

**EFFECT OF FINANCIAL DEEPENING ON THE PERFORMANCE  
OF THE YOUTH ENTERPRISE DEVELOPMENT FUND**

**BY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,  
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**OCTOBER, 2013**

## **DECLARATION**

I declare that, this is my original work and has not been presented for a graduate degree in any other university.

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This research Project has been submitted for examination with my approval as the university supervisor.

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## **ACKNOWLEDGEMENT**

I am deeply grateful to the Almighty God who makes all things possible and for giving me strength, good health and sound mind throughout the study period.

First, I would like to extend my appreciation to my supervisor, family, friends and all the respondents who contributed tremendous inputs towards the successful completion of this research project.

Special gratitude and appreciation go to my Supervisor, Mr.Herrick Ondigo, for his patience, guidance, support and dedication throughout the study. He was such an inspiration! I truly feel indebted to him.

Secondly, I am grateful to my parents Robinson and Priscilla, for foreseeing the future and sacrificing so much to prepare and support me, the same extends to my entire family, for cheering me up after every tough day of fieldwork.

Finally, I am grateful to all the respondents who provided invaluable data and information. I couldn't have done it without them!

## **DEDICATION**

I dedicate this research project to the Almighty God for His grace, mercy and blessings that have seen me through.

## **ABSTRACT**

The main objective of this study was to establish the effect of financial deepening on the performance of the Youth Enterprise Development Fund (YEDF). The performance of the YEDF was measured by the growth rate of the loans advanced while the financial deepening indicators included the reduction of transactions costs, the ratio of loans to GDP and the ratio of loans to deposits. The study adopted a descriptive survey design and relied on secondary data collected from the financial statements, news bulletins and websites of Central Bank of Kenya (CBK) and YEDF.

The collected data was cleaned and coded before being analyzed by use of the Statistical Package for Social Sciences (SPSS). The data analysis techniques included descriptive statistics like the mean, minimum, maximum and standard deviation. In addition, inferential statistics like correlation analysis and regression analysis were also used to establish relationships between the dependent and independent variables. The findings were presented in tables, line graphs and bar graphs.

Major research findings indicated that the growth rate of the loans advanced by YEDF was on a steady increase in the period between 2008 – 2012. In addition, the findings indicated that the financial deepening indicators affected the growth rate of loans advanced by YEDF to an extent of 78.02%. The three factors (reduced transaction costs, ratio of loans to GDP and ratio of loans to deposits) also had a positive correlation with the growth rate of loans at YEDF. However, only the ratio of loans to deposits had a significant correlation at a level of significance of 0.01. The main conclusion was that the

growth rate of loans advanced by financial intermediaries was highly determined by the financial deepening variables like reduced transaction costs, high ratio of loans to GDP and high ratio of loans to deposits. The researcher recommends improvement of the allocation policies to guard against bad debts and waste of funds. There is also need to come up with a policy to ensure that the loans advanced are equitably distributed across the country to ensure that the advantages of economic and financial development are reaped by a wider population. The researcher suggests that a similar study be carried out to come up with a model to guide the establishment of the appropriate lending rate that can ensure that the YEDF loan portfolio keeps growing and that the lending rate is responsive to the market forces of supply and demand while still recognizing the social nature of the fund.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

CBK	Central Bank of Kenya
ERS	Economic Recovery Strategy
FDI	Foreign direct Investments
FDY	Financial Deepening
GPRMB	Growth Rate Per Capita Real Money Balances
GMM	Generalized Method of Moments
HC	Households Consumption
IBR	Interbank rates
IDE	Institute of Developing Economies
MFI	Monetary Financial Institutions
M2	Broad Money
NB	Non Bank Financial Assets
ND	National Debt
NER	Nominal Exchange Rate
NGO's	Non Governmental Institutions
PRSP	Poverty Reduction Strategy
SACCOs	Savings and Credit Co-operatives
SCU	South African Customs Union.
SME's	Small and Micro Enterprises
SSA	Sub Saharan Africa
TB	Treasury Bills
VS	Value of Shares
YEDF	Youth Enterprise Development Fund
Y	Gross Domestic Product at Current Pric

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Household surveys conducted by the financial sector Development Trust Kenya jointly with the Central Bank of Kenya, confirm three previously assumed conclusions about access to financial services: a large proportion of the Kenyan population has no access to financial services, whether formal or informal; there is a general tendency for access to services from formal and semi-formal providers (banks, savings and credit co-operatives (SACCOs), and monetary financial institutions (MFIs) to decline as one goes from urban to rural, from high income to low income, and from better educated to not educated and although the percentage of the population that is served is similar in urban and rural districts, the mix of those services is different. In urban areas, respondents rely more heavily on services from banks and semi-formal sources (SACCOs and MFIs, whereas in rural districts, there is greater reliance on services provided via informal groups. Former UN Secretary-General Kofi Annan said: "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives (CBK, 2010).

### **1.1.1 Financial Deepening**

According to Shaw (1973), financial deepening means an increasing the provision of financial services-measured by the ratio of money supply to GDP in the economy. The more liquid money money is available in an economy, the more opportunities exist for continued growth. It reduces risk and vulnerability for disadvantaged groups, increasing the ability of individuals and households to access basic services e.g. health, education and other social services having a more direct impact on economic development. The range of financial assets includes broad money, liabilities of non-bank financial assets, treasury bills, insurance, value of shares and money market fund. Financial deepening is afforded by financial intermediation and liquidity in an economic system (Shaw, 1973).

Financial sector deepening is supposed to lead to financial development. Financial development leads to greater investment efficiency and mobilization of greater financial resources to finance investments. Lyrels (1995) showed that development of the financial sector improves investment allocation thereby lifting economic performance. That the amount of investment is found to be positively correlated to financial sector development. Financial intermediaries are the vehicles for financial deepening. Financial intermediaries mediate between the providers and users of financial capital (Thakor, 2007). They borrow money from households, firms, or other financial intermediaries, and lend money to other households, firms, or other financial intermediaries. Functions of financial intermediaries therefore abound in a financial system.

To produce information ex-ante about possible investments, and to provide a better allocation of capital. Financial intermediary development can improve productivity by this channel, as banks may reduce the costs of the evaluation of investment projects before the lending decision, and therefore allow a better allocation of capital (Boyd and Prescott, 1986); To monitor firms and to exert corporate governance; Foster the trade, diversification and management of risk; Pool savings - financial intermediaries can then help improve firms' productivity, by reducing the transaction costs associated with the mobilization of savings from different economic agents and by reducing information costs for the savers. Therefore, this reduction of costs make financial intermediaries useful to improve resource allocation, and also favor technological innovation; Easing of the exchange of goods and services.

### **1.1.2 Performance by Financial Intermediaries**

Financial intermediaries such as banks make savings available to entrepreneurs who may lack own resources to finance investment and technology acquisition; they also screen and monitor loan applications, thereby improving the allocation of resources. By exploiting economies of scale, intermediaries can also make savings mobilization more efficient (Levine, 1993 and Montiel, 1995).

Performance is therefore achieved through the realization of the benefits of financial deepening. This will become true when intermediation in the economic system has achieved its mandate i.e there will be a reduction in the transaction costs, a reduction in

information asymmetry, there will be efficiency in the functioning of the financial markets and there will also be overall liquidity in the economy. This is represented by overall financial sector development in an economy i.e;-increased real deposit rates which will raise the saving rate; increased real interest rates will raise the level of investment; increased real deposit rates will promote economic growth. Several theories have been developed to explain why intermediation is important in an economic system (Montiel, 1995). Intermediation will be afforded by financial inclusion which is defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (Anshul, 2010).

### **1.1.3 Relationship between Financial deepening and Performance by Intermediaries**

Financial deepening is considered to be an integral factor in the economic growth of a country. Many studies have noted that a well functioning financial system mobilizes savings, allocates resources and facilitates risk management contributes to the economic growth by supporting capital accumulation, improving efficiency and proper technological innovation. Financial deepening is thought to promote efficient credit allocation,risk reduction through diversified investment in financial intermediaries and lowering of the transaction costs through information generation. As a result, it is generally believed that financial deepening will promote economic growth and thereby reduce income inequality and thus lower poverty levels (Kirkpatrick, 2000: Worldbank, 2001).

One of the key features of financial deepening is that it accelerates economic growth through the expansion of access to those who do not have adequate finance themselves. Typically, in an underdeveloped financial system it is the incumbents who have better access to financial services through relationship banking. Moreover, incumbents also finance their growth through internal resource generation. Thus, in an underdeveloped financial system, growth is constrained to the expansion potential of incumbents. In mature financial systems on the other hand, financial institutions develop appraisal techniques, and information gathering and sharing mechanisms, which then enable banks to even finance those activities or firms that are at the margin, thereby leading to their growth-inducing productive activities in addition to the incumbents. It is this availability of external finance to budding entrepreneurs and small firms that enables new entry, while also providing competition to incumbents and consequently encouraging entrepreneurship and productivity (Shaw, 1973).

Financial sector deepening is supposed to lead to financial development. Financial development leads to greater investment efficiency and mobilization of greater financial resources to finance investments. Lyrels (1995) showed that development of the financial sector improves investment allocation thereby lifting economic performance. The amount of investment is found to be positively correlated to financial sectors development. The impact of the financial sector development depends on the quantity of investment allocation. It is because market determined interest rates may lead to better allocation of domestic savings. Financial intermediaries e.g. banks make savings available to



entrepreneurs who may lack own resources to finance investment and technology acquisition; they also screen and monitor loan of applications, thereby improving the allocation of resources. By exploiting economies of scale, intermediaries can also make savings mobilization more efficient (Levine, 1997).

The financial system helps to mobilize savings and the deployment of such from areas where there is no much need to those areas that need much savings the most – hence financial intermediation. Other indicators will include the flow of credit to the private sector from the financial sector, the growth of financial institutions credit to the private sector relative to the growth of private sector deposits with financial institutions, the real rate of interest tread, the GDP growth, the spread between lending and deposit rates and the ratio of private sector credit to GDP (Lyrels, 1995).

King and Levine (1993), among others, have found various measures of financial development to be positively correlated with the growth rate of GDP, suggesting that financial deepening leads to performance that can increase long run growth rate of the economy. Financial intermediaries such as banks make savings available to entrepreneurs who may lack own resources to finance investment and technology acquisition; they also screen and monitor loan applications, thereby improving the allocation of resources. By exploiting economies of scale, intermediaries can also make savings mobilization more efficient (Levine,1993).

The key relationships of financial liberalization to other macro-economic variables are rooted in theory and have been postulated on (Montiel, 1995); There is a positive correlation between the degree of financial deepening and economic growth / financial sector development. Inflows of foreign capital augment domestic resources may thus permit greater and more efficient investment and financial deepening, liberalization will ensure positive real interest rates and this will raise, savings rates, allocation of savings, investment and finally growth. In fulfilling this, the financial sector has two distinct roles (Montiel, 1995) ,Identifies the most promising projects and monitors the behaviour of entrepreneurs. Channel resources from saves to investors, which tends to improve the efficiency of financial intermediation and enhance the effectiveness of the monetary policy.

#### **1.1.4 The Youth Enterprise Development Fund**

The Government's poverty reduction strategy (Economic Recovery Strategy for Wealth and Employment Creation – ERS) identifies access to financial services as one means of creating employment, promoting growth and reducing poverty in the country. The ERS priorities the development of the micro finance industry in order to deepen access to financial services, especially for the poor (Ministry of Planning and National Development, 2006). In an effort to replicate the success-story of the Bangladesh in Kenya, the recent years have seen increased focus of the government channeled towards the alleviation of poverty through creation of funds aimed at assisting the vulnerable groups in this case being women and the youths. The youth enterprise fund and the women fund are meant to accomplish this goal (GoK, 2011).

Youth Enterprise Development Fund was conceived in June 2006 to address youth unemployment. Fund was licensed by His Excellency President Mwai Kibaki on 1st Feb 2007. It was then transformed into a state parastatal under the Ministry of Youth Affairs and Sports on 11th May 2007. The objectives of the Youth Enterprise Development Fund include; To provide funding and business development services to youth owned and youth focused enterprises; To provide incentives to commercial banks through appropriate risk mitigation instruments to enable them increase lending and financial services to the youth.; To provide loans to existing Micro Finance Institutions, registered NGO's involved in micro financing and savings and credit Co-operative or for lending to Youth Enterprise.; To attract and facilitate investment in micro, SME oriented commercial infrastructure e.g. borrowers or industrial parks, stalls, market or business incubators.; To support youth oriented Micro SMEs to develop linkages with large enterprises.; To facilitate marketing of products and services of youth owned enterprises in both domestic and International Markets.; To facilitate employment of Youth in the International Labor Market.; To carry out any other activities relevant to its principal mandate (GoK, 2011).

Seven hundred million (700 million) was set aside and divided into two parts i.e. 345 million to all districts and 345 million divided as a factor of the population of the young people in the district. The funds targets areas not sufficiently served by financial Intermediaries. Priority focus is on funding geographical areas based on economic potentials. Emphasis is on funding of economic factors with high potential for youth employment. The fund benefits Kenyan Youth between 18 years and 35 years age bracket

and investing the fund in a business venture. The fund is a loan that must be repaid. Funding is to legally registered Organization or firms operating in Kenya and is through financial Intermediaries e.g. NGOs, Banks, Sacco's and MFI's or either individuals or groups, co-operatives, companies etc. The fund targets enterprises (individuals, companies, groups, co-operatives or otherwise .It is managed by financial Intermediaries. The fund attracts an interest of 8% p.a. It requires flexible collateral as security. Loan depends on the lending terms of the financial intermediary. Approval however is sought from the corporation for amount above ksh. 500,000 (Mburu, 2010).

## **1.2 Research Problem**

The objectives of financial deepening are to enhance financial intermediation and liquidity in an economic system. Performance by financial intermediaries are rooted in achieving the transfer of resources through time and geographical location; mobilization of savings; provision of payment system for the exchange of goods and services; management of risk among other things (Yeager, 1989). Montiel (1995) showed the existence of a positive relationship between the degree of financial deepening and economic growth hence performance by financial intermediaries. King and Levine (1993), among others, also found various measures of financial development to be positively correlated with the growth rate of GDP, suggesting that financial deepening leads to performance that can increase long run growth rate of the economy.

Cottarelli et al (2005),suggested a positive relationship between credit to the private sector and per capita income in transition economies. Schumpeter (1911) contends that a

well functioning financial system will spur technological innovations through efficiency of resources allocation from unproductive sector to productive sectors. Ndwiga (2011) carried out a study on the impact of financial development to economic growth in Kenya. He found out that financial development can better be achieved through liberalization of the financial sector and review of the laws governing the operation of commercial banks. Musau (2002) carried out a study on financial liberalization in Kenya. He concluded that financial sector liberalization did not increase savings and that Kenya's experience with interest rates deregulation provides only a mild support for the benefit of financial liberalization theory and hence financial deepening.

Studies on financial deepening have been concentrated in Middle east, Asia and Western countries with few in Africa. Not much literature has been documented on the economic benefits that have accrued from financial deepening through financial intermediaries in post liberalization Kenya. Many of the previous studies on this subject suffer from limitations of over relying on the cross-sectional data which cannot satisfactorily address the country specific issues. This study seeks to fill the gap that has been left by previous studies by determining the effect of financial deepening on performance of the Youth Enterprise Development Fund. The study will therefore seek answers to the following research question: What is the effect of financial deepening on performance of the Youth Enterprise Development Fund?

### **1.3 Objective of the Study**

To determine the effect of financial deepening on performance of the Youth Enterprise Development Fund.

### **1.4 Value of the Study**

The findings of this study will be beneficial towards enhancing the knowledge on financial deepening that has attracted a sizeable number of researchers in the recent past. It will also assist in confirming or giving any contrary evidence to the theoretical foundations of performance and financial deepening.

The study will also assist policy makers in government to understand the connection between financial deepening and performance of the Youth Enterprise Fund. This will inform the government in making sound policies that will ensure enhanced financial deepening in order to enable the fund to perform better.

Those in the academic realm will also find the study beneficial to them since it will add value to the existing body of knowledge on the Kenyan financial sector. It will assist them with relevant literature on financial deepening and performance. It will also point out areas for further research that will serve as foundations for future research activity on financial deepening and organizational performance.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter delves into financial deepening theory that is afforded by intermediation by financial intermediaries in their move to increase liquidity in the market. It looks into financial deepening and performance of financial intermediaries themselves and the studies that have been done in the subjects. It also looks at the empirical studies that have been done on performance of financial intermediaries and in relation to financial deepening and economic growth.

#### **2.2 Theoretical Review**

The theoretical developments concerning the relationship between financial deepening and economic growth broadly covers various aspects such as; intermediation, repression, liberalization, regulation, diversification, innovation and reforms. In the economic sense, financial intermediaries mobilise savings from the surplus sector, which augments real balances and transfers them to the deficit sector, which offers primary debt instruments in exchange. Thus, financial intermediaries play a crucial role in financial deepening. Financial deepening is thought to promote efficient credit allocation, risk reduction through diversified investment in financial intermediaries and lowering of the transaction costs of the intermediaries through information generation. As a result, it is generally believed that financial deepening will promote economic growth and thereby reduce income inequality furthermore it will reduce poverty by eliminating credit controls on the poor and increase their productive assets (Worldbank, 2001; Kirkpatrick, 2000)

The transaction costs approach holds that financial intermediaries exist because they have a transaction costs advantage over individuals. It is based on non convexities in transaction technologies, whereby the financial intermediaries act as coalition of individual lenders or borrowers who exploit economies of scale or scope in the transaction technology. The notion of transaction costs encompasses not only exchange or monetary transaction cost but also search costs and monitoring and auditing costs (Benston and Smith, 1976)

Diamond and Dybvig (1983) in a seminal paper consider financial intermediaries, like banks, to create liquidity by providing risk-sharing arrangements to insure against random consumption needs of depositors, reduce information costs and incentive problems by monitoring the borrowers.

### **2.2.1 Shaw's Financial Liberalization Hypothesis**

According to Shaw (1973) financial deepening hypothesis, financial liberalization tends to raise ratio of private domestic savings to income. With real growth of financial institutions, there are many investors having access to borrowing. There arises incentives for saving with many players and borrowings become cheaper. Savings also tend to rise in the Government sector. With financial deepening, savings from the foreign sector respond to financial liberalization. There is inflow of capital and easy access to foreign capital markets, which remove distortions in relative prices. Liberalization permits the



financial process of mobilizing and allocating savings to displace inflation and foreign aid. Liberalization enables superior allocation of savings through widening and diversifying financial markets wherein investment opportunities compete for savings flow. The savers are offered a wider menu of portfolio choice. The market is broadened in terms of scale, maturity and risk (Shaw, 1973).

Information is available more cheaply. Local capital markets are integrated and new avenues for pooling savings and specializing in investments are possible. Prices are used to discriminate between investment opportunities. In this context, Shaw states that, "Financial depth seems to be an important pre-requisite for competitive and innovative disposition of savings flows." Thus, financial liberalization and allied Policies bring in equal distribution of income. It reduces monopoly rents arising out of import and other licenses to few importers and bank borrowers. It contributes to the stability of growth in output and employment (Shaw, 1973).

### **2.2.2 McKinnon's Financial Repression Hypothesis**

Financial intermediation is restricted due to financial repression (McKinnon, 1973) and investors resort to informal credit market. Therefore, financial liberalization would lead to better integration of formal and informal credit markets, which will result in efficient transfer of funds between savers and investors. McKinnon (1973) and Shaw (1973), emphasizing the critical importance of financial deepening for less developed countries, view that the third world economies suffer from 'financial repression' or 'shallow finance'.

"Financial Repression or Shallow finance" is characterised by slow growth or even atrophy of financial assets and financial structure.

According to Jao (1976), financial repression is a consequence of inappropriate policies, which imposed ceilings on nominal interest rates, existence of fixed exchange rates, which overvalue the domestic currency, and inhibits the expansion of the fiscal base. These policies penalize savings, suppress market signals relating to capital scarcities and encourage lop-sided development of capital intensive industries, which exacerbate unemployment. To keep interest rate liberalization on track requires close cooperation between monetary authorities and government agencies responsible for structural reforms in the real sector. This is true like the case for YEDF where interest rates subsidies are used to protect youth borrowers whose access to credit is seen as a priority but who could be unable to borrow on commercial terms.

From the 1950s, governments and international donors subsidized credit delivery to small farmers in rural areas of developing countries. It was assumed that poor people found great difficulty in obtaining adequate volumes of credit and were charged high interest rates by monopolistic money lenders (Susan and Ben, 2002). There was therefore a move from state intervention to market based solutions. Policy makers were reminded that credit could also be described as a debt and the oversupply of subsidized credit without realistic assessment of people's ability to repay could result in impoverishment for borrowers (Susan and Ben, 2002). The distortionary effects of subsidized credit facilities can be minimized through transparency to ensure that only targeted sectors benefit from

below market interest rates and also that decisions about which interest rate subsidies to eliminate should be done by the government and borne by it not central bank.

### **2.3. Indicators of Financial Deepening**

The four indicators of financial deepening according to Aziakpono (2003) are; FI1 is the ratio of credit extended to the private sector by commercial banks to GDP; where private credit is the credit extended to the private sector by commercial banks. This ratio indicates the importance of the role played by the financial sector, especially the deposit money banks, in the financing of the economy. It isolates credit issued to the private sector from credit issued to governments, government agencies, and public enterprises. FI2 is the ratio of liquid liabilities of commercial banks to GDP, where liquid liabilities equal demand deposit plus time and savings deposits. Liquid liabilities equal demand deposit plus time and savings deposits. . Therefore, in principle a rising ratio of broad money to income may reflect the more extensive use of currency than an increase in the volume of bank deposits. Following this argument, bank deposit liabilities, which exclude currency in circulation from the broad money stock have been used as a better measure of financial depth and thus of the overall size of the financial intermediation. FI3 is the ratio of commercial bank assets to the sum of commercial banks and central banks assets. FI4 is a composite index computed from the combination of the other three indexes (Aziakpono, 2003).

## **2.4 Determinants of Performance of Financial Intermediaries**

Performance of financial intermediaries are rooted in; Savings mobilization; Allocation efficiency; Monetary control among others which will lead to overall economic development. In Kenya's Poverty Reduction Strategy Parcel (PRSP) financial sector is expected to play a critical role in facilitating economic growth through financial intermediation i.e.-Mobilization of savings among others. There is a general consensus among economists also that financial development spurs economic growth. Theoretically, financial development creates enabling conditions for growth through either a supply-leading (financial development spurs growth) or a demand-following (growth generates demand for financial products) channel. A large body of empirical research supports the view that development of the financial system contributes to economic growth (Rajan and Zingales, 2003).

According to NYS (2010) performance of an organization can be measured using various frameworks. There are many different measurement frameworks, including the balanced scorecard, activity based costing, competitive benchmarking, and shareholder value added. Each of these provides a unique and different lens through which to view an organization's performance. Most frameworks tend to be one-dimensional in perspective. For example, benchmarking tends to involve taking a largely external perspective, often comparing performance with that of competitors or other best of breed practitioners or business processes. This kind of activity is frequently pursued as an exercise to generate ideas for or obtain commitment to short-term improvement initiatives rather than to design a formalized performance measurement system. However, the balanced scorecard

is a measurement framework which integrates multiple perspectives. The balanced scorecard integrates four sets of measurements, complementing traditional financial measures with those driving future performance. An organization using this framework is encouraged to develop metrics that facilitate collection and analysis of information from the following perspectives: Financial; Customer; Learning and Growth as well as Internal Business Processes (NYS, 2010).

### **2.5 Financial Deepening and Performance by Intermediaries**

King and Levine (1993), among others, have found various measures of financial development to be positively correlated with the growth rate of GDP, suggesting that financial deepening leads to performance that can increase long run growth rate of the economy. Financial intermediaries such as banks make savings available to entrepreneurs who may lack own resources to finance investment and technology acquisition; they also screen and monitor loan applications, thereby improving the allocation of resources. By exploiting economies of scale, intermediaries can also make savings mobilization more efficient (Levine,1993).

The key relationships of financial liberalization to other macro-economic variables are rooted in theory and have been postulated on (Montiel, 1995); There is a positive correlation between the degree of financial deepening and economic growth / financial sector development. Inflows of foreign capital augment domestic resources may thus permit greater and more efficient investment and financial deepening, liberalization will ensure positive real interest rates and this will raise, savings rates, allocation of savings,

investment and finally growth. In fulfilling this, the financial sector has two distinct roles (Montiel, 1995) ,Identifies the most promising projects and monitors the behaviour of entrepreneurs. Channel resources from saves to investors, which tends to improve the efficiency of financial intermediation and enhance the effectiveness of the monetary policy.

## **2.6 Empirical Review**

Given the empirical/scientific work of Jao (1976) and Ogun (1986), financial deepening is represented by two variables: the degree of financial intermediation measured, in our case  $M2/Y$ , and the growth rate of per capita real money balances (GPRMB). Aziakpono (2003) reckons that  $M2/Y$  can be measured by the ratio of credit extended to the private sector by commercial banks to GDP; where private credit is the credit extended to the private sector by commercial banks. This ratio indicates the importance of the role played by the financial sector, especially the deposit money banks, in the financing of the economy. It isolates credit issued to the privates sector from credit issued to governments, government agencies, and public enterprises.

Jalilian (2005) and Kirkpatrick (2005) examined whether financial sector development can contribute to the goal of poverty reduction in many developing and developed countries. In this, they linked financial development with economic growth; economic growth with poverty and financial development and inequality. They found out that the ratio of private credit to GDP(proxy for financial development) improves growth prospects especially in poorer developing countries; that the income of the poor changes

as much as average income; and that financial development has an inverted U-shaped relationship with income inequality. They conclude that financial development helps to reduce poverty-a unit change of financial development improved income growth prospects of the country by 0.3%. Financial development is achieved through financial deepening which results in overall economic growth.

Beck et al (2007) investigated the impact of financial development on poor by estimating the relationship between finance and changes in both income distribution and poverty levels. Also using ratio of private credit to GDP in accessing data for 72 countries from (1960-2005), they found out that an increase in financial development lowers income inequality, increases income of the relatively poor disproportionately and is strongly associated with poverty alleviation.

Honohan (2004) attempted to explore the association between financial depth as measured by the ratio of private credit and poverty ratio by using cross-country data available for more than 70 developing countries. He found out that financial depth is negatively associated with the poverty ratio.

Takeshi and Shigeyuki (2010) carried out a study on how financial deepening has affected poverty reduction in India. They used unbalanced panel data for 28 states and union territories between 1973 and 2004. They used poverty ratio to determine the effect of financial deepening. Using GMM estimation method they found out that financial deepening and economic growth are positively correlated and they alleviate poverty.

Performance of intermediaries therefore will become true when poverty levels decrease in economies.

Odhiambo (2009) and Odhiambo (2010) focused on countries in sub sahara Africa to determine whether financial deepening and economic growth are effective in alleviating poverty. She analyzed data using Granger causality test to measure financial development using ratio of private credit to GDP. She found out that in South Africa and Zambia from 1960-2006. Granger tests indicated that economic growth caused an increase in per capita consumption and economic growth-that financial deepening affects poverty reduction when private credit and domestic bank assets are used.

Rajan and Zingales ( 1998), through cross country analysis of the relationship between finance and growth obtained data from 41 countries and 36 manufacturing industries. they scritinezed that if better developed financial intermediaries overcome market frictions that derive a wedge between prices of external and internal finance, then industries that are heavy users of external finance benefit more from financial development as compared to other industries. They consistently emphasized the nexus between finance and growth, though the issue of direction of causality is more difficult to determine. Other studies establish a positive relationship between financial deepening, development and growth at the industry level.

Cottarelli et al (2005),suggested a positive relationship between credit to the private sector and per capita income in transition economies. Schumpeter (1911) contends that a



well functioning financial system will spur technological innovations through efficiency of resources allocation from unproductive sector to productive sectors. Financial intermediaries are the vehicles for credit availability to productive sectors in the economy which brings about deepening and hence their performance.

Ndwiga (2011) carried out a study on the impact of financial development to economic growth in Kenya. He did this using all the listed banking institutions in Kenya by extracting the variables that are indicators of financial development. He found out that the performance of financial institutions contributes positively to economic growth as evidenced by the growth in GDP as the number of financial institutions increased. He noted that increase in financial institutions increases intermediation and hence growth in the GDP-that as the demand for finances increases other factors remaining constant, the lending interest rate is reduced thus increasing the positive change in economic growth. He also found out that financial development can better be achieved through liberalization of the financial sector and review of the laws governing the operation of commercial banks. It is worth noting that increase in intermediation brings about financial deepening and their performance.

Key relations of financial liberalization theory (Oshikona, 1992 Emeruga, 1996, and Montiel, 1995)- basis of financial sector impact assessment were identified as: Increased real deposit rates should raise the saving rate. There is a positive correlation between the degree of financial deepening and economic growth. Increased real interest rates will raise the level of investment. Increased real deposit rates will promote economic growth.

The above however may not always be true e.g. In Nigeria, financial deepening has remained at low level (Pill and Pradham, 1995). This according to the authors could be the result of constraints, continued government intervention or other problems in the banking sector. In Nigeria, inflation rate retarded developments in the financial sector. In such situations, indicators of financial sector development show limited success.

Musau (2002) carried out a study on financial liberalization in Kenya. Objective of the study was to determine whether the performance of selected financial sector development indicators in the post liberalization period (1994-1999) is significantly different from performance in the pre-liberalization period (1987-1992). The study sought to collect data from the entire financial system in key variables that are indicators of overall economic and financial performance in the monetary sector. He found out that the percentage of Gross Domestic Savings to GDP fell from 20.25% pre liberalization to 15.29% post liberalization concluding that financial sector liberalization did not increase savings and that Kenya's experience with interest rates deregulation provides only a mild support for the benefit of financial liberalization theory. He also found out that in Kenya liberalization appeared to have prompted a rise in the spread between banks lending and deposit rates; rising real interest rates but falling saving rates rather than a rise as predicted by the liberalization theory, financial depth has remained at relatively low levels. He concluded that financial liberalization in Kenya failed to develop the financial sector. Shaw (1973) and Mckinnon (1973) pointed out the fact that financial deepening hypothesis hinges on financial liberalization and financial repression. Many studies later on confirmed the relationship.

Kanyingi (2011) carried out a study on the impact of financial deepening on economic growth in Kenya. His objective was to find the impact of financial deepening on the Kenyan economy. He collected secondary data on all macroeconomic variables that affect financial deepening from 1997-2010 i.e. GDP, economic growth rate, commercial banks domestic credit to private sector, money supply and domestic financial savings. He found out that an increase in money supply in the economy influences economic growth positively which is consistent with theory. All variables showed positive results for the period under study. That financial deepening can best be achieved through increased availability of private credit to the economy. Liberalization through deregulation of interest rates, removal of controls on bank credit allocation, removal of entry prohibitions into banking, increased competition in the financial sector, deregulation of the stock markets and provision of adequate institutional frameworks promotes economic growth through financial deepening.

Allen & Gale (1997) notes that a larger financial system can ease credit constraints; the greater the ability of firms to borrow, the more likely that profitable investment opportunities will not be by-passed because of credit rationing. A large financial system should be more effective at allocating capital and monitoring the use of funds as there are significant economies of scale in this function.

Dermiguc-kunt(1992) observed that in the poorest developing countries firms rely mostly on internal resources and credit markets for financing. Commercial banks are the main

financial institutions, He argues that the loan contracts of these commercial banks are generally short term and formal direct market for long term debt or equity do not exist, thereby constraining both corporate and economic growth.

Money supply in an economy is by ratio of private credit to GDP. Private credit is the loans advanced to the private sector and is concerned with both the scale of organization's activities, the depth of outreach, types of clients reached and their level of poverty (Paxton, 1998). Depth of outreach is proxied by average loan size as a percentage of GDP per capita. (Yaron, 1997) classified individuals of outreach into two classes;-

Clients and staff- indicates the number of clients-total clientele serviced (current); No. of women as a percentage of total borrowers; No. of youth as a percentage of total youth composition. Loans outreach-to measure the loan advancement, financial institutions use parameters e.g. No. of currently active borrowers; Total balance of outstanding loans; Average outstanding performance, Real annual average growth rate of loans outstanding during the past 3 years; Loan size, average disbursed loan size; Average disbursed loans as a percentage of GDP per capita; Average loan term, normal interest rate; Effective annual interest rate and Value of loans per staff.

## **2.7 Summary of Literature Review**

Financial deepening hypothesis link financial liberalization theory to economic development but most countries attempt to enhance financial deepening without putting up legal and structural reforms that in the end water down the achievement of the benefits

of financial deepening. An important question that arises logically is: has commensurate financial deepening been taking place at the micro-level? There is sufficient anecdotal evidence to suggest that the poor or less well-off people find it difficult to open a bank account in any area – rural, urban or semi-urban. Thus, not only is the common individual deprived of access to banks for generating savings or availing credit, but so is the financial system of resources commensurate with the burgeoning growth of incomes all over the country. It is this very feature that the process of financial inclusion seeks to address among other services i.e financial knowledge, insurance services, deposit services, credit services and all these should be provided at a lower cost to the population and access should be equitable geographically and across gender lines.

Also emerging literature stresses the role played by macroeconomic stability and the presence of adequate supervisory and monitoring capacity of the central banks. Literature further delineates on the appropriate role of the government in financial deepening i.e; With such a strong focus on micro credit for micro enterprises, it is perhaps surprising that less attention is being paid to linking poor people to the growing market opportunities and to enhancing the control they can exercise over their economic development.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter elaborates on the research methodology that will be used when undertaking the research. It describes the population, outlines the sampling technique, data collection instrument, data collection method and data analysis.

#### **3.2 Research Design**

This is a case study. The study adopted a descriptive design- a descriptive research design is a rigid design that makes enough provision for protection against bias and maximizes reliability (Kothari, 2008). The design enabled the researcher to collect complete and accurate data that was useful in determining the level of financial deepening in the economy and how it affects the performance of YEDF. The study focused on the Fund's issued loans over a duration of five years ( 2008 – 2012).

#### **3.3 Data Collection**

The study made use of secondary data relating to the Youth Enterprise Development Fund for a period of five years (2008 to 2012). For the purpose of this study, data on the financial deepening variable included the reduction in transaction costs, ratio of loans to GDP and ratio of loans to deposits for the period of five years (2008 – 2012). Data was obtained from the annual reports of YEDF and the CBK (Appendix I).

### **3.3.1 Test for Reliability and Validity**

The internal consistency of data was tested by the use of Cronbach's Coefficient Alpha in which a score obtained in one item is correlated with scores obtained from other items in the instrument. This procedure reduced the time required to compute reliability coefficient in other methods.

### **3.4 Data Analysis**

The data that was collected was quantitative in nature. Since the study sought to establish the relationship between performance and financial deepening, a regression analysis was conducted to help in finding out how financial deepening was related to performance.

The study used the following analytical model:

#### **3.4.1 The Analytical Model**

A modification of Mckinnon-Shaw regression model was applied in estimating the relationship between one dependent variable and the other independent variables.

$$P = \beta_0 + \beta_1 x1_{it} + \beta_2 x2_{it} + \beta_3 x3_{it} + V_{it}$$

Where P is the performance of YEDF which was measured using the growth(p) of the fund  $\beta$  are slope coefficients whose sign depicted the relationship between the independent and the dependent variables: X1 represented Monetary Indicators which were measured by the reduction of transaction costs-interest on loans and increase of output(credit); X2 Financial Indicators which was measured using the amount of loans in

the financial sector to GDP; X3 Efficiency in financial resources utilizations which was measured using the ratio of the loans to the deposit balances of financial institutions. V was the error term.

### **3.4.2 Test of Significance**

The researcher shall use the Analysis of Covariance (ANCOVA) model to test for significance of the regression model. The 'F' statistic at 0.05 level of significance shall be used to measure the fitness and validity of the model.



## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented as an evaluation of the relationship between financial deepening indicators namely reduction of transaction costs, loans to GDP ratio and ratio of loans to deposits of financial institutions; and the performance of the YEDF. The performance of the YEDF is measured by the rate of growth in the amounts of loans disbursed by the fund on an annual basis. The data analysis techniques include descriptive statistics, correlation analysis, regression analysis and coefficient of determination.

#### **4.2 Descriptive Statistics**

The researcher used the SPSS to ascertain the descriptive statistics of the collected data by establishing the minimum amount, maximum amount, mean and the standard deviation from the mean.

**Table 4.1 Financial Deepening Indicators and the Performance of the YEDF for the Period 2008-2012.**

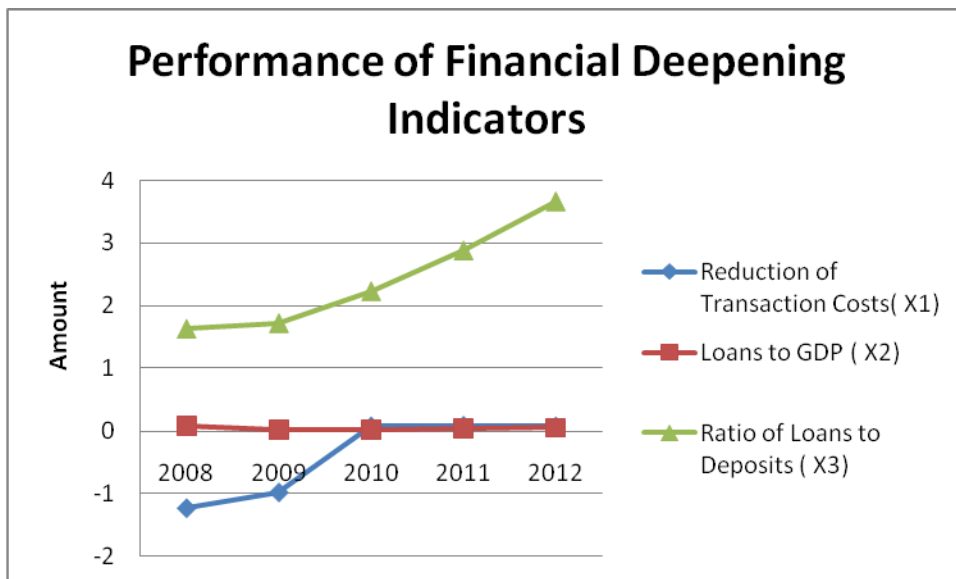
Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Growth of YEDF	5	0.07	0.28	0.194	0.082643814
Reduction of Transaction Costs	5	-1.23	0.08	-0.398	0.651436873
Loans to GDP Ratio	5	0.02	0.08	0.042	0.024899799
Ratio of Loans to Deposits	5	1.64	3.67	2.434	0.851369485
<b>Valid N (listwise)</b>	<b>5</b>				

Source: YEDF (2013)

#### 4.2.1 Performance of Financial Deepening Indicators for the Period 2008 to 2012

The indicators of financial deepening namely the reduction of transaction costs, ratio of loans to GDP and ratio of loans to deposits for the period between 2008 and 2012 were presented in a line graph as shown below:

**Figure 4.1 Performance of Financial Deepening Indicators**

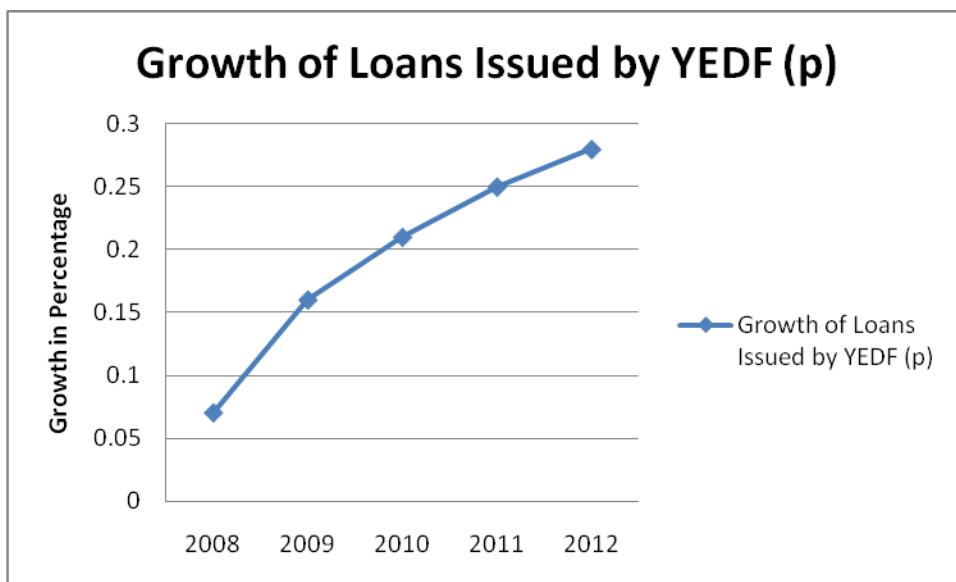


Source: YEDF (2013)

#### 4.2.2 Growth of Loans Issued by YEDF for the Period 2008-2012

The performance of the growth of loans issued by YEDF for the period between 2008 and 2012 was presented in a line graph as shown below:

**Figure 4.2 Growth of Loans Issued by YEDF**



**Source: YEDF (2013)**

#### 4.3 Correlation Analysis

The researcher conducted a correlation analysis using the SPSS and came up with correlation coefficients that explained the relationship between the dependent variable (Growth of Loans issued by YEDF) and the independent variables (reduction of transaction costs, loans to GDP ratio and ratio of loans to deposits of financial institutions).

**Table 4.2 Correlation between Growth of Loans Issued by YEDF and Financial Deepening Indicators**

<b>Correlations</b>		
		<b>Lending Rates</b>
<b>Reduction of Transaction Costs</b>	Pearson Correlation	0.575276373
	Sig. (2-tailed)	0.081867681
<b>Loans to GDP Ratio</b>	Pearson Correlation	0.046320631
	Sig. (2-tailed)	0.898890746
<b>Ratio of Loans to Deposits</b>	Pearson Correlation	0.499655163
	Sig. (2-tailed)	0.00873775
<b>**Correlation is significant at the 0.01 level (2-tailed).</b>		

**Source: Author (2013)**

The findings indicated that at the YEDF during the period 2008-2012 the financial deepening indicators that had a positive correlation with the growth of the loans issued by the institution included reduction of transaction costs at 0.58 (2dp), loans to GDP ratio at 0.05 (2dp) and ratio of loans to deposits at 0.50 (2dp). Notably, the reduction in transaction costs and loans to GDP ratio did not have a significant correlation with the growth of loans issued by YEDF at a level of significance of 0.01. However, the ratio of loans to deposits had a significant correlation with the lending rate at a level of significance of 0.01 for the study period between 2008 - 2012.

#### 4.4 Regression Analysis

In addition to the above analysis, the researcher conducted a multiple regression analysis so as to test relationship among the independent variables. The researcher applied the SPSS to aid in the computation of the measurements of the multiple regressions for the study.

**Table 4.3 Model Summary**

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.975268811	0.951149254	0.780171641	0.063214335

**Source: Author (2013)**

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (growth in loans issued by YEDF) that is explained by all the three independent variables (reduction of transaction costs, ratio of loans to GDP and ratio of loans to deposits).

The three independent variables that were studied, explained 78.02% (2dp) of the relationship between financial deepening indicators and the growth of loans issued by YEDF for the period between 2008 - 2012 as represented by the  $R^2$ . This therefore means that there are other factors not studied in this research which contributes 21.98% (2dp) of the relationship between the growth of the loans issued by YEDF and the financial

deepening indicators in Kenya. Therefore, further research should be conducted to investigate these factors affecting 21.98% of the growth of loans advanced by YEDF.

**Table 4.4 ANOVA Model**

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	155.6103958	7	37.02223006	65.56300466	.001607906
	Residual	118.0079921	190	.623996052		
	Total	343.1636025	196			

**Source: Author (2013)**

From the ANOVA Model the analysis of variance and the ‘*F*’ statistic (65.56) suggested that the model is fit and it is valid with the existing set of independent variables.

#### **4.5 Coefficients of the Independent Variables**

Multiple regression analysis was conducted to establish the relationship between the independent variables and the dependent variable and the extent of impact that each of the independent variables had on the overall growth of loans advanced by YEDF for the period between 2008 – 2012.

**Table 4.5: Coefficients of Independent Variables**

Coefficients		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	0.6047	0.5609		1.039	0.736
	<b>Reduction of Transaction Costs</b>	0.4364	0.1571	0.6936	1.028	0.807
	<b>Loans to GDP Ratio</b>	0.2149	0.1081	0.3317	1.027	0.861
	<b>Ratio of Loans to Deposits</b>	0.4741	0.2146	0.5721	2.921	0.008

**Source: Author (2013)**

In order to determine the relationship between lending rate policy and the three independent variables for the commercial banks, the researcher conducted a multiple regression analysis. As per the SPSS generated table above, the equation:

$$P = \beta_0 + \beta_1 x1_{it} + \beta_2 x2_{it} + \beta_3 x3_{it} + V_{it}$$

Translates to:  $p = 0.605 + 0.436 X_1 + 0.215X_2 + 0.474 X_3 + 0.5609$

Where p is the dependent variable (growth of the loans advanced by YEDF),  $X_1$  is the reduction in transaction costs,  $X_2$  is the loans to GDP ratio and  $X_3$  is ratio of loans to deposits.

As per the regression equation, if all the independent variables (reduction of transaction costs, ratio of loans to GDP and ratio of loans to deposits) were taken into account and

held at zero, the growth rate of loans advanced by YEDF will be at 0.6047. The data findings analyzed also showed that if all other independent variables were taken at zero, a unit increase in reduction of transaction costs would lead to 0.436 unit increase in the growth rate of loans advanced by YEDF. Further, a unit increase in the ratio of loans to GDP would lead to a 0.215 increase the growth of loans advanced by YEDF whereas a unit increase in total the ratio of loans to deposits would lead to a 0.474 increase in the growth rate of loans advanced by YEDF. The results of the test showed that the coefficient estimates of all the independent variables were positive conveying the message that these three financial deepening indicators (reduction of transaction costs, ratio of loans to GDP and ratio of loans to deposits) were affected positively by the increase in the growth rate of loans advanced by YEDF. From the above analysis of the coefficients, it could also be inferred that the ratio of loans to deposits had a significant effect on the growth rate of loans advanced by YEDF at a level of significance of 0.01.

#### **4.6 Interpretation of Findings**

The findings were discussed and interpreted in relation to established theoretical and empirical frameworks:

The findings indicated that at the YEDF during the period 2008-2012, the financial deepening indicators that had a positive correlation with the growth of the loans issued by the institution included reduction of transaction costs at 0.58 (2dp), loans to GDP ratio at 0.05 (2dp) and ratio of loans to deposits at 0.50 (2dp). Notably, the reduction in transaction costs and loans to GDP ratio did not have a significant correlation with the growth of loans issued by YEDF. This is true due to the fact that the YEDF loans have



been given preferential interest rate of 8% which is different from the market interest rate. This may have led to increase in uptake of credit from amongst the youthful entrepreneurs. Montiel (1995) held that there is a positive correlation between the degree of financial deepening and economic growth or financial sector development. He contends that inflows of foreign capital may permit greater and more efficient investment and financial deepening. The findings of this study also confirm that the growth rate of loans advanced by YEDF is positively correlated with the ratio of loans to GDP, the ratio of loans to deposits and the reduction of transaction costs. These financial deepening indicators are therefore correlated to the economic growth and financial sector development that results from the increased loans advanced by financial intermediaries like YEDF. Also, King and Levine (1993) held that various measures of financial development are positively correlated with the growth rate of GDP, suggesting that financial deepening leads to performance that can increase long run growth rate of the economy. They further suggest that financial intermediaries can also make savings mobilization more efficient. The findings of this study also support this theoretical foundation by demonstrating that the ratio of loans to GDP is positively correlated with the growth rate of loans advanced by YEDF.

The financial deepening indicators that were investigated in this study namely reduction of transaction costs; ratio of loans to GDP and ratio of loans to deposits can be associated with financial liberalization- a hypothesis advanced by Shaw (1973), that financial liberalization tends to raise ratio of private domestic savings to income. With real growth of financial institutions, there are many investors having access to borrowing.

Locally, Kanyingi (2011) carried out a study on the impact of financial deepening on economic growth in Kenya. His objective was to find the impact of financial deepening to the Kenyan economy. He found out that financial deepening can best be achieved through increased availability of private credit to the economy. He also established that liberalization through deregulation of interest rates, removal of controls on bank credit allocation, removal of entry prohibitions into banking, increased competition in the financial sector, deregulation of the stock markets and provision of adequate institutional frameworks promotes economic growth through financial deepening. The findings of this study support the empirical finding by confirming that reduced transaction costs (as a result of removal of controls on bank credit allocation and removal of entry prohibitions into banking) is positively correlated with the growth rate of the loans advanced by YEDF.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter provides the summary of the findings from chapter four and also gives the conclusions and recommendations of the study based on the objective of the study which was to determine the effect of financial deepening on performance of the Youth Enterprise Development Fund (YEDF).

#### 5.2 Summary of the Findings

This study established that in the period between 2008 and 2012 the loans advanced by YEDF grew constantly from 0.07 in 2008 to 0.28 in 2012. The financial deepening indicators like reduction in transaction costs, the ratio of loans to GDP and the ratio of loans to deposits recorded inconsistent patterns of growth during the same period. The reduction in transaction costs and ratio of loans to GDP did not have a significant correlation at the level of significance of 0.01 but the ratio of loans to deposits had a significant correlation at the same level of significance. In addition, the coefficient of determination ( $R^2$ ) indicated that the three independent variables that were studied, explained 78.02% of the growth rate of loans advanced by YEDF. The ANOVA model 'F' statistic (65.56) suggested that the model was fit and valid with the existing set of independent variables. The resultant multiple regression equation was  $p = 0.605 + 0.436 X_1 + 0.215 X_2 + 0.474 X_3 + 0.5609$ . Where p was the dependent variable (growth rate of loans advanced by YEDF),  $X_1$  was the reduction in transaction costs,  $X_2$  was the ratio of loans to GDP and  $X_3$  was the ratio of loans to deposits.

### **5.3 Conclusions**

From the above findings the researcher concluded that in the period between 2008 - 2012 the growth rate of loans advanced by YEDF had a consistent growth and was mainly as a result of the increase in the ratio of loans to deposits. Other financial deepening indicators that contributed to the growth were reduction of transaction costs and the growth of the ratio of loans to GDP. The coefficient of determination ( $R^2$ ) at 78.02% and 'F' statistic at 65.56 indicated that the financial deepening indicators of reduced transaction costs, high ratio of loans to GDP and high ratio of loans to deposits were the main contributors to the growth of the amount of loans advanced by YEDF. However, some other factors not investigated in this study could be behind the 21.98% of the growth rate.

### **5.4 Recommendations for Policy and Practice**

In terms of policy, the researcher recommends that lending institutions including YEDF and commercial banks should come up with policies that will ensure that the growth rate of loans advanced is aligned with the resource mobilization strategy and the ultimate financial sector development and economic prosperity. The policy framework should also address the need for a robust control mechanism on the ratio of loans to deposits so as to guard against overtrading among the financial intermediaries like YEDF and the commercial banks.

In the practice, the amounts advanced by YEDF need to be targeted at projects and other income generating activities that result in positive financial earnings so that the fund can be assured of continued growth. There is also need to implement stringent lending policies so that the YEDF can be guarded against malpractices like bad debts, money

laundering and concentration of funds in one region of the country thus disadvantaging other areas that also need to reap the benefits of economic and financial sector development.

### **5.5 Limitations of the Study**

The study was based on the secondary data mainly collected from audited financial statements and websites of YEDF and CBK for the period between 2008–2012. Therefore, the integrity of the findings was as good as the integrity of the financial statements and the information posted on the websites of the two organizations. This implies that if there were any material errors or misrepresentation of facts in the financial statements then the findings of this study could also be limited by those errors and misrepresentations.

Problems of confidentiality arose owing to the fact that most respondents were not feeling comfortable disclosing some information. This however was overcome by assurances to them of the research being an academic study.

Issues of bureaucracy arose from the bank and the youth fund administration which made data collection take long. The above limitations didn't give an early excuse for any errors whatsoever or insufficiency of information/data that the researcher deemed essential.

## **5.6 Suggestions for Further Study**

The researcher suggests a similar study be conducted through a survey of the MFIs in Kenya. This is because the MFIs are quickly growing their loan portfolios and therefore there is need to find out how the growth relates with the overall economic and financial sector development.

In addition, the YEDF should be subjected to a study to ascertain the distribution of the loans in terms of economic activities and geographical locations. This will ensure that the positive growth of loan advances is equitably distributed for the overall economic growth of the country.

Finally, studies should be done to ascertain steps that should be taken in drafting of a policy framework and strategy that will help the youth access funds for their enterprises considering that the youth may lack financial muscle to sustain their businesses; this will go a long way in relieving the youth the unemployment burden that the government is currently grappling with.

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**APPENDIX I: PERFORMANCE OF FINANCIAL DEEPENING INDICATORS  
AND GROWTH RATE OF LOANS ADVANCED BY YEDF FOR THE PERIOD  
2008 - 2012**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Growth of Loans Issued by YEDF (p)	0.07	0.16	0.21	0.25	0.28
Reduction of Transaction Costs( X1)	-1.23	-0.98	0.07	0.08	0.07
Loans to GDP ( X2)	0.08	0.02	0.02	0.04	0.05
Ratio of Loans to Deposits ( X3)	1.64	1.73	2.24	2.89	3.67

**Source: CBK (2013) and YEDF (2013).**

**APPENDIX II: AMOUNTS OF LOANS ADVANCED BY YEDF FOR THE  
PERIOD 2008 – 2012**

<b>Year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Amount of Loans Issued by YEDF( Millions)</b>	633.50	702.90	808.50	960.60	1,073.60

**Source: YEDF (2013).**

**APPENDIX III: LIST OF FINANCIAL INTERMEDIARIES PARTNERING  
WITH THE YEDF**

<b>NAME OF FINANCIAL INTERMEDIARY</b>	<b>LOCATION(COUNTIES)</b>
KENYA UNION OF SAVING AND CREDIT CO-OPERATIVES LTD. (KUSCCO)	Uasin Gishu, Kisii, Kakamega, Machakos, Nyeri, Meru, Kiambu, Kericho, Mombasa, Embu, Nakuru, Nairobi, Kisumu, Malindi
RAMAT LIVESTOCK ENTERPRISE	Narok
MURATA SACCO	Murang'a
THIKA DISTRICT TEACHER'S SACCO SOCIETY LTD	Kiambu
MAGTECH INSPIRATION CENTRE.	Nairobi
WANANCHI SACCO SOCIETY	Nyeri, Nakuru, Nyandarua
FAMILY BANK LTD	Majority of counties
SMALL AND MICRO-ENTERPRISES PROGRAMME (SMEP)	Nairobi, Kiambu, Machakos, Mombasa, Taita Taveta, Kajiado, Nyeri, Meru, Embu, Laikipia, Nakuru, Uasin Gishu, Kakamega, Trans Nzoia, Kisumu, Kisii
FIRST COMMUNITY BANK	Nairobi, Garissa, Kisumu, Nakuru, Kilifi, Mandera,
	Mombasa, Marsabit, Wajir
	Bungoma
ELGON TEACHERS SACCO	All counties
EQUITY BANK	Nairobi
KENA ROSCAS	Machakos, Embu
UNIVERSAL TRADERS SACCO SOCIETY LIMITED	Machakos, Embu

**Source: YEDF (2013)**