

**FACTORS INFLUENCING REPAYMENT OF YOUTH ENTERPRISE  
DEVELOPMENT FUND: A CASE OF FUNDED YOUTH GROUPS IN LIKONI  
CONSTITUENCY, MOMBASA COUNTY**

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UNIVERSITY OF NAIROBI  
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**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT  
FOR THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER  
OF ARTS IN PROJECT PLANNING AND MANAGEMENT OF  
THE UNIVERSITY OF NAIROBI**

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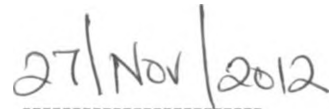
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## DECLARATION

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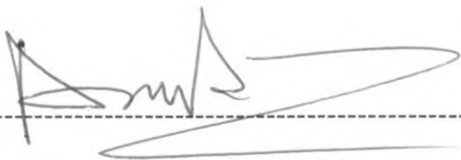


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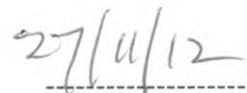


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**Date**

This research project report has been submitted for examination with my approval as University Supervisor.



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**Date**

## **DEDICATION**

In memory of my late dad Mzee Abednego Okungu Ogal who sadly passed on during the course of my study. His sacrifice, inspiration and motivation made my dream a reality.

Utmost gratitude to my family who had to put long hours with my absence in the course of my studies. Their patience, understanding and support enabled me accomplish my dream.

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## ABBREVIATIONS AND ACRONYMS

<b>AYT</b>	African Youth Trust
<b>C-YES</b>	Constituency Youth Enterprise Scheme
<b>GDP</b>	Gross Domestic Product
<b>KNBS</b>	Kenya National Bureau of Statistics
<b>KNYP</b>	Kenya National Youth Policy
<b>MARYDEF</b>	Malawi Rural and Youth Development Fund
<b>MOYAS</b>	Ministry of Youth Affairs and Sports
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>SMEs</b>	Small and Medium Enterprises
<b>SPSS</b>	Statistical Package for Social Sciences
<b>YDF</b>	Youth Development Fund
<b>YEDF</b>	Youth Enterprise Development Fund
<b>YES</b>	Youth Employment Summit

## ABSTRACT

The youth aged between 15 to 34 years account for about 37 per cent of the Kenyan population (KNBS 2009). This implies that about four-fifths of Kenya's population is less than 35 years old. In Kenya, unemployment is one of the most daunting economic challenges facing the youth in Kenya. It is one of the major vices impinging on the youth in Kenya (KNYP 2006). Statistics indicate that the magnitude of the unemployment problem is left by the youth with approximately 38% of the youth in Kenya neither in school or work. Approximately 67% of the unemployed are young people below the age of 30 years while 45% of the unemployed are below 24 years of age. In addition 90% of the unemployed youth do not have appropriate vocational or professional training, which further limits their chances of fully participating in the labor market. In its attempt to address the increasing employment among the Youth in Kenya, the Government of Kenya mooted the idea of Youth Enterprise Development Fund. There has been growing recognition of the important role small and medium enterprises (SMEs) play in economic development. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. However, the revolving fund that was meant to help Kenyan Youth start businesses is now chalking up bad debt, causing fear of a looming liquidity crisis that could also rob them support from financiers. The average National repayment rate of C-YES stands at mere 35.22%. In Likoni the repayment rate stands at a dismal rate of 9.28%. The purpose of this study therefore was to identify factors that influence repayment of YEDF loan disbursed to funded Youth groups. This study examined related literature on issues influencing repayment of YEDF loan and further presented a theoretical review of theories related to factors influencing repayment of YEDF. A conceptual framework with regard to objectives of the study was later developed in this chapter. The research design adopted was a descriptive. The Target population of this study was comprised of the 56 funded youth groups in Likoni Constituency. Purposive sampling was employed and all the 56 funded youth groups were interviewed. A structured questionnaire was developed and utilized in this study. The questionnaire that had both open and close ended items for collection of primary data was used. The organised data was interpreted on account of concurrence to objectives using assistance of computer packages especially statistical package for social scientists (SPSS) version 20 to communicate research findings. In analysis of data, a content analysis and descriptive analysis was employed which included frequencies and percentages. The researcher organized the results around the four objectives of the study. While the study reveals that the level of education attained by majority of the members of the funded youth groups would be adequate for well management of their enterprises, the dismal repayment rate of youth fund amongst the funded youth groups would be attributed to the loopholes in the lending procedure which lacked physical vetting of the funded groups, lack of guarantors requirements and inappropriate repayment mode. It's noted that lack of entrepreneurial experience amongst the funded youth groups and failure by YEDF to train funded youth groups on BDS training in a great way contributed to the low rate of repayment of YEDF in Likoni Constituency.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

The United Nations estimated that in 2000 there were 1.1 billion young people between the ages of 15 and 24, representing an unprecedented 18 percent of the global population. Eight out of ten members of this age group live in the developing world. Their total number is projected to increase to 1.2 billion by 2025 and 1.3 billion by 2050, with the proportion in the developing world remaining approximately the same. Half the world's population is under the age of 25, a percentage that will grow before it gets smaller. Over 70% of the global population is less than 25 years of age. In 2005, 85-90% of those aged 15-24 lived in developing countries (Smith 2000).

Africa, with 43 percent of the population or 338 million young people under the age of 15, continues to be the youngest region. Owing to its high fertility and declining fertility mortality, Kenya is characterized by a youthful population evidenced by census results which show that about 42 per cent of the population is below 15 years and is dependent. The youth aged between 15 to 34 years account for about 37 per cent of the population (KNBS 2009). This implies that about four-fifths of Kenya's population is less than 35 years old.

However this youthful population has been affected by a myriad of problems world over. At the approach of the New Millennium, the economic situation for young workers in the advanced world was worse than it was 20-30 years ago. Employment and earnings deteriorated for youths relative to adults in the European Union, the United States of America, and Canada. Real earnings were lower for young men in USA and Canada than they were in the 1970s. Unemployment was higher among the young in most European Union countries than it has been since Great Depression. The economic position of youth had even deteriorated in some of the Asian successes: Japan, Korea, and Hong Kong. Among advanced countries the problem of a deteriorated youth job market was virtually ubiquitous (Freeman 2005).

Unemployment has emerged as the greatest challenge facing the world today exacerbated by the poor and uninspiring economic recovery from the recent Global Economic Crisis. The unemployment problem is more acute with young people in general; young people being three times as likely as adults to be unemployed. In terms of employment and livelihood opportunities, the scenario is just as frightening as corresponding to the demographic trend. More young people are about to enter the labor market worldwide than ever before in history. Between now and 2010, 700 million young people will enter the labor force in developing countries (more than the entire labor force of the developed countries in 1990). (YES, 2002). The International Labor Organization projects more than a billion jobs will need to be created to accommodate these new workers and reduce unemployment.

Furthermore, the majority of youth, on average 80 percent, is economically active, but is underemployed. This implies that they do not earn a sufficient amount, or work for a sufficient period of time to earn a living and to contribute to their community. To compound this further, the ILO estimates that there are approximately 70 million unemployed youth and in general terms, they assert that the youth unemployment rate is double that of the adult population.

In Kenya, unemployment is one of the most daunting economic challenges facing the youth in Kenya. It is one of the major vices impinging on the youth in Kenya (KNYP 2006). Statistics indicate that the magnitude of the unemployment problem is left by the youth with approximately 38% of the youth in Kenya neither in school or work. Approximately 67% of the unemployed are young people below the age of 30 years while 45% of the unemployed are below 24 years of age. In addition 90% of the unemployed youth do not have appropriate vocational or professional training, which further limits their chances of fully participating in the labor market (AYT, 2011). It is evident that the majority of the country's population comprises of the young people forming the largest source of human resource.

Study shows that the youth in Kenya have been largely excluded from designing, planning, and implementing programmes and policies that largely affect them, yet they have a vital role in shaping the present and future of the country's social, economic and political environment (AYT, 2011).

Youth are dynamic, full of energy and can play a key role in promoting growth and development within the economy. However they have remained on the periphery of the country's affairs and their status has not been accorded due recognition (KNYP, 2006).

As a result, a host of policy measures have been adopted by different regions and countries to fight this scourge. A cursory analysis of these measures shows a wide use of concessionary youth entrepreneurship funds to support employment creation in developing countries, particularly in sub-Saharan Africa. The Malawian government initiated the Malawi Rural and Youth Enterprise Development Fund (MARYDEF). In Botswana, the Botswana Youth Development Fund was initiated, in Zimbabwe the Youth Development Fund was initiated while in South Africa the Usmobomvu Youth Fund was initiated in 2001. Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. According to an OECD report, SMEs produce about 25% of OECD exports and 35% of Asia's exports (OECD, 1997). SMEs in Ghana have been noted to provide about 85% of manufacturing employment of Ghana. In the Republic of South Africa, it is estimated that 91% of the formal business entities are SMEs. Equally in Kenya SMEs play a vital role as they create more than 50 per cent of jobs created in the country (Economic survey 2006).

As one of the strategies of addressing youth unemployment, the Kenya Government mooted the idea of Youth Enterprise Development Fund in the year 2006. For four decades politicians have only paid lip service and made rhetoric of the fact that the youth are the leaders of tomorrow. If plans to inject the fresh capital into the fund in subsequent years are followed through and we don't play politics with the initiatives we have an opportunity to economically empower Kenya's largest marginalized group (Ombok, 2007). YEDF was an employment marshal plan which recommended a collaborative strategy through which the youth were to be engaged in useful employment (YEDF 2006). The fund focuses on enterprise development as a key strategy that will increase economic opportunities of the youth.

To date the Fund has advanced loans worth Kshs. 5.9 billion to 158,000 youth enterprises countrywide. Through the Constituency Youth Enterprise Scheme (C-

YES), a total of Kshs. 615 million has been advanced to 13,341 groups and Kshs. 66 million has been disbursed to 2,645 individuals. Through financial intermediaries the Fund has financed 141,552 groups and individual enterprises to the tune of Kshs. 5.2 billion. In Mombasa County the Fund has so far lent a total of Kshs. 12,350,000. In Likoni Constituency the Fund has disbursed Kshs. 2.8 million to 56 youth groups. Each of these youth groups was loaned Kshs. 50,000.

## **1.2 Statement of the Problem**

There is growing recognition of the important role small and medium enterprises (SMEs) play in economic development. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Mullineux, 1997).

Governments at all levels have undertaken initiatives to promote the growth of SMEs (Feeney and Riding, 1997). SME development can encourage the process of both inter and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises. More generally, the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Cook and Nixon, 2000). According to an OECD report, SMEs produce about 25% of OECD exports and 35% of Asia's exports (OECD, 1997).

SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. In South Africa they also contribute between 52% and 57% to GDP and provide about 61% to employment. Notwithstanding the recognition of the important roles SMEs play in these countries, their development is largely constrained by a number of factors, such as lack of access to appropriate technology; limited access to international markets, the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity, lack of management skills and training, and most importantly finance. The small and micro enterprises play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of

five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007).

In Kenya, self-employment is one way of creating employment for youth. Approximately 500,000 graduates from various tertiary academic institutions enter the job market annually. However, due to low economic growth, rampant corruption, nepotism and demand for experience by potential employers, a majority of youth remains unemployed (MOYAS, 2007: 68). On the other hand, the youth who choose to pursue entrepreneurship as a means of sustaining their livelihood are faced with a number of challenges. These challenges include limited access to education and training on entrepreneurship and business management, harsh external business environment like tough regulations and marketing barriers. Other challenges include social problems due to lack of effective communication between youth, their families and the society at large (Mbatia, 1987: 25).

However, the failure of the youth entrepreneurship funding to generate employment despite its wide application, has called into question its effectiveness. In most countries youth entrepreneurship funds have not only suffered huge default rates but even in cases where the funds have been repaid, the earmarked employment objectives would have rarely been achieved. The Permanent Secretary (PS) in the Ministry of Youth, Sport and Culture, Ruth Maphorisa told the first Youth Development Fund forum at the University of Botswana (UB) in Gaborone (May 2012). She lamented that the initiative is frustrated by lack of entrepreneurial skills among the beneficiaries. She said this leads to high project failure, high loan default rates and high demand for funding by the youth. She said these problems necessitated a need to re-strategise and map a better way forward for the fund.

In Kenya, the revolving fund that was meant to help Kenyan Youth start businesses is chalking up bad debt, causing fear of a looming liquidity crisis that could also rob them support from financiers. The effectiveness of the Fund to reach all the youth equally has been compromised by a number of factors including lack of information on the existence of the fund, stringent conditions in lending and inaccessibility of the Fund in some parts of the country (AYT, 2011).



The default rates stand at 60% causing financiers and experts to warn that the project risk forming long list of white elephants that saw the Government dole out credit to targeted groups such as farmers only to write them off at the expense of taxpayers (Onyango, 2010). The average National repayment rate of YEDF stands at mere 35.22%. In Likoni the repayment rate stands at a dismal rate of 9.28%. Of the 56 funded youth groups only two groups have fully repaid their loans while 11 groups have partially paid their loans. A sum total of 43 groups have not paid a single cent in repayment of their loans. At repayment rate of 9.28%, Likoni ranks as one of the worst performers in terms of C-YES loan repayment in the country. At 60% the default rate of the Youth Fund is way above that of the banking industry; which currently stands at about 8% of the 783 billion that local banking sector had lent in February 2009 (Onyango, 2010).

This study gathered comprehensive information and data in an investigation into the factors that have led to low repayment of YEDF loan in Likoni Constituency, Mombasa County.

### **1.3 Purpose of the Study**

The purpose of the study was to identify factors that influence repayment of Youth Enterprise Development Fund loaned to youth groups in Likoni District.

### **1.4 Objectives of the Study**

- i. To establish the influence of YEDF lending framework on repayment of Youth Enterprise Development Fund.
- ii. To investigate the influence of entrepreneurial experience of the funded youth groups on repayment of Youth Enterprise Development Fund.
- iii. To analyze the influence of training on business development services on repayment of Youth Enterprise Development Fund.
- iv. To assess the influence of level of education of group members on repayment of Youth Enterprise Development Fund.

### **1.5 Research Questions**

- i. How does Youth Enterprise Development Fund lending frameworks influence repayment of YEDF loan?
- ii. How does entrepreneurial experience of the funded youth groups influence repayment of YEDF loan?
- iii. How does training on business development services influence repayment of YEDF loan?
- iv. How does levels of education attained by group members influence repayment of YEDF loan?

### **1.6 Significance of the Study**

There have been efforts to encourage youth entrepreneurship and promote youth owned enterprises in Likoni Constituency but little has been achieved. A part from YEDF quite a number of organizations like Ministry of Trade, Commercial Banks, Rafiki microfinance and YEHU micro finance have come up with programmes to promote SMEs and entrepreneurship among the youth but most of these programmes have not been sustainable. The findings of this study will in a long way help these organizations identify issues affecting repayment of loans advanced and devise appropriate ways of mitigating them.

This study will not only benefit the youth in Likoni Constituency but the youth in general as it seeks to bring forth the factors that hinder repayment of YEDF loan. Addressing these issues will be a step in the right direction in ensuring economic empowerment of the youth at large.

The recommendations of this will be of importance to the policy makers, Ministry of Youth Affairs and Sports and the Government at large. It will help in policy formulation in issues regarding to funding of youth enterprises and in the long run have a major bearing on attainment of the Vision 2030 through youth empowerment.

### **1.7 Delimitation of the Study**

This study covers all the 56 youth groups funded by Youth Enterprise Development Fund in Likoni Constituency, Mombasa County. These Youth groups were funded between the years 2007 and 2010.

### 1.8 Limitations of the Study

This study was likely to be faced with the challenge of getting enough resources to conduct the study. Given the large number of target population the research required a lot of resources. The researcher however secured the services of the local National Youth Council delegates who agreed to work voluntarily as field assistants as they knew the findings of this research would in a great way benefit them. The study was also likely to be affected by the issue of time but the researcher tried his level best to work within the available time to finish the study on time.

### 1.9 Assumptions of the Study

The key assumption of the study was that the respondents will be available for the study and they will answer the questions correctly and truthfully. As shown in table 4.1, the youth groups were highly responsive with a 100% questionnaire return rate.

### 1.10 Definition of Significant Terms

**Business Development Services Training:** Refers to the training undertaken to enable youth groups manage their businesses better.

**Entrepreneurial Experience:** Herein refers to previous knowledge gained in managing any business.

**Funded Youth Groups:** Refers to youth groups who have received loans disbursed by YEDF.

**Level of Education:** In this context refers to the formal level of education attained by individual members of funded youth groups.

**Repayment of YEDF:** Herein refers to payment of YEDF as scheduled, full payment of the loan amount and increased growth of business and better lifestyle for the youth.

**YEDF Lending Frameworks:** Refers to the YEDF vetting procedures, verification of relevant documents, guarantors' requirements and repayment mode.

### **1.11 Organization of the Study**

This study is organized in five chapters. Chapter One gives introduction to the study. Chapter Two presents review of literature focusing on key factors influencing repayment of YEDF from the global, African and Kenyan perspectives, while Chapter Three highlights the research methodology that was used in this study. Chapter Four highlights data analysis, presentation and interpretation while Chapter Five focuses on the summary of findings, discussion, conclusions and recommendations. Relevant references cited are also included together with relevant appendices.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter examines related literature to Youth Enterprise Development Fund and also provides for conceptual framework with regard to the objectives of the proposed study. It further presents a theoretical review of theories related to factors influencing repayment of YEDF loan.

#### 2.2 Youth Enterprise Development Fund Lending Framework

The question of how institutions and development outcomes are interlinked and affect each other has recently become a “hot topic” in the international debate on development (Johannes Jütting, 2003).

There is an overall acknowledgement in literature that institutions matter and have a direct impact on growth. For example, Rodrik et al. (2002) found in a study that the “estimated direct effect of institutions on incomes is positive and large” (p. 11). Besides an observed direct impact, most studies also acknowledge an indirect impact on growth and economic development. Institutions can lead to an increase in investment, to a better management of ethnic diversity and conflicts, to better policies and to an increase in the social capital stock of a community. All these factors have a recognized positive influence on growth. Therefore, most of the studies suggest a strong and robust relationship between institutional quality and growth and development outcomes (Johannes Jütting, 2003).

Loans are sanctioned on the basis of established underwriting criteria that are detailed in the internal policy manual of the lending entity. These policies are based on the lenders experience of credit performance of its existing portfolio. Further all policies are periodically reviewed and approved by the board of the institution. Credit officers diligently ensure adherence to policies while approving credit proposals.

Factors that are considered prior to the loan sanction include best available information about the borrower’s ability to pay, type, tenor & quantum of the loan and Security and / or collateral available. In order to make an assessment of borrower’s

ability to pay, underwriting policies for sanctioning any credit facility should place reliance on factors like availability of satisfactory documents, positive contact verification results and customer interaction. In addition, sanctioning process should take into account factors like income, debt burden, credit reference agency verification and / or proven performance on other facilities as it is indicative of the cash flow position of the prospective borrower assisting in establishing the repayment capability.

The key parameters of an agency's lending policy are the Target Market, Eligibility & Credit Selection criteria, Loan assessment & Loan eligibility amount, Required Documents, Pricing, Repayment mode and period, Verification requirement, Amount & Type of collateral (Secured Loans)

### **2.3 Business Development Services Training**

Can one teach basic entrepreneurship skills, or are they fixed personal characteristics? Most academic and development policy discussions about micro entrepreneurs focus on their access to credit, and assume their human capital to be fixed. The self-employed poor rarely have any formal training in business skills. Entrepreneurial training is usually defined as a continuous process leading to the development of knowledge required for starting and managing a firm (Politis, 2005).

A growing number of microfinance organizations are attempting to build the human capital of micro-entrepreneurs in order to improve the livelihood of their clients and help further their mission of poverty alleviation.

Kolb is one of the best-known researchers of experiential training and his theory is presented in this study because it is central to most recent studies seeking to model entrepreneurial training (Corbett, 2005; Politis, 2005). Experiential training is a process by which knowledge is created through the transformation of experience. In Kolb's (1984) theory training is a four-stage cycle involving four adaptive training styles: concrete experience, reflective observation, abstract conceptualization and active experimentation. Concrete experiences (i.e. previous training results) form the core of the circle model. The meaning of an experience is contemplated through

reflective observations, after which an opinion is formed about why a certain experience happened.

In a research done by Dean Karlan (2009) on Impact of Business training on Microfinance Clients and Institutions, using a randomized control trial, they measured the marginal impact of adding business training to a Peruvian group lending program for female micro entrepreneurs. Treatment groups received thirty to sixty minute entrepreneurship training sessions during their normal weekly or monthly banking meeting over a period of one to two years. Control groups remained as they were before, meeting at the same frequency but solely for making loan and savings payments. We find that the treatment led to improved business knowledge, practices and revenues. The program also improved repayment and client retention rates for the microfinance institution. This has important implications for implementing similar market-based interventions with a goal of recovering costs.

#### **2.4 Entrepreneurial Experience**

The entrepreneurship-orientated literature has mainly discussed the positive effects of previous entrepreneurial experience. Entrepreneurial experience influences the personality of an individual to some extent (Littunen, 2000) and previous successful entrepreneurial experiences may, in addition to the obvious positive influences, also have a negative influence on a new firm (Rerup, 2005; Westhead et al., 2004; ). Previous success may create a success syndrome and lead for example to underestimation of the competition due to excessive self-confidence (Simon et al., 2000). Overly easy access to capital and concentrating on safe and familiar business relationships may be further negative influences (Starr and Bygrave, 1991).

Previous success may cause prejudice towards new ideas and the entrepreneur may try to renew his/her success by repeating the previous success factors in changed circumstances (Wright et al., 1997). The entrepreneur may lead his/her firm to a market that feels manageable but does not have enough demand to develop the business. Due to these negative influences it may be difficult to challenge the entrepreneur's viewpoints and important information may be ignored and new possibilities unexploited. This may lead to reduced development of the firm, cause monotony and increase expenses and cause unrealistic profit expectations (Starr and

Bygrave, 1991). According to Rerup (2005), it is crucial for a habitual entrepreneur to be able to separate his/her entrepreneurial history from the present because the same business models are unlikely to function in different situations. He sees this characteristic as especially important in high-technology-industries where the operational environment is often complicated, disorganised and unpredictable; previous experience may lose its meaning in changed circumstances.

Previous entrepreneurial experience does not necessarily mean success in future business and it is misconceived to assume that experienced entrepreneurs always succeed better than beginners (Schollhammer, 1991). The real talent of an entrepreneur may be seen in a false light if the number of previously owned firms is taken into account. Even if a long experience in one firm does not necessarily develop diverse entrepreneurial skills it does to some extent evidence success in entrepreneurship.

On the other hand, many short entrepreneurial periods may reveal repeated failure and an inability to act as an entrepreneur (Carroll and Mosakowski, 1987). Previous success has, however, a positive influence on the inclination to find a new firm because successful entrepreneurs are more likely to find new firms than failed entrepreneurs (Schollhammer, 1991). On the other hand, entrepreneurs who have failed in their original firm often try again. This may happen especially in situations where an entrepreneur thinks the failure was caused by their inability to try harder. In this kind of situation the entrepreneur may still struggle to achieve his/her goals (Cardon and McGrath, 1999).

According to Littunen (2001), in a study of the life cycle of new firms, half entrepreneurs who closed down their firms ventured new ones. Previous studies suggest that entrepreneurial experience often lowers the threshold for becoming an entrepreneur and facilitates starting a new business.

## **2.5 Level of Education**

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to



constantly changing business environments (King and McGrath, 1998). The number of years of formal schooling is an indicator of human capital, which affects positively efficiency (Gershon et al., 1988). In addition to this, educated youths are expected to adopt new production technologies that increase returns from the enterprises (Arene, 1992; Njoku, 1997). For these reasons, education would be an indicator of creditworthiness, and would increase repayment capacity of the borrowers.

Despite the shortcomings that plague devolved democratic structures of development in Kenya, both the critics and the sympathisers of the government cannot ignore one fact; the bottom-up approach of development is a shared responsibility between the government and the citizens and its success or failure lies in the hands of all players in policy making including the citizenry.

Since the inception of this approach of development in the country, more gains have been seen at the grass roots in terms of employment opportunities, schools enrolments and increased construction of local infrastructures than at any other time in the history of Kenya, but in order to make these initiatives last the test of time, serious checks and balances must be put in place to ensure that this holistic development approach of engaged governance is watertight from abuse and easy manipulation by people with less regard for the wider society (Bagaka, 2008).

In addition, young entrepreneurs, especially those in poor countries, are concentrated in low value local markets. Such youth also lack access to information on product and input markets. Thus, promoting the viability of such enterprises will require facilitating the access of youth to information on product and input markets and linking them to global value chains. This will require encouraging young to explore existing global initiatives aimed at promoting trade between developed and developing economies (Goel 2006).

## **2.6 Contract Theory**

Social Contract theory nearly as old as philosophy itself holds the view that a persons' obligations are dependent upon a contract or agreement among them to form the society in which they live in.

Under joint liability, members of a peer lending group must have some way to ensure that the other members of the group repay their portions of the loan so that all have future access to loans. Each group devises implicit and explicit rules and norms that can diminish the risk of default, provided that repaying the loan is a utility maximizing outcome for group members. Risk management includes identifying and evaluating exposure to loss as well as selecting optimum methods of reducing exposure to risk (Mehr, 1985). A formal or informal contract between group members is a risk management method.

One way in which the seriousness of the members is proven is by attending regular meetings (Adams, 1992). An implicit opportunity cost exists by attending the meetings, as well as fines for tardiness or absenteeism in many cases. Not only does attendance at these meetings show a seriousness of intent, but it provides a forum in which mutual trust is built, ideas are shared, and strategies are discussed.

In standard neoclassical economic theory, an optimal contract is a principal-agent problem that is comprehensive in that it specifies each party's obligations under each state of nature (Hart, 1995). The complete state-contingent contracts do not involve renegotiation since each state of nature could be thought of in the beginning time period. However, in practice, it is unrealistic to define each state of nature and contracts are renegotiated frequently. There are several reasons why complete state-contingent contracts are not feasible due to high transactions costs. First, it is difficult for people to imagine all contingencies. In addition, it is costly to negotiate each state of nature so that each member of the group has a mutual understanding of the contract under each state. Finally, it is hard to write a legally binding contract for each state of nature. Each of these costs make a comprehensive state-contingent contract prohibitively expensive (Hart, 1995).

Ex ante, an explicit or implicit incomplete contract exists in solidarity groups that define the general reaction of the group to a defaulting member. This intragroup contract defines how the group will react, either by punishing or assisting the defaulting member given different reasons for default. The ex-ante intragroup contract provides a framework which may curtail shirking and encourage correct repayment. Since the ex-ante intragroup contract is incomplete, the contract may be modified ex

post as unforeseen states of nature are revealed. For a closer examination of the intragroup contract, psychological literature highlights how groups may react to different states of nature by either punishing or helping group members. The model of perceived responsibility and social motivation helps clarify the degree to which groups may react to default under different circumstances.

## **2.7 Perceived Responsibility and Social Motivation Model**

In most of the group lending literature, there is an implicit assumption that peer pressure and group solidarity are the foundations of well-functioning groups. However, rarely are these mechanisms studied in the development finance literature despite the fact that the predominance of one type of group dynamic may influence the way in which group lending institutions may choose to train their clients and bank workers.

Insights into why a group might employ solidarity or pressure can be gleaned from psychological literature on perceived responsibility and social motivation. Akerlof (1991) argues that behavioral pathology is within the appropriate scope of economics since it affects the performance of individuals and institutions in the economic domain. Indeed, as economic studies become more complex and realistic, the incorporation of findings from other social sciences can strengthen economic models.

Despite religious admonitions against judging others, individuals regularly determine the culpability of their peers for their given plights (Shultz, Scheifer, and Altman (1981), Shaver (1985). Psychologist Bernard Weiner (1993) examines how failure, perceived as being caused by a lack of effort rather than a lack of ability, results in either punishing or helping behavior. On one hand, a failure that is judged to be the result of a lack of effort is perceived as having controllable causality, resulting in the determination that the individual is responsible for the failure. The perceived personal responsibility elicits anger and punishing behavior. On the other hand, if the failure is caused by lack of ability then one perceives that the individual has no control over the situation (uncontrollable causality) and therefore is not held responsible. The lack of control that they have over their situation is met with sympathy and helping behavior.

## 2.8 Organizational Learning Theories

As with many theories, learning models assume that individuals interact with each other in a large organization or institution and, while models of the learning process can be useful for capturing the dynamics of individual learning (Kolb, 1984), such models are often not relevant to the small firm entrepreneur. The entrepreneur must react and change behaviour as a result of the interaction with a wide infrastructure of competitors, customers, providers of resources, advice and materials, while operating with a small workforce, which means that notions of team development may well not be relevant. For example, the concept of learning communities as expressed by Hendry (1996), while a useful approach to the interaction of individuals and the learning process in a large organization may not be relevant for a small firm entrepreneur. Theories and concepts which stress interaction within organizations such as acquiring knowledge through improving access and dialogue (Schein, 1993), view communication as critical. Yet with the small firm entrepreneur, communication with limited staff should be excellent, and therefore, such theories can be redundant.

The concept of learning loops, perhaps, has more relevance for the small firm entrepreneur. This concept stresses, of course, the role of experiential learning (McGill et al., 1992), but also the ability of an organisation to learn from experience. Although there are weaknesses and limitations in this model (Kim, 1993), the cyclical concept of learning from experience and adjusting behaviour is important to the entrepreneurship process as we will see from the discussion of case evidence later in this paper. The important concept of the learning company (Pedler et al., 1991) is, however, very relevant to the small firm entrepreneur. The entrepreneur must learn how to react to incidents, to changes and learn from problems encountered. A priority we might contend that such a process, for the small firm entrepreneur, will be imperfect. However, we would expect there to be some form of learning process in the reaction to business problems; what will be crucial is the effectiveness of the individual entrepreneur in conducting that process. The more imperfect this process, the greater the probability of small firm failure and the greater the potential role for intervention in the process by a support agency.

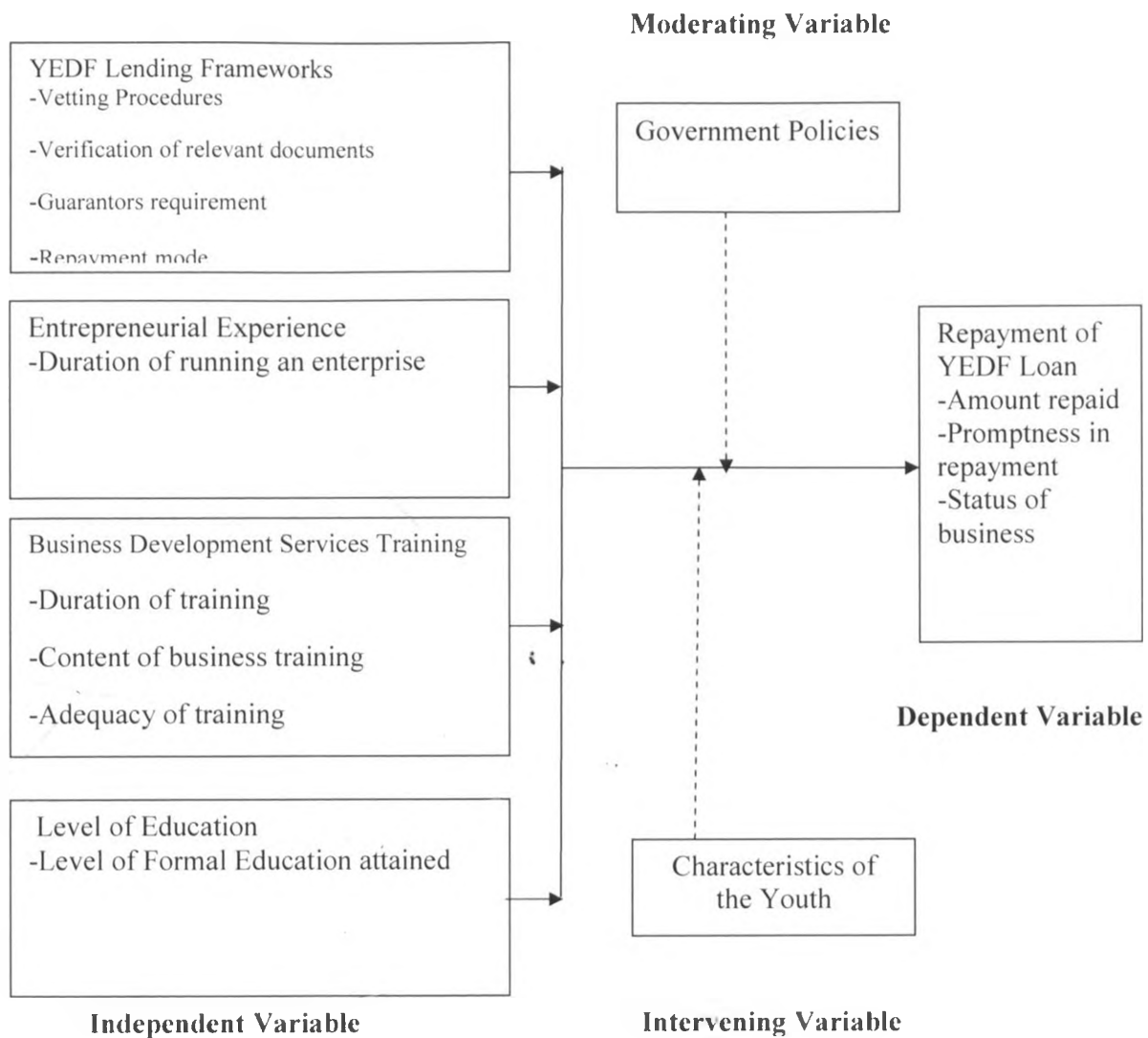
While organizational learning theories have limitations regarding their relevance to the learning process in entrepreneurship, there have been developments of economic dynamic and evolutionary theories on the process of entrepreneurial growth. In part, these stem from a Schumpeterian dynamics' analysis of the forces of change and attempt to explain how the entrepreneur can adapt, change and hence learn from dealing with uncertainty and dynamic forces (Nelson and Winter, 1982). The interaction between learning and the entrepreneurship process has been highlighted by Levinthal (1996), who stresses the adaptive role of the entrepreneur as he/she adjusts to his/her environment, to his/her learning experience and, as a result, changes behaviour. For example, Levinthal claims that "learning tends to result in specialization. Such specialization is often lauded and labelled distinctive competence" (Levinthal, 1996, p. 27).

The study is set to immensely gain from the theories highlighted. The theories will guide the study and help the researcher achieve the objectives of the study.

## **2.9 Conceptual Framework**

Attributes are the characteristics that influence funded youth groups repaying YEDF loan advanced to them. These attributes can be viewed from the lending frameworks perspective, entrepreneurial experience perspective, BDS training perspective and level of education perspective.

**Figure 1: Conceptual Framework**



Lending frameworks refers to policies and factors considered by a YEDF before any youth group is funded. It entails the requirements the youth groups need to fulfill and the laid down structure on how the youth groups qualify for the loans and repayment procedure.

Entrepreneurial experience refers to any knowledge gained through previous engagements in running a business venture prior to initiating a business funded by youth fund loan.

Business Development Services training refers to any training given to the youth group with the aim of helping them make their business ventures successful. This training is given prior to or after disbursement of youth fund.

Level of Education refers to the level of formal education attained by members of the funded youth groups.

## **2.10 Summary**

This chapter examined related literature to Youth Enterprise Development Fund. It highlighted related literature on the four independent variables focused on in the proposal. The chapter further presented a theoretical review of theories related to the topic of research. Three theories namely; Contract theory, Perceived Responsibility and Social Motivation Model and Organizational Learning theories have been used to review factors influencing repayment of YEDF loan. The chapter later provides a conceptual framework with regard to objectives of the study. The conceptual framework shows the relationship between the Independent variables and Dependent variable as well as showing the Moderating and Intervening variable. Finally it defines the meaning of the Independent variables as used in this research project.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter explains the research design chosen for the study, target population, sampling techniques, data research instruments, validity and reliability of research instruments, data collection procedure, data analysis and presentation techniques. Operational definition of variables used in the study is included in Figure 2.

#### 3.2 Research Design

The research design used in this study was a descriptive survey which assisted the researcher realize the objectives of the study. The descriptive survey is a method, which enables the researcher to summarize and organize data in an effective and meaningful way. It provides tools for describing collections of statistical observations and reducing information to an understandable form. Descriptive research involves describing and interpreting events, conditions or situations of the present. This is best suited for gathering descriptive information (Kotter, 1990). The census method will enable the collection of data from the population and help the researcher to get the descriptive existing phenomena by asking individuals about their perceptions, attitudes, behavior or values. The process of relating an empirical test to support or refute a knowledge claim, it involves making decisions on what type of data is required, where the data will be found, techniques of data collection analysis and interpretation.

#### 3.3 Target Population

A population is the total collection of elements about which we wish to make some inference (Cooper 2006). The Target population of this study comprised of all the 56 funded youth groups in Likoni Constituency, Mombasa County. The 56 funded youth groups were distributed as follow in the three locations of Likoni constituency as shown in table 3.1.



**Table 3.1: Target Population**

<b>Location</b>	<b>Population</b>
Likoni	27
Mtongwe	20
Shika Adabu	9
<b>Total</b>	<b>56</b>

**Source MOYAS (2012)**

### **3.4 Sample Size and Sampling Procedure**

A sample is a group in a research study on which information is gathered (Frankel 2000). Purposive sampling technique was used to select the respondents for the study and since the target population was small. Data was collected from all the 56 funded youth groups in Likoni constituency. The researcher was guided by Gay's (1987) theory of Rule of thumb which asserts that for a population size of 100 people or less the sampling percentage should be 100%. The three officials of each group were tasked with responsibility of responding to the questionnaires on behalf of other group members.

**Table 3.2: Population Sample Size**

<b>Size of population</b>	<b>Sampling percent</b>
0-100	100%
101-1,000	10%
1,001-5,000	5%
5,001-10,000	3%
<b>10,000+</b>	<b>1%</b>

**Source Gay (1987)**

Table 3.2: gives the sampled population size of the study guided by Gay's theory of Rule of Thumb.

### **3.5 Research Instruments**

A structured questionnaire was developed and utilized in this study. The questionnaire had both open and close ended questions for collection of primary data. The preference for a questionnaire for use was based on the fact that respondents were

able to complete them without help and it is cheaper and quicker than other methods while reaching out to larger sample (Bryman, 2008; Cohen et al., 2007). A request to answer all questions was made then completed questionnaires collected immediately.

### **3.6 Validity of Research Instruments**

Validity indicates the degree to which an instrument measures what it is supposed to measure; the accuracy, soundness and effectiveness with which an instrument measures what it is intended to measure (Kothari, 2004). The validity of research instruments is a key element to an accomplished study. It denotes the extent to which instruments capture what they purport to measure (Nachmais and Nachmais, 1996). Validity was enhanced by preparing easy to understand instruments which were free from ambiguity as well as pre-testing the instruments before full application.

### **3.7 Reliability of Research Instruments**

Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials, Nsubuga (2000). It is the ability of a research instrument to consistently measure the characteristics of interest over time. Reliability is a measure of the consistence of results or scores obtained. It is improved by standardizing the conditions under which the measurement takes place. Rehearsals were done with the assistants to ensure that they fully understood the instruments and were motivated enough to carry out the work without introducing any auxiliary questions which may distort the responses. Respondents were made to relax by conducting interviews in the open and in as reasonably formal atmosphere as possible to pre-empt interviewer and interviewee biases.

### **3.8 Data Collection**

Data was collected using questionnaires administered by the interviewer and/or his assistants. Clusters of structured questions targeting each variable had been prepared. The interviewer and his assistants guided the filling of the questionnaires to the respondents at their convenient locations. To minimize situational measurement errors where respondents coach each other, interviews were carried out in such a way as to ensure that respondents do not consult and duplicate responses.

### **3.9 Data Analysis**

After administering the questionnaires the researcher coded the collected and converted them into numerical codes for statistical analysis. A Statistical Package for Social Sciences (SPSS) was used for data analysis. Analysis of data employed descriptive statistics such as cross tabulation to show the distribution relationships between variables under study. The researcher organized the results around the four objectives of the study. The presentation of the findings was done using frequencies and percentages and data was presented in tables preceded by explanations.

### **3.10 Ethical considerations**

The information obtained from this study was only used for the fulfillment of the researcher's academic requirement. The information provided was and will not be divulged to any third parties at any cost.

### **3.11 Operationalization of Variables**

The variables used in the study are operationalized in this section. An operationalization table outlined below operationalizes each and every variable used in this study.

**Table 3.3: Operationalization of Variables**

Objective	Variable	Indicator(s)	Measurement	Scale	Data Collection Method	Data of Analysis
To examine how the YEDF lending frameworks influence repayment of YEDF loan.	<b><u>Independent variable</u></b> YEDF lending frameworks	a)Vetting Procedures of relevant documents b)Verification of relevant documents c)Guarantors requirement d)Repayment mode	a) Internal Policy Manual b)Identification documents c)Registration documents d) Bank Statements e) Collateral f) Guarantors consent g) Repayment schedule	Ordinal	Questionnaire	Correlational and Descriptive Statistics
To investigate the prior entrepreneurial experience of the funded youth groups influence loan repayment	<b><u>Independent variable</u></b> Entrepreneurial Experience	a)Duration of running enterprise.	Years of experience a) 0- 1 year b) 1-2 years c) 3 years and above	Ratio	Questionnaire	Correlational and Descriptive Statistics
To determine how the level of training on business development services affect repayment of YEDF loan.	<b><u>Independent Variable</u></b> Business Development Service Training	a)Duration of training b)Content of business training c)Adequacy of training	Weeks of Training a) 0 weeks b) Up to 4 weeks c) 5 to 12 weeks d) Over 12 weeks Content a)Group formation b)Group Dynamics and management c)Business Planning d)Record keeping e)Business Incubation	Ratio	Questionnaire	Correlational and Descriptive Statistics

			f)Credit sourcing and management g)Analyzing business opportunities h)Business Counseling Satisfaction with adequacy of courses offered.			
To examine how education levels of group members affect repayment of YEDF loan.	<b><u>Independent variable</u></b> Level of Education	a)Level of education	a) Years of schooling b) Professional qualifications.	Ratio and Nominal	Questionnaire	Correlational and Descriptive Statistics
To determine the extent of repayment of YEDF	<b><u>Dependent Variable</u></b> Rate of repayment of YEDF	a)Amount repaid	Amount (Kshs) a) 40,001-50,000/= b) 30,001-40,000/= c) 20,001-30,000/= d) 10,001-20,000/= e) 1-10,000 f) Not started repayments	Ratio	Questionnaire	Descriptive Statistics
		Promptness in loan repayment	Duration a) Repaid promptly (within 12 months). b) Repaid within 24 months c) Repaid within 36 months d) Not fully repaid	Ratio	Questionnaire	Descriptive Statistics
		Status of business	Status a) Growing b) Stagnant c) Collapsed	Ordinal	Questionnaire	Descriptive Statistics

### **3.12 Summary**

The third chapter gives a review of the research methodology employed in the study; it tackles the research design adopted and shows the target population and the sample size of the respondents. The chapter categorically highlights the research instruments used and explores both the data collection and data analysis methods employed in the study. Finally both Independent and Dependent variables are clearly operationalized in the operationalization table.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION

#### 4.1 Introduction

This chapter discusses the analysis, presentation and interpretation of data. The data collected during the study was analyzed and the findings are presented in Tables that show both frequencies and percentages. The data is then briefly interpreted.

#### 4.2 Questionnaire return rate

Table 4.1 shows the return rate of the questionnaire

**Table 4.1 Questionnaire return rate**

Questionnaire return rate		
	Frequency	Percent
Likoni	27	48.21
Mtongwe	20	35.71
Shika Adabu	9	16.08
<b>Total</b>	<b>56</b>	<b>100.0</b>

As exhibited in table 4.1, 100% questionnaires were returned.

#### 4.3 Bio Data of respondents

Data on age and gender of members of the youth groups who benefitted from YEDF was collected and presented as shown in table 4.2 and table 4.3.

##### 4.3.1 Gender of youth in funded youth groups

Table 4.2 shows gender of the youth in the 56 funded youth groups.

**Table 4.2 Gender composition of the groups**

Gender composition of group members		
	Frequency	Percent
Male	417	62.0
Female	255	38.0
<b>Total</b>	<b>672</b>	<b>100.0</b>

Table 4.2 shows that the membership of the funded youth groups was mainly constituted by males constituting 62%.

#### 4.3.2 Age of Respondents

Table 4.3 shows the age of youth group members who constitute

**Table 4.3 Age of Youth group members**

	Frequency	Percent
Below 18 years	12	1.8
18-35 years	638	94.9
Above 35 years	22	3.3
<b>Total</b>	<b>672</b>	<b>100.0</b>

Table 4.3 shows that approximately 95% of the youth in the funded youth groups are aged between 18 and 35 years. Only a paltry 1.8% is aged below 18 years of age.

#### 4.4 Youth Enterprise Development Fund lending framework

Influence of YEDF lending frameworks was assessed through the YEDF lending procedures, verification of relevant documents, guarantors' requirement and the YEDF repayment mode and presented as shown in tables 4.4 to 4.9.

##### 4.4.1 Youth groups visited by YEDF vetting committee

Table 4.5 presents distribution of funded youth groups physically visited by YEDF vetting committee during the vetting process.

**Table 4.4 Youth groups visited by YEDF vetting committee**

Youth groups visited by YEDF		
	Frequency	Percent
Yes	0	0.0
No	56	100.0
<b>Total</b>	<b>56</b>	<b>100.0</b>



As shown in table 4.4, no funded youth group was visited by the YEDF vetting committee as part of the vetting process.

#### 4.4.2 Verification of documents

Table 4.5 shows distribution of respondents on the documents verified as part of the YEDF vetting process.

**Table 4.5 Verifiable documents**

	<b>Frequency</b>	<b>Percent</b>
Registration certificate	56	100.0
Identification documents	56	100.0
Bank statements	56	100.0
Others	0	0.0

Table 4.5 shows that all the 56 funded youth groups were able to produce the three required documents in order to qualify for the youth fund as required by the youth fund regulations.

#### 4.4.3 Guarantor's documents

Table 4.6 shows distribution of respondents on guarantor's documents submitted as part of the YEDF vetting process.

**Table 4.6 Guarantors documents**

	<b>Frequency</b>	<b>Percent</b>
Guarantor's consent	0	0
Collateral	0	0
None	56	100.0
<b>Total</b>	<b>56</b>	<b>100.0</b>

Table 4.6 shows that none of the 56 funded youth groups provided any the guarantors' documents to secure the youth fund.

#### 4.4.4 Repayment schedule

Table 4.7 shows distribution of respondents on whether repayment schedules were provided for the funded youth groups after loan disbursement.

**Table 4.7 Repayment Schedule**

	<b>Frequency</b>	<b>Percent</b>
Yes	0	100.0
No	56	0.0
<b>Total</b>	<b>56</b>	<b>100.0</b>

As shown in table 4.7, none of the funded youth groups was given a repayment schedule outlining loan repayment schedule after the loan disbursement.

#### 4.4.5 Repayment mode

Table 4.8 shows distribution of respondents on whether the YEDF repayment mode was conducive for them.

**Table 4.8 Repayment mode**

	<b>Frequency</b>	<b>Percent</b>
Strongly agree	0	0.0
Agree	6	10.7
Disagree	21	37.5
Strongly disagree	29	51.8
<b>Total</b>	<b>56</b>	<b>100.0</b>

Table 4.8 shows that at least 89.3% of the funded youth groups felt that the YEDF loan repayment mode was not conducive for their enterprises.

#### 4.4.6 Loan assessment

Table 4.9 shows the distribution of respondents the rating of loan assessment done by YEDF before disbursement.

**Table 4.9 Loan assessment**

<b>Loan assessment</b>		
	<b>Frequency</b>	<b>Percent</b>
Very high	0	0.0
High	0	0.0
Fair	4	7.1
Low	13	23.2
Very low	39	69.7
<b>Total</b>	<b>56</b>	<b>100.0</b>

As table 4.9 portrays, approximately 92.9% of the respondents rated lowly the loan assessment.

#### **4.5 Business Development Services Training**

Influence of the level of business development training on rate of repayment of YEDF was assessed in terms of duration of training, content of the training and adequacy of the training as shown in table 4.10 to 4.14.

##### **4.5.1 YEDF Business Development Services Training**

Table 4.10 shows distribution of respondents on whether they attended business development services training organized by YEDF before disbursement of youth fund.

**Table 4.10 YEDF Business Development Services Training**

<b>YEDF Business Development Services Training</b>		
	<b>Frequency</b>	<b>Percent</b>
Yes	0	0.0
No	56	100.0
<b>Total</b>	<b>56</b>	<b>100.0</b>

None of the 56 funded youth groups undertook BDS training organized by YEDF as required by YEDF regulations as shown in table 4.10.

#### 4.5.2 Business Development Services Training

Table 4.11 shows distribution of respondents who had attended BDS training organized by other organizations before disbursement of youth fund.

**Table 4.11 Business Development Services training**

<b>Business Development Services training</b>		
	<b>Frequency</b>	<b>Percent</b>
Yes	15	26.8
No	41	73.2
<b>Total</b>	<b>56</b>	<b>100.0</b>

Table 4.11 shows that only 26.8% of the funded youth groups had undergone BDS training prior to disbursement of youth fund loan.

#### 4.5.3 Duration of Business Development Services Training

Table 4.12 shows distribution of respondents on the duration of BDS training that they had undertaken.

**Table 4.12 Duration of BDS training**

<b>Duration of Business Development Services Training</b>		
	<b>Frequency</b>	<b>Percent</b>
0-4 weeks	15	100.0
5-12 weeks	0	0.0
Over 12 weeks	0	0.0
<b>Total</b>	<b>15</b>	<b>100.0</b>

As table 4.12 stipulates, 100% of the respondents who had attended BDS training had attended short term trainings not exceeding four weeks.

#### 4.5.4 Content of Business Development Services Training

Table 4.13 shows distribution of respondents on the content of the eight core BDS courses undertaken as required by YEDF.

**Table 4.13 Content of Business Development Services training.**

	<b>Frequency</b>	<b>Percent</b>
Group formation	15	100.0
Group dynamics	10	66.7
Business planning	15	100.0
Record keeping	12	80.0
Business incubation	2	13.3
Credit sourcing	9	60.0
Business opportunities	15	100.0
Business counseling	6	40.0
Any other	0	0.0

Table 4.13 shows that not all core courses on BDS was at any time fully offered to any of the 15 trained funded youth groups.

#### **4.5.5 Adequacy of skills acquired**

Table 4.14 shows distribution of respondents on the adequacy of skills acquired.

**Table 4.14 Adequacy of skills acquired**

	<b>Frequency</b>	<b>Percent</b>
Very great extent	3	20.0
Great extent	5	33.3
Moderate	5	33.3
Less extent	2	13.4
Not at all	0	0.0
<b>Total</b>	<b>15</b>	<b>100.0</b>

As indicated in table 4.15, a high percentage of respondents were satisfied with the adequacy of the skills acquired during these trainings.

#### 4.5.6 Importance of BDS training in managing enterprises

Table 4.15 shows distribution of respondents on importance of BDS training in managing enterprises.

**Table 4.15 Importance of BDS training in managing enterprises**

	Frequency	Percent
Strongly agree	28	50.0
Agree	28	50.0
Disagree	0	0.0
Strongly disagree	0	0.0
<b>Total</b>	<b>56</b>	<b>100.0</b>

As shown in table 4.15, 100% of the respondents agreed that BDS training was paramount in managing business ventures.

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#### 4.6 Entrepreneurial Experience

Influence of entrepreneurial experience on rate of repayment of youth fund was assessed in terms of the duration of running an enterprise as shown in tables 4.16 to 4.18.

##### 4.6.1 Existence of business before disbursement of YEDF

Table 4.16 shows distribution of respondents on whether youth fund loan was used to start up their enterprises or was used to expand existing enterprises.

**Table 4.16 Existence of business before disbursement of YEDF**

	Frequency	Percent
Yes	21	37.5
No	35	62.5
<b>Total</b>	<b>56</b>	<b>100.0</b>

As stated in table 4.16, 62.5% of the funded 56 youth enterprises were start-ups.

#### 4.6.2 Duration of existence of the groups' enterprise

Table 4.17 shows distribution of respondents on the duration that their enterprises had existed before disbursement of YEDF loan.

**Table 4.17 Duration of existence of the groups' enterprise.**

	<b>Frequency</b>	<b>Percent</b>
0-12 months	11	52.4
1-2 years	8	38.1
2-3 years	2	9.6
3 years and above	0	0.0
<b>Total</b>	<b>21</b>	<b>100.0</b>

Table 4.17 shows that 90.5% of the businesses that existed before disbursement of YEDF had existed for between 0 and 2 years.

#### 4.7 Level of Education

Influence of level of education on repayment of youth fund was assessed in terms of years of schooling and respondents view of importance of formal education in operating business ventures shown in tables 4.18 and 4.19.

##### 4.7.1 Level of education of group members

Table 4.18 shows distribution of respondents on level of formal education attained by members of the funded youth groups.

**Table 4.18 Level of education of group members**

	<b>Frequency</b>	<b>Percent</b>
Primary	162	24.1
Secondary	484	72.0
Certificate	22	3.3
Diploma	4	0.6
Bachelors	0	0.0
Other	0	0.0
<b>Total</b>	<b>672</b>	<b>100.0</b>

Table 4.18 shows that a high percentage of members of the funded youth groups had achieved secondary and post-secondary education. Only 24.1% of the group members did not pass the primary level of education.

#### **4.7.2 Importance of formal education in managing enterprises**

Table 4.19 shows distribution of respondents rating on the importance of formal education in managing business ventures.

**Table 4.19 Importance of formal education in managing enterprises**

	<b>Frequency</b>	<b>Percent</b>
Strongly agree	16	28.7
Agree	28	50.0
Disagree	10	17.9
Strongly disagree	2	3.4
<b>Total</b>	<b>56</b>	<b>100.0</b>

Table 4.19 indicates that approximately 80% of the respondents stipulate that formal education is crucial in managing their enterprises.

#### **4.8 Repayment of Youth Enterprise Development Fund**

Repayment of YEDF was assessed in terms of the amount repaid, promptness in loan repayment and youth group status of business as shown in tables 4.20 to 4.22.



#### 4.8.1 Amount of YEDF repaid

Table 4.20 shows distribution of respondents on the amount of YEDF loan repaid by funded youth groups.

**Table 4.20 Amount of YEDF repaid**

	<b>Frequency</b>	<b>Percent</b>
50,000	2	3.6
40,000-49,999	0	0.0
30,000-39,999	0	0.0
20,000-29,999	2	3.6
10,000-19,999	3	5.3
1-9,999	6	10.7
Has not started repayment	43	76.8
<b>Total</b>	<b>56</b>	<b>100.0</b>

Table 4.20 exhibits that close to 77% of the funded youth groups had not initiated repayment of the youth fund loan advanced to them.

#### 4.8.2 Promptness in loan repayment

Table 4.21 shows distribution of respondents on how prompt the youth funded groups repaid YEDF loan disbursed to them.

**Table 4.21 Promptness in loan repayment**

	<b>Frequency</b>	<b>Percent</b>
Repaid promptly (12 months)	0	0.0
Repaid within 24 months	2	3.6
Repaid within 36 months	0	0.0
Not fully repaid the loan	54	96.4
<b>Total</b>	<b>56</b>	<b>100.0</b>

As elaborated in table 4.21 no youth group repaid promptly the amount loaned to them by YEDF.

#### 4.8.3 Status of the funded enterprises

Table 4.22 shows distribution of respondents on the current status of their funded enterprises.

**Table 4.22 Status of the funded enterprises**

	<b>Frequency</b>	<b>Percent</b>
Growing	2	3.6
Stagnant	31	55.4
Collapsed	23	41.0
<b>Total</b>	<b>56</b>	<b>100.0</b>

Table 4.22 indicates that 96.4% of the funded youth enterprises had either stagnated or collapsed with only a paltry 3.6% indicated as growing.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the key findings of the study, discusses these findings in relation to the literature and gives a conclusion on the factors influencing repayment of YEDF loan in Likoni Constituency, Mombasa County. Finally, this chapter makes recommendations and gives suggestions for further study.

#### 5.2 Summary of Findings

Based on the study, below is the summary of key findings focusing on the four objectives of the study.

##### 5.2.1 Youth Enterprise Development Fund Lending Framework

The study reveals that most respondents rated poorly the overall loan assessment done by YEDF vetting committee. In spite of the fact that the relevant verifiable documents that were required as per regulations were submitted, no funded youth group was visited by the YEDF vetting committee as part of the vetting process. The study further exposed that no guarantors' documents were provided by the funded youth groups while outlined repayment schedules were not availed to the youth after disbursement of the youth fund. Most funded youth groups strongly disagreed with the YEDF loan repayment mode given that most of them were start-ups as shown in table 4.16.

##### 5.2.2 Business Development Services Training

While majority of the respondents felt that BDS training was paramount in management of their enterprises, YEDF did not offer these trainings to the funded youth groups prior to disbursement of youth fund. Only 26.8% of the funded youth groups had undertaken BDS training offered by other organizations and all these trainings were short term with none exceeding four weeks and they did not cover all the core eight units recommended by YEDF. However the respondents rated as adequate the skills learnt in these trainings in running their business ventures.

### **5.2.3 Entrepreneurial Experience**

This study reveals that a high percentage of the funded youth groups were start-ups with the rest having business experience of less than two years. Most of the funded youth groups lacked entrepreneurial experience to effectively manage their business ventures.

### **5.2.4 Level of Education**

The study revealed that approximately 76% of the members of the funded youth groups had attained secondary and post-secondary level of education. Education is one of the factors that impact on growth of firms, King (2007). The respondents reported that they considered level of education as crucial in managing their business ventures. The number of years of formal schooling is an indicator of human capital which affects positively efficiency.

### **5.2.5 Repayment of YEDF loan**

The study revealed that a huge percentage of the funded youth groups had not started repaying their loans with only a paltry 3.6% had finished repaying their loans as required. In fact, more than half of the funded youth groups businesses had stagnated with a significant percentage of 41% of funded youth enterprises having collapsed.

## **5.3 Discussion**

Findings of the study are discussed in relation to the four objectives of the study.

### **5.3.1 Youth Enterprise Development Fund lending framework**

The findings of the study revealed that the loan assessment carried out by YEDF was inadequate. Even though the verifiable documents produced were adequate, failure to physically visit the groups prior to loan approval was very risky. The study further reveals that provisions for guarantors' documents were not provided for by YEDF yet it is vital in money lending. The repayment mode provided by YEDF was blanket for both businesses for start-ups and businesses for expansion. This study agrees with Johannes Jutting (2003) who asserts that most studies suggest that there is a strong and robust relationship between institutional quality and growth and development outcomes. In literature, there is an overall acknowledgement that institutions matter and have a direct impact on growth Rodrik et al (2002)

### **5.3.2 Entrepreneurial Experience**

The findings of the study revealed that a high percentage of the funded youth groups were start-ups while most of the ones that had existed were less than two years old. It was also revealed that most of the businesses that had collapsed or that had stagnated in terms of growth were the funded start-up businesses. Most youth groups were found to lack the entrepreneurial experience yet entrepreneurial experience influences the personality of an individual Littunen (2000). Most of the existing funded youth groups had existed for less than two years and it is this groups that had started in repayment of youth fund. It came out clearly that 100% of the groups that had started repayment existed before being funded by YEDF. It is therefore evident that entrepreneurial experience played a role in determining repayment rate of YEDF. The study therefore reveals that entrepreneurial experience influences repayment of youth fund.

### **5.3.3 Business Development Services Training**

The finding of the study reveals that all the funded youth groups did not undergo BDS training organized by YEDF. It has been noted that the self-employed poor rarely have any formal training in business skills. For the youth groups that had gone through entrepreneurial training, they were short term trainings lasting no more than four weeks. These trainings also did not cover all the core courses of entrepreneurial training. BDS training is core in business management as the respondents who had attended the entrepreneurial training confirm. Majority of the respondents were in agreement that BDS training was important in managing their enterprises. The low repayment rate of YEDF can therefore be attributed to lack of entrepreneurial training on the funded youth groups. This study is in agreement with Karlan's (2009) study that concluded that business training improves knowledge, practices and revenues.

### **5.3.4 Level of Education**

The study revealed that the level of education was crucial to in management of business ventures. Majority of the respondents agreed that education is vital enterprise management. Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training are better placed to adapt their enterprises to constantly changing business environments. King (2002). The number of years of formal schooling is an indicator of human capital which affects positively efficiency.

#### **5.4 Conclusion**

The study established that the funded youth groups had a level of education that would be adequate for managing their enterprises. However, the youth lacked training that would be needed to successfully run a business. Moreover, there were loopholes in the lending procedures that included lack of physical vetting of the funded groups, lack of guarantors requirements and inappropriate repayment modes. In addition, the youth lacked entrepreneurial experience to manage their enterprises. In a great way, these factors contributed to the low repayment of YEDF in Likoni Constituency.

#### **5.5 Recommendations**

Based on the findings of this study, the following are recommended:

1. YEDF should enhance its vetting procedures and see into it that all youth groups are physically visited to assess their capacity of operating the stated businesses. Guarantors' consents should be availed while the repayment modes for start-ups should be different from expansions.
2. YEDF should enforce its policy that all funded youth groups should undergo a standardized BDS training to enhance their capacity to operate their enterprises.
3. Ministry of Youth Affairs and Sports should link interested youth with successful business ventures so that they gain first-hand experience in operating businesses.
4. The Kenyan government should formulate policies which would guarantee universal education for all to boost the human capital.

#### **5.6 Suggestions for further research.**

Based on the findings of this study, the following areas are being recommended for further research;

1. Factors influencing up-take of Youth Enterprise Development Fund.
2. Impact of Youth Enterprise Development Fund on economic empowerment of the funded youth groups.

## **5.7 Summary**

In this chapter, summary of findings of the study along the four study objectives has been highlighted and discussed. Conclusions have been drawn and finally recommendations for improvement and further research have been outlined.

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**ANNEX ONE**  
**QUESTIONNAIRE**

I am student at University of Nairobi carrying out research on Factors Influencing Repayment of Youth Enterprise Development Fund in Likoni Constituency. The success of the research sustainability depends on your mutual cooperation.

This is to request you to fill this questionnaire by responding to the questions concerning your Youth group. The information gathered shall be treated in confidence and shall be used for this research only.

Date \_\_\_\_\_

**SECTION A: PERSONAL/DEMOGRAPHIC DATA**

1. Youth Group \_\_\_\_\_

2. Location of the group

a) Likoni [ ]

b) Mtongwe [ ]

c) Shika Adabu [ ]

3. Gender of the Group members

a) Male \_\_\_\_\_

b) Female \_\_\_\_\_

4. Age of group members

a) Below 18 years \_\_\_\_\_

b) 18-35 years \_\_\_\_\_

c) Above 35 years \_\_\_\_\_

**SECTION B: YEDF LENDING FRAMEWORK.**

5. Was your group visited by YEDF Vetting committee before disbursement of YEDF loan?

a) Yes [ ]

b) No [ ]

6. What verification documents did you provide when applying for the loan?

a) Youth group registration certificate [ ]

b) Identification documents [ ]

c) Bank Statement [ ]

e) Others \_\_\_\_\_

7. What guarantor's documents did you provide when applying for your loan?

a) Guarantor's consent [ ]

b) Collateral [ ]

c) None [ ]



15. To what extent would you rate importance of BDS training in managing a business venture?

- a) Very great extent [ ] b) Great extent [ ] c) Moderate [ ] d) Less extent [ ] e) Not at all [ ]

#### SECTION D: ENTREPRENEURIAL EXPERIENCE

16. Was your YEDF loan used to start up or expand an existing enterprise?

- a) Start-up [ ]  
b) Expansion [ ]

17. If for expansion, for how long had you run your enterprise?

- a) 1-12 Months [ ]  
b) 1-2 Years [ ]  
c) 2-3 Years [ ]  
d) 3 Years and above [ ]

18. Apart from the group enterprise, have you operated any other business venture?

- a) Yes [ ]  
b) No [ ]

#### SECTION E: LEVEL OF EDUCATION

19. What are your group members' levels of education?

- a) Bachelors [ ]  
b) Diploma [ ]  
c) Certificate [ ]  
d) Secondary [ ]  
e) Primary [ ]  
f) Other Specify \_\_\_\_\_

20. To what extent do you agree that level of formal education is vital in managing a business?

- a) Strongly agree [ ] b) Agree [ ] c) Disagree [ ] d) Strongly Disagree [ ]

## SECTION F: REPAYMENT OF YEDF LOAN

21. How much has your Youth group repaid to YEDF?

- a) 40,001-50,000/= [ ]
- b) 30,001-40,000/= [ ]
- c) 20,001-30,000/= [ ]
- d) 10,001-20,000/= [ ]
- e) 1-10,000/= [ ]
- f) Have not started repaying [ ]

22. How prompt have you repaid your loan?

- a) Repaid promptly (within 12 months) [ ]
- b) Repaid within 24 months [ ]
- c) Repaid within 36 months [ ]
- d) Not fully repaid the loan [ ]

23. What is the status of your enterprise?

- a) Growing [ ]
- b) Stagnant [ ]
- c) Collapsed [ ]

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THANK YOU

**ANNEXES**  
**ANNEX TWO**  
**LETTER OF TRANSMITTAL**

Mr. Ogal David Odhiambo  
District Youth Development Officer  
P.O. BOX 99262

**LIKONI DISTRICT**

1<sup>ST</sup> MAY 2012

District Commissioner  
Likoni District  
P. O. Box 1  
**LIKONI DISTRICT**

Dear Sir,

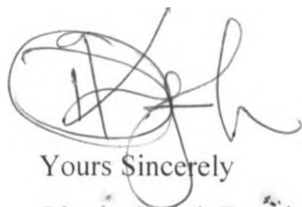
**RE: LETTER OF TRANSMITTAL.**

I am a student at the University of Nairobi currently persuing a Masters Programme in Project Planning and Management.

I am requesting your office to allow me conduct research in Likoni Constituency investigating factors that has led to low repayment of Youth Enterprise Development Fund in Likoni Constituency.

The finding of this research will be specifically for academic purpose and will benefit Ministry of Youth Affairs and other organizations engaged in financing youth groups and the general youth in fostering their economic development.

Thank You.



Yours Sincerely

District Youth Development Officer

Ogal David Odhiambo