THE ROLE OF COMMUNITY-BASED ORGANISATIONS LOANS IN YOUTH ECONOMIC EMPOWERMENT: CASE OF MAKADARA SUB-COUNTY, NAIROBI CITY COUNTY, KENYA

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Accepted: October 22, 2018

ABSTRACT
Community-based organizations (CBOs) remain key players in youth economic empowerment in Kenya. However, many studies have focused on general CBOs within rural areas. The studies have shown CBOs have experienced both successes and challenges in the quest to support youth economic empowerment. Therefore, this study sought to examine the role of the community-based organization loans in youth economic empowerment in the Makadara Sub County. The study adopted a descriptive survey design with a sample size of 72, youth from the target population of 120 youth group members in the Makadara Sub County who were selected using simple random sampling method. The study used questionnaires based Likert scale in data collection. The data was analyzed using statistical package for social sciences (SPSS) and inferential analysis by factor analysis. The findings were presented in, tables, graphs, regression, correlation and study conclusions made. The findings revealed that CBO loans were statistically significant to the youth economic empowerment in the Makadara Sub County. The study recommended that CBOs working with other partners need to work towards establishing youth friendly loan facilities. Further studies to be done include a comparative study between the role of CBOs in rural and urban areas and a comparative study on the role of national and county government in youth economic empowerment.

Key words: Youth Economic Empowerment, Community based organization, Secured Loans, Unsecured Loans, Demand Loans, Makadara Sub County
INTRODUCTION

According to UN, the First Sustainable Development Goal seeks to end poverty in all forms everywhere by 2030 and for this to be achieved it will involve raising the income of the poorest and ensuring access to the basic needs to every population including youth. Youth forms one of the most significant resources that Africa as a continent is endowed with, despite the little effort to fully utilize the youth for her economic advantage. Although, Africa countries are known for gross negligence, extravagant spending and adversarial policies where resources are not channeled to the profitable investment and therefore economic growth remains a mirage with many of the allocations of the budget depending on the donor funding and largely a recurrent based budget. This has resulted in an adversarial impact on youth welfare who remain unemployed, poor and lack saleable skills to enter the workforce (Ugochukwu 2017).

World Bank (2002) report, defined empowerment as the expansion of assets and proficiencies of underserved and unreached people to partake in negotiating with, influence, control, and hold accountable institutions that affect their lives. Bulimo (2016) observes that empowerment is a process by which citizens develop the consciousness and skills necessary to envision social change and understand their roles in the necessary changes, which enable people to take action and exercise their powers to transform their lives.

According to Uzokukwo (2015), youth empowerment is classified as social, economic, cultural, organization empowerment. World Youth Report (2003) established that globally, there are extreme disparities in youth empowerment needs, which vary in terms of regions, countries, localities and population groups. This study focused on youth economic empowerment, which looks at how youth can own assets, gain income security and participate in development and decision-making.

There are various models of youth economic empowerment, for instance, Youth Empowerment Solution (YES-model), Youth Participatory Empowerment Model and Fostering Youth Engagement Model. The success and use of the empowerment model are largely influenced by the role of factors such as media, age, government policies, attitude, and type of grassroots organizations. These factors are significant in mobilizing, informing, influencing and directing stakeholders of the suitability of the empowerment model (Meredith, Brown, Jeanne, and Parrish 2013).

The Community-based organizations are emerging as key vehicles of youth community empowerment, Young (2000), defined Community-based nonprofits as the basic glue that cements the connections which makes CBOs important in providing services, initiating and implementing the civic spirit of volunteerism, and supporting the local economy. These kinds of linkages make this sub-sector a buffer and safety net of the locals from the impact of inequality due to extreme poverty as seen in several families and the general local population. The CBOs are classified based on their functionality, for instance, self-help groups, health, education-based groups. The study focused on the economic role of self-help groups for youth in the Makadara Sub County.

According to Allyn and Becon (2004), self-help groups are self-guided improvement groups seeking to support the community to achieve economic, intellectual or emotional needs. The literature reviewed for this study revealed CBOs, play important roles in economic empowerment, for instance, Yojana (2008), Janakiraman (2018), Joshi (2010) and Karanja(2014), indicated that CBOs were key to the provision of loans as a key economic empowerment activity. Dephine (2012), describes loaning as the process of lending money from one person to another entity or organization. This process is done under the agreement at a stipulated
interest rate and duration of repayment depending on the type of the loan being extended.

Kaane (2014) and Abbink (2005), reported that youths in Kenya are faced with economic challenges, like underemployment, lack of access to economic opportunities, lack of flexible credit and policy exclusion and youth only become relevant during political campaigns as politicians seek youth support and use them to commit a crime.

The youth in Makadara Sub County, which is one of the sub-counties in Nairobi County live in an economically challenged background, Kenya National Youth Policy (2006) and County Integrated Development Plan (2014-2017), revealed that youth face acute poverty, credit unworthiness, and lack opportunities to contribute to the larger economy. This context informed the study on the role of CBOs in Makadara Sub County. The study will contextualize the role of CBO loans to youth economic empowermen

Statement of the Problem
Youth swells have become a world phenomenon and Kenya is not an exception to this trend. In Kenya, the youth surge presents a myriad of challenges to the whole population and more so the youth themselves. Several studies done on topical issues about youth paints a gloomy picture that there are persistence risks and challenges faced by youth in Kenya including economic marginalization, unemployment and lack of access to essential facilities and services (Mutuku, 2009).

According to the International Monetary Fund (2005) in Poverty Reduction Strategy Paper (PRSPs), youth are significant and systematically excluded from the decision and policy making, and development processes, but ironically youth are expected to meaningful support their countries’ development agendas. Furthermore, several youth organizations remain under-resourced and ill-equipped to participate in the development. Youth situation has been worsened by lenders, who, according to Aliero (2013), charge exorbitant loan interest and demand unrealistic collateral, which remain a major hindrance to the youth accessing the credit to enable them to start businesses and projects. The Youth Enterprise Fund Strategic Plan 2016-2021 points out that inadequate funds and inaccessibility of loans is a threat to youth empowerment.

According to Young (2000), community-based organizations are emerging as a glue that bridges the gap in the youth service delivery and provides a buffer from the effects of the inequality and extreme poverty in the society. Despite this revelation, Clark, (1999), observed that the community-based organizations are so much intertwined with the community that it’s easy to miss the impact and the key roles they play in poverty alleviation. In fact, Orina (2016) recommends that there is a need for the study to be done to find out the effect of community-based organizations in poverty alleviation while Anwar (2008), reported that community-based organization should actually do more activities in the socioeconomic area to improve peoples’ lives.

According to the Sanai Reli a youth group operating in Makadara Sub-county, they undertake various activities ranging from the car wash, toilet biogas, and table banking among others. The group also indicated that they have received loans from government amidst challenges such as scrutiny during application, limited funds and demand to repay the loans even before the group business reach break-even. Kinyonda (2008), The study requested the civil organization like CBOs to support in economic empowerment, provision of flexible access to credit. It is with this background that in this study we examined the role of CBOs loans in youth economic empowerment, in the Makadara Sub County, Kenya.

Objective of Study
The objective of the study was to examine the role of community-based organizations (CBOs) loans in
youth economic empowerment in the Makadara Sub County, Kenya.

THEORETICAL FRAMEWORK

Joint Liability Theory
Armendarizin (2007), communities in trying to alleviate poverty and states that microfinance often lends the poorest in the community members jointly where they are liable to each other. Each member of the group is liable to ensure repayment is done. In case one of the members fails to pay the loan, the group members are liable to pay the debt. The theory is anchored on the premise that group members are in the best position to apportion damages amongst themselves. Once the loan has been given out, then members can plan on how to handle the liability.

Grameen Group Lending Model
According to Frankiewicz (2001), the model takes place through solidarity groups where small groups borrow collectively and group members encourage each other to repay. This model is key to delivering microcredit to the poor and the group lending lowers the cost of financial institution related to assessing, managing, collecting and need for collateral since members hold each other’s accountable. The lender bundles individual loan together and leaves the individual to manage their relationship making savings in administrative and management cost.

Conceptual Framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth access to CBO</td>
<td>Economic Empowerment</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
</tr>
<tr>
<td>▪ Secured loans</td>
<td>▪ Ability to afford basic needs</td>
</tr>
<tr>
<td>▪ Unsecured loans</td>
<td>▪ Increased income</td>
</tr>
<tr>
<td>▪ Demands loans</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1: Conceptual Framework
Source: Author (2018)

Empirical Review

Loan or access to credit is the lending of money from one person, organization or entity to another person, organization or entity. The money is provided as a debt at prescribed or agreed on interest rate and is payable within a specific period of time. Loans are provided to people for various reasons, including allowing them to invest in the business which spurs economic growth. There are different types of loans such as secured, unsecured and demand loans (Delphine 2012).

Lambisia, Ngahu, and Wagoki (2016) reported that table banking was gaining popularity; with its main role being banking the unbanked of the poor, table banking is a concept that has gained popularity in the recent past in Kenya. Many poor people have no access to loans from the mainstream banks because of challenges that include; difficult terms and conditions, lack of needed qualifications and requirements, high-interest rates among other reasons. The lender may be denied poor people loans because of low business profitability, no solid business plan, poor timing, overwhelming documentation, weak personal credit score, too much credit debt, lack of capital among other reasons (Florida capital 2017).

Sani (2013), reported that robust economic growth couldn’t be achieved without financial deepening, especially to the rural youth, which frees them from the difficulties of lack of technical backstopping required for creativity. The access to credit by youth could ensure that youth are fully employed without the burden of the government. Further youth can come up with income-generating activities that can create more jobs. The studies observed that lack of collateral remains the main challenge for youth in the acquisition of loans from banks and therefore need to have alternative ways of making youth access the loans to start businesses.

Aliero (2013) observed that access to credit, especially among youth, should ensure that the youth are self-employed without any serious
burden on the government. In addition, once the credit is extended and the loan has been put to productive use they are sure of a reliable source of income which will, in turn, add to aggregate income. In the same vein, we are also limiting the social evils of youth unemployment. Possession of collateral is one of the major obstacles to the youths’ access to finance and it is hereby recommended that an alternative arrangement for securing loans in the rural areas be initiated to ensure more youth access the loans.

In a study by Murathi (2015), showed that the government officers assigned to monitor the groups had failed to make follow up to the defaulter, due to inadequate support from government, many of the policies on microcredit had not been implemented, delayed disbursement time from application to reception of funds, which affects the agricultural projects that are climate dependent. Further youth believed they needed more training in business investment and access the loans much ease from many of the obstacles being put by stakeholders.

Chebet (2016) concurs that many of the youth lack collateral needed by the banks and other lenders and the high-interest rate on credit and accessibility of the credit finance limits them from getting loans from banks. There is a negative relationship between the demand for credit and interest. Chebet (2016) therefore the research recommends that policies on access to credit should be regulated to ensure policies are youth-friendly, but a limited amount of loans is also still a challenge to many of the youth seeking to take loans from a community-based organization.

Parker and Pearce (2015) noted that credit alone couldn’t take youth out of poverty, but give a possible solution to intervention to generate income that can lead to elevation of poverty. One of the key challenges of loans is the inability of the recipient to payback. Despite the rural taking loans from microfinance and groups, the demand for the products of the enterprise remains very low. Further, the loan size remains too small to make any significant change to the well-being of the household (Oduor Charles & Dorine 2012). Kurgat and Kibas (2018), revealed the majority of the respondents, had adequate information on the loans offered by microfinance groups and government, this increased the accessibility of the loans, with the majority of the respondents agreeing that informal groups were key to the provision of loans for enterprise within the group members. Kurgat and Owembi (2017), revealed that there was a significant correlation between loans and youth economic empowerment (R² =0.525) and members agreed that their involvement in the youth groups had improved their living standard, this agreed with a mean value of 4.13 and (SD of 0.56) that showed significant relationship with the economic empowerment.

There are different types of loans, but in the context of community-based organizations, we will discuss, secured loans, unsecured loans, and demand loans.

Secured Loans
This is a loan in which the person borrowing pledges assets as collateral, in case the debtor doesn’t pay, then the lender takes possession of the assets that were placed as collateral, which may be sold to regain some all the originally loaned cash (McCormack, 2004). If the collateral does not raise enough money to pay off the debt, the creditor can often obtain a deficiency judgment against the borrower for the remaining amount. Secured loans attract lower interest rates with various considerations such as credit history, ability to repay, and expected returns for the lender are also factors affecting rates. There are two purposes of secured loans, by giving loans with collateral then the lender is relieved of the risks involved in lending. Secondly, the debtors may receive loans on more favorable terms than that available for unsecured debt, or to be extended credit under
circumstances when credit under terms of unsecured debt would not be extended at all.

**Unsecured Loans**

This is monetary loans that have not been secured against the borrower’s assets, this may be available from financial institutions under many different ways, credit card, personal loans, bank overdraft, credit facilities or lines of credit, cooperate and peer to peer lending. The interest charged differ from one lender to another, which may or may not be regulated by the law (Obimba 2015).

The interest rate charged under the unsecured loans is always higher because the lender has to be protected just in case the borrower default, the loss may not be very severe. Although the unsecured lender can sue the borrower for breach of contract in case of failure to pay, this may result to attach the assets of the borrower, that may be not be disclosed from the beginning of the contract. Insolvency proceedings, secured lenders traditionally have priority over unsecured lenders when a court divides up the borrower’s assets. Thus, a higher interest rate reflects the additional risk that in the event of insolvency, the debt may be uncollectible (Okwiri 2014).

**Demand Loans**

A demand loan is a type of loans, where there are fixed dates for repayment and have interest rates, which vary based on the lender. They can be "called" for repayment by the lending institution at any time and they can be secured or unsecured. (Signoriello1991). The demand for payment can be made anytime after the loan has been executed.

The demand format does not include a specific maturity date and may not include a specific schedule for making payments to retire the debt. The demand loans can be referred to call loans and work well where the parties have a long history and confidence in each other (Ogwe 2003).

**METHODOLOGY**

The study employed descriptive survey design which made use of questionnaires. The study used simple random sampling to select 72 youth from the target population of 120 groups. This study employed a Taro Yamane sample size formula Yamane (1953), to compute the sample size from a target population of 120 with a sampling error of 7.5%. A sample size of 72 respondents was arrived at as shown in the equation. The Likert Scale Questionnaires were examined, cleaned and sorted to ensure that all the relevant data was coded, categorized and stored for analysis using the statistical package for social science and factor analysis compute further analysis from the data

\[ n = \frac{N}{1 + N(e^2)} \]

Where:

- \( n = \) Sample size.
- \( N = \) Population size
- \( e = \) the error of Sampling (0.075)

\[ n = \frac{120}{1 + 120(0.075^2)} = 72 \]

**RESULTS**

The study sought to establish how youth access to CBO loans affects youth economic empowerment in the Makadara Sub County.

Table 1: Tabulation of how Youth Access to CBO Loans affects youth economic empowerment

<table>
<thead>
<tr>
<th>Youth access to CBO Loan</th>
<th>(5)</th>
<th>(4)</th>
<th>(3)</th>
<th>(2)</th>
<th>(1)</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured loans are accessible by youth for startup for business.</td>
<td>72%</td>
<td>21%</td>
<td>7%</td>
<td></td>
<td></td>
<td>4.86</td>
<td>0.352</td>
</tr>
<tr>
<td>Youth are sensitized on secured loans.</td>
<td>86%</td>
<td>14%</td>
<td></td>
<td></td>
<td></td>
<td>4.86</td>
<td>0.352</td>
</tr>
</tbody>
</table>
Mean Strongly Disagree=1-1.9 Disagree=2-2.9 Neutral=3, Agree=3.1-4 Strongly Agree=4.1-5

The findings revealed that the majority of youth strongly agreed that CBO loans were accessible and youth had information on the processing and application of the loans. The loans received were key to enhancing business and ensuring youth enterprises are a cushion against the loses. However, the majority revealed that the loans received were not adequate to support meaningful enterprises to support youth empowerment. In addition, the majority of youth indicated that unsecured loans were not accessible to them because the organization demanded securities before loaning. This agreed with Parker et al (2015), loans were limited and could not adequately support the empowerment of the youth to start the meaningful venture.

Inferential Statistics on Youth Access to CBO Loans
The study utilized factor analysis (Principle component analysis), to reduce the large variable to a fewer number of factors for easy analysis before undertaking correlation and regression analysis. The tables below detail total variance explained, rotated component matrix, correlation and regression analysis

| Table 2: Total Variance Explained on the youth access to CBO Loans |
|-----------------|-------|-------|-------|-------|---------------------|-------|-------|-------|
| Component       | Initial Eigenvalues | Extraction Sums of Squared Loadings |
|                 | Total  | % of Variance | Cumulative % | Total  | % of Variance | Cumulative % |
| 1                | 6.833  | 75.917        | 75.917       | 6.833  | 75.917        | 75.917       |
| 2                | .984   | 10.934        | 86.851       |        |               |              |
| 3                | .698   | 7.756         | 94.607       |        |               |              |
| 4                | .304   | 3.377         | 97.984       |        |               |              |
| 5                | .091   | 1.007         | 98.991       |        |               |              |
| 6                | .066   | .731          | 99.722       |        |               |              |
| 7                | .023   | .257          | 99.979       |        |               |              |
| 8                | .002   | .021          | 100.000      |        |               |              |
| 9                | .025   | .478          | 100.000      |        |               |              |

**Extraction Method:** Principal Component Analysis.
The results in Table 2 of the principal component analysis from the initial nine (9) variables revealed one (1) variable was extracted and would be key in the subsequent analysis of new variable descriptive statistics, correlation and regression and conclusion.

**Table 3: Component Matrix on the youth access to CBO Loans**

<table>
<thead>
<tr>
<th>Component</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured loans are accessible by youth for startup for business.</td>
<td>.940</td>
</tr>
<tr>
<td>Youth are sensitized on secured loans.</td>
<td>.877</td>
</tr>
<tr>
<td>Secured loans are adequate for the needs of startup loans.</td>
<td>.808</td>
</tr>
<tr>
<td>An unsecured loan is approved as soon it’s applied.</td>
<td>.906</td>
</tr>
<tr>
<td>Unsecured loans are enough for youth needs.</td>
<td>.895</td>
</tr>
<tr>
<td>Youth prefers unsecured loans.</td>
<td>.903</td>
</tr>
<tr>
<td>Youth are accessible to demand loan,</td>
<td>.939</td>
</tr>
<tr>
<td>Youth are sensitized to demand loans.</td>
<td>.940</td>
</tr>
<tr>
<td>Demand loan is enough for youth startup.</td>
<td>.572</td>
</tr>
</tbody>
</table>

**Extraction Method: Principal Component Analysis.**

The Component Matrix was used to reduce the number of nine (9) factors on which the variables under investigation revealed high loading. From Table 3, all the nine factors loaded on component 1 which spoke around community-based organization loans (CBO loans).

**Table 4: Correlation of Indicators of CBO Loans**

<table>
<thead>
<tr>
<th>Economic Empowerment</th>
<th>CBO Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.537**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>70</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).**

The results revealed, there was a strong positive correlation between economic empowerment and CBO loans ($r = .537$, Sig. = .000, < .01). There was a positive relationship between the economic empowerment and CBO loans. Kurgat and Owembi (2017), also revealed that there was a significant relationship between the access to loans and empowerment which was in agreement with the findings of the study.

**Table 5: Regression Model Summary on CBO Loans**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. The error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.537*</td>
<td>.289</td>
<td>.278</td>
<td>1.90574</td>
</tr>
</tbody>
</table>

**a. Predictors: (Constant), CBO Loans**

Table 5 showed a summary of the regression, the value of R and $R^2$ were 0.537 and 0.289 respectively. This indicated there was a positive linear relationship between youth economic
empowerment and youth access to CBO loans. The $R^2$ indicated that the explanatory power of the independent variables was 0.289. This meant that about 28.9% of the variation in youth economic empowerment was explained in the model. Kurgat and Owembi (2017), revealed that there was a significant correlation between loans and youth economic empowerment ($R^2 = 0.525$). This confirms the group loans are significant to economic empowerment.

Table 6: Regression for CBO Loans (ANOVA)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>100.176</td>
<td>1</td>
<td>100.176</td>
<td>27.583</td>
<td>.000</td>
</tr>
<tr>
<td>1 Residual</td>
<td>246.966</td>
<td>68</td>
<td>3.632</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>347.143</td>
<td>69</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Economic Empowerment  
b. Predictors: (Constant), CBO Loans*

The ANOVA Table 6 indicated the F value was 27.583 The $P$ value of the F statics =0.00 which was less than 5%. This showed the model was a good fit as it showed economic empowerment was influenced by access to loans. This showed that the overall model good fit for the model as it showed that economic empowerment was influenced by access to CBO loans. The ANOVA $F$-Value in table tests showed the forecasters together were not equal to zero. This showed that the general regression model was a good fit for the analysis.

Table 7: Regression Model Significance Coefficients

<table>
<thead>
<tr>
<th>Predictor Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>31.805</td>
<td>3.099</td>
<td>10.262</td>
<td>.000</td>
</tr>
<tr>
<td>CBO Loans</td>
<td>.585</td>
<td>.111</td>
<td>5.252</td>
<td>.000</td>
</tr>
</tbody>
</table>

*Dependent Variable: Economic Empowerment*

The result of the analysis showed how the CBO loans contributed to economic empowerment. These results were analyzed through regression modeled $Y = \beta_0 + \beta_5 X_5$. If we input the statistical values obtained, the model $Y = 31.805 + .585X_5$. Hence a strong positive relationship between loans and economic empowerment. In conclusion, $X_5$ ,CBO loans had significantly positive regression, indicating youth with receiving CBO loans had higher economic empowerment. Njue (2018), revealed that youth groups and personal saving formed the main sources of loaning for an individual in youth groups, with very few opting for Bank Loan. This was attributed to ease of access to the loans, which also agreed by a study done by Rutherford, (2000), which showed that groups met their credit demand internally (70%), although the demand of loans was always very high to be met by the group. The study concluded loans had critical significant to group empowerment.

**CONCLUSIONS**

The study findings on CBOs loans revealed that secured and demand loans were accessible, and youth had information on their availability. However, youth could not access the unsecured loans. The study concluded that government and partners could channel their funds through CBOs to ensure more youth can borrow and start businesses. The Government should consider merging all the Government supported loans facilities to one-stop shop, and make it easy the application processes to be youth-friendly loans.

**RECOMMENDATIONS**

CBOs working with other partners need to work towards establishing youth friendly loan facilities...
that work towards ensuring youth are able to borrow to invest in businesses to empower youth economically.

**Recommendations for Further Studies**

The study recommended that a comparative study on the role of CBO in both urban and rural areas in youth economic empowerment should be carried out. Also, a study on the role of national and county governments in youth economic empowerment should be carried out.

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