies Act(No 9 of 1999) towards workplace training through the Sector Education and Training Authorities (SETAs) which will in-turn facilitate training programmes customized to specific sector's needs (Levinsohn, Rankin, Roberts, & Schöer, 2014).

In addition to work placement efforts by government, it created a youth Development Finance Institution (DFI) in 2008 known as the National Youth Development Agency (NYDA) to assist business ventures owned and created by young people through entrepreneurial funding and financial literacy services.

To reinforce the capacity of NYDA to extend funding to as many young businesses as possible, government through a joint partnership between the Industrial Development Corporation (IDC) and Small Enterprise Finance Agency (SEFA) has set aside R 2.7 billion in 2014 for the next 5 years to support youth entrepreneurs, with the IDC having assisted 11 business at a cost of R105, 3 million and SEFA approved R 157 million to more than 10 200 Youth owned Businesses (IDC, 2014)

This study, therefore, comparatively investigates the effectiveness of DFI funding on South African youth entrepreneurship .The study is informed by the analysis of primary and secondary data of two DFI's(Government owned and Privately DFI) namely; NYDA and AWETHU PROJECT.

1.2 Problem Statement

South Africa is confronted by a challenge of having fewer young people participating in the economy either through employment or entrepreneurial ventures and the rate at which employment opportunities is created often lower than the rate of population growth and also, companies find it too costly and risky to employ young people (DTI, 2013). Curtin (2001) posit that most countries world over face major challenges of creating employment opportunities for young people and this group find itself at the back of the line competing for employment with the old despite higher levels of formal education. Therefore the situation facing young people today in RSA necessitates efforts to expand the economy and equip young people with skills and resources to set up and run their own businesses that will in turn create employment for other people. Olufoso (2010) posits that for South Africa can enjoy socio-economic stability, youth enterprises must be harnessed to ensure full participation of young people in driving next phase of economic growth.

Human capital investment in youth is an important long term and sustainable investment any country could make (Olufuso, 2010). Awogbenle and Iwuamadi (2010) highlight that youth empowerment and development is critical stages in life for constructing the human capital that insulate young people from poverty to a better and fulfilling livelihoods.

According to Gurol and Atsan (2006) (as cited in David, 2014), the global economy is being challenged by growth prospects, and entrepreneurship is viewed as the driving force behind positive evolution of most progressive economies thereby increasing job opportunities through social development and economic prosperity . The RSA government has over recent years adopted the promotion of youth entrepreneurship as measure of addressing youth unemployment (Studies, Gwija, Eresia-eke, Iwu, & Africa, 2014). However, youth enterprises face a lot of constraints that restrain their ability to grow and expand. One notable constrain is lack of funding (Gwija, 2014).

In response to financial challenges facing youth enterprises, DFI's were set up to finance Small, Micro, and Medium-Sized Enterprises (SMMEs), to promote entrepreneurship, industrial development and economic growth. As to whether they have been able to achieve their roles by providing support to youth enterprises or not is yet to be verified empirically.

This study seeks to fill this empirical gap by examining the roles that DFIs play in financing youth enterprise.

1.3 Research Questions

1. What tools or mechanisms do South African DFIs use to support youth enterprises?
2. What are the procedures used by DFIs to finance youth enterprises in S.A?
3. How is the level of outreach of a government DFI to that of a private DFI?

1.4 Research Objectives

1. To identify or outline the different tools used to finance youth enterprises in South Africa
2. To evaluate the procedure used by DFIs to advance credit to youth enterprises
3. To analyse trends of loans which are advanced to youth by NYDA and Awethu projects
4. To compare level of outreach of government DFIs to that of private DFIs

1.5 Significance of Research

This study from the DFI's point of view will fill a gap in attempting to explain a phenomenon pertaining to procedures and mechanisms which DFIs employ to finance young entrepreneurs across South Africa and the decision making process thereof. In spite of their importance, the role of DFIs as a catalyst of youth entrepreneurship in South Africa has not been thoroughly investigated. A number of studies have researched the role of the DFIs in the funding businesses albeit focusing on specific aspects of financing youth enterprises to curb the rising scourge of youth unemployment in South Africa. For instance, the study by Massa (2013) focused on the role of the DFIs in raising employment creation and productivity change but lack the specifics on how the interventions will address the specific needs of young people intending or already running their own enterprises. Likotsi (2014) assessed the phenomena of development finance institutions decision making under opportunity evaluation in South Africa. The output of the study can provide workable solutions on factors that foster or

impedes youth entrepreneurship funding by DFIs and also stimulates debates on how best Youth entrepreneurship funding can be reconfigured to maximize impact on its outreach to youth businesses

Employment creation methodologies targeted at young people are proving to be a mammoth task for many countries, both developed and developing (Curtain, 2001). In the case of South Africa, the level of participation by youth in the economy is disproportionately low and the government has been grappling with challenges to ensure that these problem are corrected (DTI, 2013). Although youth economic participation efforts need the involvement of different stakeholders, DFIs can design appropriate entrepreneurial instruments, products and services that will enable them to participate fully in the economy (Nagarajan, 2005). Langevang et al (2012) argues that if young people are not adequately equipped to succeed in their entrepreneurial undertakings, majority find it difficult to aspire for growth and with minimal contribution to the economy and survivalist. Therefore this study will further clarify the role of DFIs in supporting youth enterprises with a high impact in social and economic domains where youth employment creation will become the cornerstone of their decision making.

Shane & Venkataraman (2012) states that social science research will only have credibility if it has conceptual framework that clarifies and predicts a set of empirical phenomenon and currently there empirical phenomenon on youth entrepreneurship lacks such. This research will use different research design from other studies, multi-pronged approaches and testing different theoretical perspectives in relation to mechanism used to finance youth enterprises by DFIs.

An observed appreciation of the mechanisms and procedures deployed by DFIs in addressing the low levels of entrepreneurial activities in South Africa is very important at this juncture when the government expending its energies in encouraging the birth and growth of enterprises and SMMEs as key drivers of employment creation, social transformation and social economic growth (Likotsi, 2014). Debate is emerging on whether government should move away from a one size all policies as far as entrepreneurship is concerned and embrace the fact that developing economies like South Africa have rich socio-cultural diversity (Salami, 2013). This study will reinforce the level of policy instrument geared towards DFIs methods used to finance youth enterprises on a sustainable and efficient basis. Some of the

policy concerns this study will be able to clarify is budgetary issue. It will also strive to focus on basic fundamental factors that can be addressed by policy and government programs to improve the reach of DFIs to the rest of South African youth enterprises.

1.6 Organisation of the Study

This research is organised into five (5) chapters. Chapter one (1) outlines the problem statement, purpose and significance of research, research questions, objectives and scope. Chapter Two (2) provides a review of literature on the mechanisms used by DFI's to finance youth enterprises in South Africa, Globally and also elaborates on the empirical literature and analytical framework that have been employed in analysing data collected for the purpose of this research. Chapter Three (3) outlines the methodology used to conduct this research. Chapter Four (4) analyses data received from the NYDA, AWETHU projects on their role in providing funding of youth enterprises in South Africa. Chapter Five (5) provides the conclusion and recommendations that have been proposed following the findings and data analysed

2 LITERATURE REVIEW

2.0 Introduction

This chapter provides a review of the literature on youth entrepreneurship funding. The chapter starts by introducing the definition of youth entrepreneurship and followed by theoretical underpinnings on youth entrepreneurship funding. The section will review empirical studies on the subject under investigation, with a particular emphasis on the role of DFIs in youth entrepreneurship funding in South Africa and the world at large. This chapter will also provide an analytical framework that the study will employ to analyse the findings to ensure coherence in the way results are presented.

2.1 Definition of Youth Entrepreneurship

There is a lack of consensus on the definition of youth entrepreneurship, entrepreneur or entrepreneurship in academic literature, the exigent factor to reach consensus on the definition can never be overstated as it will simplify the investigation of youth entrepreneurship and the policies designed to promote it (Schoof, 2006). Bruyat and Julien (2001) further explained that establishing the boundaries within which the field of entrepreneurship can be best conceptualized has still not been solved due to the dynamics relating to lack of definition of the word. Some of the reasons cited for the lack of agreement on the definition of entrepreneurship is that it has been studied within overlapping disciplines which gave rise to different meaning and interpretation to the word (Kobia & Sikalieh, 2010). For instance, economist's interest on the field of entrepreneurship is on the relationship between an enterprise and the economic environment (Bruyat & Julien, 2001); unfortunately the definition brought by this scenario fails to capture the role played by the creators of the enterprise in question and the risks taken thereof. In order to fully understand entrepreneurship, one should consider personality and behavioral aspect in order to answer "who", "what" and "how" questions involved in the entrepreneurial process (Swanepoel, 2008).

Shane and Venkataraman (2012) argues that what constitutes entrepreneurship today, is a lack of conceptual framework and it has been given a broad definition which a mixture of research is contained and therefore lacks the unique set of empirical phenomena. They further contests

that the major obstacles inhibiting a conceptual frame work for entrepreneurship has been finding a workable definition.

History suggests that the word “entrepreneur” emerged in French economics in the 17th century to recognize a venture someone who undertakes a project of significant nature to stimulate economic development by finding innovative ways of maximize the potential of the venture, and the definition was further refined by Jean Baptiste Say in the 19th century to identify entrepreneurs as value creators who transfers economic resources from an area of low productivity into the area with high productive gains (Dees,1998). Kourilsky et al (2007) further expands on the definition of an entrepreneur to mean satisfying un-encountered market’s needs in a particular geographic location by individuals who identified the market demand for a particular service or product. With the above definition, it can be deduced that an entrepreneur is an individual who determines and analyse unmet demands through innovately satisfying those demands while managing the risks (Salami, 2013).

Fatoki and Chindoga (2011) define an entrepreneur as one who accepts risks in Organizing and managing an enterprize. This definition explicitly ignores seizing the intended outcome of the risk taker and opportunities derived from partaking in entrepreneurial activities.

Eckhardt and shane (2003) further expand this idea that for the past 3 decades, entrepreneurship theories have concentrated much literature to explain entrepreneurship as a consequence of people operating and managing an enterprize whilst neglecting incentives and opportunities attached to entrepreneurial activities. Entrepreneurs are identified as high risk takers who deploy aggressive and gallant tactics in positioning resources to achieving high returns and maximizing share value of their enterpizes (Covin & Slevin, 1991). Alvarez and Busenitz (2001) defines it as the ability to recognize, seize and innovatively leverage on the opportunities presented by material conditions through creating a firm to obtain surplus value from the resources being exploited.

A more plausible entrepreneurship definition this research will adopt is described as a ‘ process to create or use opportunities , with the help of acquired resources to start, acquire or grow an existing business with the primary intention of making a profit’(Gwija, Eresia-Eke, & Iwu, 2014). Therefore the above definition assist this research to define Youth entrepreneurship in the South African context as captured by Oseifuah (2010) , to mean a

process which individuals between ages of 15 to 35 years identifies opportunities to create wealth and value by establishing new or acquiring already existing enterprises irrespective of sector of operation.

2.2 Theoretical framework underpinning youth entrepreneurship funding

Literature on youth entrepreneurship funding is mainly policy orientated, but recently the topic on entrepreneurial culture amongst young people have received resounding attention from scholars as the momentum for promoting and cultivating it has been growing proportionately (North, 2002). This theoretical framework will endeavour to provide insight into how socioeconomic and idiosyncratic factors influence the creation of youth enterprises and the available mechanisms for funding youth enterprises by DFIs, namely:

2.2.1 Motivations for youth enterprise creation and the entrepreneurial process

Youth entrepreneurship serves as a hope to unlock economic potential of young people and also to harness their skills that will in turn generate income for themselves and also to augment employment and job creation in a bid to alleviate poverty (Uddin, Chowdhury, & Ullah, 2015). It is supported by evidence that there is a positive relationship between entrepreneurship, poverty alleviation and economic development (Chowdhury, 2007); therefore the net effect of this causal relationship is a positive impact on the overall performance of the economy and job creation.

A variety of academics and groups describe the intentions and motives of individuals to partake in entrepreneurial activities in different ways. Entrepreneurial ventures are started under different circumstances and motivations, whether psychological, social or economic (Serviere, 2010). Fatoki and Chindoga (2011) states that individual perceptions of desirability and feasibility in relation to creating enterprises generates somewhat a level of entrepreneurial aspiration to take advantage of income generating activities to create an economy and these types of individuals are known as opportunity entrepreneurs (Langevang et al, (2012) . Unfortunately, a young person who creates enterprises to take advantage of business opportunities forms part of a small cohort (Llisterri et al., (2006).

Nenzhelele (2014) states that entrepreneurial comportment and process is not an accidental occurrence but arises from deliberate efforts and intentional planning. However, Owualah (1999) contends that those that find themselves venturing into entrepreneurial activities out of desperation or lack of employment opportunities, often lacks the obligatory fundamentals such as risk taking, Organisational expertise and anticipation of future possibilities to succeed as entrepreneurs. In the context of developing economies, young people tend to be involved in entrepreneurial initiatives for survival reasons or out of economic compulsion or due to failure to access other survival avenues (Chigunta, 2002).

The emphasis of the two intensions is different. The first intention is of planned behavior driven by awareness and conviction to take advantage of identified opportunities; whereas the second intention is for survival reasons as a consequence of limited employment opportunities. Bird (1992) argues that business ventures are a consequent and direct outcome of an entrepreneurial cognitive process driven largely by individual's vision, goals and motivations. The survivalist perspective emphasises that new ventures are coerced into existence as exceptions and not the expected outcome (Serviere, 2010). Fatoki (2010) further supports the argument of planned behavior by accentuating those individuals who identifies an opportunity to engage in an entrepreneurial process, possesses an inclination to start and adopt a coherent behavior to set goals and map out a way to achieve the set goals.

Uddin et al (2015) asserts that entrepreneurship is an innate process rather than something that can be taught. However, Yukl (1981) (As cited by (Cunningham & Lischeron, 1991) argues that studies have concluded that instinctive elements can never be qualified as a sole determinant of what constitute a successful entrepreneur but situational factors also have a huge influence on what constitutes a successful entrepreneur. A study by Kaltsas et al (1991) confirms that experts believe that entrepreneurs are created through educational efforts and refute the fact that entrepreneurs are born with the traits. Chowdhury (2007) contends that the country's education can serve as a vehicle to improve already existing entrepreneurial traits among young people.

2.2.2 Capital Mobilisation and Funding Instruments for youth enterprises

All business ventures requires financing (either through equity, debt or grants) to start, sustain and develop operations, irrespective of industry, dimension, maturity, geographical locality (Sara & Peter, 1998) but the pressure that comes with raising seed funding can be overpowering expensive, time consuming and discouraging especially to people who have less information on the availability of financial avenues (Abubakar, 2015). Youth businesses may use debt instruments in the form private loans, operating lines of credit, government sponsored loan programs, bank terms and demand loans, credit cards, leases and credit contracts provided by suppliers; whilst equity leases may come in the form personal investment by the owner of the business, contribution by family and friends, and private equity markets in the form of angel finance and venture capital investment (Canada Small Business Policy Branch, 2002).

Ovat (2013) contends that in order for an entrepreneur to realize the conceived idea into fruition, entrepreneurial skills is vital but the sufficient base of it all rests upon the availability of funds to develop an enterprise. It has been proven in many studies that equitable and adequate supply of funding to youth entrepreneurs tends to increase the capital-output ratio of the business with a positive effect on profits which ultimately goes to capital formation (Ngugi, 2011). Entrepreneurs prefer internal funding before external and when pressed to choose external sources, they pick the least demanding and risky option first and therefore this type of funding display growth rates far above what internal funding can bring into an enterprise(Mazanai & Fatoki, 2011).

Battistin et al (2001) argues that young people have potential to run successful enterprises but imperfect markets, in particular the credit markets prevent them from realizing their plans of starting enterprises; and that lack of sufficient start-up capital is identified as a major obstacle preventing them from establishing their own enterprises (Schoof, 2006).

Ngugi (2011) found that debt funding to youth entrepreneurial ventures is commonly sourced by banks and credit unions tied to a condition of solid business plan provision. Studies have found that entrepreneurs in developing economies source funding from informal sectors often contributing between 87% and 100% of financial resources to start a new venture (Kotze & Smit, 2008). Debt funding often comes often comes from external sources and enterprises

sourcing funding from external financiers display growth rates far superior than those that seek internal financing(O. Fatoki, 2012). Whilst, equity funding to youth entrepreneurship ventures is mainly provided by venture capitalists and business angels who not only provide equity funding but also brings in managerial expertise to assist with the everyday running of such enterprises. The choice of financing instruments applicable to enterprises run by young people depends largely on the objectives of individual business owners as it relates to the level of funding and also the ownership dynamics of their business entities

2.2.3 Demand and Supply Dynamics of microcredit to youth enterprises

Youth entrepreneurship funding can be differentiated into two categories: The demand and supply effect of entrepreneurial development. The demand effect is in relation to youth businesses accessing funding opportunities and meeting funding requirements from various institutions or individuals, and secondly, the supply side which explains operational support mechanism used by major institutions involved in funding youth entrepreneurs and the impact of various financing programs (Rogerson, 2008).

Growth of small scale youth owned enterprises are limited by among others the lack of access to finance, poor management skills and Liquidity constraints facing youth owned businesses can be overcome by instruments such credit (Degwa & Wario, 2016). Fraser (2004) (as cited by (Kotze & Smit, 2008) further submits that a lack of access to available information on private external funding opportunities contributes broadly to the limitations that youth entrepreneurs come across in search for start-up capital as it relates to the demand side argument.

Key constraints blocking young entrepreneurs from accessing funding opportunities for their business ventures (Schoof, 2006):

- Lack of securities/and credibility (for debt financing)
- Lack of business experience and skills (for debt financing)
- Strict credit scoring methodologies and regulations
- Complex documentation procedures
- Long waiting periods

- Lack of knowledge, understanding, awareness of start-up financing possibilities
- Unfavorable firm characteristics and industries
- Legal status/form of enterprise
- Lack of (successful) micro lending/finance and seed funding

Mureithi (2010) highlights that other barriers cited as making it difficult for young entrepreneurs attracting credit from mainstream credit institutions is that they lack credit history, personal savings for as startup capital and also that some lack the necessary workplace experience due to other economic opportunities. Entwistle (2008) assert that young people are associated with high risk and cost and therefore this has in the past discouraged majority of MFIs from tailoring services and products to cater for young entrepreneurs. High interest and lack of collateral constitute the biggest barrier faced by youth entrepreneurs in search for credit (Nwigwe, 2010).

Micro-finance institutions targeting youth enterprises are few, taking into consideration that there are insufficient micro –finance institutions world over (Degwa & Wario, 2016). This down side is embedded in many countries making it difficult for youth businesses to survive as financial institutions designed and tailored to stream funding to their enterprises are fewer if not non-existence.

NDegwa & Wario (2016) argues that insufficient micro-finance institutions in the world make it difficult for borrowers to square up the cost of all financing on the same basis to do a proper industry analysis to come to a lower financing option. This presents a monopolistic predicament where supply of micro finance to entrepreneurs lies within of few available microfinance institutions and makes it difficult to service society on a massive scale and a limit their bargaining power as far as selecting the most reasonably priced financial package. Hossein et al (2006) purports that young people especially those that are not married are consigned to the periphery of Microcredit institution’s scope, as they are regarded too risky with age and societal status often used as a justification to lock them out of microfinance system.

The Supply of microcredit has made greater strides in improving the standard of living for disadvantaged and poverty stricken communities throughout the world but the youth sector in particular has been locked out from accessing funding for their businesses due to restrictive

institutional practices that are unfavorable to them (Curtain,2001) . The relative risk and return on investment influences institutional and private investors to supply credit to small businesses taking cognisance of the economic conditions in which the business operates, transactions costs and the factors of demand and supply for which investors find it lucrative to supply capital to entrepreneurs (Canada Small Business Policy Branch,2002). Small businesses exists in markets where information asymmetry inhibit the successful transfer of capital from lending institutions to entrepreneurs and as a consequence most businesses fail to maximize investor value and operate without making profit. Maina (2013) posits that small businesses are often charged exorbitant interest rates as a result of information asymmetry and this has a negative net effect on implied cash flows as future investments may not be possible to realise as much capital will be devoted to servicing existing debts.

2.2.4 Contribution of DFIs to Youth enterprise development

Massa (2013) gives a much more comprehensive definition recognizing DFIs as multilateral, bilateral or regional institutions created to raise shared economic development and sustainable growth through servicing investment deficiencies using loans, guarantees and equity positions to private or public sector whilst maintaining financial sustainability in the long run.

According to Calice (2013) DFIs from African countries and other emerging economies can critically play a role in the financial sector by lengthening maturity and mobilizing resources to cater for a segment of society that have been excluded or marginalized from accessing such importunities in the past. Hossein (2006) noted that high unemployment rate amongst young people and high population growth calls for DFIs and MFIs to play a leading role in supporting youth in their endeavors in establishing and running sustainable enterprises. These institutions are created to provide financial services to sectors considered being central to long –term economic expansion (Mulusa, 2008) and entrepreneurship support falls within its scope of operations as it serves a developmental purpose in the long run through the provision of services and goods. It is also argued that DFIs facilitates the transfer of knowledge and technology to the underlying enterprises and also aid improve skills levels in emerging economies by playing a part development.

Thus, DFIs have responsibility to create a supportive and conducive environment for youth entrepreneurship to thrive. It is argued that a negative business environment is a deterrent that

may discourage youth from venturing into the field entrepreneurship (O. O. Fatoki & Chindoga, 2011). The evaluation of loan applications by DFIs is very critical in a sense that if its done with an intention to develop disadvantage entrepreneurs, the gap between those intention to start and the already exiting entrepreneurs can be narrowed thereby reducing the amount of fear to fail for those intending to venture into the field of entrepreneurship.

According to Likotsi (2014) van empirical conception of DFIs decision making procedure is important especially in periods where emerging markets government understands the role of promoting SMMEs and entrepreneurship as key drivers to economic growth, social transformation and job creation. Likotsi further explains that south African DFIs have their own procedures of evaluating funding applications where they follow three criteria in the appraisal, business factors which looks into the industry in which the business operates, experience of the applicant, risk, definition of SMME and the Broad-Based Black Economic empowerment(B-BBEE) performance and rating, Personal variables (gender, age, level of education) and the business outcomes which considers (return on investment and potential market growth). It is worth noting that the DFIs explained above are multi-purpose and cuts across many sectors but from the appraisal procedure's point of view, young entrepreneurs will find it difficult to break into their business model in search for financial support.

There are many challenges and prospects involved in the process of DFIs carrying out their roles, and in order to understand if whether they are meeting their targets, it is therefore critical to evaluate the effectiveness and efficiency of their performance through looking at the key performance indicators (Mulusa, 2008). Mulusa argues that evaluating the performance of DFIs should go beyond the traditional ways of measuring just the financial aspect of their operations but should consider both quantitative and qualitative indicators to better understand the effectiveness of their products in relation to economic and social impact of their contribution in line with their objectives. Since the scope of DFIs extend beyond entrepreneurial support, measuring their level of activity encompasses looking also into number of projects in core areas supported, amounts of loans expended, and a number of support programs provided to new ventures (George & Rabhu, 2000).

South African has adopted youth entrepreneurship as way in which poverty can be alleviated and a mode which can reduce unemployment in the country (Likotsi, 2014). Chigunta et .al (2013) indicates that entrepreneurship creates an employment platform for the owner of the

enterprise and other young people seeking employment through exploiting and being responsive to new economic opportunities and trends. Moreover, entrepreneurship can expose young entrepreneurs to opportunities that will warrant them to come up with innovative ways to solve persistent problems faced by the communities. Chigunta et al. (2013) argues that young people have the comprehension and can serve as pioneers for the new economy that will open up the labour market to absorb other unemployed youth.

On the other hand, the study by Ranyane (2015) discussed the issue of survivalist entrepreneurs at length and came to a determination that these types of businesses lacks the fundamental imperatives to generate income and to provide employment for other people. Clearly from the perspective derived from the study conducted by Ranyane (2015), survivalist entrepreneurs are incapable of driving sustainable projects and programmes as they are doomed for failure in a few months of their existence. Therefore the mechanism for supporting survivalist entrepreneurs is rather regrettably unsustainable as it concentrates on volumes and quantity rather than focusing on the quality of enterprises they support and produce.

2.3 Empirical Literature

The world recognizes the importance of encouraging and promoting entrepreneurship as a source of employment, livelihoods, economic dynamism, and Africa has channeled most of its energies into creating a conducive environment to promote self-employment to curb the high levels of joblessness in the region especially amongst youth (Chigunta, Schnurr, James-Wilson, & Torres, 2005). Furthermore, entrepreneurs in the African continent function under resources strained environment (Beeka & Rimmington, 2011); therefore this explains why the continent in its entirety is struggling to make a meaningful impact in creating and sustaining entrepreneurs.

This section seeks to understand the successful models adopted by DFIs Canada, Malaysia and Bangladesh and ultimately derive lessons on the success of these three country's efforts in promoting youth and women entrepreneurship that attracted a lot of attention world over.

2.3.1 Canadian Youth Business Foundation (CYBF)

In Canada, unemployed and underemployed youth are assisted through the Canadian Youth Business foundation (CYBF) which was established to provide financial and non-financial services to young people through a focused Youth Business Loan programmes provided they enroll for the mentorship programme that teaches them business skills (Management and financial) that will enable them to be an attractive form of business to funding institutions (Ndirangu & Terer, 2016). CYBF is national development finance institution which invest in young aspiring entrepreneurs between the ages of 18-34, and in its 14 years of its existence it has financially enabled more than 4000 youth to start and run successful businesses which subsequently contributed to the GDP of the Canadian economy through tax revenues amounting to about CAD \$ 114 Million and a 94% repayment rate (Canadian Youth Business Foundation, 2010). CYBF in collaboration with the Business Development Bank of Canada (BDC) afford qualified entrepreneurs with CAD \$ 45 000 startup capital to finance their business ideas which is not tied to collateral but Character and great business idea (Canadian Youth Business Foundation, 2010).

Table 1: Performance Indicators for the Canadian Youth Business Foundation

Performance Indicator	2009-2010	2011-2012	2012-2013	2013-2014
Target Age Group	18-34	18-39	18-39	18-39
No of entrepreneurs funded	579	625	727	1128
Disbursement during the year (All Loans)	CAD \$ 8,213,150	CAD \$ 8,605,000	CAD \$ 7,311,500	CAD \$ 10, 554,500
Interest Rates on Loans	1 st year: prime + 2%	1st year: prime + 2%	1st year: prime + 2%	1st year: prime + 2%
	2 nd Year: Prime	2nd Year: Prime	2nd Year: Prime	2nd Year: Prime

	Rate + 1%	Rate + 1%	Rate + 1%	Rate + 1%
	3 rd -5 th Year: Prime Rate	3 rd -5 th Year: Prime Rate	3 rd -5 th Year: Prime Rate	3 rd -5 th Year: Prime Rate
Loan Portfolio	CAD \$ 18 079 000	CAD \$18.2 Million	CAD\$16.8 Million	CAD \$18.8 Million

Source : Canadian Youth Business Foundation, Annual Report (2009-2014)

The Table above shows basic financial outreach of CYBF from period 2010-2014 as reflected in their annual reports for that period. It can be observed from the table above that the institution never deviated from its mandate of servicing youth of ages 10-34 since its establishment until 2010, however it is notable that from period 2011/2012 the age target shift was increased by 5 years as a results of organizational shift from charity to an non-governmental organization (NGO) and also was prompted by studied that found between 2003-2008 average age for small business startups were driven by people between the ages of 18-39(CYBF, 2011). It is evident from the table above that there was a significant increase of number of young entrepreneurs supported which indicate a 51.33% increase. With 4 out 5 repayment rate and other fundraising strategies, this has enabled it to sustain its business focus and also with the increased number of entrepreneurs serviced made it possible for the institution to have financial capacity to increase funding in 2010 from CAD \$ 8,213,150 to CAD \$ 10, 554,500 in 2014. Lastly, Non-financial support such as mentor services coupled with a good interest rate package as indicated on the table enabled beneficiaries to be able to repay back their loans as per the contracts agreements.

2.3.2 Context of Policy Approach by Malaysian Government to Promote Youth Entrepreneurship

Malaysian government has set itself goals to achieve a fully industrialized nation status and it has pinned its strategy on the skilled and productive workforce that also includes innovative entrepreneurs that will create an economy with a global competitive advantage (Norasmah & Faridah, 2010). The government has over the years created a favorable environment for enterprises to prosper through introducing numerous strategic initiatives, programs and

support mechanism which saw the country enjoying fruits of a growing economy (Abdulla et al., 2009). Developing countries like Malaysia came to a realization that in order to foster economic advancement in the country, entrepreneurship should be at the center of its developmental agenda in order to unlock the country's economic potential. Thus, much effort is pursued to promote the spirit of entrepreneurship amongst young people through concerted efforts to target the curriculum offered by institutions of higher learning to make entrepreneurship courses compulsory to all students irrespective of their field of study (Ambad & Damit, 2016). It is world view that businesses are at the heart of many functional economies and it is through economic activities pursued by nascent entrepreneurs that create sustainable livelihoods and take people out of poverty through innovation and the creation of employment. Therefore is necessary as captured by Ambad & Damit that compulsory entrepreneurship education through theoretical and practical understanding can help generate a high level of interest amongst students in order to create enterprises that will take charge of economic opportunities that will in turn positively impact the economy.

Since the 1970's, the government of Malaysia has been at the forefront of entrepreneurship development with a number of policy measures enacted and also established highly specialized financial institutions to provide entrepreneurs with readily available and affordable credit (Abdullah, 1999). Abdulla further explains that credit support is provided by the New Investment Fund (NIF), Enterprises Rehabilitation Fund (ERF) and DFIs; whilst other form of financial support comes in the form of credit Guarantee Corporation which came into existence in 1973 to afford commercial banks with guarantee protection when they give loans to entrepreneurs especially for enterprises ran by young people.

Malaysian youth have increasingly been engaged in self-employment undertakings in the form entrepreneurial ventures responding to the current limited job opportunities and shortage of wage employment independence but the level of their involvement has not yet reached the desired or expected level (Kim, Geraldine, Selvadurai, & Hamid, 2009).

2.3.3 Grameen Bank Theory and Lessons from Bangladesh

Grameen Bank(GB) is a non-governmental bank of Bangladesh created in 1983 through the efforts by Muhammad Yunus to afford credit to poverty stricken sections of society particularly women in economically secluded communities (Kowalik & Martinez-miera, 2010) . The bank’s modus operandi is centered on group-based cooperative micro finance services designated to rural poor women to generate a sense of hope for the future as they are provided with opportunities to start and operate their own businesses and the World Bank study found that 70% GB borrowers succeeded in escaping poverty as they leveraged on the opportunities and services brought by GB (Rouf, 2016). According to Degwa & wario (2010), The Grameen bank theory of providing finance to poor and credit unworthy people on a group liability strategy should be considered micro finance institutions.

The rationale of servicing women by the GB is due to that women constitute about 50% of 156 million population of Bangladesh and they are economically marginalized with limited participation in economic opportunities. The success story of the credit movement of GB led sector to expand globally with many developing countries experiencing similar poverty patterns replicating its successful model (Mia, 2016).

The following table explains the success and sustainability story of GB’s operations and poverty alleviation Strategy since 1983-2011

Table 2: Grameen Historical Data series 1983-2011 (Amount in Million USD)

Performance Indicator	1983	1993	2003	2011
Cumulative Disbursement(all Loans)	194.95	725.39	3986.46	11597.09
Disbursement during the year(All Loans)	99.34	266.02	365.96	1472.45
Year-end Outstanding Amount	72.07	157.56	258.10	945.47
Housing Loan disbursement during the year	-	41.9	3.05	0.60
Number of houses Built cum	-	258194	578532	691 322
Total deposits(Balance)	18.51	79.49	227.66	1466.99
Deposits of GB members(Balance)	18.51	68.69	170.64	835.28
GB members’ deposits as % of Total	100	86	68	57

deposits				
Number of groups	11667	372298	577886	1302882
Number of members	58320	1814916	3123802	8370998
Percentage of female members	46	94	95	96
Number of villages covered	1249	33667	43681	81380
Number of branches	86	1040	1195	2565
Profit/loss(for the Year)	-	0.24	6.15	8.58

Source: (Grameen Bank, Annual report (2011))

The table 2 above shows basic information of Grameen bank over 2 decades. It is evident from the above data that profits increased by 71.67% from period 2003 to 2011. It is also worth noting that there was a significant increase of villages covered and the number of branches servicing those villages from period 1983 to 2011. The bank primary mandate of providing financial services to female members of the Bangladesh rural community has been achieved outstandingly as there was a 50 % increase from 1983 to 2011 with figures standing at 96% in 2011 from 46% in 1983. The deposits and savings culture amongst GB members is one notable achievement as an increase is noticeable over the years. The information on table gives a positive picture in which efforts by many countries to provide financial services to the marginalized sections of society can be realized if they can replicate the success model of the GB. Mia (2016) further notes that Grameen's innovation the operational dynamics could an epitome model for other microfinance institutions to draw lessons in providing an efficient financial intermediation services to poor communities.

2.3.4 Overview of South African youth entrepreneurship and institutional support establishments

South African entrepreneurial activities take a variety of arrangement ranging from street vendors, venture capitalist and the booming manufacturing businesses notably attached to towns and cities scattered around the country (Robinson, 2008). In general terms, early stage entrepreneurial process in South Africa and that of Sub-Saharan African countries encounters funding difficulties in accessing capital for their businesses (Herrington & Kew, 2013)

However, the level of South Africa's entrepreneurship activity amongst individuals intending to start a business and those that have already started is unsatisfactory low as measured in the same basket as other international economies (O. O. Fatoki & Chindoga, 2011). Fatoki & Patswawairi (2012) reports that Global Entrepreneurship Monitor (GEM) ranks South Africa on the 27th position in a total of 59 countries measured on entrepreneurship activity and that its Total Early Stage Entrepreneurial Activity (TEA) is below the international average of 11.9% while the country is measured on 8.9%.

Fatoki & Chindonga further assert that main reason behind the low level of entrepreneurship activity in South Africa is due to the low level of youth participation in the process of enterprise creation bearing in mind that young people in the country constitute the majority population and facing major obstacles in accessing employment opportunities. In general terms, early stage entrepreneurial process in South Africa and that of Sub-Saharan African countries encounters funding difficulties in accessing capital for their businesses (Herrington & Kew, 2013).

North (2002) reports that there has been much activity around talks and action in south Africa over the past years to devise support mechanisms in which entrepreneurial enthusiasm can be inculcated in children and youth in a bid to actively include them in entrepreneurial undertakings. North further indicates that undesirable challenges such as unemployment, crime, corruption, mismanagement and present South Africa economic dynamics inspires less confidence in a sense that it threatens the ideals of creating a conducive environment for the future adults of this country to realize economic advantages. Gouws (2002) assert that the low level of entrepreneurial activity in South Africa is the biggest constraint to economic growth and development.

Mureithi (2010) assert that the South African education system lack strong emphasis on entrepreneurship teachings on financial literacy, marketing and business skills to train youth on basic understanding on the modalities of creating and running an enterprise . For South Africa to effectively deal with youth unemployment, therefore is imperative for young people to be concertized, trained and taught about the benefits of entrepreneurship in order to get a satisfactory level of youth participation in the economy through creating new enterprises, breaking new grounds and bringing new innovative products that will in turn generate income for them (Jesselyn Co & Mitchell, 2006). The complexities South African entrepreneurs are

face with have historical roots within the broader umbrella of social injustices, economic sanctions and fundamental political change (Robinson, 2008); therefore in order to comprehend the entrepreneurial dynamics of South Africa, it is prudent to make an analysis that factors in the role that underscores the impact social and economic exclusionary policies of the past.

Any progressive country’s deepest ambitions resides upon tapping into young people’s skills, knowledge, enthusiasm, aspirations, energy of which in South Africa young people form part of its greatest national assets (Kroon, Klerk, & Dippenaar, 2003) . Kroon et al. (2003) further emphasize that if young people are integrated into the mainstream economy, and society as a whole, they can become a major aspect in determining the entrepreneurial future of South Africa for the reason that they are a cohort that is needed to effect and manage rapid changes necessary to positively drive economic growth and development.

South African Government acknowledges that young entrepreneurs can play a meaningful role in contributing to economic development and has support mechanisms and institutions such as Small Enterprise Development Agency (SEDA), Khula enterprise and the NYDA (Skosana, 2012). Skosana further assert that government through its policies, small business practices and procedure can create an environment that will in turn encourages entrepreneurial enthusiasm amongst young people.

Table 3: Public Development Finance Institutions for Small Business in South Africa

Institutions	Activities
Small Enterprise Development Agency(SEDA)	SEDA offers a range of business development services. It provides non-financial services through integrated support agencies across the nation with more than 284 Enterprise Information Centers in municipalities across the nation.

Khula Enterprises	Khula facilitates access to finance for small businesses. It has different financing products and works with major commercial banks and private organisations such as business partners. Khula's operations involve loans and credit guarantees through commercial banks. It also offers mentorship programme.
National Empowerment Fund(NEF)	NEF provides various startups for small businesses and rural and community transformation. Its financing capacity ranges from R 250 000 to R 10 Million. NEF focuses specifically on disadvantage individuals.
Industrial Development Corporation(IDC)	IDC generates its funds independently of government .It provides various Sector –focused financing products ranging from R 1m,with specific focus on SMEs and empowerment.
South African Micro Finance Apex Fund(SAMAF)	SAMEF is modelled on the Grameen Bank in Bangladesh. It provides loans of up to R 10 000 to micro and survivalist enterprises in poor areas. Its main focus is poverty alleviation.

Source: Agupusi (2007)

Beyond the institutions listed above, there are many other developmental institutions established in various provinces like the Gauteng Enterprise Propeller (GEP) etc. further than that Government in 2009 constituted the NYDA, a Development Finance Institution tasked with a responsibility to oversee youth developmental matters. Mazanai and Fatoki (2011) argues that start up enterprises in South Africa still experiences a myriad of funding obstacles and faces high failure rate despite a wide range of financial support institutions put in place by government to propel entrepreneurial development in the country.

2.3.4.1 Small Enterprise Finance Agency (SEFA)

Small Enterprise Finance Agency (SEFA) is a development finance institution wholly owned subsidiary of the of the Industrial Development Corporation (IDC) created in 2012 which drives activities of the three previous structures (Khula, Samaf and the IDC small business activities) of enabling an environment to foster the creation, development of Small, Medium,

and Micro enterprises (SMMEs) and contribute towards creating jobs and decreasing poverty levels embedded in the South African society(Small Enterprise Finance Agency, 2013). SEFA’s product portfolio is divided into the following categories; 1) direct lending dealing with asset finance, bridging loans, Revolving Loans and Term Loans with the financial package ranging from R50 000 to R 5 Million, 2) Wholesale lending dealing with Credit guarantees, Revolving Loans, Structured Finance Solutions, Term Loans ranging from R500- R 5 Million and lastly 3) Non-Financial Support through Post Loan Mentoring, Institutional Strengthening, Management and Technical Support, Board Representation, Commercial and Industrial properties(Small Enterprise Financial Agency ,2015). The following table below shows how financial services were disbursed between different target groups that inform the institutions business mandate.

Table 4: Small Enterprise Finance Agency Performance Indicators

Target	2013/2014		2014/2015	
	Number	R’ Million	Number	R’ Million
Youth-Owned	10 291	157	16 419	292
Women-Owned	44 303	362	66 668	484
Rural-Based	36 729	429	59 581	636
Black-Owned	43 643	529	52 962	954

Source: (Small Enterprise Finance Agency, Annual report 2015)

The table above shows information on targeted groups supported by SEFA between two financial periods 2013/2015 and 2014/2015. It is evident from the above data that the number of borrowers increased sharply even though youth owned businesses saw a marginal increase between the two financial years. Additionally, it is stickily impressive saw a 54% increase in financial support towards youth owned business even though they remain the lowest funded segment of the targeted SEFA clients. The picture explained by the Data in Table above proves that youth owned businesses are still under funded even though government has charged these DFIs with a fresh mandate to inculcate youth entrepreneurs into their loan portfolio

2.3.4.2 National Development Youth Service (SEFA)

The National Youth Development Agency was established in 16 June 2009 through the merger of Umsobomvu Youth Fund (UYC) and the National Youth Commission (NYC) to advance youth development through support and guidance (National Youth Development Agency, 2010). It is further reported that NYDA was strategically placed in the presidency purposely to ensure that the institution carries its mandate of youth development effectively and its programmers are well coordinated across all spheres of Government (National Youth Development Agency, 2010). The reasons precipitating to the formation of a unitary Youth development institution was as a result of UYC and NYC's lack of coordinated efforts to advance youth development. It was unjustifiable to have two institutions supposedly acting on a singular mandate whilst working parallel to one another. This institution form the integral part of this study and its financial performance and outreach impact will be analyzed in full in chapter four when the study deals with Data Analysis.

In discussing the role of DFIs in youth development and entrepreneurship, it is critical to begin by giving much more plausible meaning to the word DFI and also establish the role that DFIs play in uplifting those sections of society mostly locked out from the mainstream economy especially young people with a drive to create their own economies. Likotsi (2014) defines DFIs as partly owned government institutions created with a mandate to fast track entrepreneurial activities growth and sustain existing enterprises. Although, the majority stake in these institutions is held by government, DFIs still enjoy absolute managerial autonomy in controlling the day to day business dealings (Bhatt, 1993). From the preceding arguments, it can be deduced that this type of arrangement cushion these institutions from political meddling but run a risk of deviating from the mandate in which they were established for by commercializing their operations.

2.3.5 Lessons derived from international best practices

The common thread from the international DFIs analysed above is the repayment rate from youth enterprises supported is very high. This then translate into the effectiveness of the appraisal mechanisms which guides them in identifying youth enterprises with impeccable attributes to run their businesses meritoriously. The one observable tool used by the CYBF which has a resounding success assisting young business owners is the ability to tie financial

support with mentoring services, thereby specifying a pre-condition that forces aspiring entrepreneurs to enrol for a mentoring programme that teaches them business management skills. How this procedure from the DFIs differs from how venture capitalists operate is effectively on the type of instruments deployed. The CBYF uses low interest rate non collateralized loans, whilst venture capitalists acquire a stake in the business. CBYF has reported that the repayment rate is 94% which means that out of 4000 enterprises supported, 3760 are able to repay back the loans within the prescribed period of the loan agreement. The success rate of repayments enables the CBYF to have enough money to continue operating and supporting more youth business requiring financial assistance. CBYF has managed between the period 2009/10 to 2013/14 to increase the number of youth businesses supported by 51% margin. The observed upward trend speaks to the success story of operational mechanics employed by DFIs to give the much needed financial and non- financial support to enterprises run by young people. This literature has already addressed the issues of low level of youth entrepreneurial participation and identified funding as the biggest obstacle to young people starting and running successful business. CBYF offers lessons to South African DFIs in designing effective strategies that would fit into the riskiness of supporting youth businesses. The first lesson is to set out a condition that ties funding with mentoring programmes that will educate young business owners to run their businesses in a professional manner in order to create value and derive profits. Also, the interest rates payable should decrease with time as the case with CBYF. This method encourages youth entrepreneurs to stick to the repayment schedules and honour their loan contracts. The success of these youth businesses feeds in into the success of the mechanics deployed by DFIs in meeting its mandate of ensuring that young people in their numbers participate in the economy. Most South African DFIs lack the capacity to undertake mentorship programmes that has been proven to be workable model in assisting entrepreneurs who have no adequate business skills.

On the policy front from the Malaysian government, it has ensured that entrepreneurship is inculcated in higher education curriculum as a compulsory pre-requisite to qualify for an under graduate degree/diploma. This method helps equips students with the necessary skills to venture into the field of entrepreneurship. Therefore, this makes it easy for financial institutions to lend and invest in youth initiatives. Government of Malaysia also give credit guarantees to DFIs (Public or Private) who are engaged in lending to youth enterprises. The lesson that could be derived from the case of the Malaysian government is that youth entrepreneurship should form the focal point in university education and government of South

Africa should put in place credit guarantee tools to assist those DFIs whom have interest in assisting youth enterprises. These mechanisms can work well in South Africa as the country has a variety of DFIs that have interest in working with government to ensure they play a part in creating a developmental state. It will also encourages DFIs to reach out to more youth enterprises which will in-turn increases the level of youth entrepreneurship participation in the economy. In the case of South Africa, the only DFIs that get credit guarantees are public DFIs whilst privately owned DFIs are left to carry the financial burden of extending loans to youth enterprises and incurring losses as a result of defaults.

Lastly, the modus operandi of the Grameen bank has had resounding success and received international attention as it shaped the lives of many Bangladesh entrepreneurs, especial those that were deemed credit unworthy by commercial financial institutions. The tools used by this institution to expend financial support to women and youth enterprises is a sustainable model which encourages entrepreneurs group themselves in order to attract funding from the GB. This group lending model could be a success in the South African context as it encourages synergies and collaboration which encourages skills and risk sharing. Different personalities and characteristics within the group ensure that they complement each other's shortcomings and strength. This is also a good cost sharing method which has a bigger outreach as it brings together many heads in one. The South African DFIs approach in financing entrepreneurs is premised on individualistic approach where they lend to individuals of certain credit profile and exclude those deemed risk.

3 RESEARCH METHODOLOGY

3.0 Introduction

This chapter discusses and provides a detailed clarification of the research methodology employed in this study. This research uses qualitative method to collect and analyse data from the South African DFI's (publicly and privately owned) identified to be involved in youth entrepreneurship funding. However, the researcher incorporated a small section of quantitative analysis to augment the qualitative analysis for the case of the NYDA. These sections will further justify the analytical objectives of the methods used.

3.3 Research Approach and Strategy

Research approach and strategy provides a map which a researcher needs to follow in order maintain maximum control over factors that might negatively influence the validity of the results in order to lay a solid framework which will enable the researcher to answer the research questions and provides clarity to the research problem outlines in sections 1.3 and 1.4 respectively.

This research look at the mechanism used by South African DFI's to fund youth enterprises in South Africa. It adopts qualitative research methodology to explain the underlying issues involved in the provision of funding to youth businesses in S.A. The reason why this research adopted a qualitative approach for the analysis was due the easiness of the availability of qualitative data through a semi structured questionnaire. The original idea for this research was to do a mixed research that involved both qualitative and quantitative modes of analysis but due to unavailable and insufficient quantitative data, the researcher could not adapt the study to suit both modes of analysis. A mixed methodology would have been ideal in the sense that it explores the subject matter more broadly as both qualitative and quantitative methods is able complement each other's weaknesses and strength. However, the researcher included a small section of quantitative analysis to augment the qualitative analysis. It is worth noting that through the available qualitative data, the researcher managed to meet the objectives of the study by answering all research questions. The benefits that this research derived from adapting the study using qualitative method was that through interviews conducted, it was able to get the human phenomenon through reflecting on his/experiences at

the institutions under study. The qualitative measure was able to give the research a perfect platform to best interpret and understand the multifaceted reality of a given situation.

3.4 Data Collection, Frequency and Choice of Data

In order to analyse the NYDA and AWETHU projects, qualitative data was collected through a semi structured questionnaire sent via email to both institutions. Since the study intended on a mixed study, efforts to collect sufficient quantitative data from both the NYDA and Awethu projects presented a difficulty to the researcher as both institutions failed to supply the researcher with complete and adequate data. To expand the study further, the researcher collected qualitative data through a questionnaire from the IDC to look at how this DFI deploys its financial resources to fund industry specific businesses.

The frequency of the available quantitative data collected and analysed from the NYDA are as follows:

1. Number of youth enterprises supported financially by the NYDA (2010-2015)
2. Amount of money disbursed to youth enterprises by the NYDA (2010-2015)
3. Geographical distribution of beneficiaries (2014-2015)

The choice of data was selected to reflect and provide detailed answers and clarity on both the research questions and objectives respectively as stipulated in section 1.3 and 1.4. Secondly, both the NYDA and AWETHU projects were established around the same period of 2009 and 2010. Periodically this made sense since their existence spans from the same time frame, where the NYDA was established in 2009 and Awethu projects in 2010. Both institutions have heavily invested in youth entrepreneurs of South Africa and therefore sampling them for this study is appropriate.

3.5 Sampling

This study followed a non-probability and purposive sampling technique to arrive at a determination that two sample units (NYDA and AWETHU projects) will be sufficient enough to help responds to the broader scope of questions this study is probing. This sampling method was chosen because the two institutions (NYDA and AWETHU) are the identified organizations specifically servicing the needs of youth enterprises in South Africa

and are national DFIs. Another consideration made was on the basis that the two institutions would best answer the research questions as they deal with young entrepreneurs on a daily and they have funds dedicated specifically for youth entrepreneurs. The two institutions selected as stated above were carefully selected to avoid analysing data that is complex and cannot be narrowed to fit the specifications of the age group the study is probing. It is also that the two sample units have a national reach and this helped in qualifying the degree of challenges they face in ensuring that the needs of the entire South African youth population have access to funding opportunities. The last consideration on the two institutions was the easy access for the researcher to reach their offices, the NYDA is headquartered in Midrand (Gauteng) and Awethu Projects is headquartered in Braamfontein (Gauteng). They both fall under the Johannesburg Municipality.

This study targeted executive managers as respondents for the study. The executive officers were sampled because they are principal implementing officers of organizational strategy and are privy to information that ordinary employees would not have access to. The researcher targeted one individual per institution of whom the NYDA forwarded its Chief Financial Officer and AWETHU forwarding its Chief Executive Officer to respond to the questionnaire as relevant and reliable drivers of organizational strategy. The consideration to select one senior executive officer was also guided by the research questions to be answered and it was a deliberate act to avoid having contradictory responses which would have made it impossible for the researcher to formulate a constructive view on the operational dynamics of both these institutions.

Lastly the IDC formed part of the study on the basis that it has a dedicated youth enterprise fund to support youth enterprises. The IDC has been funding South African businesses for about 68 years, the research saw it fit to interrogate the perspective of a more senior and experienced DFI focused on enterprise development through the use of financial and non-financial instruments. The inclusion of the IDC will provide lessons and challenges that will provide a better context of the mechanisms it deployed over the years to finance South African enterprises.

3.6 Data Analysis Methods

This study employed a qualitative strategy in analysis the data. The strategy involved the design of a semi-structured questionnaire that was sent via email to the respondents at the NYDA, Awethu projects and IDC. Due to time constraints and busy schedules of the respondents, the researcher could not secure face to face interviews. The questionnaire was designed to capture the essence of the objectives of the study, objectives of the institution and literature on youth entrepreneurship funding. This research only administered a single set of questionnaire with 10 questions asked to each DFI and questions were exactly the same for both institutions. The 10 questions were enough to capture the essence of the objectives of the study. The qualitative data was analysed against the objectives the institutions. The analysis also answers the research questions and addresses the objectives. The data analysis method adopted to silt through information provided from the semi-structured questionnaire was influenced by a number of reasons which includes the theoretical foundation of how youth businesses are financed by DFIs, and the nature of the research objectives the study seeks to clarify. The examination of data received from the DFIs was manually performed through linking data to concepts, identification of new developments and accurate generalisation. The research data focused on the role DFIs plays in financially enabling youth enterprises to access funding opportunities. This will largely reflect in procedures used to support these enterprises, both challenges and possible opportunities and how they impact the entrepreneurial activism amongst young entrepreneurs.

The analysis is grouped according to research questions and objectives. This method of analysis enabled the researcher to have a full comprehension of the objectives of the study. The study was only able to compare qualitative data derived from the questionnaires as it was available from both AWETHU and the NYDA. To achieve this, coding was employed to address the identified themes which grouped the collected data into conceptual categories .this enabled the study to check if information in the literature review and the results are in sync or deviates from what could be challenges experienced by DFIs in supporting youth enterprises.

Furthermore, the study added a quantitative subset that captured the trends on the mechanisms used by the NYDA to fund South African youth businesses. The quantitative method used graphs, tables (trend) and also looked at the summary statistics. The unavailability of Quantitative data from AWETHU projects made it difficult for the researcher to make to

perform a contrasting analysis on the two institutions. The quantitative analysis done on the NYDA was only for completeness to test if data corroborated the theory supplied by its officer.

The spending trends on youth enterprises were analysed through a construction of data tables and line graphs displaying historical trends over time. The researcher used a period of 5 years (between period 2010-2015) to study the historical spending patterns of the NYDA's financial support to youth businesses. It dissected in context the year on year percentage change and averages to look at dynamics informing the trends at the time. The study went further to look at statistical summary where the mean of spending on youth enterprises was benchmarked against the mean of the institutional budget. This was done to determine the level of spending on youth businesses as a share of the entire budget for the 5 year period. This helped the researcher to understand in terms of spending, the level of effect the NYDA is having on the youth enterprise landscape and it will also help in making specific predications given the context of budgetary dynamics.

On quantity of beneficiaries, the study again looked at the historical data employed on graphs to determine the level of trends that were able to clarify the research objective on the level of outreach. Year on year aggregate changes on the number of beneficiaries were stated, and were benchmarked against the spending trends.

Lastly, the study looked at the geographical distribution of beneficiaries. This was done to understand where the most and least beneficiaries are located. This was done through averaging the distribution of enterprises per province to see the share of each province against the total distribution. With adequate information and literature on the geographic distribution across South Africa, one would be able to understand in full why certain provinces are funded more than others.

3.7 Research Reliability and Validity

Results derived from any academic research should be informed by precarious aspects of legitimacy and reliability. The challenge with a qualitative research is that it often relies on observations and interpretation on facts whilst it is easy to validate the quantitative data that deals with recorded data that can be easily verified.

There were two potential factors that were identified problematic and were difficult to fully control as to prevent distortion to the results but an attempt was made to ensure that respondents provided adequate and truthful data to the researcher. These are biases from the part of the interviewee to drive a certain narrative to suit his individual interests in the outcome of the research and a deliberate provision of misleading information so as to render the research results null and void.

This research used the following measures to ascertain that it is valid and reliable. The first method this research employed to test for reliability is through multiple data collection tools. This method used multiple investigators, and also collected data from the DFI's through multiple sources i.e. published annual reports, observations and questionnaire. This method allowed the researcher to weigh multiple information sources against each other to test if there are significant deviations and contradictions. The second method was interpretative validity which enabled the researcher to accurately report the interviewee understanding behaviours, events or objects. Lastly, what the researcher was able to do was to make each interviewee declare that they will provide unbiased information that reflects the true standing of the organisation in relation to its operational activities

4 ANALYSIS AND DISCUSSION OF RESULTS

4.0 Introduction

This section presents a detailed analysis of the research findings. The results and discussion have been categorized in themes in line with the key objectives of the study.

4.3 The funding opportunities that DFIS provide to youth enterprises

The NYDA indicated that it has funding opportunity (Grant Programme) which is open to all South African youth under the age of 35 provided their businesses are viable. The NYDA is the only institution that provides start-ups with stimulus funding through a non-repayable grant programme and also offers an incentive of giving young entrepreneurs access to development finance. Although their funding is limited to R100 000, young entrepreneurs can benefit out of the institution's partnership with other developmental institutions such as the SEFA and IDC. The funding is also opened to existing youth enterprises.

Similarly the Awethu institution provides access to the markets, funding, and networking opportunities and expose youth businesses to industry experts and funding is opened to all South African Youth under the age of 35 operating (new or existing enterprises) in any industry provided their businesses operates for profit. It considers one application per financial year and subsequent support for a beneficiary depends on its beneficiary financial performance.

The IDC on the other hand, offers both financial and business support to South African youth entrepreneurs under the age of 36 who largely operates in the manufacturing and beneficiation sectors. The IDC has a dedicated Gro E Youth Scheme to offer concessionary pricing to youth-empowered and youth-owned enterprises demonstrating the ability to create employment. Furthermore the funding is supported by a youth pipeline development programme offering pre and post investment support. The institution accepts as many applications in one calendar year but each individual application is considered on its own merit. The participant further indicates that the IDC the growth and expansion of existing enterprises.

Findings on this qualitative measure was analysed based on the objectives that speak to providing assistance and facilitation of youth participation in the economy through the provision of grant funding to youth entrepreneurs to establish microenterprises. This objective focuses on the role of the DFIs in creating a bridge that connects resources to the underserved sectors that are regarded strategic for the long term economic growth such as youth entrepreneurs deemed to be at the epi-center of creating positive economic trajectory (Malusa, 2008). The financial support that the DFIs provide to youth enterprises is very laudable and should be expanded to cover youth enterprises located in rural areas.

The aim of Awethu to link entrepreneurs with a drive to manage successful business ventures to market opportunities will equip youth enterprises to compete favourably with foreign firms. Opportunities presented by networking opportunities aid leveraging new ideas that can expand the market place for many entrepreneurs. Networking can serve as a lifeline for survivalist businesses in sharing market related information that can assist with the progression of enterprises and can also foster collaborative efforts amongst entrepreneurs that will help in generating innovative solutions faced by up and coming entrepreneurs. Literature by Rogerson (2008) indicates that linking entrepreneurs to marketing opportunities and finance enhances the capacity and competitiveness of small businesses to create economical value and better livelihoods.

There is overwhelming evidence that small businesses play an important role towards the process of industrial development (Abdullah, 1998). This is in sync with the approach that the IDC has adopted as far as youth enterprise development is concerned. They not only want to support young people with business ideas but focused and differentiated business ideas that will enable young people to shape the industrial discourse of the country. The emphasis of funding youth entrepreneurs who intends operating within the industrial space in South Africa by the IDC is to reduce the imbalance in the industrial scale of the country and also to enlarge the pattern of manufacturing activities with young people partaking in the process.

4.2 Procedures used by DFIs to Advance Credit to Youth Enterprises

The NYDA's funding decisions are made through delegated approval committees. The approval committees review and approve funding requests up to the following limits:

1. Branch Grant Approval and Review Committee: R50 000

2. Head Office Grant Approval Committee: R100 000
3. Programmes, Projects Approval Committee: R100 000-R5 000 000

Similarly the IDC's investment decisions regarding youth enterprises are made through appropriate credit committees, after due diligence procedures have been conducted on the applications.

Awethu procedure for advancing financial support to youth enterprises is made based on the financial need and entrepreneurial aptitude of the applicant. Awethu funding starts from R5000, with a R1500 employment incentive per new employee employed by the applicant. It also offers up to R250 000 post incubation in loan funding with a total fund of R 60 000 000.

DFIs should have a clearly established funding appraisal process in place so as to ensure and maintain sound credit portfolio for the approval of new funding applications, as well as renewing, amending, and refinancing of existing exposure (Calice, 2013). The methods employed by DFIs to appraise funding applications by youth enterprises forms a backbone in which the life and the success of these enterprises will be sustained and as a consequence it has a potential of minimising the failure linked with actual starting up a business and closing the gap between intentional and potential entrepreneurs (Likotsi, 2014). Likotsi (2014) further contends that DFIs are more attractive to youth entrepreneurs because they transact on a long term basis as opposed to other form of funding and it is this type of approach that DFIs are important in encouraging a high level of interest in total entrepreneurial activity in South Africa to close a gap between the country and its peers in both Brics and G20. DFIs should build internal monitoring and administration capacity to enable the institution to track the progress of the funded enterprises to monitor their performance through classifying and reporting problematic loans as well as corrective action (Calice, 2013).

The results above suggest that the NYDA appraise funding applications differently from how the banks treat risky applications. Banks are often accused of being biased in their appraisal processes towards those display qualities of honouring debt obligations throughout the life of the contract (Likotsi, 2014). This is a realistic expectation from the part of banks as it limits the risk of adverse selection as the accumulation of bad credit approvals my damage operation capacity to continue on a sustainable basis. Whilst on the part of DFIs, especially those are

established by governments can afford to take on risky applicants for they know that they are backed by government guarantees.

Regarding Awethu Projects, the conditions set out in relation to accessing the fund, entrepreneurs must provide a business plan that displays profitability traits. The institution has dedicated personnel to provide coaching on how to develop a convincing business plan or ideas that can attract funding institutions beyond Awethu Projects. The reality in South Africa is that the country has got sufficient with good business ideas but does not possess the requisite skills to run successful businesses. The issue of incubating entrepreneurs it makes Awethu Projects stands out in a sense that it understands a deficiency in business skills amongst South African entrepreneurs can be augmented by through training and development programmes. This is how Awethu believe it can derive value out of beneficiaries and also can create vehicles that will improve the overall conditions of the entrepreneurial activities in the country.

Literature has found that the way DFIs evaluate loan funding applications has possible implications on the dynamics of lessening the gap between those intending on starting their own enterprises and those that are already running them, thus minimizing the fear of starting new businesses (Likotsi, 2014). Thus, the procedure employed by DFIs to finance youth enterprises need to be savvy of the strength and weaknesses that this group may possess and also practically appreciate the distinctiveness of their social and economic status in society.

Participant indicates that the institution's available funding sourced from the national fiscus for the financial year 2015/2016 stood at R29 million budgeted to support youth enterprises across South Africa. The available funds for financial year 2016/2017 are at R36 Million, which the participant referred to as limited comparing to the scope they need to satisfy and further indicates that the current demand for the grant exceeds supply. Although the institution is operating at a limited budget which makes it difficult to service every youth enterprise, the participant believes that their current capacity proves to be optimal. Furthermore the participant believes his institution requires additional funding in order to respond to the numbers of young people who have the potential to be entrepreneurs but lack the financial capacity to do so.

4.3 Outreach by DFIs to Youth Enterprises

The NYDA is able to reach youth entrepreneurs in every South African province because it has a budget capacity that it is able to spread across all nine provinces. It has for the financial year 2015/16 budgeted R29 000 000 to support youth enterprises across the country. Its budget committee considers the demand for the grant programme against the potential supply, the economic factors and entrepreneurial activity in each province, and the number of other DFIs doing similar work and prior year benchmarks when setting up its budget. Funding is allocated to youth enterprises through its branches located in municipal offices and this ensures that young entrepreneurs in rural areas don't travel long distances trying to access funding opportunities provided by the NYDA. However the institution believes it is operating optimally but highlighted that it could budget more money for the enterprise grant to increase its level of outreach if the national treasury could increase their annual allocation. Is it is worth stating that public DFIs especially the NYDA that its board of director's composition is made up of young political activists align to the governing party. The consequence of selecting board of directors with political allegiances opens up the institution to manipulation and political undue influence from political masters who have appointed to serve in the board of the institution. This context may hamper on the level of outreach on the part of the NYDA as they may be found to be biased to please their political protégé.

In the case of Awethu projects, the institution's funding is open to all South African youth entrepreneurs but faces a challenge of making its fund available in all provinces since it only have offices in Johannesburg (Gauteng province). This challenge is precipitated by the budgetary constraints and human resource capacity to spread its services across all South African provinces but indicated that it is working tirelessly to increase its funding streams in the next coming years so as to have its footprint even in remote areas to service rural entrepreneurs unable to access its fund currently.

Regarding the IDC, the institution has availed about R4.5 billion over the next 5 years to fund youth-owned and youth-owned enterprises across all South African regions. The institution is able to reach many young entrepreneurs because it has set up regional and satellite offices in all 9 provinces. It also indicated that it has two full-time youth enterprise specialists providing support and advice to youth entrepreneurs and also provides transaction support to both IDC's regional offices and strategic business units. Furthermore, the institution also has a

dedicated marketing campaign which was launched in the financial year 2016/17 at the two day youth enterprise development hosted by the institution to increase accessibility and encourage youth entrepreneurship.

Findings on this qualitative measure was analysed looking at the objectives the DFIs has set to maximize outreach efforts to service the needs of all South African youth entrepreneurs. This addresses the accessibility and equality dynamics in relation to the above objective. South African youth form part of the underserved group in the economy and they are most group hit by lack of economic opportunities therefore it's imperative for DFIs to avail resources to assist those interested in starting their own enterprises and in so doing, these enterprises will contribute in creating employment for other young people in search for work

The NYDA is a single unitary public structure primarily formed to engineer strategies on how best youth development challenges can be addressed at national, provincial and local government (NYDA, 2015). This has extra burden on the institution to mobilize more resources to be able to reach every corner of South Africa in aiding those young people interested in starting up their own businesses. The scope of youth development for the agency is very broad and the institution faces enormous challenges in satisfying the needs of young South African entrepreneurs (NYDA, 2015). These challenges were coherently verified by the respondent amongst others; in relation to the optimal levels of capitalisation as the institution is heavily dependent on the national fiscal budget allocated by the national treasury. The amount of work engaged by the NYDA in setting up access points in municipality should be complemented by adequate resources to increase outreach to many young people is possible. Whilst the NYDA may not be in control of the budgetary resource allocation done by the national treasury, but it can augment the funding shortfalls by leveraging on other sources through fundraising efforts and establishing relations beyond the public purse. Malusa (2008) highlight that in order for public DFIs to remain pertinent at a sustainable level, they should tap into other markets to source funds such as the capital market, in order to relieve themselves from the burden of over dependency on state coffers. South Africa has a sound and functional capital markets with financial resources that could be negotiated to help boost the entrepreneurial activities of the country. Year on year, corporations report on Corporate Social Investment (CSI) initiatives that these companies sponsor in communities where they exists and the NYDA use this opportunity to engage established companies with huge CSI budgets to contribute to the youth enterprise grant.

With regard to Awethu Projects, the institution has a limited reach as it is only known to Johannesburg youth entrepreneurs. The impact of its reach is only felt in one region of the country and from this it cannot be qualified as a national DFI and its impact cannot drive the entrepreneurial activities amongst youth in rural areas. To have a large outreach, it will need to have its voice heard in every region of the country and this could be made possible by a large scale marketing campaign which requires substantial amounts of money which it lacks currently. It also won't have a bigger reach because travelling expenses to Johannesburg for entrepreneurs residing in other parts of the country outside of the region will find it difficult to access the institution. Practically, the odds of being a national funding institution are suppressed by the fact of its unavailability in remote areas where funding is needed the most and if the institution is serious about changing the entrepreneurial discourse of South Africa, it needs to have a foot print in areas of less funding opportunities such as rural areas where the majority of young people can be located.

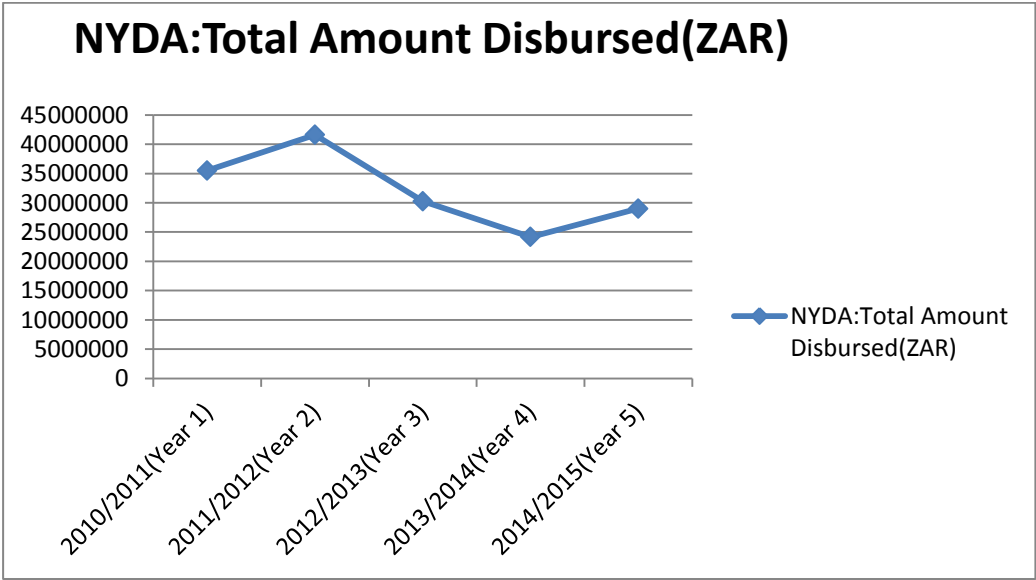
The IDC on the other hand, the institution has been around for more than 77 years and have a solid track record on funding businesses that were interested in exploring the industrial sector and also have assets in excess of R100 billion. The level of experience the IDC has amassed over the years can never be understated and it worth noting that the amount of assets it is managing and institutional capacity will ensure it stays in business for some time. The R 4.5 billion youth fund create an opportunity for the institution to reach the greatest number of youth enterprises funding institutions have failed to reach. To show the level of seriousness engaged to by this DFI, it has set up satellite and regional office points where youth enterprises can access information about the fund and apply for it. These offices are further equipped with specialists to provide support and counselling to applicants to ensure they put together work that is marketable and eligible for funding. The marketing campaign launched in the financial year 2016/17 ha ensured that young people are fully exposed to information relating to its youth fund. From the amount of data and information provided, the IDC will be an attractive destination for youth entrepreneurs as there is proof that a high level of concerted effort has went into setting up a youth fund that will be able to meet the challenges faced by the South African youth in accessing funding.

4.4 DFIs support to Youth Enterprises: Quantitative Analysis

4.4.1 Amount of Money Disbursed to Youth Enterprises

A downward trend can be observed from the graph in Figure 1 over time. The annual time series graph shows how much money was spent on an annual basis between period 2010ans 2015 to fund youth enterprises. It appears that as the number of years increases, the total amount spent by the NYDA on youth enterprises decreases. The sharp decrease in spending can be observed from the financial period 2011/2012-2013/2014 which represents 60 percent of the entire period. The amount of spending has declined sharply from 27.26% in 2011/12 to 20.07 in 2013/14.

Figure 1: Total amount disbursed by the NYDA to youth entrepreneurs



Source: NYDA, 2010; NYDA, 2011; NYDA, 2012; NYDA, 2013; NYDA, 2014

Mean value of the total amount spend is observed to be R 32 102 830 with a standard deviation of R 6 670 010 according to Figure 5 in the appendix section. On Average for

period, the capitalisation amount for the NYDA is at R 386 200 000. Average expenditure on youth enterprises against the average budget is 8, 31%. The majority of the institution's budget goes to pay salaries and other human resource activities and the costs to company of the employees were recorded at 39% in the financial year 2014/15. It is worth noting that this salary bill is 1% away from 40% ceiling as per the Public Finance Management Act (PFMA) that govern the financial aspect of public institutions. The desire by the NYDA to ensure maximum participation of youth entrepreneurs into the economy is dampened by this reality of a low level of spending on youth enterprises opposed to what is spent on salary bill. The context of a large staff component emanated from the merger between (UYC) and NYC to create this unitary organisation that is today known as the NYDA. The institution's budget was half of what the two predecessor institutions combined used to operate on and the NYDA was now left to play a balancing act between the workforces bill and the objectives which it exist for.

The year on year percentage change supports the overall declining observation on the trend. Between period 2010/2011 and 2011/12, so 17.8% increase in spending came more in the 2010/11 financial year where the budgeted R11 million for new loans ended up being R 41.7 million. The increase of 26.38% over the budget was noted in the financial year 2010/11 and this is attributed to the increased demand for funding by the youth enterprises. Period 2011/12 and 2012/13 registered a 27.26% decrease in youth enterprise funding as the institution reduced its overall budget allocations by 7.2% for the year 2011/12 financial year responding to the budget cut of 2.34% by the ministry of finance. Percentage changes on the amount spend on youth enterprises was at 20.18% between financial year 2012/13 and 2013/14 and it represented a decline. Within that period, the overall budget to the NYDA was increased by 4.26% and this increase in budget should have pressed management together with the board to look at increasing the overall allocation on the youth enterprise fund. This decrease could be explained by that the institution was in the hands of a new board which decided to put ceilings on spending as it engaged in a restructuring process in trying to find a workable balance that will see most funds going to support youth development in its entirety with limited wastage. A positive change was observed at 20.07% between period 2013/14 and 2014/15 to the new strategy of the grant funding model which fund only start up and survivalist youth businesses. This fund replaced the old model of enterprise funding through loans into a new paradigm of funding using a non-refundable grant model.

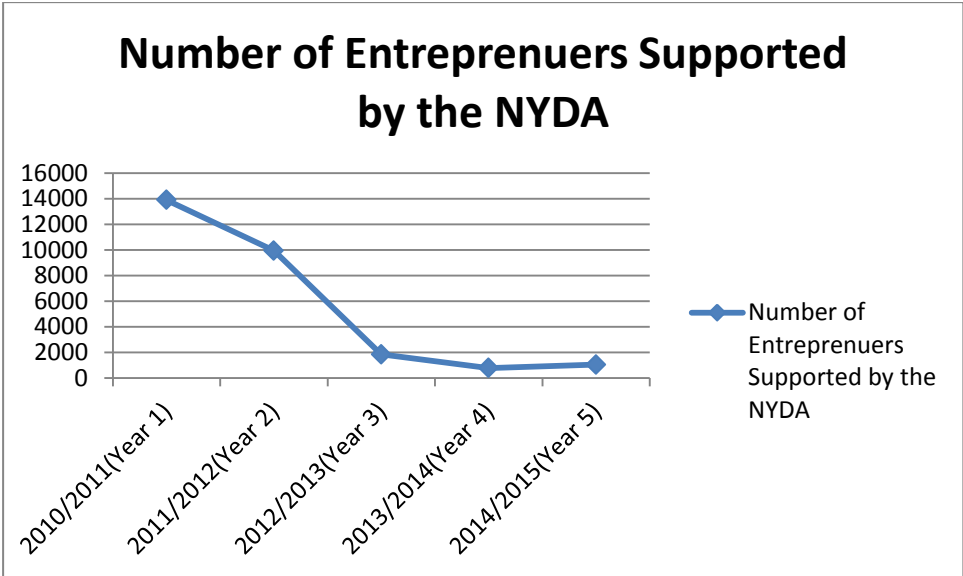
This decline in spending as observed from figure 1 signifies a problematic trend that portrays a contrary dimension to the mandate bestowed by the constitution upon the institution. Economic participation of young people forms the core mandate of the NYDA and which entrepreneurship is one of the vehicles to drive such an agenda.

It is clearly evident that the decline in spending also weighs down on the number of enterprises supported and figure 2 confirms the declining level of youth in accessing funding opportunities from the NYDA.

4.4.2 Number of Enterprises Financed by the NYDA

Figure 2 also display a downward trend on the number of enterprises given financial support from the NYDA consistent with the decline observed in figure 1. It is therefore a probable and idealistic expectation that the proportional decline in spending had negatively affected the beneficiaries as depicted in figure 2. Therefore, both figure 1 and figure 2 highlight a very critical finding that NYDA cannot be viewed as an opportunity by young entrepreneurs since their level of support has been in a constant state of decline since financial year 2010/11 to 2013/14.

Figure 2: Number of entrepreneurs financed by the NYDA

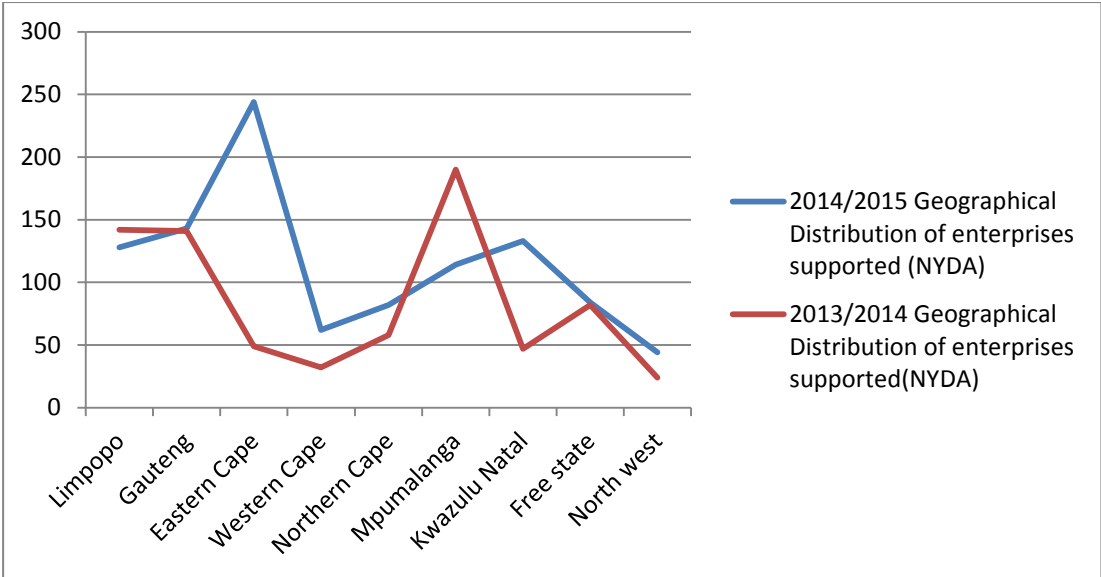


Source: NYDA, 2010; NYDA, 2011; NYDA, 2012; NYDA, 2013; NYDA, 2014

The percentage decline on the number of enterprises supported by the NYDA between periods 2010/11 to 2011/12 was observed at 28.49% and what is striking about this decline is that it happened at the same time when a 17.8% increase in spending was recorded as a result of the demand. This mismatch between the increased spending and a decrease on the number of enterprises supported paints a negative picture about the contradictory nature and the quality of information reported to the public. Period between 2011/12 and 2012/13 recorded the biggest decline of 81.55% and this sharp drop is well aligned to the 7.2% cut in the allocation of budget to functions of the institution in response to the 2.34% drop in the overall budget. A 58.27% decline was recorded between period 2012/13 and 2013/14 which followed a downward pressure on the amount allocated to youth enterprises during the same period. Period 2013/14 to 2014/15 recorded as improved figure by 35.16% which was attributed to the new strategy steered by a new board which replaced loan funding by non-refundable grant funding.

4.4.3 Geographical Distribution of enterprises financed by the NYDA

Figure 3: Geographical distribution of enterprises



Source: NYDA, 2010; NYDA, 2011; NYDA, 2012; NYDA, 2013; NYDA, 2014

On average as showed by figure 7 on the appendices, Mpumalanga registered the biggest beneficiary in support from the NYDA at a value of 152, followed by Eastern Cape at 146.5. The lowest province with the number of beneficiaries from the NYDA is the North West at 34 and the Northern Cape. The average for the overall series with all provinces combined was at

899.5, and the share of province with the highest beneficiaries (Mpumalanga) is 16.9% and the province with the least beneficiaries (North West) is 3.78%. The difference between the most and least supported provinces by the NYDA is at 13.12% which is a huge difference in real terms. A search of literature does not explain or clarify on these disparities but the NYDA will need to look at this issue closely to device means to supply funding on an equitable basis or close enough.

5 RESEARCH CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

5.0 Introduction

This section provides conclusion and recommendations of the research findings on the Mechanisms employed by DFIs to Fund Youth Businesses in South Africa. The recommendations are as a direct result of responses provided by the DFIs during the time of research. Furthermore, the recommendations also take into account the literature reviewed in this study.

5.1 Conclusions

It is apparent from the previous section that the NYDA, Awethu Projects and the IDC are playing their role in uplifting the levels of youth entrepreneurial activities in South Africa. However it was also discovered detailed analysis that the methods and approach employed by the three DFIs differs in many respect in relation to funding youth enterprises is concerned. Many young entrepreneurs can now boast that there have other alternative funding opportunities from the traditional banking system in the form of grants that comes from both the NYDA and Awethu projects. These two institutions have identified a funding gap left by the commercial banks to service the needs of the underserved section of the South African society identified as individuals between the ages of 14 and 35 mostly located in rural areas.

Microenterprises faces enormous challenges with funding at the heart of its development and therefore DFIs such as the NYDA, IDC and Awethu projects are true embodiment that carries the hopes of youth enterprises seeking bud funding. When one considers the credit viability of microenterprises, the overwhelming evidence suggests that it would be difficult for banks to finance survivalist enterprises. Therefore the low levels of support to youth enterprises from the established credit institutions would help propagate the weaknesses in the progression of entrepreneurial activities in the country. Both the NYDA and Awethu projects offer grant funding to youth enterprises which create a unique opportunity for entrepreneurs willing to start and run successful businesses that would in the future add value to the economy through employment creation, and the provision of services and goods. Funding alone can never be the only solution to facilitate optimal participation of youth in the economy, a multi-pronged approach such a creating collaborative and networking opportunities for youth entrepreneurs aids in propelling the flow of information amongst individuals or groups and it's an area

which the NYDA lacks compared to Awethu Projects. With the large number of audience the NYDA can reach, if young entrepreneurs can be encouraged to share information and ideas, a high level of entrepreneurial successes can be recorded in the NYDA's portfolio. A differentiated funding approach by the IDC which focuses on creating young industrialist has added advantages and disadvantages. With its massive budget earmarked at funding youth businesses, those enterprises operating in other sectors (ICT, education etc.) would be locked out from accessing the IDC fund but most notable positive would to expand the industrial base of South Africa which contributes immensely to the GDP.

The objectives of the three DFIs would fail if funding is not awarded in an equitable and fair manner. To eliminate some level of biasness on the appraisal process, the three DFIs has constituted appraisal committees that have a responsibility to award of funding based on merit and the viability of an enterprise. Therefore if the appraisal process is flawed, the level of outreach will be undermined as it would open up the system for manipulation and increases the chances of adverse selection. Youth enterprises in nature are high risk and these 3 DFIS have taken it upon themselves to fund them because the ultimate objective is not to make profit but to assist in making a difference. It is easy for public DFIs such as the NYDA to fund high risk enterprises because they have a government financial backing which could be activated anytime the institution finds itself in financial trouble, whereas it cannot be said with a private DFI like Awethu projects which is at a mercy of private funders and if resources are not managed efficiently, would make the institution obsolete. To augment the funding limitations Awethu projects finds itself in, it adopted a hands on approach to guide youth enterprises to high profitability levels.

Furthermore, the funding limitations of Awethu Projects affect its outreach to the entire population of South African youth. One access point is inadequate to effectively discharge on its responsibility to support as many youth entrepreneurs populated in rural areas. The NYDA prides itself from having established many offices in municipalities to serve as access points to youth engaging in business activities. The institution often decries the inability for the national treasury to see the amount of responsibility that lie on the institution's shoulders. This situation signifies a lack of financial capacity for the institution to adequately allocate resources to the enterprise grant in order to make a meaningful impact. The IDC on the other hand is well capitalized, have adequate institutional infrastructure and specialized personnel to make the dreams of young entrepreneurs a reality. The IDC with its regional and satellite offices signifies a high level of commitment to this course of building an industrial base that

young people can partake in. What is laudable about the IDC is that it has established its internal capacity over the years since 1940, it is through this experience that it has created this massive balance sheet and the ability to manage risk that have a potential to beset its performance.

Quantitatively, spending by the NYDA has experienced a downward trend in the amount spent to youth enterprises and consequently that weighed down on the number of beneficiaries. The institution spends on average 8.31% of the total budget on youth enterprises, against 39% that is spent on salaries. This highlights budgetary challenges that the institution finds itself in. Furthermore it highlights a negative picture that gives an impression that the majority of the budget is not spent on achieving the objectives of the institution but channeled towards creating employment that in turn weighs heavily on the operational budget. From this it is difficult to see how the institution will manage to increase the level of entrepreneurship in the country.

The resources are not disbursed in an equitable manner because the difference between the most and least funded provinces is 13.12%. But the most appealing thing about this statistics is that rural provinces are the most beneficiaries and they take the largest share in the NYDA's youth enterprise fund. Therefore this highlights the positives against the objectives of enabling rural youth to access funding opportunities.

5.2 Recommendations

On the policy front, this research recommends the re-engineering of the National Youth policy to empower government to established institutions that will have a differentiated youth programmes that will make them specializes in one field i.e. education, enterprise development. This will help built specialized institutions that only masters and focuses on one area. The challenges that the NYDA finds itself in, is that it want to be a master of all trades operating on a limited budget. Also this research recommends that government should look at different funding modalities for youth enterprise and capitalise DFIs to implement the accordingly.

Lastly, public DFIs should build internal monitoring capacity to work with youth enterprises beyond accessing funding. This will help identifying areas of weaknesses and successes

relating to the funding strategies used by DFIs to finance youth enterprises. It will also assist in following up on the progress of the beneficiaries.

This study has provided knowledge about the opportunities that exist in DFIs for funding youth enterprises. Future research can evaluate the impacts of DFIs funding on youth enterprises as well as on economic growth of South Africa.

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Appendices

Figure 4: Descriptive Statistics on the number of entrepreneurs financed by the NYDA

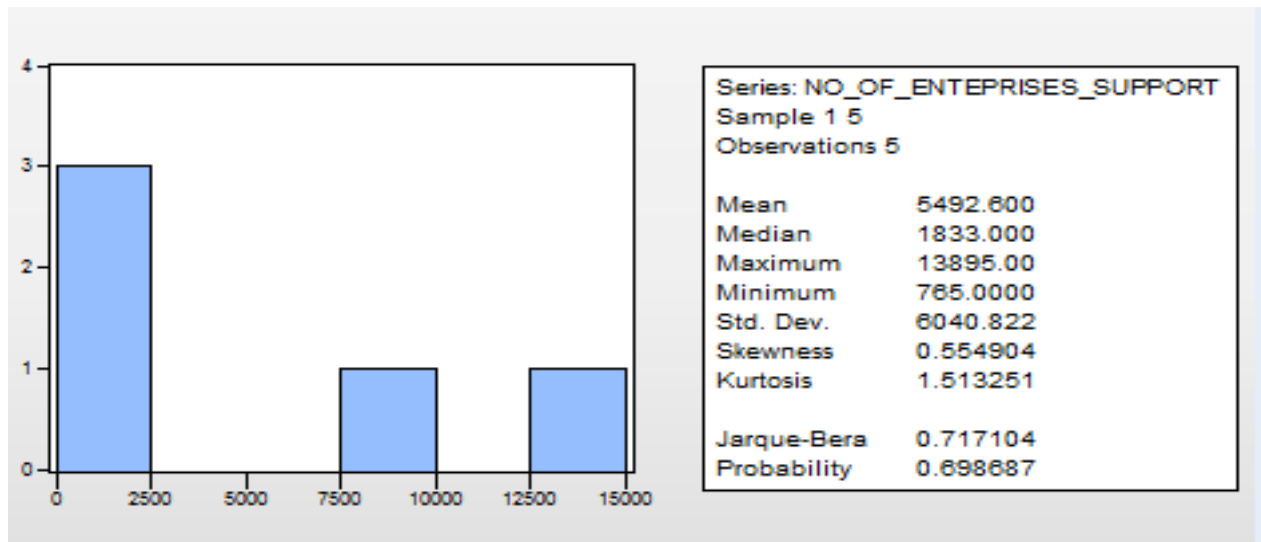


Figure 5: Descriptive statistics on the total amount disbursed by the NYDA to youth entrepreneurs

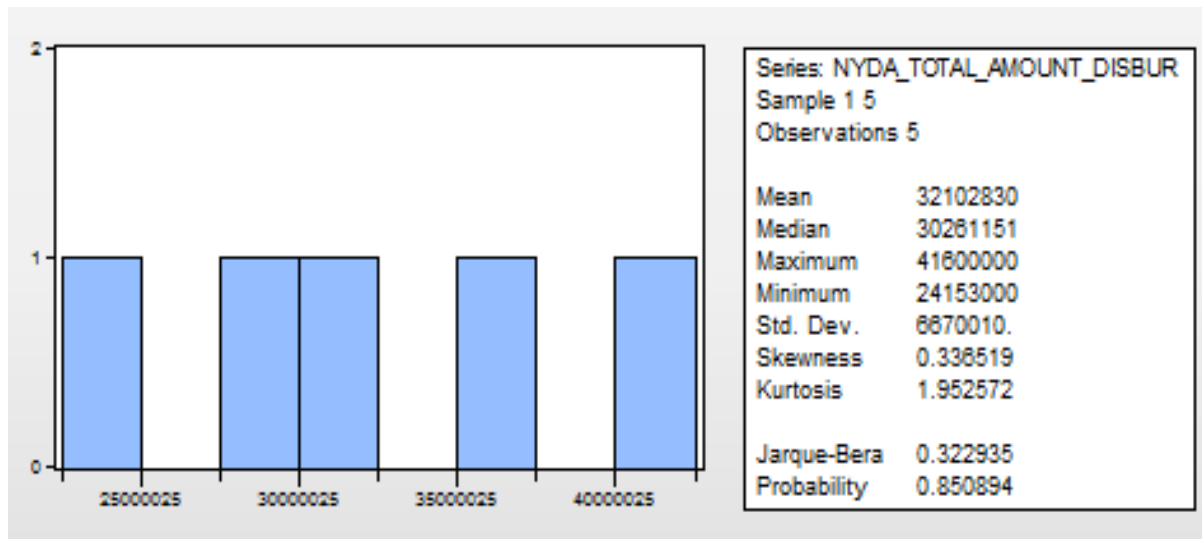


Figure 6: Operation budget of the NYDA

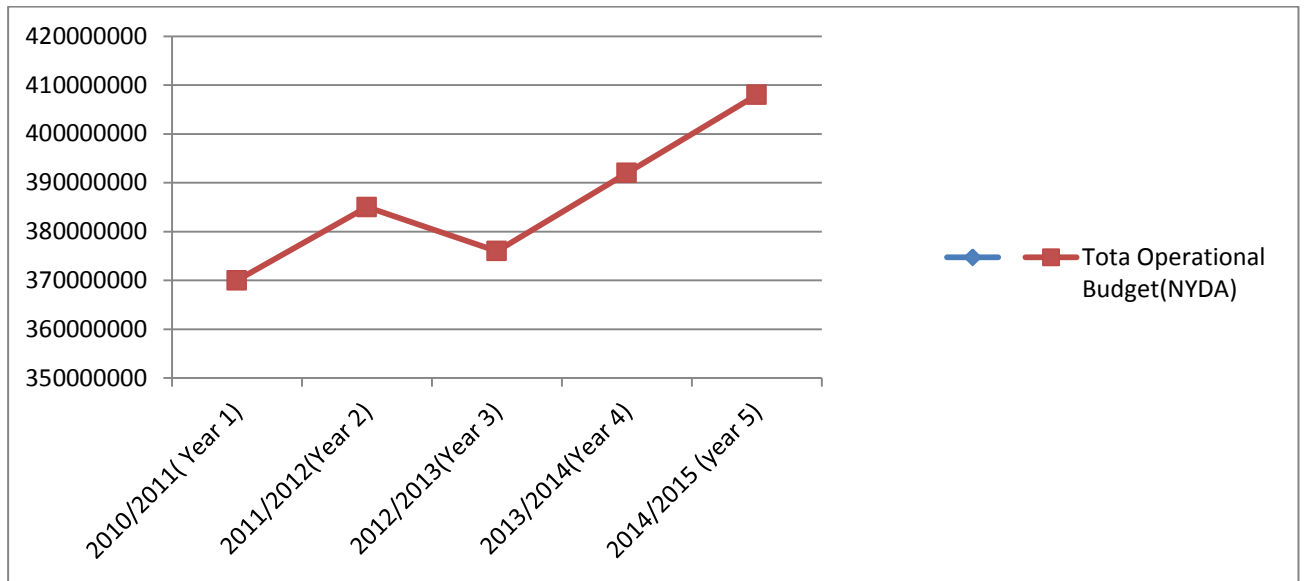


Table 5: Geographical distribution of youth entrepreneurs financed by the NYDA

Provinces	2014/2015 Geographical Distribution of enterprises supported (NYDA)	2013/2014 Geographical Distribution of enterprises supported(NYDA)	Percentage change	Average
Limpopo	128	142	9.86% decrease	135
Gauteng	143	141	1.42% increase	142
Eastern Cape	244	49	397.96% increase	146.5
Western Cape	62	32	93.75% increase	47
Northern Cape	82	58	41.38% increase	70
Mpumalanga	114	190	40% decrease	152
Kwazulu Natal	133	47	182.98% increase	90
Free state	84	82	2.23% increase	83
North west	44	24	83.33% increase	34

Table 6: Number of entrepreneurs financed by the NYDA

	2010/2011(Year 1)	2011/2012(Year 2)	2012/2013(Year 3)	2013/2014(Year 4)	2014/2015(Year 5)
Number of Entrepreneurs Supported by the NYDA	13895	9936	1833	765	1034
Year on Year Change	year 1-2	year 2-3	year 3-4	year 4-5	
Percentage change	28.49% decrease	81.55% decrease	58.27% Decrease	35.16% Increase	
Average change	11915.5	5884.5	1299	899.5	

Table 7: Total Amount disbursed by the NYDA to youth entrepreneurs

	2010/2011(Year 1)	2011/2012(Year 2)	2012/2013(Year 3)	2013/2014(Year 4)	2014/2015(Year 5)
NYDA:Total Amount Disbursed(ZAR)	35500000	41600000	30261150.62	24153000	29000000
Year on Year Change	year 1-2	year2-3	year 3-4	year 4-5	
Percentage Change	17.18 increase	27.26% decrease	20.18% decrease	20.07% increase	
Average	38550000	35930575.31	27207075.31	26576500	

Qualitative Questionnaire

Q1 How is the funding decisions made?

Q2 How much funding is available?

Q3 How is your organization an opportunity for young entrepreneurs?

Q4 Can anyone apply to the Youth Enterprise Fund?

Q5 Can applicants submit more than one application in one calendar year?

Q6 what types of initiatives are eligible for funding?

Q7 Can this funding be used to support an existing initiative?

Q8 Does your institution have adequate financial capacity to effectively support youth enterprises across South Africa?

Q9 Are you satisfied with the level of your institution's outreach to fund South African Youth Businesses?

Q10 Is your institution well capitalized to meet the demand for funding by youth enterprises now and in the future?