DETERMINANTS OF REPAYMENT OF LOANS ADVANCED TO THE YOUTH BY THE GOVERNMENT THROUGH YOUTH ENTERPRISE FUND. A CASE OF MUMIAS DISTRICT

BY

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A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF THE DEGREE OF MASTERS OF ARTS IN PROJECT PLANNING AND MANAGEMENT OF UNIVERSITY OF NAIROBI

AUGUST 2013

DECLARATION

This research project report is my original work and has not been presented for the award of any degree in any other University.

Signed………………………………………… Date……………………………

Owuor Vincent Were (L50/66750/2010)

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

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DEDICATION

This work is dedicated to my child Shane Christine for the support and patience and to my wife Jackline Oduory for encouragement and support

ACKNOWLEDGEMENT

I wish to acknowledge the following who contributed in various ways towards the success of this research project report: My Supervisor Dr. Alice Owano for availability, encouragement, attention and guidance through all stages of writing the proposal. My Supervisor was inspired and devoted to ensure that I make through the report.

The lecturers in the Department of Extra mural studies, Kakamega for their support and inspiring ideas and guidance.

To my classmates in project planning and management class of 2010 for sharing their time, knowledge, ideas and support to ensure that we all make it. To my family for the support, patience and encouragement.

I also wish to thank my workmates in the Ministry of youth affairs and sports for their cooperation during the study and finally to University of Nairobi for the opportunity to pursue this course.

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ABBREVIATIONS AND ACRONYMS

ADC	African Development Cooperation
BFSA	Banking and Financial Services Act, 1994 (as amended)
BoZ	Bank of Zambia
BSC	Balanced Score Card
CBS	Central Bureau of Statistics
ERP	Enterprise Resource Planning Systems'
FSDP	Financial Sector Development Plan
KNES	Kenya National Economic Survey
KWFT	Kenya Women Finance Trust
MFIs	Micro Financial Institutions
NBFIs	Non-Bank Financial Institutions
NGOs	Non-Governmental Organization
NGOs	Non-Governmental Organizations
SACCOs	Savings and Credit Cooperative Organisations
SSA	Sub Saharan Africa
SIDA	Swedish International Development Agency
USAID	United States Agency for International Development
YEDF	Youth Enterprise Development Fund

ABSTRACT

Youths in Kenya are provided with funds through the government sponsored youth enterprise funds in order to enhance business opportunity among them. However, there is normally a great challenge among these youths who have been provided with the youth enterprise funds to repay the borrowed loans. This study looked at the determinants of repayment of loans advanced to the youth by the government through youth enterprise fund in Mumias District. Specifically the objective were to: assess how amount of credits borrowed determine repayment of the youth fund in Mumias District; establish the influence of the interest charged on loans on the repayments of the youth fund in Mumias District; determine how training programmes by the youth fund agents influence the repayment of the youth fund in Mumias District and determine influence of duration of credit repayment on the repayment of the youth fund in Mumias District. This study was conducted through cross-sectional survey research design. A two stage sampling method was employed to select 72 youth enterprises in the district who have been provided with the youth enterprise funds and 54 that did not get any loan. Structured questionnaires and interview schedules were used for collecting quantitative data for the study from the sampled youth enterprises. Descriptive statistics using frequency distribution, percentages and means was used to summarize data. The results of the study reported in this research project report indicate a propensity to default repayment of loans by youth groups. This came with a challenge of always not acquiring the desired finances, and problems in accessing the finances, which affected repayment. Further, delays in disbursing the fund, repayment period of loans and training programmes for the youth groups were found to be a major challenge. These results suggest that repayment of loans can be determined by amount of funds borrowed, training programmes, duration of loan repayment and ease of credit access. The findings of the study reveal that there is a tremendous need for availing large loans, training, fast tracking loan processing for the youth groups. Added to this, the study highlights strongly the lack of business management skills. It further recognizes the financing constraints and challenges youth groups are facing. Therefore, the youth stakeholders need to urgently implement supportive legislation to create an enabling environment for youth groups to grow, access credit and training that will enhance repayment of the borrowed loans.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Youths in many countries form between 40-70% of the populace. Many of these youths often lack employment or ways of earning livelihood because of unemployment situation in most of these countries. For some, they acquire loans to start small scale business enterprises. As a result, there has been a growing awareness since the early seventies that youth empowerment through small enterprises are important for economic growth and poverty reduction (Von Pischke, 2007). Youths are therefore being increasingly seen as playing an important role in the economies of many countries through active participation in day to day business enterprises. If well harnessed, the power of the youth is seen as the engines of employment, alleviating poverty and improving equality. Access to financial services as opined by Ehigiamusoe (2005) enables the poor household to move from everyday struggling for survival to planning for the future, investing in better nutrition, children's education and health and empowering women socially. However, lack of access to credit is generally seen as one of the main reasons why many youths in developing economies remain poor. Usually the youths have no access to loans from the banking system because they cannot put up acceptable collaterals and/or because the costs for banks of screening and monitoring the activities of the poor and enforcing their contracts are too high to make lending to this group profitable (Hermes and Lensink, 2004).

In Africa, during the eighties, saw an intensification of interest in improving youth access to funds and a consequent expansion of policy into the youth oriented programmes mainly the micro-enterprises, following the discovery of widespread entrepreneurial activity among the youths in both developed and developing countries (Sebstad and Monique, 2001). In Sub-Saharan Africa, access to funds by the youth is not guaranteed and therefore there have been reports of most youth-based small businesses failing in their first year due to lack of finance to sustain their development (Biekpe, 2004). The evidence supporting the view of youth access to business funds in youth enterprises as the engine of growth is in fact not conclusive. Thus, governments in SSA have continued to focus on enhancing access to funds among the youths to drive the small scale business sector to promote economic growth (Malonza, 2007).

In Kenya, 60% of the population is youth. According to the Kenya Nation Bureau of Statistics (2010) report up to 75% of them are jobless or in non formal employment. In order to offset their economic needs, these youths have started some small business enterprises while others cannot start any form of business enterprises because of lack of access to finance. There are close to 1.3 million youth enterprises that belong to the youth employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP, yet only 40% of these business can have access formal credits (National Micro and Small Enterprise Baseline Survey of 1999; KNBS, 2010) and a further 10.4% receive some informal credit and other financial services (Ndinya, Cole, Goldberg and White, 2010). The government and the formal banking sector in Kenya over the years have regarded the informal sector as risky and not commercially viable. Therefore in spite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions, such as commercial banks has been below expectation. The potential of using other forms of credit and other financial services for small business growth among the youths in Kenya therefore appear quite significant (Magwanga, Muloti, Shitawa and Pesa, 2010). Therefore, new, innovative, and pro-poor modes of financing youth operating and intending to start enterprises have been developed in Kenya (Kimuyu, 1997).

The Youth Enterprise Development Fund was conceived in June 2006 by the government as a strategic move towards arresting unemployment which is virtually a youth problem. This fund was meant to assist all Kenyan youth irrespective of their background in establishing business enterprises as a means of enabling them gain self-employment and contribute to the development of the country. The government set aside Kshs. 1 billion in the 2006/07 and subsequent fiscal years budgets to fast-track this initiative. The Fund was gazetted on 8th December 2006 to provide the necessary legal framework to govern its use and operations. In the past, the government of Kenya has introduced financing among the youths (Makokha, 2011). The objective of the fund were: provide loans to existing micro-finance institutions, registered non-governmental organizations (NGOs) involved in micro financing, and savings and credit co-operative organizations (SACCOs) for on-lending to youth enterprises; attract and facilitate investment in micro, small and medium enterprises oriented commercial infrastructure such as business or industrial parks, markets or business incubators that will be beneficial to youth enterprises; support youth oriented micro, small and medium enterprises to develop linkages with large enterprises; facilitate marketing of products and services of youth enterprises in both domestic and international markets; and facilitate employment of youth in the international labour market (Ministry of Youth Affairs and Sports, 2010).

The Youth Enterprise Development Fund has disbursed loans worth Kshs 5.2 billion to 144,000 youth enterprises across the country as of September 2011. The report said through financial intermediaries the Fund had financed 129,385 groups and individual enterprises to the tune of Kshs. 4.6 billion while loans through the Constituency amounted to Kshs 545 million. The Fund has further trained over 200,000 youth in entrepreneurship and assisted 1,800 to market their products and services locally and internationally while a further 6,000 youth have been facilitated to obtain employment abroad (http://www.youthaffairs.go.ke/index.php?option=com_content&view). However, the main challenge that was noted by the government was on loan repayment.

Loan repayment is a necessary ingredient for sustaining the microfinance programme. A number of studies have found that determinants of loan repayments are varied (Chiawa, 1997; Oni, 1999; Oke, 2009). There is therefore need to focus more on these institutions to enhance their effectiveness in the provision of savings, credit and other financial services to the youths. However, an appropriate policy, legal and regulatory framework to promote a viable and sustainable system of youth enterprise funds has not been developed.

In Mumias District, there was overwhelming evidence that there were small business enterprises that were operating and who benefited from youth enterprise funds (Mumias District Youth Office). However, there were aspects that were still not well understood such as; how the amount of credits provided, interest rates, training before loan disbursement and duration of repayment affect the loan repayments. On the basis of the foregoing this study will be conducted to establish determinants of repayment of loans advanced to the youth by the government through youth enterprise fund Mumias District

1.2 Statement of the problem

Kenya's unemployment rate stand at about 60% (KNBS, 2010) of which many youths find themselves in the joblessness bracket. Unfortunately the jobs available in government offices and those created by the private entrepreneurs cannot absorb all of them. They have previously been encouraged to borrow loans from the government agencies to start up small business enterprises. Repayment of loans has proved more difficult among many youth enterprises in Kenya (Mwaura, 2010). Accordingly, the youth enterprise fund in Kenya is experiencing default problems as can be observed from their declining repayment rates (Mwenda, 2009). The situation has been found to be dire in many districts of Western Kenya of which Mumias District is currently the leading in youths default on repayment on loans (Makokha, 2011). In Mumias District, loans taken from YEDF suffer from a considerable amount of default rate. This stands at 39.01%. (the amount of loans not collected on current and past due loans for the reference period). Improving repayment rates helps to reduce the dependence of the lenders on subsidies, which would improve sustainability. It is also argued that high repayment rates reflect the adequacy of lenders' services to clients' needs (Kimuyu, 1999a). However, in order to maintain sustainability of lenders, one important thing is to identify the factors which significantly affect the loan repayment rates. Based on studies elsewhere, there are many factors likely to affect loan repayment rates among the lenders (Gatimu, 2007, Mwaura, 2010; Mochama and Tembo, 2012). These factors are highly variable and specific to many youth enterprises varying from one area to the other making generalization of the factors for each youth groups elusive. Yet, very little empirical evidence is available on factors affecting repayment of the youth funds lend by the government in Mumias. This study will be examining the determinants of repayment of loans advanced to the youth by the government through youth fund in Mumias District.

1.3 Purpose of the study

The purpose of this study was to investigate determinants of repayment of loans advanced to the youth by the government through youth enterprise fund in Mumias District.

1.4 Objectives of the study

The objectives of this study were to:

1. To assess how amount of amount of credits borrowed determine repayment of the youth fund in Mumias District.
2. To establish the influence of interest charged on the repayments of the youth fund in Mumias District.
3. To determine influence of training programmes by youth fund agents on repayment of the youth fund in Mumias District.
4. To determine influence of duration of credit repayment on the repayment of youth fund in Mumias District.

1.5 Research questions

The research questions formulated based on the objectives were:

1. How does the amount of credits borrowed determine repayment of youth fund in Mumias District?
2. What is the influence of the amount of interest charged on repayment of the youth fund in Mumias District?
3. What is the influence of training programmes by youth fund agents on repayment of youth fund in Mumias District?
4. What is the influence of duration of credit payment on repayment of youth fund in Mumias District?

1.6 Significance of the study

This study was to contribute more information concerning determinants of repayment of loans advanced to the youth by the government through youth enterprise fund in Mumias District in Kenya. Such information was to be of great interest to various stakeholders as follows:

1. Financial institutions assisting small and micro enterprises among the youths were to find the results of this study useful. They may know how to improve on the credit lending through knowledge of the factors that may affect the repayments of the credits by the youth enterprises.
2. For purposes of scaling up loans in subsequent loan cycles, implementers need to keep track of the actual uses to which loans under previous loan cycles were put. This was a determinant as to whether the loan beneficiaries were able to service subsequent higher loans and also an indicator of the future sustainability of the lending institutions.
3. Interested academicians especially in entrepreneurship were to use the findings to understand the issues raised and use them as reference material and/ or basis for further research. Financial institutions who had committed funds to youth business enterprises would be interested in finding out how far their objectives of repayment were being sustained, which may provide a baseline for further funding.
4. Lenders are important for poverty reduction and creating employment opportunity especially in developing countries like Kenya. One of the key factors for profitability and sustainability of lenders is the presence of good loan repayment rates. There are a number of factors that affect the loan repayment rates. Analyzing such factors and devising appropriate solutions are essential to expand the activities of lenders in a sustainable

manner. The information was to be useful for policy makers, other lending institutions and stakeholders.

5. Information from this study would help the youth enterprises to improve their overall loan repayments through recommendations of the current findings.

1.7 Limitations of the study

The study was affected by a number of limitations anticipated during the study

1. This study was limited by time considerations as very little time was allocated to the entire research study. However, time constraint was mitigated using more than one research assistance to ensure faster data collection
2. It is believed that some of the respondents might not provide honest answers and this forced the researcher to use two instruments; a questionnaire and an interview schedule to get more information which was added to the constrain on time.
3. Finally confinement of the study to youth enterprises in Mumias District who were operational left out the youth enterprises that had collapsed. This forced the researcher to reach the leaders of the youth enterprises that had collapsed. Information on the loan repayments of such groups added valuable information in this study.

1.8 Assumptions of the study

The study was based on the assumption that:

1. The sampled youth enterprises would provide true reflection of the small scale businesses in Kenya
2. Credit repayment was assumed to be one of the major factors determining growth of small scale businesses
3. The data collected was accurately recorded and analyzed.

1.10 Significant terms used in the study

The following definitions were deemed useful for this study

Credit borrowing conditions: Refer to the interest charged on the credits, repayment period, actions on default and other legal aspects to be overcome during the credit use and repayment.

Credits The amount of money borrowed from the microfinance institutions by the youths either to start or to run a youth enterprise.

Entrepreneur: Owner of the small businesses

Loan Utilization: Refers to how the money was invested.

Micro finance institution: Informal sector or small scale is synonymously used in study where micro enterprises are designed as any business employing 1-10 persons, has low capital investment, uses simple technology and local materials and utilizes low skills.

Microfinance Another concept for the provision of small loans (microcredit) or savings services for people excluded from the formal banking system.

Repayment: Ability to pay back the amount of money borrowed with some interests.

Youth: People aged between the ages of 18 to 35 years

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focused on what other scholars have written in relation to the topic under investigation: determinants of credit repayment in the utilization of credit in the global context, in Africa and in Kenya including in the local contexts. The chapter is presented under the sub-titles: The functioning of credit market in developing countries; Loan repayments; amount of loans borrowed; amount of interest rates on the loan repayments; Training of the capital borrowed on the loan repayments; and duration of repayment influence on the loan repayments. The chapter concludes with a theoretical and conceptual framework.

2.2 The functioning of credit market in developing countries

The fundamental feature that creates imperfection in credit markets is informational constraints. Ray (2008) stated that informational gap occur at two basic levels. First, there is lack of information regarding the use to which a loan will be put. Second, there is lack of information regarding the repayment decision of borrowers, as well as limited knowledge of the defaulter's subsequent needs and activities. All the important features of credit markets can be understood as responses to one or the other of these informational problems. In addition, Behrman and Srinivasan (2005) stated about the arising of agency problem in the functioning of credit market. This problem exists when there are different goals between creditors, shareholders and management. Financial intermediaries may reduce agency problem by monitoring borrowers and make wise investment choices.

Adverse selection and moral hazard are the two most important problems in the functioning of credit market; both are driving from the imperfect information. Kono and Takahashi (2010) also stated that imperfect information significantly increase default risks caused by adverse selection, moral hazard and strategic default. These are the theoretical micro foundations that have motivated the microfinance movement to fight poverty and promote growth by expanding access to credit. Billions of dollars of subsidies, and countless other resources, have been allocated to such efforts (Karlan and Zinman 2006). According to Armendariz and Morduch, (2010), both problems are made worse by the difficulty of enforcing contracts in regions with weak judicial systems.

The adverse selection occurs when the lender cannot easily determine which customers are likely to be more risky than others. Therefore, the lenders would like to charge riskier customers more than safer customers in order to compensate for the added probability of default. But the problem is the lender does not know who is who, and raising average interest rates for everyone often drives safer customers out of the credit market (Armendariz and Morduch, 2010). Those who are willing to repay high interest rate may, on average, be worse risky; they are willing to borrow at high interest rates because they perceive their probability of repaying the loan to be low (Stiglitz and Wiss, 1999). Moral hazard, arises because banks are unable to ensure that customers are making the full effort required for their investment projects to be successful. Moral hazard also arises when customers try to abscond with the bank's money (Armendariz and Morduch, 2010). In the absence of collateral, the lender and borrower do not have the same objectives because the borrower does not fully internalize the cost of project failure. Moreover the lender cannot stipulate perfectly how the borrower should run the project (Berhanu, 2005).

When the clients' borrow money from the lender, they were made promise to work hard and repay a loan. But, once the loan is disbursed the borrower might not be kept their promise and they were changing their behavior. On the other hand, during the activities the borrower's business was fails and he/she declared as a defaulter. In this case, a lender may not be able to know whether this failure was due to the uncontrollable factors or putting less effort on the business activities and borrowers mishandling of the loan. Karlan and Zinman (2006) stated that better understandings of information asymmetries are critical for both lenders and policymakers. For instance, adverse selection problems should motivate policymakers and lenders to consider subsidies, loan guarantees, information coordination, and enhanced screening strategies. On the other hand, moral hazard problems should also motivate policymakers and lenders to consider legal reforms in the areas of liability and enhanced dynamic contracting schemes.

Armendariz and Morduch (2010) stated that the information asymmetry problems could potentially be eliminated if lenders had cheap ways to gather and evaluate information on their clients and to enforce contracts. However, lenders typically face relatively high transactions costs when working in poor communities since handling many small transactions is far more expensive than servicing one large transaction for a richer borrower. Another potential solution would be available if borrowers had marketable assets to offer as collateral.

In this sense, any problem on the loan was covered by the borrower's asset. Thus, the lender could lend without risk. But the starting point for microfinance is that new ways of delivering loans are needed precisely because borrowers are too poor to have much in the way of marketable assets. However, Behrman and Srinivasan (1995) stated that one way for the government to improve enforcement conditions for credit markets is to improve the possibilities for usable sources of collateral like implementation of land registration.

In addition, Mohiuddin (1993, cited by Berhanu, 2005) stated that the problem of moral hazard is solved in formal sector poverty lending by tying credit and saving together, by having a built-in mechanism for emergency fund to handle unforeseen shocks due to market failure and price changes, and by its emphasis on borrower-initiated lending to avoid loan use in risky unknown ventures where markets or input supplies are uncertain. In order to overcome the problems associated with the lack of information, the group lending scheme takes an advantage of local information, peer support, and, if needed, peer pressure. The group members may have better information about individuals' efforts and/or abilities than the lender (Besley and Coate, 1995). Besides, the joint liability element generates individual incentives to screen (mitigating adverse selection), monitor each other (mitigating moral hazard) and enforces repayment (Tesfay, 2009). Moreover, dynamic incentives are also helps to generate information by starting with small loans and gradually increasing loan size as customers demonstrate reliability (Armendariz and Morduch, 2010).

2.3 Loan repayments among the youth enterprises

The capability of borrowers to repay their credit loans is an important issue that needs attention. Borrowers can either repay their loan or choose to default. Borrower defaults may be voluntary or involuntary (Brehanu & Fufa, 2008). According to Brehanu and Fufa (2008), involuntary defaults of borrowed funds could be caused by unexpected circumstances occurring in the borrower's business that affect their ability to repay the loan. Unexpected circumstances include lower business revenue generated, natural disasters and borrowers' illness. In contrast, voluntary default is related to morally hazardous behaviour by the borrower. In this category, the borrower has the ability to repay the borrowed funds but refuses to because of the low level of enforcement mechanisms used by the institution (Brehanu & Fufa, 2008). Research has shown that a group lending mechanism is effective in reducing borrower defaults (Armendariz de Aghion, 1999). In group lending, the loan is secured by the co-signature of members within the group and not by the microfinance institution. Each member will put pressure on the others in the group to meet the loan repayment schedule. Thus, group sanction is important in discouraging defaults among members in microfinance (Van Tassel, 1999).

Studies on the effectiveness of the lending mechanism include Ahlin and Townsend (2007) on Thailand's microcredit borrowers and Olomola (2000) on Kenya's microcredit borrowers. In addition, Sharma and Zeller (1997) and Zeller (1998) undertook studies on Bangladesh and Madagascar microfinance borrowers, respectively, examining the impact of group characteristics, lender characteristics and community characteristics on loan repayment rates. The repayment behaviour among borrowers in the lending model was also investigated by Wydick (1999). The author investigated the impact of social ties, group sanctions and peer monitoring on loan repayment behaviour among Guatemalan microfinance borrowers. Bhatt and Tang (2002) conducted a study to investigate the determinants of loan repayments in microcredit programmes that applied the group lending approach, but took a different approach. Bhatt and Tang looked at the borrower's socio economic variables instead of the elements of group lending for their influence on loan repayment behaviour. The borrower's socioeconomic variables included gender, educational level, household income and characteristics of the business (type of business, years in business, etc.). In their study, they found that a higher education level was significant and positively related to better repayment performance. Conversely, female borrowers, level of household income, type of business and borrower's experience had no significant effect on repayment behaviour.

Most previous research that investigated the issue of loan repayment defaults in microcredit concentrated more on the effectiveness of group lending in discouraging defaults. However, little study has been conducted on the issue of the default in repayment of the individual lending design applied by microfinance institutions. Research on the determinants of loan repayment in individual-based lending schemes can be found only for rural banks or semi-formal financial institutions. Chaudhary and Ishafq (2003) examined the credit worthiness of 224 rural borrowers in Pakistan. Using logistic regression, they found that borrowers with higher educational levels, involved in a non-farm business activity, who were using the loans for investment and were female had a higher probability of repaying their loan. The study found that the subsidized interest rate level did not have a significant effect on repayment behaviour among rural borrowers in Pakistan. They concluded that a subsidized interest rate was not the best way to ensure good repayment by borrowers.

The determinants of loan repayment rates for agricultural loans were investigated by Brehanu and Fufa (2008). Using probit and logit regression, they conducted a study on the determinants of repayment performance among small-scale farmers in Ethiopia. In the study, they found that borrowers with larger farms, higher numbers of livestock and farms located in a rainfall area had a higher capacity to repay loans, since all those factors increased the farmers' productivity and income. The study also found that borrowers who had extra business income and were experienced in using agricultural technology had a good repayment performance. Roslan and Abd Karim (2009) investigated microcredit loan repayment behavior in Malaysia. They conducted a study on microcredit loan borrowers from AgroBank Malaysia. AgroBank is a commercial institution specializing in loans to borrowers involved in agricultural business.

Apart from giving large-scale loans, it also provides small-scale loans, such as micro credit loans, to borrowers. In their research, they found that male borrowers and borrowers who had a longer duration for repayments had a higher probability of defaulting. Borrowers involved in non-production oriented business activities such as in the service or the support sectors who had training in their particular business and who borrowed higher loans had lower probabilities of defaulting. Okorie (1986) studied the repayment behaviour in one agricultural corporation in Kenya. The author's results from interviews with borrowers showed that the nature of the loan, either cash or in kind (seeds, fertilizer and equipment) can influence the borrowers' repayment behaviour. He found that borrowers who received a loan in kind had higher repayment rates than borrowers who received a cash loan. This was because many borrowers misused the cash, diverting it into personal consumption instead of investing in making their business productive. Regular visits by the loan officer to the borrowers' business site and higher profits generated by the borrowers also contributed to higher repayments by borrowers. Overall, the loan repayment performance can be influenced by three factors: borrower characteristics, business characteristics and loan characteristics.

2.4 Amount of loans borrowed

Microfinance collectively refers to the supply of loans, savings, and other basic financial services like insurance, to the poor (Hulme and Mosely, 1996). As the poor people cannot avail these financial services from the formal commercial banks (because of the collateral requirements), microfinance tends to provide to them exclusive of these conditions (Carter, McNulty and Verbrugge, 2004). For these financial services, the poor people are willing to pay for because of the added advantage they receive for not collateralizing anything. More broadly, it is a movement that envisions a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers (Chen and Snodgrass, 1999). However, there have been problem in repayment of the loans among some of the borrowers. Poor people are not able to get loans from commercial banks due to lack of guarantee and collateral. But there are also many other reasons that commercial banks are not willing to provide fund to poor people, such as poor people have less education, no real experience and training, high cost for transactions of small loans and lower profit (Dunford, 2001). Therefore, limited opportunity to access loans and repay them leads to people falling into more poverty. This resulted in the emerging idea for establishing the challenges of repayment of the amount borrowed.

Small amounts of loans and savings; short- terms loan (usually up to the term of one year); payment schedules attribute frequent installments (or frequent deposits); installments made up of both principal and interest, which is amortized over the course of time; higher interest rates on credit (higher than commercial bank rates but lower than loan-shark rates), which reflect the labor-intensive work associated with making small loans and allowing the microfinance intermediary to become sustainable over time; easy entrance to the microfinance intermediary saves the time and money for the client and permits the intermediary to have a better idea about the client's financial and social status; application procedures are simple; short processing periods (between the completion of the application and the disbursements of the loan); the clients who pay on time become eligible for repeat loans with higher amounts; the use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Larger loans are less costly to the lenders, so some lenders provide large size loans on relatively lower rates; and no collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, such as the assessments of client's repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

During the last two decades, micro-credit approach has been increasingly incorporated in the development discourse. Specially the credit is given to the Youth enterprises and the popular belief is that Youth enterprises are benefited and empowered and are being acknowledged for having a productive and active role and thus it is the gateway of gaining freedom for themselves (Liedholm and Mead, 2007). Such NGO Programmes have reversed conventional top down approach by creating livelihood opportunities for the poorest citizen, especially for the youth enterprises who are about 94 percent of their client (Thente, 2003).

Microcredit is now considered the effective development tool of poor people especially for small scale business enterprises and among the youths. Youth enterprises are become more empowered and play important role in generating income in the rural areas of Kenya (Johnson, 1999). In most developing countries, policies for rural financial development have been based on three erroneous beliefs concerning their target groups: i). rural micro-entrepreneurs are unable to recognize themselves, ii). they are too poor to save; and iii). they need cheap credit for their income-generating activities or small enterprises (Harper, 2003). However, in Kenya the financial availability of the Youth enterprises appear underestimated by the micro-finance institutions.

2.5 Amount of interest rates on the loan repayments

Interest rate is the price a borrower pays for the use of money they borrow from a lender/financial institutions or fee paid on borrowed assets (Crowley, 2007). Interest can be thought of as "rent of money". Interest rates are fundamental to a ‘capitalist society’ and are normally expressed as a percentage rate over the period of one year. Interest rate as a price of money reflects market information regarding expected change in the purchasing power of money or future inflation (Ngugi, 2001). A non-performing asset (NPA) is the money lent to an individual that does not earn income and full payment of principal and interest is no longer anticipated, principal or interest is 90 days or more delinquent, or the maturity date has passed and payment in full has not been made (Boudriga et al 2009). The issue of non-performing assets has, therefore, gained increasing attentions since the immediate consequence of large amount of NPAs in the banking system is a cause of bank failure.

Financial institutions facilitate mobilization of savings, diversification and pooling of risks and allocation of resources. However, since the receipts for deposits and loans are not synchronized, intermediaries like banks incur certain costs (Ngugi, 2001). They charge a price for the intermediation services offered under uncertainty, and set the interest rate levels for deposits and loans. The difference between the gross costs of borrowing and the net return on lending defines the intermediary costs (information costs, transaction costs (administration and default costs and operational costs) (Rhyne, 2002). Interest rate spread is defined by market microstructure characteristics of the banking sector and the policy environment (Ngugi, 2001). Risk-averse banks operate with a smaller spread than risk-neutral banks since risk aversion raises the bank's optimal interest rate and reduces the amount of credit supplied. Actual spread, which incorporates the pure spread, is in addition influenced by macroeconomic variables including monetary and fiscal policy activities (Emmanuelle, 2003).

Depending on the market structure and risk management, the banking firm is assumed to maximize either the expected utility of profits or the expected profits. And, depending on the assumed market structure, the interest spread components vary. For example, assuming a competitive deposit rate and market power in the loan market, the interest rate spread is traced using the variations in loan rate. But with market power in both markets, the interest spread is defined as the difference between the lending rate and the deposit rate.

The magnitude of interest rate spread, however, varies across the world. It is inverse to the degree of efficiency of the financial sector, which is an offshoot of a competitive environment. The nature and efficiency of the financial sectors have been found to be the major reasons behind differences in spread in countries across the world. In economies with weak financial sectors, the intermediation costs which are involved in deposit mobilization and channeling them into productive uses, are much larger (Jayaraman and Sharma, 2003). Independent studies (Chand, 2002 and Asian Development Bank, 2001), have listed the several reasons for high interest rate spread. These are lack of adequate competition, scale diseconomies due to small size of markets, high fixed and operating costs, high transportation costs of funds due to expensive telecommunications, existence of regulatory controls and perceived market risks. They further state that the factors mentioned above lead to high intermediation costs, which result in high spread. Specifically, these studies have identified one of the most obvious costs, which is associated with the ability to enforce debt contracts. Small borrowers with no property rights have no collateral to offer. As such, they are perceived as high risk borrowers. Because of high transaction costs involved, such borrowers are charged punitive rates of interest. Further, Chand (2002) singles out issues of governance. The latter encompasses maintenance of law and order and provision of basic transport and social infrastructure, all impinging on security, a lack of which has been found to be a cause for high transaction costs resulting in large intermediation costs. When there is high intermediation cost, reflected in the high interest rate spread, the borrower may be unable to repay his/her loan owing to the cost of such borrowings. This leads to a high risk of loan default hence non-performance (Chand, 2002).

According to (McNulty et al 2001), controlling NPAs is very important for both the performance of an individual bank and the economy's financial environment. Due to the nature of their business, commercial banks expose themselves to the risks of default from borrowers. Prudent credit risk assessment and creation of adequate provisions for bad and doubtful debts can cushion the banks risk. However, when the level of nonperforming assets (NPAs) is very high, the provisions are not adequate protection (Waweru and Kalani, 2009). The occurrence of banking crises has often been associated with a massive accumulation of nonperforming assets which can account for a sizable share of total assets of insolvent banks and financial institutions. Therefore, the determinants of loan defaults should be established so as to reduce the level of nonperforming assets.

2.6 Training on the loan repayments

The credit-seeking decision is a three-stage process. Entrepreneurs first decide on whether or not they need credit. Once that decision is affirmative, a further decision has to be made regarding the appropriate credit source (Maddalla, 1997). An additional decision relates to the level of credit to seek out and how well the entrepreneur will be informed about the terms of borrowing and repayments. But even when enterprises feel a need for external credit, they may not borrow if their perceptions on the costs of applying for a loan and repayment outweigh the expected receipts (Mei Qiang, 2002). They may also lack enough cash to meet the application costs. Enterprises may also shy away from borrowing due to a poor collateral position and lack of requisite information about the capital borrowed, which requires quite a high level of Training from the micro-finance institutions. Collateral requirements imply that there would be enterprises that prefer external funds but are unable to apply for such funds (Mookherjee, 1999).

Studies have shown that most youth enterprises perceive borrowing as necessary for business and the impact of borrowing on business performance as positive (Mwenda, 1993; Rogaly, Fisher and Mayo, 1999; Moyi, 2000), yet they have weak Training in the utilization of the borrowed capital resulting collapses of the loan use leading to default in repayment. Among the small group of applicants, there are gender, enterprise location, business activity and formality status differences, which must be well factored in during the loan borrowing by the business enterprises. Traders appear more inclined to borrow than entrepreneurs in other activities and the incidence of loan application is greater among female proprietors and urban based enterprises (Scully, 2004). Informal enterprises are dramatically more likely to apply for a loan as do those that are larger and older as well as those owned by older entrepreneurs, if they are provided with novel methods of proper loan utilization. The life expectancy of youth enterprises is generally short so that most do not live long enough to build contacts and reputation necessary in seeking out credit (Sebstad and Monique, 2001). Smallness is also a major impediment to effective participation in the credit markets.

Small is the proportion of youth enterprises that borrow, but even those who borrow request for small amounts. Amounts borrowed also vary across activities and the gender of the proprietor. Male entrepreneurs borrow substantially more than female entrepreneurs (Chen and Snodgrass, 1999). In other words, although female entrepreneurs are more inclined to borrow, their male counterparts borrow more. The proportion of male entrepreneurs borrowing from commercial banks is more than twice that of female in small scale business enterprises. On the other hand, a greater proportion of female entrepreneurs borrow from NGOs and non-bank financial institutions. It is not clear why the discrepancy but it is assumed to be due to lack of proper Training to the borrowers before they acquire loans. The difference in amounts applied for by formal and informal enterprises is great, the latter borrowing only a fraction of the amounts borrowed by the former (Chen and Snodgrass, 2001). Informality represents low productivity, poor access to infrastructure services and poor property rights over business premises, making credit markets out of reach for most such enterprises (Kimuyu, 1997). Borrowers unable to access credit from commercial banks are therefore unlikely to borrow significant amounts. Urban located and larger enterprises also borrow more. A positive correlation between enterprise size and credit is in order, since demand for working capital increases with enterprise size.

Most credit providers are urban located so that lower levels of credit use by rural enterprises are also evidence of a credit supply constraint (Daniels and Mead, 2010). Membership in a support group increases the level of credit sought for, so that such groups have a strong network side effect. Since education and credit sources are important determinants of the level of credit, the Training by the lenders picks up their impact. Youth enterprises enjoy a high success rate regarding positive response and amounts received if they are well mentored by the lenders. These high success rates suggest near perfection in the self-selection and application targeting processes. Variations in success rates run across activities, spatially, across the formality/informality divide and credit sources (Dunford, 2001).

Enterprises within finance, insurance and real estate enjoy the highest success rate while those in community and other social services face the lowest success rates (Greenbaum, 2003) because of the knowledge and therefore, this indicate that knowledge base is paramount. Additional differences are observable across credit sources with enterprises seeking credit from non-bank finance institutions showing low success rate and those seeking from co-operative society's high success rates (Harper, 2003). Other studies have shown that small enterprises are particularly disadvantaged with regard to resolution of business related disputes due to high litigation costs and poor contract enforceability (Hulme and Mosely, 1996). The development of long term relationships and good reputation important for trade credit does not take root due to the short life expectancy of enterprises in the sector.

2.7 Duration of repayment influence on the loan repayments

The government of Kenya awareness of the need for credit by youth enterprises has facilitated several credit programs to assist youth enterprises in accessing credit, Weidmann (1992). Yet, the terms of payment stipulated by the microfinance institution has also been found to be a crucial factor that affects the acquisition of credits by the small scale business enterprises. These programmes change the commercial rate of interest to cover costs and to ensure suitability. These programmes are intended to influence welfare of household, reach directly the poorest of the economically active to make sure that in mixed groups Youth enterprises are not left out.

For many micro finance providers, the reason they focus on youth enterprises clients is mainly of a practical nature. Repayment rates are typically higher for small scale business enterprise than for large ones although they are perceived to have high risk and they have a tendency to have fewer alternative sources of finance (Malonza, 2007). Youth enterprises are also seen as more compliant and reliable. They are perceived to have a higher sense of responsibility and to be more affected by social pressure than large enterprises. (Harper, 2003 Simanowitz, 2002). Despite all the efforts channeled towards assisting Small scale business enterprises, they are faced by diverse challenges like repayment of the credits. Despite earning a living, Youth enterprises have little control over the household’s finances or even over their own earnings. The men in the family continue to decide on expenditures. As long as Youth enterprises continue to lack social resources such as access to education they will only be able to make limited use of the financial resources they have so obtained. As Cheston and Kuhn (2002) observe: The ability of a woman to transform her life through access to financial services depends on many factors, some of them linked to her individual situation and abilities and other dependent upon her environment and the status of youth enterprises as a group.

Repayment of loans as scheduled is not an accurate indicator that funds were used to invest in successful productive activities. Even when a borrower repays a loan in time the source of income is not necessarily from revenues generated by investing the loan in productive activities (Gallup, 2003). At times repayment is often delivered from general family income rather than the activity for which loan has been provided. Control over loans is by itself not a good indicator of Youth enterprises independence in management of an enterprise. Thirty seven percent of loan retention may already be a significant achievement in a gendered society (Cheston and Kuhn, 2002). Indeed cooperation between

Youth enterprises may already be a form of empowerment and can also be considered an improvement in management of such enterprises due to group solidarity whereas on its own, a small scale business enterprise may find it difficult to make decisions pertaining to their businesses. Several scholars have had a lot of interest on impact of repayment conditions of the micro finance loans on the performance of Small scale business enterprises. It is evident that many scholars have prescribed microfinance loans as a panacea for all the problems bedevilling Small scale business enterprises. It is imperative that microfinance loans have had positive impact on the performance of small scale business enterprises, but whether these loans result into significant business growth is yet to be established. It is not yet known however how Youth enterprises go about making repayment decisions and how to invest the money and the factors that influence such decisions since Youth enterprises entrepreneurs are not independent entities but rather operate as members of households.

Oketch (1991) found in analysis of 126 successful micro enterprise credit recipients in Kenya that 24% of the borrowers diverted portions of their loans to items not specified on the loan application and therefore it was difficult to repay. The factors affecting youth enterprises ability to repay loans were also not investigated. Goetz and Sen Gupta (1996) however found out that Youth enterprises do not actually fully control their loans. Their findings cannot however be generalized to the Kenyan situation due to major cultural and religious differences of the 2 countries. Amendariz (2005) in a study of two Grameen replications in the Philippines found that most clients found it difficult to repay their loans. In a survey of clients in repayment arrears and clients who had exited the program (Faulu a local Lenders) found that 74% of their clients had diverted their last loan and therefore failed to repay. If credit meant for business development is diverted to consumption needs, the borrowers still have to repay the loans. Consequently the business does not expand and it cannot therefore service subsequently higher loans. Loan repayments may require the borrower to forego the gratification of basic needs or to default. It is important however to find out why loans are diverted leading to non payment.

Over time, the payment history of a loan customer accumulates and the firm develops a "private reputation" with its lender (Mintzberg, 2003). In contrast, much bank lending is transactional rather than based on private information collected through long-term relationships with firms. For example, many large banks, and some smaller banks, lend to small firms using credit scoring models, basing their loan decisions on information that can be quantified rather than on private, more qualitative information acquired through direct interaction with the firm. Rather than making more subjective judgments based on direct interactions with a small firm ("soft" information), credit scoring applies statistical methods to "hard" data, summarizing borrower characteristics to produce a "score" that can be used to evaluate the likelihood of the loan applicant repaying the loan (Mei Qiang, 2002).

Lending to large firms, on the other hand, is quite different, since larger firms are more established, and lenders typically can evaluate more precisely the credit risk of the firm by using public information (Mookherjee, 1999). Some of this is a consequence of large firms' access to national debt and equity markets, for example, arising from credit rating agencies, equity analysts, and filings with the Securities and Exchange Commission (SEC). Furthermore, due to the relative transparency of large firms compared to small ones, these large firms typically can borrow from multiple banks under less restrictive loan contract terms (Moyi, 2000). Thus, financial statement lending to large, relatively transparent firms is unlikely to be a source of economic rents to the lender. Similarly, other transactions-based lending technologies, such as fixed-asset lending, are unlikely to earn the lender substantial rents due to asymmetric information, since the technology for valuing collateral is relatively straightforward. Rather, the benefits accruing to the lender would be related primarily to economies of scale.

Out of the foregoing discussion, it follows that there is scanty empirical data on credit repayment among youth entrepreneurs in Kenya. Given the disparities among countries may not readily apply to Kenya. A country's specific study of the kind proposed herein is quite wanting.

2.8 Theoretical framework

This study relied on the balanced scorecard theory of Kaplan and Norton (1996). The balanced scorecard is a performance planning and measurement framework, with similar principles as management by objectives. The balanced score card (BSC) began as a concept for measuring whether the smaller scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy by focusing not only on financial outcomes, but also on the human issues, the balanced score card helps provide a more comprehensive view of a business, which in turn helps organizations act in their best long term interests. The strategic management system helps managers focus on performance metrics while balancing financial objectives with customers, process and employee perspectives, measures are often indicators of future performance.

Balanced score card is a tool to execute and monitor the organizational strategy by using a combination of financial and non-financial measures. It is designed to translate vision and strategy into objectives and measures across four balanced perspectives. It gives a framework ensuring that the strategy is translated into a coherent set of performance measures.

Balanced score card theory is based on four perspectives.

- Financial perspective
- Customer perspective
- Internal process perspective
- Learning and growth perspective

This theory was relevant to the study because the finance was one of the most important factors that was crucial to determining the growth of the small scale business enterprises. The correct use of the four perspectives increased business assets stock of the business, which resulted in increased sales, customers, profits etc. This trickled down to increased customer satisfaction and the smooth running of the business which eventually led to growth of the business.

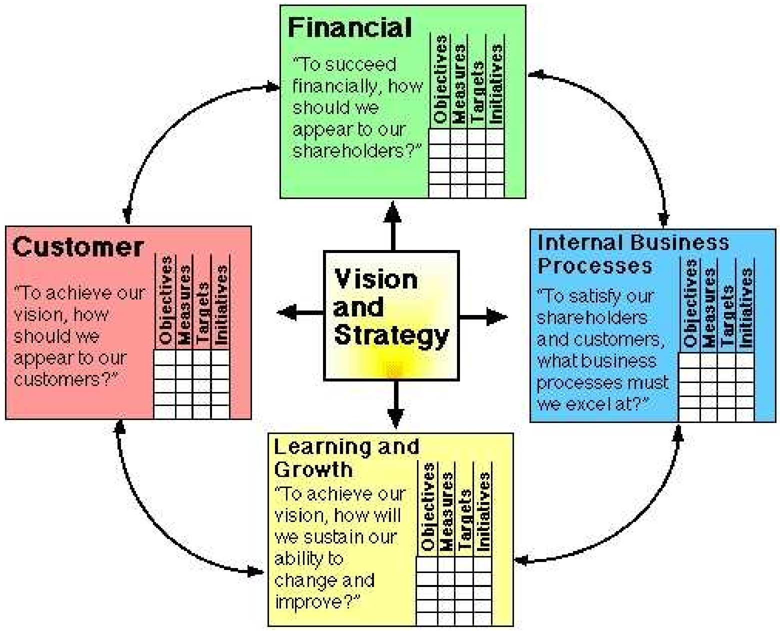

Figure 2.1: Balanced Score Card Diagram. Source: Kaplan and Norton (1996).

This diagram shows a classification of Balanced Scorecard designs based upon the intended method of use within an organization. They describe how the Balanced Scorecard can be used to support three distinct management activities, the first two being management control and strategic control. They asserted that due to differences in the performance data requirements of these applications, planned use should influence the type of BSC design adopted.

2.9 Conceptual framework

The conceptual framework for this study was researcher based framework depicted in Figure 2.2. In the framework the researcher intended to determine how the amount of credits, interests rates, training before fund disbursement, duration of repayment and external factors determines the performance of funded youth groups.

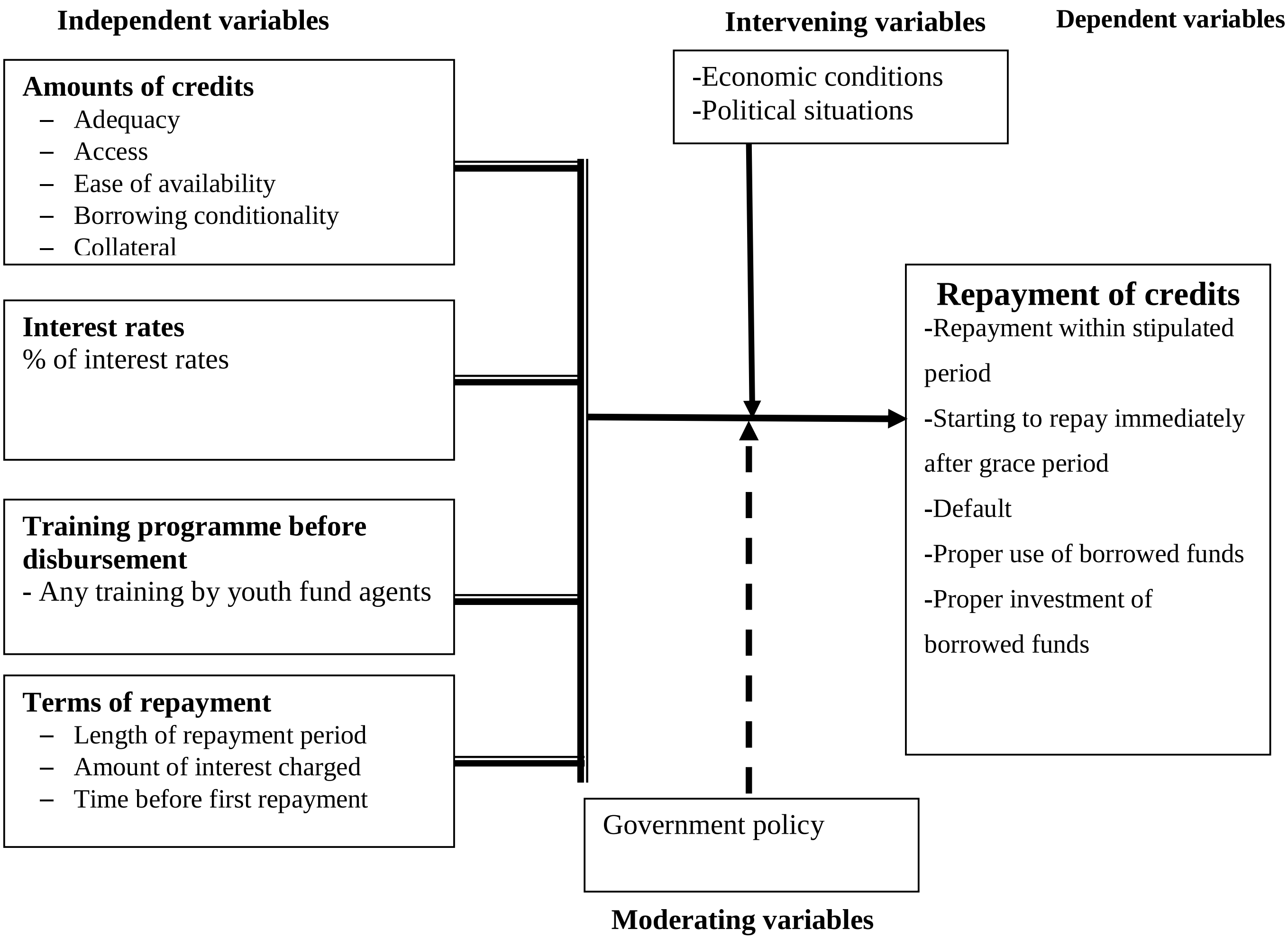

Figure 2.2: Conceptual framework for the study. Source: Researcher Own 2012.

2.10 Summary

This chapter reviewed the literature on determinants of the repayment of credit by the funded youth enterprises. The review proceeded from the general global and historical context of access to credit by youth enterprises from YEDF until it narrowed to Kenya. Both quantitative and qualitative studies have illuminated a number of challenges as contributing to the persistence of non- repayment of credits by the youth enterprises especially among the youths. The issues discussed in the literature review are important in determining the factors that hinder the repayment of the credit borrowed. This chapter on literature review left no doubt that all the factors affecting loan repayments should be perceived as a unit within a system for successful business performance. What was quite apparent was that these factors were quite many and it was only by delineating them well would specific data be obtained and analyzed. In this chapter, it had been clearly indicated that there was a greater need for more information on the determinants of repayment by the youth funded enterprises.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

Methodology refers to the application of the principles of data collection methods and procedures in any field of knowledge. This section describes research design, target population, sampling design and sample size, data collection methods, validity and reliability of research instruments, data analysis technique, ethical considerations and operationalisation of variables.

3.2 Research Design

The study adopted cross-sectional survey research design (Kothari, 2005). The study was concerned with ascertaining the determinants of repayment of loans advanced to the youth by the government through youth enterprise fund in Mumias District. It was suitable as it helped to determine the characteristics of the populations.

3.3 Target Population

The target population was 240 youth leaders from groups that had benefited from the fund and 180 youth leaders from the groups that had not benefited from the fund. (Mumias District Youth Office) .The respondents were the youth group leaders . These youth group leaders were selected from across the various sectors namely horticulture, dairy farming, poultry farming, trading and service among others in the vast Mumias District.

3.4 Sample size

To determine the sample size, the researcher used 30% of the population as the sample size as suggested by Kothari (2004). Thus the sample size was 72 youth group leaders from the funded groups and 54 youth group leaders from the groups that had not been funded.

3.5 Sampling procedure

Mumias district is divided into 3 divisions namely; Mumias, East Wanga and South Wanga. Stratified sampling was used to classify groups geographically into stratus as those in East Wanga, South Wanga and Mumias and 42 respondents were reached in every strata. Stratified sampling is where sampling frame is divided into overlapping groups or strata for example age groups, geographical areas, genders.

Simple random sampling was used to select 30% of the youth group leaders from the funded and non funded groups A total of 72 youth group leaders from funded groups and 54 youth group leaders non funded groups ,were selected by simple random sampling from the 240 youth group leaders and 180 youth group leaders respectively that have been identified. The fund agents were then selected as the unit for sampling. The questionnaires was then be provided to the selected respondents and given 2 days to answer the content and the researcher then collected the questionnaires afterwards.

3.6 Methods of data collection

The study used questionnaires and interview schedule for data collection.

3.6.1 Questionnaires

A questionnaire is a research instrument consisting of a series of questions and other prompts for purpose of gathering information from respondents.

The questionnaires were convenient tool especially where there were large numbers of subjects. The questionnaire was structured and designed to gather questions covering the independent and dependent variables.

3.6.2 Interview schedule

Interview schedule which involves oral administration of questionnaires or interview schedule was used (Mugenda and Mugenda, 1999:83). The researcher carried out in depth interview. This being face to face interaction with the respondent, the researcher personally administered interview schedules to get first hand information on the key concepts of the study to supplement the information from the questionnaires.

3.7 Validity and Reliability

3.7.1 Validity of Research Instrument

Validity is the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. It therefore, has to do with how accurately the data obtained in the study represents the variables of the study. If such data is a true reflection of the variables, then inferences based on such data were accurate and meaningful. To test the validity of the research instruments, the questionnaire were prepared and submitted to the other researchers for cross checking and also to assess the reliance of the content. The questionnaires were pre-tested through a pilot study; the findings were modified to free them from any ambiguity. Feedback obtained from the pilot study assisted the researcher in revising the instrument of data collection to ensure that it covered the objectives of the study. In a case where it was discovered that the items in the questionnaire were difficult for the respondents, they were rectified accordingly.

3.7.2 Reliability of the Instruments

Kothari (2005) states that the reliability of a test refers to the ability of that test to consistently yield the same results when repeated measurements are taken of the same individual under the same conditions. Basically, reliability is concerned with consistency in the production of the results and refers to the requirement that, at least in principle, another researcher, or the same researcher on another occasion, should be able to replicate the original piece of research and achieve comparable evidence or results, with similar or same study population.

The reliability of this study instruments was established by pilot testing. A pilot study is the small scale trial , intended to assess the adequacy of research design and instruments to be used for data collection (Wilson 1996).It also helps in establishing codes or responses categories for each question , which covers the full range of responses that may be given in the main investigation.

Reliability of the instrument during piloting was ascertained through test –retest method. This was administered in two different occasions. This approach assumes that there was no substantial change in the construct being measured between two occasions. This test was performed twice in the case of questionnaire. This meant giving 8 youth groups outside respondent sample, the same questionnaire in two different occasions, that was after 2 weeks

3.8 Data Analysis

Data was analyzed descriptively. Descriptive methods were employed in analyzing qualitative data where frequencies and proportions were used in interpreting the respondent’s perception of issues raised in the questionnaires so as to answer the research questions. To summarize the independent variables, frequencies and percentages were used to analyse the perception of respondents.

Table 3.1: Operationalization of the variables

Independent Variable	Dependent Variable	Statistical Technique
1. Amounts of credits borrowed	Repayment of loans	• Qualitative • Quantitative • Frequencies • Percentages
2. Interest rates	Repayment of loans	• Qualitative • Quantitative • Frequencies • Percentages
3. Training before disbursement	Repayment of loans	• Qualitative • Quantitative • Frequencies • Percentages
4. Terms of loan repayment	Repayment of loans	• Qualitative • Quantitative • Frequencies • Percentages

3.9 Ethical considerations

This study was conducted within the strict ethical code guiding research at University of Nairobi. During the write up of this research project report, plagiarism was avoided as much as possible by citing relevant sources and authorities of the secondary sources of information. The data obtained from the lenders and from the youth enterprises in Mumias District was kept confidential for the sole purpose of the research. No collected data was transferred to any other third party. The respondents who answer the questionnaires remained anonymous.

3.10 Organisation of the chapter

This chapter covered introduction, research design, target population, sampling procedures and sample size, data collection instrument, validity and reliability and data analysis

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETION

4.1 Introduction

This chapter presents an analysis of the data that was gathered using the tools of research discussed in chapter three. The first part presents the questionnaire response rate. Secondly the researcher presents data on the background information of the respondents and for the business. Section 4.4 provides results on the effects of amounts of capital borrowed on the loan repayments in Mumias District. Section 4.5 provides results and analysis of the how interest rates influence the growth of youth group enterprises in Mumias District. Section 4.6 presents information on extent of training programme affect loan repayments in Mumias District .The final section 4.6 presents information on effects of duration of credit repayment on the loan repayments in Mumias District. Tables and figures have been used to summarize and illustrate the findings of the study.

4.2. Questionnaire response rate

The study used questionnaires as a tool for data collection. The sample size for this study was 126 youth group leaders in Mumias District. Each of the youth group leaders was given the appropriate questionnaire to answer. Not all the respondent returned the questionnaires. From the 126 questionnaires, 116 were filled and returned to the researcher and to the research assistant. This represented a response rate of 92.1%. The response rate was good when compared to the recommended response rates to verify consistency of measurements required for analysis (for example over 60%, based on Kothari, 2005).

4.3 Profile of respondents

There were a total of 116 respondents during the study. The background information of the respondents managing the enterprise funds included: gender, age, marital status, highest levels of education, occupation before stating the business and monthly income levels.

Profiles of the respondents who participated in this study are shown in Table 4.1. Majority of the respondents were males (65.35%) compared to only about 34.5% who were female youth group leaders. Up to 87.9% of the leaders were aged between 25-50 years while only 5.2% and 6.9% were aged over 50 and below 25 years respectively. Up to 59.5% of the respondents were married while 32.8% were single. A majority of the youth group leaders

(38.8%) had secondary levels of education while 29.3% had primary level and 16.4% had tertiary levels of education. The occupation of 62.1% of the leaders before starting the current business were unemployed indicating that this was a source of employment for 62% of the respondents while 12.1% were formally employed before opting for the current job and 18.1% were farmers. Income levels of the respondents range from 10,000 to 50,000 per month for 66.4% of the respondents while 6.9% were found to have income levels of below Kshs. 5000 and another 20% has income levels between Kshs. 5,000 to 10,000.

Table 4.1: Socio-economic profiles of the youth group leaders who responded to the questionnaires in Mumias District

Variable	Attribute	Frequency	Percent frequency
Gender	Male	76	65.5
	Female	40	34.5
Age (yrs)	< 25	8	6.9
	25-35	52	44.8
	36-50	50	43.1
	>50	6	5.2
Marital status	Single	38	32.8
	Married	69	59.5
	Widow	7	6.0
	Divorced	2	1.7
Highest level of education	None	13	11.2
	Primary	34	29.3
	Secondary	45	38.8
	Tertiary	19	16.4
	University	5	4.3
Occupation before starting business	Unemployed	72	62.1
	Formally employed	14	12.1
	Another business	8	6.9
	Farmer	21	18.1
Income (per month)	< 5,000	8	6.9
	5,001-10,000	23	19.8
	10,001-20,000	46	39.7
	20,001-50,000	31	26.7

4.4 Influence of amounts of credit borrowed on the loan repayments in Mumias District

The first objective of the study was to determine the influence of the amount of credit borrowed on the loan repayments in Mumias District. This was achieved through a research question stating " *How does the amount of credits borrowed determine repayment of youth fund in Mumias District?"*

4.4.1 Amounts of credit borrowed

The study investigated the amounts of credit borrowed by the respondents and the results were as follows;

Table 4.2 Amounts of credit borrowed by youth groups

Category	Number of response	Percentage
Below 25,000	51	44
26,000-35,000	0	0
36,000-50,000	65	56
Above 50,000	0	0
Total	**116**	**100**

The study findings in table 4.2 above indicated that there were many groups got more funding 36,000-50,000(56%) compared to those who got less funding , below 25,000(44%). This is could have been as a result of desire for more funding by the groups to either expand or start their businesses.

4.4.2 Challenges with the amount of credit borrowed

The study investigated the level of influence on challenges encountered with the amounts of funds borrowed. The findings were as follows;

Table 4.3 Level of influence on the challenges on the borrowed funds

Challenge	Frequency	Percentage
Adequacy of funds	36	31
Accessibility of the funds	28	24.1
Ease of availability of the funds	21	18.1
Borrowing conditionality of the fund	23	19.8
Collateral required before borrowing	8	7
Total	**116**	**100**

The study findings in table 4.3 above indicated that adequacy of funds was the biggest challenge to the respondents (31%). This could be an indication that the funds given out to the youth groups are not adequate. This was followed by accessibility of the funds which was at 24.1%, borrowing conditionality of the fund at19.8%, ease of availability of the fund at 18.1% and collateral required before borrowing the fund at 7%. From these findings, a small number of respondents (7%), indicated that collateral required before funding was a challenge.

4.4.3 Investment of credit from YEDF by youth groups

The study also investigated how the youth groups were investing their funds and came up with the following results;

Table 4.4 How the credit from YEDF was invested by the youth groups.

Investment	Frequency	Percentage
Bought goods	28	24.1
Paid employees	19	16.4
Family engagements	9	7.8
Paid business rents	10	8.6
Bought raw materials	15	12.9
Bought working equipment	35	30.2
Total	**116**	**100**

The results in the above table 4.4, revealed that 30.2% of the respondents invested their credits on buying working equipment, 24.1% of the respondents invested their credits on buying goods, 16.4% of the respondents invested their credits on paying employees, 12.9% of the respondents invested on buying raw materials, 8.6% of the respondents invested on paying business rents and 7.8% of the respondents invested in family engagements.

The results indicated that majority of the youth groups invested their credits on buying working equipment (30.2%) and a few youth groups invested their credits on family engagements (7.8%).

4.4.4 Value of the business assets for youth groups before and after borrowing the fund

In order to determine the impacts of amount of borrowed capital on business assets, information on the value of the business assets for youth groups before and after borrowing the capital was determined (Table 4.5 and Table 4.6) respectively.

Table 4.5 Value of the business assets for youth groups before borrowing the capital.

Amount in Kshs.	Frequency before borrowing	Percentage before borrowing
Valued< 1,000	25	21.6
1,001-5,000	31	26.7
5,001-10,000	43	37.1
10,001-20,000	8	6.9
20,001-50,000	7	6
Valued >100,000	2	1.7
Total	**116**	**100**

Table 4.6 Value of the business assets for youth groups after borrowing the capital.

Amount in Kshs.	Frequency after borrowing	Percentage after borrowing
Valued< 1,000	0	0
1,001-5,000	0	0
5,001-10,000	0	0
10,001-20,000	0	0
20,001-50,000	79	68.1
Valued >100,000	37	31.9
Total	**116**	**100**

Based on the results presented in the table 4.5, most of the business enterprises were valued at below kshs. 10,000 (85.4%) while after borrowing majority of the small business enterprises were valued at over Kshs. 50,000 (68.1%) as presented in table 4.6.

The results indicated that the value of business assets of 68.1% of youth groups increased to kshs. 20,001-50,000 and 31.9% of the youth groups went to above kshs. 50,000 as indicated in table 4.5 and 4.6 respectively.

The results as indicated in table 4.7 below shows that most of the respondents (70.7%) who had accessed kshs. 36,000-50,000 had not started repaying the loan fund , whereas 29.3% of the respondents who had accessed below kshs. 25,000 had indicated that they had not started repaying the loan.

Table 4.7 Youth groups that have not started repayment

Amount accessed(Kshs)	Not started repaying	Percentages
Below 25,000	34	29.3
26,000-35,000	0	0
36,000-50,000	82	70.7
Above 50,000	0	0
Total	**116**	**100**

4.5 To establish the influence of interest rate charged on the repayment of the youth fund in Mumias District.

The second objective of the study was to establish the influence of interest rate charged on repayments of the youth fund in Mumias District. This was answered through formulation a research question stating *"What is the influence of the amount of interest charged on repayment of the youth fund in Mumias District?"*

The researcher first inquired from the youth group leaders who decided on how the loan would be utilized. The results as are shown in Table 4.8. Based on the responses, highest proportion of the respondents 51.7% decided on their own the mode of loan utilization with another 16.4% deciding based on spouse and 12.1% being from friends and business partners and 7.7% being on YEDF.

Table 4.8 Decision on how the loans should be utilized

Decision	Frequency	Percentage
Self	60	51.7
Spouse	19	16.4
Friends	14	12.1
YEDF	9	7.7
Business partners	14	12.1
Total	**116**	**100**

Information on how the loans were utilized is provided in Table 4.9. Up to 44% of the respondents invested their loans on current businesses, 18.1% invested their loans on other businesses, and 14.7% used their loans to repay other loans while upto 10.3% diverted the loans for family issues.

Table 4.9: Utilization of the loans borrowed by the youth groups in Mumias District

Use of the business loans	Frequency	Percentage
Invested in other loans	21	18.1
Invested in the current business	51	44
Family responsibilities	12	10.3
Repayment of previous loans	17	14.7
Purchase of other assets	15	12.7
Total	**116**	**100**

The sources of finances to repay the loan were varied (Table 4.10). Most of the youth groups obtained their money to repay loans from sale of business assets (28.4%) followed by those who obtained money by borrowing from friends (21.6%), then those who paid loans from business sales (15.5%), those who paid their loans from business profits (12.9%), those who paid their loans from own savings (12.1%), those who borrowed from the bank (5.2%). The least number of respondents had to rely on MFIs (4.3%).

Table 4.10: Sources of finance to repay the loans borrowed by the youth groups

Sources of finance	Frequency	Percentages
Business sales	18	15.5
Sale of business assets	33	28.4
Borrowing from friends	25	21.6
Borrowing from banks	6	5.2
Borrowing from MFIs	5	4.3
Own savings	14	12.1
Business profits	15	12.9
Total	**116**	**100**

The cause of default during repayments is provided in Table 4.11. Most of the defaults in business occurred because the business did not make enough profits (36.2%), 25% of respondents indicated that they spend their money in doing other things other than repayment, then 17.2% of respondents also indicated that shortage of funds caused default, 12.9% of respondents indicated lack of priority for repayment, while 8.7% indicated it was due to low sales.

Table 4.11: The cause of default during repayments by youth groups in Mumias District

Cause	Frequency	Percentage
Did not make profits	42	36.2
Shortage of funds	20	17.2
Spend money doing other things	29	25
Did not sell anything	10	8.7
Did not give it a priority	15	12.9
Total	**116**	**100**

The reasons why they sought loans from these other sources are shown in Table 4.12. The reasons cited by most of the respondents 41.4% was that YEDF delays in disbursing the fund, 27.6% of the respondents indicated that it was easy to access external funds as compared to YEDF, 19.8% indicated that it YEDF lacked training programme for its beneficiaries ,11.2% of the respondents indicated that YEDF charges high interest rates.

Table 4.12: Reasons why the youth groups sought loans from other external sources

Reasons	Frequency	Percentage
High interest rates	13	11.2
Delays in disbursement	48	41.4
Ease of access to external funds	32	27.6
Lack of training program by YEDF	23	19.8
Total	**116**	**100**

4.6 How Training programmes by YEDF influence repayment of the youth fund in Mumias District

The third objective of the study was to determine influence of training programmes by youth fund agents on the repayment of the youth fund in Mumias District. This was achieved through a research question stating "*What is the influence of training programmes by youth fund agents on repayment of youth fund in Mumias District*?".

Aspects of training that are currently undertaken by the youth fund agents to their clients are shown in Table 4.13. The respondents indicated that they required training in credit management most(24.1%), followed by financial management at 19% , cash flow management was at 13.7%, business communication was at 12.9 % and last as per the respondents requirements was record keeping at 5.2%.

Table 4.13: Areas of training programme for the youth groups in Mumias District, Kenya

Training requirements	Frequency	Percentage
Basic accounting	11	9.5
Book keeping	9	7.8
Record keeping	6	5.2
Business communication	15	12.9
Financial management	22	19.0
Overall business management	9	7.8
Cash flow management	16	13.7
Credit management	28	24.1
Total	**116**	**100**

84.5% of the youth groups leaders attested that their training programme greatly assisted them in repayment of loans. Whereas 15.5% indicated that training did not help them on loan repayment as indicated in the findings in table 4.14

Table 4.14 Influence of training programmes on repayment

Training	Frequency	Percentage
Training improved repayment	98	84.5
Training did not improve repayment	18	15.5
Total	**116**	**100**

4.7 Influence of duration of credit repayment on the repayment of the youth fund in Mumias District

The fourth objective of the study was to determine the influence of duration of credit repayment on the repayment of youth fund in Mumias District. This was determined through a research question stating "*What is the influence of duration of credit payment on repayment of youth fund in Mumias District?"* This section therefore presents the results of the analysis of the influence of duration of credit repayment on the repayments of youth fund in Mumias District.

The frequency of the loan repayment is shown in Table 4.15. For a majority of the respondents, loan repayment was done on quarterly basis (57.8%) followed by monthly at (24.1%), then semi annually at (12.9%) and then annually at (5.2%)

Table 4.15: Frequency of the loan repayment by the youth groups in Mumias District

Mode of repayment	Frequency	Percentage
Weekly	0	0
Monthly	28	24.1
Quarterly	67	57.8
Semi-annually	15	12.9
Annually	6	5.2
Total	**116**	**100**

The duration of credit repayment of by the youth groups is provided in table 4.16. Based on the responses from the leaders , up to 53.4% of the youth groups were repaying their loans after 12 months , 33.6% were repaying their loans within 10-12 months, 7.8 % were repaying their loans within 7-9 months and 5.2 % were repaying their loans in less than 7 months.

Table 4.16 Frequency of duration of loan repayment

Duration of repayment	Frequency	Percentage
Less than 7 months	6	5.2
7-9 months	9	7.8
10-12 months	39	33.6
More than 12 months	62	53.4
Total	**116**	**100**

CHAPTER FIVE
SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this section, the major findings of the study are highlighted and conclusion drawn from the study. In addition the implications and policy recommendations derived from the research findings are aptly stated. In addition, this chapter also presents suggestions for further research.

5.2. Summary of findings

The major findings from this study were:

It was realized that YEDF has been funding the youth groups upto a maximum of kshs. 50,000 only. Most of the groups (56%) had been funded upto kshs. 50,000 and none of the groups was funded more than kshs. 50,000.The amount of money borrowed as credits was not enough for most of the respondents.

YEDF funding was not adequate as was indicated by 31% of the respondents. Further the results also indicated that the funds were not easily available as was indicated by 24.1% of the respondents. There was also the feeling that collateral was not a challenge for accessing the fund as was indicated by 7% of the respondents.

The findings revealed that the funds borrowed were majorly invested in buying of working equipments as was indicated by 30.2% of the respondents. Only very few respondents (7.8%) indicated that the funds borrowed were channelled to family engagements. The amount of money borrowed was low than the amount required for business start ups and operation. Majority of the money borrowed from the YEDF was used to buy working equipment, purchase good and pay employees, with some proportions being diverted to personal or family use.

The findings also revealed that the value of the business assets increased after youth groups had accessed the youth fund .68.1% of the respondents indicated that the value of their business increased to between kshs. 20,001-50,000 after borrowing the fund.

The results indicated that most youth groups(70.7%) that had accessed funding of kshs. 36,000-50,000 had not started repaying their loans as compared to those who had accessed loans below kshs. 25,000 (29.3%).

The highest proportion of respondents (51.7%) indicated that they decided on their own mode of utilisation of the funds borrowed. The least proportion of respondents 7.7% indicated that YEDF influenced on their decision of utilisation of the funds borrowed.

Most youth groups (44%) invested their loans on their current business and only a few (10.3%) of them invested their loans on their family responsibilities. This finding indicated that the youth groups were investing their loans in the right places.

The findings indicated that the highest proportion of the youth groups were financing their loans from the sale of business assets and the least proportion of the respondents indicated that the financed their loans from the funds borrowed from MFIs.

The results revealed that default in repayment of the loans by youth groups was as a result of the businesses not making profit as was indicated by 36.2% of the respondents. Only a few respondents (8.7%) indicated that they did not repay their loans because they did not sell anything. The results indicated that the youth groups were investing in businesses that were not making profits.

Delays in disbursement of the youth fund has forced youth groups to sought for external sources of funds as was indicated by 41.4% of the respondents. Very few respondents (11.2%) indicated that high interest rates mkwas charged by YEDF.

Majority of the respondents (24.1%) indicated that training on credit management helped them in handling of the borrowed fund. Very few respondents (5.2%) indicated that training on book keeping helped them in handling of the borrowed fund. Further, as per the results majority of the respondents (84.5%) indicated that training programme was critical for purposes of imparting skills and thereafter boosting repayment. Only 15.5% of the respondents indicated that training programmes were not crucial.

57.8% of the respondents indicated that they repaid their loans on quarterly basis. None of the youth groups repaid their loans on weekly basis. The results showed that youth groups take time to accumulate money before they repay their loan.

The results of the findings show that majority of the youth groups (53.4%) repay their loans after the lapse of the required period of repayment (after 12 months). Very few youth groups (5.2%) repaid their loans in less than 7 months.

5.3 Discussion

5.3.1 Influence of amount of credit borrowed on the loan repayments in Mumias District

Amount of loans however, matter as an effective development tool of poor people especially for youth business enterprises. In the current study, it was determined that the amount of money obtained from YEDF were not what were actually applied for by the youth groups. It has been realized that access to finance remains a key constraint to youth groups development in emerging economies (Brown, Jappelli and Pagano, 2011). Comprehensive data on the youth group finance gap is still to be more consistently collected and monitored over time; however various data sources and studies indicate that youth groups rely on internal financing much more than large firms do, and that the likelihood of a youth group having access to a bank loan in low-income countries is about a third of what it is for a medium-sized firm, and less than half of what it is for a larger firm.

Provision of increasing amounts of money to youth business enterprises makes them become more empowered through prudent investments and play important role in generating income in the rural areas (Berger and Udell, 2002). In this study, the youth group appear to properly invest their money though buying of equipment, buying business goods while some of the money was diverted for home use and may compromise business operations. In most developing countries, amounts of money lent to the rural youth group projects have been based on three erroneous beliefs: 1. rural micro-entrepreneurs will manage larger amounts of money; 2. they are too poor to be innovative and improve the amount of capital; and 3. they need cheap credit for their income-generating activities or small enterprises (Engler, 2009). In Mumias District, the financial availability of the youth business enterprises appears underestimated by the YEDF (Daniels and Mead, 2010). Moreover, inadequate access to credit means that the potential role of the youth business enterprises in enhancing repayments of loans was difficult to realize.

It has also been determined that amounts of credit influence the growth of youth business enterprises. According to Pilipinas (2012), youth groups earn financial revenue from their investments and other services in the form of profits, revenues and increased incomes for goods or services. Financial revenue also includes income from other financial assets, such as investment income. Youth group activities also generate various expenses, from general operating expenses and the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable institutions earn a positive net income (that is , operating income exceeds total expenses). To address this problem of the influence of amount of credit on growth of youth business enterprises was determined in this study. It was established that the amount of credit borrowed by the youth groups resulted in increased growth of the business through increased sales, revenue and profit margins. Increased credit by the youth enterprise sector has been established to enhance the business ability to acquire some of the necessary assets, tools, equipment and materials that are required to enhance the operation of the youth business enterprises (Daniels and Mead, 2010) necessitating their improved growth.

5.3.2 How interest rates influence repayment of youth fund loans in Mumias District

The terms of repayment stipulated by YEDF has also been found to be a crucial factor that affects the acquisition of credits by the youth business enterprises. In Mumias District, repayment performance with loans associated with public funds was also poor, which exposes the youth groups to additional losses and therefore, they find it difficult to continue their lending programmes. In the current study, some of the borrowers had defaulted and were therefore faced with harsh penalties. Most of the defaults in business occurred because the business did not make enough profits, or lack of priority for repayment while for others it was due to low sales. For many micro finance providers, the reason they focus on youth business enterprises clients is mainly of a practical nature. Repayment interest rates are typically higher for youth business enterprises than for many enterprises because of the risks of borrowing to the youth business enterprises and the tendency to have fewer alternative sources of finance (Malonza, 2007).

Youth business enterprises are also seen as more compliant and reliable. They are perceived to have a higher sense of responsibility and to be more affected by social pressure from the family or from the owners (Harper, 2003, Simanowitz, 2002). Despite all the efforts channeled towards assisting youth business enterprises, they are faced by diverse challenges as far as repayment of the credits is concerned. Despite earning a living, youth business enterprises have little control over the household's finances or even over their own earnings and may be tempted to divert the finances away from the initial purpose resulting in default payments. The men in the family continue to decide on expenditures. As long as youth business enterprises continue to lack social resources such as access to education they will only be able to make limited use of the financial resources they have obtained and may continue defaulting.

The youth groups are not borrowing more capital for their business due to their inability to meet the criteria imposed by the YEDF (Liedholm and Mead, 2007), which in turn have branded the youth groups to be lack creditworthiness. Access to formal finance is poor because of the high risk of default among youth groups and due to inadequate financial facilities. Youth business in Africa can rarely meet the conditions set by financial institutions, which see youth groups as a risk because of poor guarantees and lack of information about their ability to repay loans. Repayment of loans a scheduled is not an accurate indicator that funds were used to invest in successful productive activities.

All most all the youth groups in Kenya practice the same method that is adopted in lending credit to their clientele. According to WoolCock (2001), social collateral also works through reputational effects on group members in which repayment of loans is seen by group members as necessary to maintain their social standing in the community. Within the lending function of microfinance, it is useful to divide loans into enterprise loans and consumption/emergency loans. As mentioned above, the loan programmes typical of youth groups almost entirely consist of enterprise loans. Nonetheless, significant unfulfilled market demand also exists for consumption and emergency loans, Woller (2002). The demand for consumption/emergency loan is evident in developing countries by the thriving business of the local money lenders. Although stereotype as a loan shark preying on the desperation of the poor by charging exorbitant interest rates and employing unsavory collection methods, the traditional money lenders provide a valuable service for poor people who require quick and flexible infusions of cash to meet immediate and pressing consumption needs or to cope with emergencies like savings, consumption/ emergency loans form an integral component of poor household’s risk management and coping strategies.

Over time, the repayment history of a loan customer accumulates and the firm develops a “private reputation” with its lender (Mintzberg, 2003). In contrast, much bank lending is transactional rather than based on private information collected through long-term relationships with firms. For example, many large banks, and some smaller banks, lend to small firms using credit scoring models, basing their loan decisions on information that can be quantified rather than on private, more qualitative information acquired through direct interaction with the firm. Rather than making more subjective judgments based on direct interactions with a small firm (“soft” information), credit scoring applies statistical methods to “hard” data, summarizing borrower characteristics to produce a “score” that can be used to evaluate the likelihood of the loan applicant repaying the loan (Mei Qiang, 2002). YEDF was found to be charging no interest on their loans and therefore their loans were very friendly to the youth since the only took administrative fees of 5% from the total amount applied for which they took upfront.

5.3.3 Influence of training programme on the loan repayments in Mumias District

Credit availability to enterprises, especially to youth groups, depends on the infrastructure that supports financial transactions, including the legal system and the information environment. Studies have shown that most youth business enterprises perceive borrowing as necessary for business and the impact of borrowing on business performance as positive (Mwenda, 1993; Moyi, 2007), yet they have weak training in the utilization of the borrowed capital resulting in collapses of the business. This was further corroborated by findings of this study. Among the small group of applicants, there were gender, enterprise location, business activity and formality status differences, which were well factored in during the loan borrowing by the business enterprises. Informal enterprises are dramatically more likely to apply for a loan as do those that are larger and older as well as those owned by older entrepreneurs, if they are provided with novel methods of proper loan utilization. The life expectancy of youth business enterprises is generally short so that most do not live long enough to build contacts and reputation necessary in seeking out credit (Sebstad and Monique, 2001).

Studies have shown that most youth groups perceive borrowing as necessary for business and the impact of borrowing on business performance as positive (Mwenda, 1993; Rogaly, Fisher and Mayo, 1999; Moyi, 2000), yet they have weak training in the utilization of the borrowed capital resulting collapses of the business. In this study, only 20% of the youth groups had some prior training before loan acquisition while the remaining 80% were not trained and were therefore managing the business without any training. On the other hand, 84.5% of the respondents indicated that training helped them in loan repayment whereas 15.5% indicated training did not help in repayment. The findings generally confirmed the studies by Moss (2007). The findings also confirm the observation by SAQA (2007). This shows that youth lack business management skills in running their firms. The results were confirmed in studies by Uriyo *et al.* (2004): Shakantu *et al*. (2007); Fraser (1989); Myers (2004); Griffin (1990); Merrifield (1990), and Daniels and Ngwira (1993) that stated that youth lack business management skills. In contrast Kayanula and Quartey, (2010) observed that youth generally use simple technology which does not require highly skilled workers. Lack of business management skills has been recognized as a major barrier by the respondents, strongly agreeing that credit and financial management skills are ranking high. Respondents further agree that the lack of book-keeping, communication, financial control and credit management skills are among the many challenges and constraints faced by youth groups.

5.3.4. Influence of duration of repayment of loan on the loan repayment in Mumias District

The availability of external finance for youth groups is a topic of significant research interest to academics and an issue of great importance to policy makers around the globe. This is because majority of the youth business enterprises usually require capital either to start business or continue with operation and expansion of the business. They try to borrow this money but may find it difficult to access perhaps due to number of problems. In the current study, access and adequacy of the amounts of money borrowed was low. This concurs with several other studies that have discussed that youth groups are financially more constrained than large firms and are less likely to have access to formal finance (Mwenda, 1993; Sebstad and Monique, 2001; Scully, 2004; Söderbom and Teal, 2010; Stephenson and St-Onge, 2010).

But there were also many other reasons why credit may not be available to the youth groups including tough borrowing conditionality, poor business returns, and bureaucracy.

It is also not very difficult to suggest that the reasons why most of the finance institutions could not lend money to the youth groups was attributed to the experience of the youth groups in business cycles. Most of the business had been in operation for a period of less than 3 months and therefore required the business experience which increases business stability and improve the prospects of the YEDF borrowing them money due to long term service (Afrane, 2008). Further, as per the study findings most of the groups access the fund but they do not repay within the stipulated period of repayment.

Studies show that when credit is availed, it becomes the primary remedy by youth groups for increased level of growth or when loans are used to stimulate growth, these strategies often lack mechanisms for excluding risky borrowing often leading to negative attitudes toward borrowing by the youth groups (Yunus, 2007). Moreover, many loans institutions that lend money to the youth groups in Kenya lack cohesion; operate under different mission statements as well as target different market niches and most of the youth groups are not able to offer differentiated lending products or institute business support programs (Kasali, 2006). As a result, many youth group borrowers fail to borrow because of the fear of the unknown and are left with a progressively drying pool of funds for expansion.

5.4 Conclusions

The results of the study reported in this project report indicate a propensity to borrow from YEDF to finance youth groups start up and growth. This came with a challenge of always acquiring the desired finances, and problems in accessing the finances, which affected repayments of loans. The interest rates were not charged on the loans but instead administrative costs were charged which were friendly and this could not be attributed to default. It was also established that the disbursement of the fund takes time and this discourages most of the applicants. Trainings which could have boosted the repayment were also not conducted to the youth groups that benefited whereas training was important for purposes of imparting skills and thereafter boosting repayment. Further, repayment period of loans by youth groups were found to be a major challenge and therefore the funded groups were not repaying their loans within the stipulated period. There were varied sources of finances to the youth groups, which were not adequately utilized by the borrowers leading to youth groups growth status. These results suggest that growth can be determined by amount of capital borrowed, repayment conditions and sources of credit, Profit, asset structure, trainings and prompt disbursement of funds. Growth seems to play a part in determining long-term and short-term debt in the youth business industry. The implications of this are that youth groups may well limit their growth to the finance they have available internally.

5.5. Recommendations

Based on the foregoing discussion of the findings and conclusion, the following implications and recommendations are offered.

1. YEDF should upscale the loans offered to whatever level a youth group can be able to repay depending on the capability of the youth group.
2. Regulations require loans to be collateralized while limiting the types of acceptable collateral. At the same time the laws and registries on collateral (especially for movables such as equipment) need to be updated to promote their use in raising capital.

3. A well-functioning and competitive credit information system that incorporates positive and negative information and covers all sectors of the economy (not just in financial institutions) is imperative for credit to continue to develop in Kenya. Without access to reliable information on the financial condition of a debtor, and his willingness to pay as evidenced by historical payment patterns, creditors tend to limit the amount of credit by relying only on the value of security (collateral) available.

4. YEDF also should fast track their mode for disbursing the funds. Their service charter clearly states that they take one month to process the loan and they should stick to that.
5. Hefty penalties should be imposed on those groups that do not repay their loans within the required time frame.
6. Unsuccessful past attempts to promote the youth group sector could lead authorities (and sceptical banks) to resist new youth group policies due to a perceived high risk of failure. Past attempts to promote the sector, have not lived up to expectations. The private sector could build on this experience to focus on proven “debt-plus” mezzanine funding mechanisms to promote greater youth group financing. Debt-plus financing for youth group consists of hybrid loans that allow the company to repay the loan on the basis of its cash flow instead of a pre-determined amortization table. In exchange, the lender has the right to share in the company profits or receive an equity interest in the company that can be sold back to the principals at a premium. There is a need of venture capitalism.
7. Review and where necessary reform legislation and regulation on loan repayments is required. Legislation and regulations should be reformed to incorporate the realities of the Kenyan youth group market, broaden the definition of acceptable guarantees, and improve use of debtor credit history.
8. The findings of the study reveal that there is a tremendous need for training in the Kenya for the youth groups. Added to this, the study highlights strongly the lack of business management skills. It further recognizes the financing constraints and challenges youth groups are facing. Therefore, the youth group stakeholders need to urgently implement supportive legislation to create an enabling environment for youth group to get access to credit and training.
9. In terms of research data, Kenya should embark on strategic programmes to promote the development of skills in areas of management, technical, book-keeping,

supervisory, business management skills to enable entrepreneurs run their firms profitably and in a sustainable manner. This means that youth groups and other stakeholders should be carefully integrated into a streamlined effort designed to build their capacity to grow. Programmes for developing youth groups should be implemented with a clear and supportive policy framework which encourages co-operation through joint ventures.

5.5 Further research

To bring more light into the issue investigated in this study, it was suggested that the following studies be conducted.

1. The lack of readily accessible market and financial institution performance data undermines the decision-making of all of the stakeholders in the loans industry: policy makers, the regulator, investors, managers, and the public. The lack of basic information about the performance of the different non-bank financial service providers is dire in Kenya. Reliable and accessible performance information informs the decisions of all stakeholders, from policy makers to investors to clients, of a financial market. This information is, in any practical sense, almost wholly absent in Kenya.
2. Improve data collection and dissemination (timeframe: short-term). The value of having adequate public data on supply and demand of youth group finance and youth group activities cannot be sufficiently stressed.
3. Establish a credit information system (timeframe: short-term). A well functioning and comprehensive credit information system with both positive and negative information is imperative.
4. Given the necessary support from stakeholders, programmes and models could make a remarkable difference in easing the plight of youth groups in Kenya.

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APPENDICES

Appendix I: Introduction letter

Owuor Vincent Were

University of Nairobi

P. O. Box 30197

Nairobi

September 2012

Dear Respondent,

<u>Re: Permission to Administer Research Questions</u>

I am a Master student in Project Planning and Management at the Department of Project Planning and Management, Nairobi University undertaking a research on ***"Determinants of Repayment of loans advanced to the youth by the government through Youth Enterprise Fund in Mumias District"***

I am requesting for your assistance by filling in the questionnaires that will enable me accomplish my research objectives. All responses will be treated with total confidentiality. Do not therefore write your name anywhere on the questionnaire. Please kindly respond to all items (questions).

Thank you

Yours sincerely,

Owuor Vincent Were

(Reg: No L50/66750/2010)

Appendix II: Questionnaires for the youth group leaders

Part I: Personal and business back ground

1. Age of respondent:
   < 25 [ ] 25-35 [ ] 36-50 [ ] > 50 [ ]

2. Marital status
   Married [ ] Single [ ] Separated [ ] Divorced [ ]
   Widowed [ ]

3. What is your highest level of education: None [ ] Primary [ ] Secondary [ ] Tertiary [ ] University [ ]

4. What was your occupation before starting business?
   Unemployed[ ] Formally employed[ ] Farmer [ ] Other business [ ]

5. What is the nature of your business?
   Trade [ ] Manufacturing [ ] Service [ ]

6. What is your income per month?
   >5,000[ ] 5,000-10,000 [ ] 10,001-20,000[ ] 20,001-50,000[ ]

7. Why did you choose to start this business?
   Skilled in the activity [ ]
   Family has been engaged in this type of business [ ]
   Its High turnover [ ]

8. Who manages the business on a day to day basis?
   Self [ ] Wife [ ] Husband [ ] Employees [ ]
   Son [ ] Relative [ ]

Part II: Repayment of credits

1. For how long has the current youth group business been in existence?
   < 6 months [ ] 6-12 months [ ] 13-24 months [ ] 25-36 months
   37-60 months [ ] Over 60 months

2. Did you borrow the money you are using from a YEDF?
   Yes [ ] No [ ]

3. What was your initial capital? Ksh………………………………….

4. How much of the capital had you initially applied for……………..

5. Did you find access to credit easy? Yes [ ] No [ ]
   b. If yes, what problems did you experience? E.g. Loan process too slow
………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
…………………………………………………………

6. Did you find the amount of capital you wanted to be adequate?
Yes [ ] No [ ]

7. Did you present a lot of collaterals to obtain the credit?
Yes [ ] No [ ]

8. Were the YEDF conditions for accessing credit easy?
Yes [ ] No [ ]

9. Can you describe the conditions for borrowing the capital?
Easy [ ] Difficult [ ] Not sure [ ]

10. Are you a regular client of the financial organization? Yes [ ]No [ ]

11. When did you receive the first loan? Year………………………

12. What duration do you take to clear your loan?
Below 7 months[ ] 7-9 months [ ] 10-12 months [ ]
12 months and above[ ]

13. Did you experience any problems? Yes [ ] No [ ]

14. How much money have you borrowed in the past 5 years?
Year 1 Ksh………………………………
Year 2 Ksh………………………………
Year 3 Ksh………………………………
Year 4 Ksh………………………………
Year 5 Ksh………………………………

15 What interest rates are paid on the loans?

16. Do you consider the interest rate high Yes [ ] No [ ]

17 Are the interest rates better in enhancing the repayment of the loans
Yes [ ] No [ ]

18. What is the frequency of the loan repayment?
Weekly [ ] Monthly [ ] Quarterly [ ]
Semi annually [ ] Yearly [ ]

19. What was the source of money used to repay the loan?
Sales from the business [ ] Borrowed money [ ]
Own savings [ ] Other specify………………………..

20. Have you defaulted in Loan repayment at any one time? Yes [ ] No [ ]
b. If yes, what was the cause for the default?
Shortage of funds [ ] Did not make profits [ ]
Did not sell anything [ ] Spent the money doing other things [ ]
Did not give it a priority [ ]

21. Were you penalised? Ksh …………..... yes No N/a

22. How much was the penalty? Ksh ………………….

23 How did you utilize the loan?

Invested in other businesses [ ] Invested I this business [ ]
Used it in other family responsibilities [ ]
Other specify……………………………….

24. What is the minimum levels of education required before you borrow loans?
None [ ] Primary [ ] Secondary [ ] Tertiary [ ] University [ ]

25. Do you have any Training programme during borrowing?

Yes [ ] No [ ]

26. What aspects of Training did you receive before borrowing?

Basic accounting [ ] Book keeping [ ] record keeping [ ]
Financial analysis [ ] Overall business management [ ]
Others (Specify)……………………………….

27. Did you receive any Training before you took or repaid the loans?

27b. If yes, which aspects

Basic accounting [ ] Book keeping [ ] record keeping [ ]
Financial analysis [ ] Overall business management [ ]
Others (Specify)……………………………….

28. Does the Training help you as an entrepreneur in business management?

Yes [ ] No [ ]

29. How would you rate the repayment from the business for those whom you have been mentored by the financial institutions?

Low [ ] Average [ ] High [ ] very high [ ]

Appendix III Interview Schedule

Key strongly Agree (**SA**), Agree (**A**), Undecided (**UN**), Disagree (**D**), Strongly Disagree (**SD**)

Statement	**SA**	**A**	**UN**	**D**	**SD**
Repayment of Credits					
You borrow money from YEDF					
Access of credit is easy					
The amount of credit you wanted was adequate					
You presented a lot of collaterals to obtain credit					
The YEDF conditions for accessing credit were easy					
You are a regular client of YEDF					
You received problems during your first borrowing					
The interest charged on the loan was high					
Interest rates were better in enhancing the repayment of the loan					
You defaulted in loan repayment at one particular time					
You were penalized					
You had training program before borrowing					
Training program helped you as an entrepreneur					
Repayment rate from the business for thos trained are high					
Loan repayments were done on monthly basis					
The source of money to repay loan were from sales from the business					
Default was caused by not selling anything					
The minimum level of education required before borrowing funds is secondary level of education					
You were trained on basic record keeping before borrowing funds					

Appendix IV: Work plan

This refers to the research schedule. It is essential in that it enables the researcher to assess the feasibility of conducting the research within the scheduled time frame. It will also enable the researcher to stay on schedule as the research progresses. The research is scheduled to take the following time and activity budget that will be strictly followed.

Table 2: Time schedule and work plan for the entire study

Study activities	**July. 2012**	**Aug. 2012**	**Sept. 2012**	**Oct. 2012**	**Nov. 2012**
Proposal write up					
Reconnaissance					
Correction after reconnaissance					
Data collection					
Data analysis					
Result writing and presentation					
Report writing					
Report presentation and correction					
Report presentation					

Appendix V: Estimated budget

This refers to the list of items that will be required to carry out the research and the approximate cost.

Table 3: Expected expenditure during the study

Components	**Descriptions**	**Items**		**Unit rates (Kshs)**	**Costs (Kshs)**
Proposal writing.	Literature review (Library search)- Internet service	Transport, subsistence and accommodation Hours	50 days 100	1000 per day (Average) 60 per hour	50,000 600
Sub- total					50,600
Research.	Reconnaissance and pre-testing of questionnaires	Investigator (self) (transport, subsistence and accommodation)	50 days	1000 per day	50,000
	Data collection	Self (transport, subsistence and accommodation)	20 days	1000 per day	20,000
Sub total					70,000
Stationary	Questionnaires 3 draft reports copies	Writing, printing and photocopying Printing papers Printing project proposal drafts and Binding	@20 pgs *134 research questionnaires plus 16 questionnaire for pre-test Estimated 5 drafts.		3,000 10,000
Sub-total					13,000
Grand total					**133,600**