FACTORS AFFECTING REPAYMENT OF YOUTH ENTERPRISE DEVELOPMENT FUND LOANS IN COAST REGION, KENYA

DORCAS KANYIVU MULI

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DECLARATION

This research paper is my original work and has not been presented for award of degree in any other university

Signed…………………………………………………Date:……………………………

Dorcas Kanyivu Muli

X51/79425/2015

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

Signature…………………………………………………..Date: ……………………..

Laura Barasa

School of Economics, University of Nairobi

DEDICATION

This research paper is dedicated to my family, my husband Nathan Kyalo and my children Coretta Mumbe and Caleb Baraka. I share this joy with you because of your support throughout the study. May the almighty God bless and enrich you.

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LIST OF ACRONYMS AND ABBREVIATIONS

ADF   Augmented Dickey Fuller

YEDF   Youth Enterprise Development Fund

BDS   Business Development Services

CPI   Consumer Price Index

EDU   Enterprise Development Unit

FI   Financial Institutions

GDP   Gross Domestic Product

GoK   Government of Kenya

IMF   International Monetary Fund

KNBS   Kenya National Bureau of Statistics

NARC   National Rainbow Coalition

VIF   Variance Inflation Factors

SME   Small and Medium Enterprises

ABSTRACT

Youth Enterprise Development Fund was set up by the Government of Kenya to deal with the problem of youth unemployment. Kenya is dealing with a growing population and hence the need for the private sector, academia and the Government to work together to develop innovative models, industry relevant curricula and enabling business policies to address the challenges facing the youth. The functions of the fund were to provide loans to the youth start businesses, provide training opportunities and also facilitate linkages with more established businesses. Research done shows that repayment of the YEDF loans has been below average. Coast region is one of the areas that repayment has been low and there is no research done to determine the factors that have led to low repayment rates in the region. Therefore, this study investigated factors affecting repayment of YEDF loans borrowed by youth groups for six coastal counties (Lamu, Kwale, Mombasa, Taita Taveta, Kilifi and Tana River). Ordinary Least Square regression was applied to a survey data for 2013 and 2016 to estimate these factors. STATA accounting software was used to analyse the data. The results indicate that education, age and gender of the youth group members affect loan repayment rates. The study recommended capacity building for the beneficiary groups as well as thorough screening of the loan applicants   to address this challenge.

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CHAPTER ONE

INTRODUCTION

1.1 Background

Repayment of the Youth Enterprise Development Fund Loans has been low since the fund was established in the year 2006. The major objective of the fund was to provide loans for onward lending to the youth groups to be able to grow enterprises. Access to credit is a major problem that affects businesses world over. It is assumed that when businesses are able to access financial resources, this can be translated to opportunities for growth and this informed the Government decision of setting aside some funds from the National budget to facilitate youth enterprises. Statistics from the International Growth Centre, 2014 shows that more than 75 % of the Kenyan youth are below 30 years of age. Studies have also shown that most of these youths have attended school and hence can be positively involved in revenue generation and GDP growth. The development of enterprise is important in any country as it results in social and economic growth. A culture of business and entrepreneurship can lead to a reduction in joblessness in the country which will have a trickledown effect in the country as a whole. Enterprise Development which relates to a culture of creating businesses to profitable ventures through programs of mentoring, coaching and incubation (Kauffman Foundation et al., 2005) can lead to a reduction in unemployment. Kenya has consistently come up with interventions to ensure productive and sustainable engagement of the youth. (Omolo, 2011). This has been in both the formal and in the informal sector through encouraging and facilitating the populace to take up business as an alternative and be entrepreneurial. A majority of the Kenyan youth have embraced entrepreneurship but access to funding has limited the groups from growing. The repayment of the borrowed funds has been below the expected levels. The YEDF was anticipated to be a

revolving fund where repayment means there will be more funds available for onward lending to other groups.

After its establishment and launch in 2006, the YEDF developed the Financial Institutions (FI) loan lending component. Initial reports by the financial institutions indicated low repayment rates below the rate accepted by the Association of Microfinance institutions. The repayment of the loans is an important component of the YEDF since in the long run the fund is anticipated to be a revolving fund without continuous central Government funding.

This study will seek to find out the factors affecting the repayment of YEDF in Coast region. The study will consider age, education levels and gender of the group members as relates to repayment levels of the borrowed funds.

1.1.1 Repayment of the youth enterprise development fund loans

YEDF was formed to address the challenges facing the youth with a major component of giving loans to youth groups to start businesses. The youth were to be disbursed through the constituency and active participation by the youth is critical. The fund has employed a significant work force to facilitate disbursement of money to the applicants and they also have loan officers who follow up to ensure that the money borrowed is repaid back.

Repayment remains a major challenge for the fund with most of the groups borrowing and not paying back. Most studies on group lending accept the assumption that peer pressure and group solidarity help groups to function properly and boost repayment rates in developing countries. YEDF continues to lend more money to youth groups through the C-YES component which is meant to be a revolving fund but repayment of the funds has been wanting. The problem of recovery of overdue loans and sites involve some factors affecting loan repayments which include:

improper selection of an entrepreneur considering the ability to pay and the intention to pay. Failure to repay the loans means that less money available for lending and as a result the purpose for which the fund was set up main not be achieved.

The YEDF was conceived by the Government of Kenya to enable the youth come up with ideas on business to be able to create employment for themselves and also be able to employ other. This was to happen through enterprise development by providing capital, training and market linkages with more established entrepreneurs.

Since inception, YEDF has disbursed loans to Kenyan youth worth Kshs. 11,791,676,743 through its diverse products benefiting a total of 893,383 youth across the country. So far, a total of 1,306,227 youth have benefited from YEDF financial services and other business support services which include; entrepreneurship training, market support and linkages, access to employment opportunities abroad and commercial infrastructure development. The Fund has 26 constituency officers at the Coast region. The officers' core duty is to take the youth through the loan application process and provide business advisory services. They are adequately facilitated with logistics such as motorbikes to enable them reach all parts of their respective constituencies and are available in sub county youth offices. The coast region has a total of six constituencies and since inception the youth groups have been loaned a total of Kshs. 1,300,403,231 from the YEDF as indicated in the table below:

Table 1: Youth groups funded in coast region since inception

County	No. of youth Groups	Number of members	Amount of loan issued(KSHS)	Repayment rates (%)
Lamu	659	7916	199,850,494.00	60.1
Kwale	1067	13410	214,907,199	66.14
Mombasa	1909	22916	246,104,598	51.58
Taita Taveta	1123	13,484	217,327,358	84
Kilifi	1201	15,152	219,854,408	56.31
Tana River	717	8,612	202,359,174	16.13

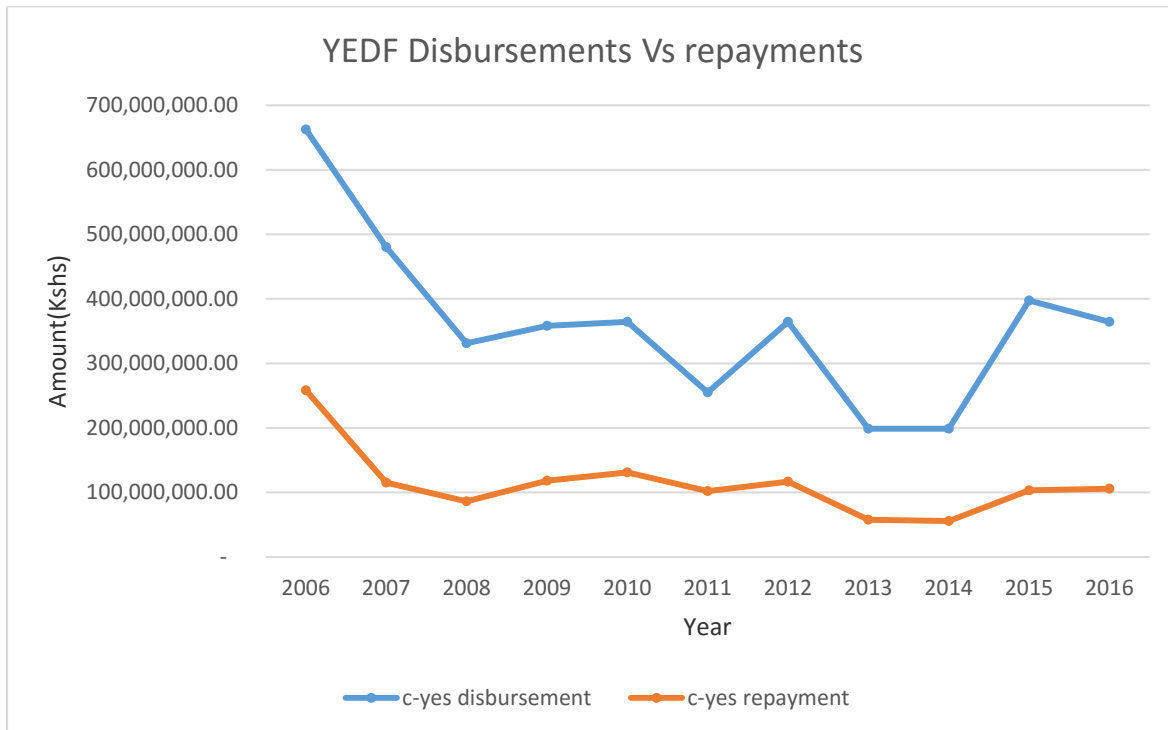Source: Computed from the YEDF status report for Coast Region

Figure 1: National disbursement versus repayment

Source: Computed from research data

According to the status report for the coast region, repayment of the YEDF was at 55.71% on average with some of the youth groups not repaying the loans advanced to them at all. Low

repayment rates were noted in Tana River County which was at 16.13% whereas Kwale had the highest repayment at 66.14%.

1.2 Problem statement

Financial resources are necessary for businesses to be able to run and operate profitably. The Youth Enterprise Development Fund was formed to ensure that resources were availed to youth groups in form of loans. The main mandate through which YEDF will ensure realization of this mission is provision of credit facilities to the youth and other programmes which go a long way in creating a conducive environment for the youth to do business profitably.

YEDF has been the most elaborate and deliberate effort by the Kenya Government in trying to address challenges facing the youth through provision of loans. It has been argued that the initial Kshs 50,000 given to youth groups cannot start a profitable venture to generate enough to repay the loan and earn income and make the youth self-reliant, (Wanyoko, 2012). Research has shown that small enterprises do not grow significantly but only able to add only between one to five employees (Fadahunsi, 2012). Research and status reports produced by YEDF in Coast region have shown that repayment of the YEDF has been below the expected levels. There exists a knowledge gap on the factors affecting repayment of YEDF. This study has bridged this gap by investigating some of the factors such as age, gender and education levels of the borrowers which are believed to affect the repayment of loans.

1.3 Research question

Does age, gender and education level of the YEDF borrowers affect the repayment?

1.4 Objectives of the study

The main objective of the study was to determine the factors affecting repayment of Youth Enterprise Development Fund in the Coast region of Kenya.

The specific objectives were:

   i)   To determine the effect of age, gender and education levels of the YEDF borrowers on loan repayment.
   ii)   To suggest relevant policy recommendations based on the findings.

1.5 Significance of the study

Poverty with income inequality and a widening gap between the rich and the poor remains a major challenge in Kenya with the youth affected the most. This study provides information to the Kenyan National Youth Policy that will enable it realize its mandate. The government of Kenya (GOK) has put in place various policy interventions to reduce challenges facing the youth. This study is of importance to; first the management of the Youth Enterprise Development Fund to evaluate and appraise its performance on achieving the objectives of the fund and how improvements can be made to make it more effective. This study will inform the fund management of the areas that they need to focus on to be able to improve repayment rates of the loans borrowed so that money can be available for lending to other youth groups. Secondly to the general public, especially policy makers as this can guide policy statements in determining applicability and impact of different policies. Lastly to the research and academia in this area as it contributes to a wider knowledge on the Youth Enterprise Development Fund repayment.

1.6 Justification of the study

The repayment of the YEDF loans is important because the fund was anticipated to be a revolving fund. This can only happen if the borrowed funds are repaid back. It is an area of concern why the

repayment rates are very low. From the review of relevant literature, most of the studies done has been targeting the management of the fund and the mandate of YEDF as an institution and how this contributes towards loan repayment. There is no research done at the coast region on the factors affecting the repayment of the YEDF loans. This paper address this gap and contribute towards a solution to improving the repayment rates of the loans disbursed to the youth groups.

1.7 Organization of the study

Following this introduction, the remaining chapters of this paper are organized as follows: Chapter two presents theoretical and empirical literature on the factors affecting repayment of loans. The chapter ends with an overview of literature and the research gap. Chapter three explains conceptual framework used by this study, the estimated model, variables description, data type and sources. Chapter four presents analysed results and discussion, while chapter five provides conclusion and policy recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter summarises literature on YEDF repayments and factors affecting the repayments of loans. The chapter presents all this both theoretically and empirically.

2.1 Theories of loan repayment

A number of theories have been postulated on loan repayment which includes theory of frequent repayments, group lending theory and Principal- Agent theory.

2.1.1 Theory of frequent repayment

High frequency repayments are often used by small and medium enterprises which was advanced by Yunus in the 1990's. It was a requirement that borrowers repaid their borrowing in frequent intervals immediately after the loans were issued out. The alternative was seen as a challenge to monitor the behaviour of borrowers leading to a moral hazard problem. A moral hazard problem arises when it's difficult to monitor the actions and behaviour of borrowers after they have obtained the loans. The assumption by this theory is that when borrowers are not closely monitored and followed they will delay in making the payments and eventually may not pay. According to Yunus (1990), it is difficult to take a huge chunk of money from ones pocket at the same time to pay the lender. This was attributed to the fact that more often than not people will be tempted to use the money to meet their immediate consumption needs rather than pay to the lender. Frequent repayments has been criticized in that it lacks the flexibility for large repayments. This theory has also been criticized for its effectiveness in that it increases the transaction costs incurred by both the borrower and the lender.

2.1.2 Group lending theory

The YEDF focusses on lending to groups and assumes that it's easier to repay when in a group than when operating as an individual. For group lending its assumed there is joint liability and group pressure to make the payments. This theory was advocated by Karlan & Morduch (2009) to deal with the issue of moral hazard and adverse selection in lending. These problems are addressed through effective screening of the borrowers, monitoring and enforcement of the regulations linked to the borrowing. This theory assumes that when a member in the group is not able to repay the loans advanced to them, it means the rest of the group members have liability on behalf of the member. In addition, peer pressure is seen a measure to the group members to repay their loans for harmony and continued good relationship within the group. This also exerts pressure to ensure that funds are invested well and that the ventures are profitable to be able to get funding to make the repayments. When the default rates are lowered it means the costs of borrowing can be condensed leading to improvement in welfare of the concerned households.

2.1.3 Principal- agent theory

This theory describes the relationship between two agents with different economic objectives generally referred to as agent- principal relationship. The theory focusses on the ways in which the agent will make decisions and act in ways that will be beneficial to the principal. The theory was advanced by Jorge & Lic (2000) where the principal delegates to the agent to act on their behalf. The YEDF uses agents to disburse the funds to the youth groups and hence the need for the agent to impose some regulations to ensure repayment of the same by the youth groups. In an agent-principal relationship to have mutual benefits both parties are expected to share common values and risks.

2.2 Empirical review

Kenya has continued to grow in numbers with a high population of the youth recorded in population surveys. An increase in population which is not matched with an increase in the number of jobs created leads to an increase in the number of the working poor. This means most of the youth will either be unemployed or underemployed or basically underpaid (Muthee, 2010). A number of studies have also been done on the Youth Enterprise Development Fund in the recent years. Major areas have been on the functions of the fund, management of the fund and monitoring of the funds. Other research done has been on the effects of the fund on growth of enterprises and the main focus has been on specific constituencies where the fund is administered.

Mead (1998) concluded that an Economy's health was directly linked to the health of business enterprises operating within the country especially the SME's. He observed that when the economy was doing well businesses will also do well, will be more profitable and hence the enterprises will be able to repay the funds borrowed. The contrary is also true in that when enterprises are making losses there will be no money for repaying what was borrowed. This was noted to be more for SME's with linkages with bigger more profitable organisations. SME's cannot be overlooked when we consider ability to be profitable since they play a significant role in the economy especially in the economies in the Third World (Mead and Liedholm, 1998). YEDF has put into place Enterprise Development Unit (EDU), with the sole purpose of enhancing capacity for youth to be able to manage the advanced funds and be able to generate resources enough to make profits and have the ability to repay the loans advanced to them.

Studies carried out in Kenya show that government Micro-credit programme perform poorly in terms of slow repayment and high default rates. Wakuloba (2008), carried out research on loan repayment and sustainability of Government Funded Micro-Credit initiatives in Murang'a County, Kenya. The objective was to analyse loan repayment and sustainability issues. The study concluded that inconsistent flows of income by the rural borrower negatively affected repayment due to the uncertainty involved. The researcher recommended the need to ensure systems of monitoring to ensure consistent streams of income by the entrepreneur to ensure repayment of the borrowed funds.

Joyce (2013), in a study in Chepalungu constituency, Kenya sought to establish the factors influencing repayment of youth enterprise development fund loans. The study considered training of the youth groups, extend to which group dynamics contributed to loan repayment and how the entrepreneurial culture of the funded entrepreneurs influenced loan repayment. The study concluded that the funding process influenced repayment and that training, group dynamics and entrepreneurial culture influenced repayment. This was due to the fact that when groups are trained they are likely to be more careful in the decisions affecting the enterprise and hence an improvement in performance which a direct link to the ability to repay the loans. Group dynamics and especially with power struggles hindered cohesion and harmony within the groups and as a result performance was affected. Business skills were seen to be a requirement before funding can be advanced to the various youth groups. The study concluded that there was need for mentorship programmes to ensure that the youth enterprises are guided towards profitability and hence positively impact the repayment of the funds.

Kanyari & Namusonge (2013) in a study in Gatundu South District, Kenya, aimed to determine the various interventions that influence youth entrepreneurs towards YEDF and their role towards

attracting the youth toward YEDF. The study concluded that it was necessary to continuously engage the youth with new knowledge on changes in the business environment for them to be more profitable with use of their talents. It also concluded that other services to enhance entrepreneurship were also necessary for the youth to be able to remain profitable and hence have the ability to repay the loans advanced to them. This is critical because businesses do not operate in isolation and constant collaboration with others may be the reason for growth and movement to the next level. In Kenya, most of the profitable enterprises do not operate in isolation but in constant research and knowledge of what is happening in the operating environment. When enterprises grow, and are profitable it makes it easier to expect improvements in repayment rates of the advanced loans.

Okello (2010) conducted a study in Rachuonyo South District in Kenya investigating factors influencing the growth of SME's owned by the youth. The study focused on all the groups in the District and sought to know what factors led to growth in relation to financing in enhancing growth of youth enterprises. According to the researcher, some of the recommendations to enhancing financing for growth included the introduction of tax relief, differential tax rates as well as grace periods for Youth SME's to enhance their growth. The study concluded that the growth of SME's is affected, among other factors, by accessibility to finance as a key component for growth. The researcher further noted that when an enterprise grows and becomes profitable they are able to repay the loans borrowed by them.

Mokogi (2003), carried out a study focusing on lending by microfinance institutions on micro and small enterprises in Kenya. The study sought to determine the effects MFI credit schemes on performance of SME's and also sought to determine the rate of graduation from borrowing from MFI's to borrowing from commercial banks. The assumptions is that borrowing from

commercial banks signifies growth since the requirements are different and it's more stringent for one to borrow in commercial banks. With an increase in borrowing, businesses showed growth in their businesses, increase in fixed assets and an increase in net income, savings and growth in staff number. The study concluded that the increase and improvement in both staff and balance sheet was as a result of growth in enterprises and hence improved financial position. With improvement in financial position it means enterprises are able to repay back the loans advanced to them.

Mugira, (2012), conducted a study in Kasarani Constituency in Nairobi County to determine the factors affecting repayment of youth enterprise development fund. The study considered repayment infrastructure, socio-economic factors, business performance factors and the extent to which disbursement levels affect repayment. The study concluded that most of the youth groups lacked the necessary knowledge and skills to manage the funds advanced to them. This in return would lead to losses and hence end up wasting all the money advanced to them. The study found that the funds advanced to the youth groups was not enough and that lack of training and skills was a major contributor to poor performance of the youth businesses. The research also concluded the poor performance of the youth enterprises was the major contributor to failure to repay the borrowed funds because the groups lacked other resources to facilitate the repayment of the borrowed loans. The researcher recommended that the YEDF management should invest in training and capacity building which is return will improve performance of the youth enterprises and hence ability to repay the loans is improved.

2.3 Overview of literature

From the review of literature above, it was noted that the YEDF has experienced challenges when it comes to repayment of the borrowed funds. Some of the contributing factors have to do with poor performance of the youth groups, lack of necessary knowledge and skills in the running of the youth group enterprises (Joyce, 2013). Enterprises that are not making profit means that there is no money for the groups to repay the borrowed funds. Other factors that have contributed to low repayment of the loans include group characteristics and the loan structure of the YEDF (Mugira, 2012). More involvement of the fund management in training and linkages with larger more profitable enterprises can improve the performance of the enterprises and hence improve the repayment of the borrowed funds according to the available limited literature. This means the YEDF management need to focus more on the reasons why youth groups are not performing well to be able to address the low repayment.

In summary, the study noted that few studies done on the YEDF in Kenya have largely concentrated on factors inhibiting the growth of these enterprises, the performance as well as the structure of the youth enterprise development fund. There was therefore a need to investigate factors affecting the repayment of YEDF loans for appropriate action. This study was set to bridge this gap. In addition, the earlier studies covered small geographical areas such as districts and constituencies (see Wakuloba, 2008; Joyce, 2013; Mugira, 2012 & Okello, 2010) while this study focused on the entire Coast region, a much bigger geographical area.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The existing literature reveals that businesses run and management by the youth have experienced numerous challenges part of which is lack of capital. In recognition of the challenge, the Government of Kenya launched YEDF in the year 2006 as one of its strategies to address this issue. Repayment of the YEDF loans has been below expectations with some groups not paying the loans advanced to them at all. This chapter presents the approaches which the study employed in addressing the research question (what are the factors affecting repayment of YEDF loans on coast region?). Specifically, an analysis of a conceptual framework, empirical model, data type and sources as well as an estimation techniques are presented.

3.2 Conceptual framework

As noted earlier, YEDF programme was launched to empower the Kenyan youth through disbursement of soft loans in order to promote entrepreneurship with the ultimate aim of creating jobs. Since the inception of this program, more funds have been disbursed to the youth across the country for income generating projects. Limited and inconclusive studies which have been done of the fund have linked low repayment of the funds loaned to the youth groups to the management of the fund and failure of businesses and hence lack of funds to make the repayments. The main question to be addressed by the study is to examine the factors that affect the repayment of the YEDF loans in Coast region. The study will specifically look at age of the borrowers, education levels and gender and will look at how the factors affect the repayment of YEDF loans.

Independent variables
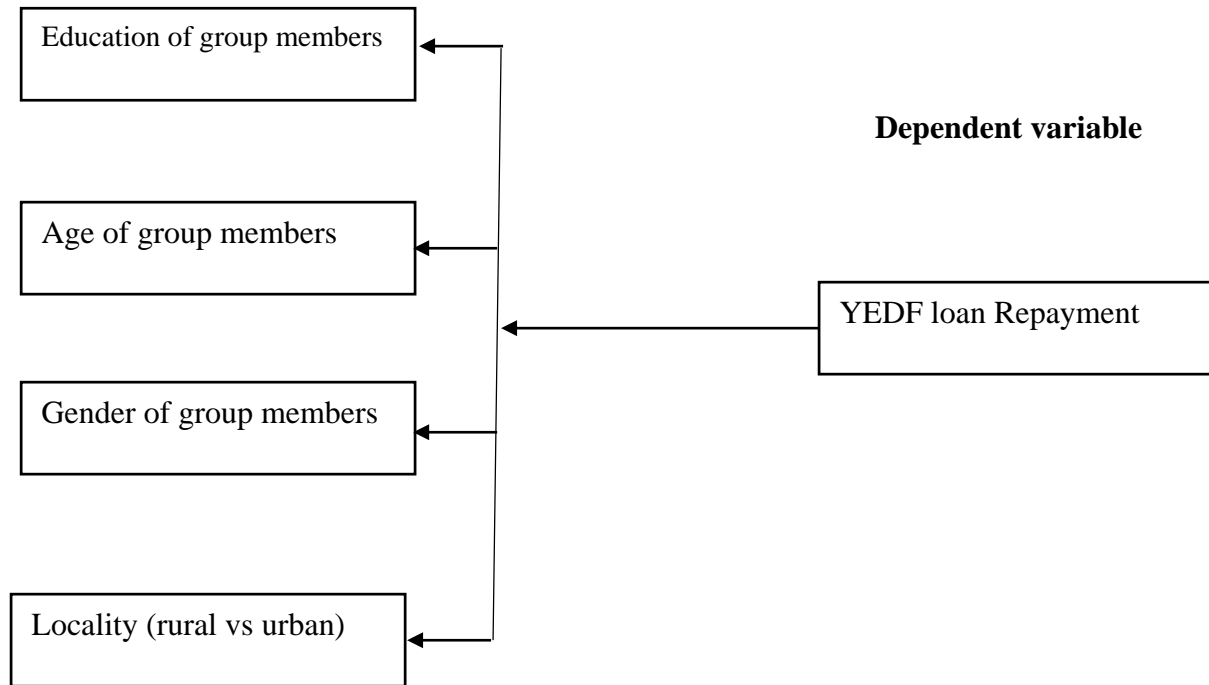
Figure 2: Conceptual framework

From the framework, it is expected that age is positively linked with high repayment rates since with increase in age, management skills are expected to be higher and hence higher profitability. Highly educated youth are also expected to have better business management skills and hence higher profitability and hence positively linked to higher repayments. It is expected that a consisted repayment of the YEDF loans is linked to performing enterprises and generally female are expected to be more loyal in repayment of loans than the male gender.

3.3 Model specification

With reference to the conceptual framework, the general model for the study was expressed as:

$$Y = \alpha + \beta X + \varepsilon \qquad (1)$$

Where Y is the dependent variable in this case, the repayment rate;

X is the vector of independent variables;

α is the intercept, β is the vector of coefficients and ε is the error term

Therefore, the study estimated the following regression equation based on the availability of data:

$$YEDFRep = \alpha_0 + \alpha_1 EDucation + \alpha_2 Age + \alpha_3 Gender + \alpha_4 Ruralurban + e$$

(2)

Where α_0 is the intercept

$\alpha's$ are coefficients to be estimated

A proper description of variables is presented in Table 2

Table 2: Variable definition and measurement

Variable Name	Measurement	Expected sign
Repayment of YEDF loans	Ratio of loans repaid to loans disbursed	-
Age of borrowers	Average age of the borrowers	+ older members - younger members
Education Levels	Post-secondary level of education or otherwise.	+ post sec education - below post sec education
Gender of the borrower	Represents male or female members of the group	+ more female members - more male members
Rural-urban	Dummy variable for rural or urban youth	+ rural -urban

The YEDF loan repayment rate was computed as the ratio of loans repaid to loans disbursed.

Education level of the youth group members was a binary variable which took 1 if a member had

attained post-secondary level of education and 0 otherwise. Gender represents male and female members of the youth groups. This was also a binary variable for the study where male dominated groups were allocated 1 while female dominated groups took value 0 (zero). The study assumed that all decisions in male headed and or dominated groups were influenced by male and this was the same for female headed and or dominated groups. The study also included a dummy variable for locality (rural or urban) where rural youth groups took 1 while urban youth groups were allocated value zero (0). This variable capture some unobserved characteristics of rural verses urban set ups.

3.4 Data type and sources

The study used data from the status report of Coast region as at July 2016. This report contains data on loans disbursed, and repayment rates from 2013 to 2016 of the youth groups for the six Coastal counties (Mombasa, Lamu, Kilifi, Tana River, Kwale and Taita Taveta). It also contains the profiles of the groups such as gender distribution, age and education levels of the youth group members as well as their locality.

3.5 Model estimation.

The study used OLS to estimate factors affecting loan repayment rates among the youth groups at the Coastal region of Kenya using STATA accounting software. Normality tests and Variable Inflation Variance were conducted just to ensure that the data was normally distributed and that multicollinearity was absent.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

Repayment of loans has continued to be a serious challenge towards the performance of financial institutions or programmes not just in Kenya, but the world at large. Kenyan government launched Youth Enterprise and Development Fund in 2006 as part of the solution to the economic constraints facing the youth with unemployment topping the list. The statistics indicate that some of the loans advanced to the youth groups under this programme are never repaid. This is detrimental to the YEDF which is a revolving fund because non-repayment reduces the amount available for lending to other groups. There is almost no knowledge of the factors responsible for non-repayment of the loans borrowed by some youth groups. The study used survey data from for 2013/2016 YEDF for coast region to investigate these factors. This chapter presents the findings and discussion in two sections. Section one presents descriptive statistics while section two presents econometric results.

4.1 Descriptive statistics

Descriptive statistics are very important in helping the researcher to understand the results of the analyst data particularly the expected relationship between the dependent and independent variables. This section begins by interpreting summary statistics, followed correlation matrix.

4.1.1 Summary statistics

To understand the characteristics and the nature of the variables, the study computed the means, standard deviations, minimum (Min) and Maximums (Max), skewness as well as the kurtosis as presented in Table 3.

Table 3: Summary statistics

Variable	Obs	Mean	S. D	Min	Midian	Max	Skewness	Kurtosis
Repayment	6	9.37	0.10	9.20	9.40	9.50	-0.49	2.34
Education	6	88.60	19.05	63.58	92.13	114.02	-0.13	1.74
Age	6	25.50	2.68	24.04	26.9	28.30	0.82	2.84
Gender(Male=1)	6	35.44	5.84	25.83	36.46	41.95	-0.61	2.26
Ruralurban	6	14901	4668.02	8612	14318	22916	0.56	2.88

Source: Computed from research data

From Table 3, it can be seen that there are 6 observation for each variable where each observation was made for each coastal county (Mombasa, Lamu, Kilifi, Taita Taveta, Tana River and Kwale). The results indicate that loan repayment rate deviates from the mean (9.37) by 0.10 but ranging between 9.20 and 9.50 while the level of education deviates from the mean (88.60) by 19.05 and ranges between 63.58 and 114.02. The range between min and max values for loan repayment indicates marginal changes on loan repayment since the inception of the programme at the coastal region in 2013. The average age of a youth group member deviates from the mean (25.50) by 2.68 but ranging between 24.04 and 28.30. On the other hand, the mean of gender (where Male=1), deviates by 5.84 and ranges between 25.83 and 41.95. Ruralurban youth deviates from the mean (14901) by 4668.02 but ranges between 8612 and 22916.

Skewness was the tilt in distribution and was expected to range between -2 and +2, for normally distributed variables while Kurtosis was expected to range between -3 and +3 if data was normally distributed. Normality tests show that loan repayment was normally and negatively skewed at -0.49 and highly picked at 2.34 while education level was normally and negatively skewed at -0.13 and highly picked at 1.74. The average age of a youth group member was found to be normally

and positively skewed at 0.82 and highly picked at 2.84 while gender was found to be normally and negatively skewed at -0.61 and highly picked at 2.26. Number of youth in ruralurban were positively and normally skewed at 0.56 and highly picked at 2.88. In summary, skewness and kurtosis statistics indicate that all variables were normally distributed.

4.1. 2 Correlation matrix

Correlation matrix is very important because it projects the relationship between dependent and explanatory variables. In addition, it indicates variables which are highly correlated. Appendix 1 shows the correlation matrix of both dependent and independent variables.

It indicates the relationship between loan repayment rates for YEDF at the coastal region and independent variables used in the study. These results show a negative relationship between loan repayment rate and education levels of group members. A similar observation was observed for the gender of youth members. On the other hand, age of a youth beneficiary of the YEDF at the coast was found to be positively related to loan repayment rate. Finally, the dummy variable for ruralurban was found to be positively related to loan repayment.

4.2 Econometric results

The aim of the study was to determine factors affecting loan repayment among the youth groups under YEDF programme at the larger Coastal region. To achieve this, the study formulated one specific objective which was to determine whether education, age and gender of the youth group members had any influence on the repayment of youth fund loans. In addition, the dummy variable for rural/urban youth was also introduced to capture unobserved characteristics which are specific to the locality. The study employed Ordinary Least Squares (OLS) method to estimate loan

repayment regression equation. This model was found suitable for the survey data where the dependent variable (unemployment rate) was continuous.

A post diagnostic test for multicollinearity was undertaken using the Variance Inflation Factors (VIF) as indicated in Appendix 3. For this test, values greater than 10 and 1/VIF values which are less than 0.10 is an indication of the presence of multicollinearity (Nachtscheim et al., 2004).

The results as presented in appendix III show that there is no multicollinearity because the variance inflation factors are all less than 10 and the tolerance values (1/VIF) are all greater than 0.1.

The results for F-Statistics test for the model was 0.0217 (see Table 6). This was less than 0.05 at 95% confidence level meaning that the study rejected the null hypothesis that the coefficients of explanatory variables are zero (0) hence ascertaining also the significance of the OLS regression models. On the other hand, the R-squared statistic (0.9991) of the OLS regression shows that explanatory variables strongly explain the dependent variable. In fact, education, age, gender and ruralurban explain loan repayment rate by 99.29 % according to the estimates presented in Table 4. After confirming that the was no multicollinearity using VIF framework, and the significance of F-Statistic, the study now analyses the OLS estimated coefficients in Table 4

Table 4: OLS regression results

Variable	Coef	S. Error	t-statistics
Education	(0.022)*	0.003	6.84
Age	(-0.002)*	0.0002	-8.31
Gender	(-0.064)*	0.007	-8.96
Ruralurban	0.009	0.004	2.45
Constant	(10.91)***	0.11	102.71

No of obs	6
Prob > F	0.0217
R-squared	0.9991

The econometric results reveal the level of education of the youth is positively related with loan repayment. The coefficient of education was found to be significant at 10% with t-statistic of 6.84, an indication of strong relationship. However, the impact of education on loan repayment seems to be low according to the size of the coefficient. This finding indicates that youth groups with more educated members have higher probability of repaying their loans. Since these loans are taken for investment purposes, this study infers that more educated members do invest wisely and hence are able to generate revenues which enables them to repay their loans. These findings can be compared with those found by Joyce (2013) even though she investigated the link between training of small enterprises and loan repayment. She argued that training of youth groups improves the performance of the enterprises leading to more profit and thereby enhancing loan repayment.

With regard to the age of the group members, results show a negative and significant relationship with the loan repayment rate. The coefficient of age was found to be significant at 10% with t-test

statistic of -8.31. This means than loan repayment increases with a decrease in the age of group members. Just like education, the coefficient of age indicates a small impact to the loan repayment.

The study also established a negative and significant relationship between loan repayment and gender of the youth group members. In the analysis, the interpretation of this relationship means that youth groups led by female are more likely to repay their loans than groups led by male youth. This is consistent with the societal perception that women are more faithful with resources as compared to their male counterparts. Last but not least, the positive coefficient for ruralurban dummy variable indicates that rural youth groups are more likely to default than their urban counterparts. Even though this variable is not significant, its results imply that urban youth are probably more innovative, skilled and knowledgeable in management of enterprises, the reason why they the probability of them repaying their loans are very high.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND POLICY RECOMMENDATIONS

5.0 Introduction

The main objective of the study was to find out factors affecting loan repayment among the beneficiaries of YEDF at the Coastal region of Kenya. This chapter presents summary of findings, conclusions of the results of the study based on the objectives, and policy recommendations thereafter.

5.1 Summary of findings

The aim of youth enterprise development fund was to give loans to youth groups to enable the youth establish business ventures as a strategy of reducing unemployment among the youth and poverty at large. The achievement of this objective relies on the ability of the groups to repay the loans borrowed so that money can be available to lent to other groups. One of the challenges facing this fund has been low repayment rates across the country.

This study applied OLS regression to investigate factors affecting loan repayments among youth groups in six coastal counties (Mombasa, Lamu, Kilifi, Tana River, Kwale and Taita Taveta. Four factors were investigated: education, age, gender and ruralurban (proxy for locality) of the beneficiaries. The study found a positive and significant relationship between the level of education and loan repayment implying that highly educated youths have higher chances of repaying their loans than lowly educated ones. On the other hand, age and gender were found to be negatively related to loan repayment. These were also found to be significant at 10%. This means that younger people have higher probabilities to repay their loans and also female led youth groups are more likely to repay their loans than groups led by male youths. Finally, the regression

results indicates that the probability of default among the rural youth groups is relatively higher as compared to that of urban youth groups.

5.2 Conclusion

The results of this study indicate that education, age and gender of the beneficiaries of YEDF affect the repayment rate of loans disbursed to the youth. In addition, findings indicate that the level of education positively affects loan repayment while age and gender in favour of male youths negatively affects loan repayment.

5.3 Policy recommendations

In summary, repayment of loans among the beneficiaries of YEDF remains a topic of discussion and continues to pose policy challenges to this noble programme.

Based on the summary of the findings, the study recommends capacity building among the beneficiaries of this programme. This will enhance the operation of their enterprises which will turn them into profit ventures and thereby increase loan repayment rates.

Secondly, the study calls upon the implementing agency of YEDF to carry out thorough screening of the applicants both in-terms of their capacity and culture before advancing loans to them. This is likely to increase loan repayment rates.

Finally, a more comprehensive study should be carried out to include other variables such as regulatory environment (taxes), macroeconomic factors (GDP, Inflation), amount of cash borrowed by each group and the performance of the youth enterprises.

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Appendix I: Correlation Matrix

```
. correlate Repayment Education Age Gender Ruralurban
(obs=6)
```

	Repaym~t	Educat~n	Age	Gender	ruralu~n
Repayment	1.0000				
Education	-0.0233	1.0000			
Age	0.0086	-0.3868	1.0000		
Gender	-0.1371	0.0097	-0.1064	1.0000	
ruralurban	0.0637	0.3806	-0.3507	0.1013	1.0000

Appendix II: OLS Regression

```
. reg Repayment Education Age Gender Ruralurban,vce(robust)
```

```
Linear regression                                Number of obs    =          6
                                                 F(4, 1)          =    1190.40
                                                 Prob > F         =     0.0217
                                                 R-squared        =     0.9991
                                                 Root MSE         =     .00695
```

Repayment	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf. Interval]	
Education	.022287	.0032585	6.84	0.092	-.0191158	.0636897
Age	-.0018272	.0002198	-8.31	0.076	-.0046206	.0009663
Gender	-.064898	.0072434	-8.96	0.071	-.1569337	.0271376
Ruralurban	.0087649	.0035835	2.45	0.247	-.0367676	.0542975
_cons	10.91526	.1062761	102.71	0.006	9.564897	12.26563

Appendix III: Variance Inflation Factors (VIF)

```
. vif

    Variable |       VIF      1/VIF
-------------+----------------------
   Education |      1.28    0.779487
         Age |      1.26    0.795580
  ruralurban |      1.25    0.801083
      Gender |      1.02    0.980900
-------------+----------------------
    Mean VIF |      1.20
```