

FACTORS INFLUENCING ACCESS TO CREDIT BY YOUTH
ENTREPRENEURS IN SOTIK SUB-COUNTY BOMET COUNTY,
KENYA

BY
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DECLARATION

This research report is my original work and has never been presented for a degree or any award in any other university.

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

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DEDICATION

I dedicate this research project report to my beloved husband Dickson Mutai for his financial and moral support. Emmanuel Kiptoo, Einstein Cheruiyot, Brian Kipngetich Godwin Kipkemoi and Clare Cherop for offering their moral support during entire period of my master's education.

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LIST OF ABBREVIATIONS AND ACRONYMS

AFC	Agricultural Finance Corporation
YREs	Youth Fund Enterprises
AREs	Adult Run Enterprises
MSEs	Micro and Small Enterprises
YEF	Youth Enterprise Fund
YEDF	Youth Enterprise Development Fund
UNDP	United Nations Development Programme
ILO	International Labour Organization
MFI	Micro Finance Institutions
FAO	Food and Agriculture Organization
KWFT	Kenya Youths Finance Trust
MFC	Micro-finance Credit
SMEP	Small and Micro Enterprise Programme
SMEs	Small and medium enterprises
FSP	Financial Service Provider
K-REP	Kenya Rural Enterprise Program.
DCs	Developed Countries
LDCs	Less Developed Countries.
MSEs	Micro and Small Enterprises.
RBI	Reserve Bank of India.
CYFI	Child and Youth Finance International
DFIs	Development Financial Institutions
W.E.F	the Youths Enterprise Fund

ABSTRACT

The youth comprise a significant proportion of the Kenyan population. Due to the prevailing high rate of unemployment, self employment is one of the avenues through which the youth can earn a living and contribute towards growth of the economy. One of the ways through which youth can gainfully employ themselves is through starting and operating their own businesses. This calls for entrepreneurial skills, availability of market and capital. For the youths to raise capital either for start up businesses or expansion of existing ones they need reliable sources. This study was designed to assess the factors influencing access to credit by youth entrepreneurs in Sotik constituency, Bomet County. The aim of the study was based on four objectives; To start with, it was to investigate the extent to which the cost of the loans (interest rates and administrative costs among others) influenced access to loans by youths in Sotik Constituency. Next, the study was to examine how collateral influenced access to credit by youths in Sotik Constituency. Then, it also explored the extent to which education and entrepreneurial training of youths influenced access to loans by them in Sotik Constituency. Further, It was to determine the level at which application procedures for credit influenced access to loans in Sotik Constituency. Finally, the researcher examined how access to information influenced access to loans in Sotik Constituency. This study targeted all the youths aged between 18 and 35 years operating small businesses in Sotik-Sub County. They are found in small market centers. There were 120 licenced small scale youths entrepreneurs who are engaged in different kind of business in Sotik-Sub County. Because of small number of small scale youths entrepreneurs in Sotik-Sub County, all of them were sampled, census method was used. Data was collected by use of questionnaires composed of open ended and closed ended questions because it was easy to administer, cheap and less time consuming. The study used questionnaires to solicit information in line with objectives of the study. Target population of a survey is the entire set of units for which the survey data are to be used to make inferences. It defines those units for which the findings of the survey are meant to generalize. Piloting was done using split half technique. Opinions of experts, peer review were used to check the validity of the instruments and reliability. This study used descriptive survey design. Descriptive survey designs are used when the objectives are systematic or descriptive of facts and characteristics of a given population or sample of the population or area of interest is factual and accurate. In Sotik-Sub County, level of education of majority of licenced small scale youths entrepreneurs 48(43.6%) is primary and below thus literacy level is very low among them and secondary level 39(35.5%), majority of youths entrepreneurs 96(87.2%) in Sotik-Sub County had not engaged in training,42(39.1%) of small scale entrepreneurs are in the age bracket of (32-35) ,100(90.9%) did not have any form of collateral required by lending institution for them to access credit. 2(1.8%) borrowed loans very frequently,5(4.6%) do it frequently, 33(30%) borrowed occasionally and 70(63.6%) rarely borrowed. 60(54.5%) had taken an average of one year of repayment, more than (90%) who were the majority were of the opinion that application procedures and repayment rules hinder access to loans by youths. Data was then edited, coded and analyzed using descriptive statistics. The results were presented using frequency tables and percentages. - SPSS Version 20. The findings indicated that small scale youth entrepreneurs face many challenges such as lack of collaterals, high interest rates cumbersome application procedures and lack of education and entrepreneurial knowledge. Based on the findings, conclusions, recommendations and recommendations for policy formulation were drawn. Recommendations for further research were also established so as to fill the gaps that might have been left out in the research.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Financial services play a critical role in development by facilitating economic growth, enterprise creation; reduce income inequality and poverty levels, and employment creation. Inclusive financial systems allow poor people and disadvantaged groups such as youth, persons with disabilities and women to save, borrow and enable them to build their assets, invest in education, venture into entrepreneurial activities and improve their livelihoods (World Bank, 2012).

Yoshimoto (2000) observes that young people actively seeking employment were two to three times more likely to miss jobs compared to the older generation. Transforming young job-seekers into job-makers is considered to be an important strategy to prevent or alleviate poverty. Micro and small enterprises (MSEs) are widely recognized as a major source of employment and income in developing countries (Mano *et al.*, 2011). If they grow in size, they would contribute to economic growth and poverty reduction among the youth (OYWA, 2012). Access to flexible, convenient, and affordable financial services empowers and equips the poor to make their own choices and build their way out of poverty in a sustained and self-determined way (Mayoux, 2003). However, these youths lack financial capital which is difficult to access from formal lending institutions.

According to the World Bank (2010), access to finance is a significant business environment and an issue for MSEs. Agnew (2003) argues that finance is the life blood of any firm and no matter how well managed, it cannot survive without enough funds for working capital fixed assets, investment and employment of skilled labour force. According to Fatoki and Asah (2011), MSE's contributes positively to economic growth, Employment and poverty alleviation. Kiira (2013), financing viable MSEs projects have an implication on their sustainable growth and potential to create jobs and alleviate poverty.

In both DCs and LDCs, including the transition countries, YREs and AREs face many constraints which impede their growth. Cheston and Kuhn, (2002) carried out a study on the uptake of credit by youth. The study was conducted in the US at Bloomfield. Using a sample size of 65 out of the targeted population of 18, 345, they found out that although youth access to

financial access had been increased, loans given to youth differ in size according residential location of either urban or rural areas. They also found out that although most youth have easy access to credit, majority do not apply for credit because of the interest charged.

Anecdotal evidence from Business Development Bank of Canada suggests that love money is the largest source of funding for youth entrepreneurs. According to a quote by a BDC account manager “Most start-ups I come across are at least partially funded this way” (Yearwood, 2000, p. 1). A study by the Ontario Association of Youth Employment Centres (OAYEC, 2000) on the sources of start-up capital used by 47 new Ontario-based ventures in the information technology (IT) sector found (defining youth as ages 19-30): 46% used personal savings; 38% received money from family or friends (love money); 28% obtained loans or a line of credit from financial institutions; and 9% obtained youth business loans (p. 43). Interestingly, only 9% of these ventures utilised youth business loans, even though the group was comprised of resourceful, well-educated (64% with post-secondary training) IT professionals. Of the individuals surveyed, 40% were unhappy with government assistance, specifically “...inadequate entrepreneurial programs; costly loans via requirement for matching funds by lender; excessive red tape; trouble accessing information...” These may be implicit reasons that this source of capital was not more widely utilised. With respect to their interactions with.

Despite the variety and coverage of microfinance in Indonesia, most of rural households had no access to saving and credit services from a semiformal or formal financial institution, even if they have a viable commercial enterprise (Charitonenko and Iswan, 2002). Poor access to credit correlates strongly with deficiency in income and lack of assets for collateral, generally land ownership.

Ramachandar and pertti(2009) carried out a study in Sao Paulo, Brazil on the availability of microfinance services to youth's sample of 18976 were taken from The targeted population of 876,245 youth. results showed that only 2% of potential microfinance credit clients were accessing and only getting 1.4% of their potential credit while 18000 -70% of Brazils youth at Sao Paulo was said to be completely excluded from banking system, not having any account hence cannot access any credit.

In Botswana Empirical literature suggests that SMEs, especially those owned by women and youth, have constrained access to external finance from formal banks (Kapunda, Magembe and

Shunda 2007; White and Kenyon 2001; Pissarides, Singer, and Svejnar 2003; Lin and Lin 2001). Collateral constraint and bureaucratic procedures being cited mostly as major factors; these constraints the attainment of funding from financial institutions (Kuzilwa ,2005).

According to the World Bank Youth Report (2003), many youths in developing countries rely on personal savings, friends and family for start-up capital and expansion. Without such finances they have limited chances of starting and maintaining their own businesses. Indeed, a study carried out by Chigunta (2005) in Zambia, suggested that the majority of potential youth entrepreneurs (72.4 percent) cited lack of capital as the major reason as to why they were not self-employed. Ayodele (2006) also identified inadequate capital as one of the principal factors hindering entrepreneurship in Nigeria.

According to Schoof (2006), access to business support services such as mentoring, support networks, business clubs and incubators by young people, increases the chances of sustaining the business. Fatoki and Chindoga on studies carried out in South Africa noted that youths perceive lack of capital, lack of skill, lack of support, lack of market opportunities and risk as the main obstacles to entrepreneurial intention.

Recent survey data from Southern Africa suggest that both YREs and AREs face similar problems (Chigunta, 2001; Kambewa, *et al.*, 2001; Mkandawire, 2001). This is supported by evidence from Australia (White and Kenyon, 2000). The constraints that both YREs and AREs face are largely in the following areas: lack of access to institutional capital; lack of access to lucrative markets; poor marketing and branding; inadequate planning; lack of access to suitable working space; lack of business management skills and abilities; inadequate, inaccurate and non-existent financial records, lack of new product development, and; lack of on-going business support. However, the data from Southern Africa suggest that there are some important differences between YREs and AREs (Chigunta, 2001; Kambewa, 2001). Research in the OECD and in Australia has also found that, in addition to the above problems, many young people face the challenge of their age, limited life and work experience (OECD, 2001; Kenyon and White, 1996). Brooks, Zorya and Gautam (2012) stated that access to government financial support is a problem in South Africa.

Access to agricultural credit to youth has been positively linked to agricultural productivity in several studies in Nigeria (Rahaman and Marcus, 2004, Abu, et al., 2010, Ugbajah, 2011). Despite this positive correlation, some empirical studies have revealed cases of credit insufficiency among rural farmers in Nigeria (Deaton 1997; Udry 1990; Zeller 1994; Idachaba 2006; Adebayo and Adeola, 2008 and Ololade and Olagunju, 2013).

In the similar way, several studies have identified reasons for poor credit access among rural farmers in Nigeria. Among others, Ololade and Olagunju, (2013) discovered a significant relationship between farmer's sex, marital status, lack of guarantor, high interest rate and access to credit in Oyo State, Nigeria. A study by Ajagbe (2012) showed that farmer's age, membership to social group, value of asset, education and the nature of the credit market are the major determinants of access to credit and demand among rural farmers in Nigeria. In addition, Akpan et al., (2013) reported that farmers' age, gender, farm size, membership of social organization, extension agent visits, distance from the borrower's (farmer) residence to lending source, years of formal education and household size are important determinants of access to credit among poultry farmers in Southern Nigeria. Contribution by Lawal et al., (2009) showed that, a direct relationship exists between social capital, contribution in the associations' by the farming households and access to credit

Amonoo (2003) carried out a study of impact of interest rates on demand for credit by the youth and SMEs in Ghana. The goal was to find out the relationship between interest rates and the demand for credit as well as interest rates and loan repayment by the youth in a rural region in Ghana. 2 out of 12 districts were sampled. The findings showed a negative relationship between interest rates and the demand for credit. There was also evidence of a negative relationship between interest rate rates and loan repayments. It was noted that lowering interest rates would increase demand for credit and increase loan repayment at banks and non bank institutions.

Like many other countries, Uganda is faced with high levels of youth unemployment—at least 64 percent of persons aged 18-30 years are unemployed. As one of the ways of addressing the high rates of youth unemployment, the Government of Uganda has embraced youth entrepreneurship schemes. Specifically, the government introduced the Youth Venture Capital

Fund in 2011/12 whose major objectives were: jobs creation, business expansion and business skills development. The fund offers fixed subsidized interest loans and depends on both public funds as well as funds offered by commercial banks.

Ahaibwe et al,(2013),on research done in Uganda noted that the youth are disenfranchised in accessibility of credit (this could be due to lack of collateral).credit availability increases the ability to invest and improve access to productive inputs and critical agricultural assets important for improving farm productivity and returns. The inability by youth to borrow and strengthen their investment position in the agricultural production processes could be a catalyst to the push factors of the youth out of agriculture.

Mpunda (2004) analyzed factors influencing demand for credit for youth in rural Uganda. He used a sample of 201 out of the targeted population of 2870. Findings were that although rural youth have the same opportunities for credit as youth living in urban areas, there loan application is smaller than those in urban areas with a percentage of only 44% of the total application. Most youths in Kenya when faced with unemployment challenges tend to run small businesses for economic necessity. Youth often lack the start-up capital and experience to start their own businesses, not least because commercial banks are reluctant to provide the relatively small amounts of credit they need, without collateral or other forms of security.

Birech (2013) did a study on the factors affecting loan utilization among youth in Nakuru County. The focused on the effect of investment site on loan utilization and the effect of investment knowledge on loan utilization. The study target population was 83,102 youth. He used a sample size of 314. The study findings showed that there is a significant correlation between entrepreneurial knowledge, investment site and uptake of credit by youth.

Wachira (2012) conducted a study on effects of interest rates on the uptake of youth credit at Eldama Ravine. The targeted population was 925,000 youth members with a sample size of 125 youth members. The findings of the study showed a negative relationship between interest rates and the uptake of credit for youth. The findings also showed that youth do not apply for credit because of the requirements for huge collateral requirements. However the study again concentrated in Eldama Ravine hence falls short of generalization for the whole republic.

In an investigated the factors influencing credit uptake in Kisumu (Atieno, 2001) selected a sample of 334 respondents which indicated that 15% had not applied for credit because they had no need for credit hence were classified as not credit constraint. 36% were credit constrained but had not also applied for credit. From his findings, major reasons for not seeking credit are lack of information about credit and lack of required security. Only 49% revealed their demand by applying for credit. Amongst this number, there were those whose loan applications were rationed and did not get total amount they applied for.

A study on factors influencing demand for credit for youth at Mwatate in Coast province, (Kimuyu and Omiti, 2000) used a sample of 159 out of the 91,800 targeted populations. It found that low levels of credit demand by enterprises in rural Kenya is attributed to credit supply constrain and an outcome of the spatial structure of the credit market. The study also indicated that youth were not aware of the credit facilities available in their locality. Study on the effect of interest rates on demand for credit by youth in Muranga,(Kamau,2013)showed that there is a negative relationship between demand for credit for youth, increase in interest rate, decline in annual profit and decrease in owner's equity. The research findings show that in addition to household characteristics, interest rate, land ownership and area of operation are also significant determinants of demand for credit.

The research done by Christoper Gakuu, Benjamin Musau, and Jackson Musau (2013) in Makueni county Deduced that the youth in the county were willing to get credit to start businesses as sources of income. The youth were also much aware about the availability of credit facilities for starting or financing income generating activities. The banks and microfinance institutions are the ones which are in a better position to give adequate loans or credit to start business than friends and personal savings. However, many youths did not access the funds from the institutions but preferred their personal savings. The reason for such a state of affairs as established after further probe was that the banks and microfinance institutions had other requirements like collaterals or guarantors, which the youths were unable to provide. The study therefore found out that poor access to credit for income generating activities had led to economic dependency among the youth in the county. Similarly, In Sotik-Sub County in particular youth entrepreneurs face numerous problems in accessing credit for starting business

which include, high interest rates, lack of collaterals, education and entrepreneurial training, application procedures, and lack of access to information.

1.2 Statement of the problem

Access to finance is a key issue for youth entrepreneurs. Accessing credit, particularly for starting an enterprise, is one of the major constraints affecting youth entrepreneurs in Kenya. Kenyan Government has initiated a number of programmes to address the access of finances to the youth such as Youth Enterprise Fund and Uwezo Fund. However much the government has tried these initiatives, many youth have no access to financial services because of problems like, lack of collateral security, high interest rates, cumbersome application procedures, lack of business management skills and abilities, inadequate information about financial services and fear to lose their property after failing to pay back the loans among others. When credit is not readily available to youth, they cannot venture in income generating projects hence they cannot contribute to the gross domestic product of the country (Ramachandar, 2009). It is for this reason that this study was conducted in Sotik-Sub County to find out how these factors influences accessibility of finance by small scale youth entrepreneurs.

1.3 Purpose of the study

The purpose of the study was to investigate factors influencing access to credit finance by youths in Sotik Sub County, Bomet County.

1.4 Objectives of the Study

The study was guided by the following objectives

1. To examine to what extent collateral security influences access to credit by small scale Youths entrepreneurs in Sotik-sub County.
2. To assess how interest rates charged influence access to credit by youths entrepreneurs in Sotik-sub County.
3. To determine the level at which application procedures for credit influences access to Loans by youth entrepreneurs.
4. To examine the extent to which education and entrepreneurial training Influences access to credit by youth of youth entrepreneurs

1.5 Research questions

The study was guided by the following research questions;

- 1 To what extent does collateral influences access to credit by small scale youth entrepreneurs in Sotik-sub County?.
- 2 How does interest rate influence access to credit by youths in Sotik-sub County?
- 3 To what extent does the level at which application procedures for credit influences access to loans by youths.
- 4 How does education and entrepreneurial training of youths influences access to credit by Youths.

1.6 Significance of the Study

This study is of great importance to youth entrepreneurs as it outlines factors influencing youth entrepreneurs' access to credit in Sotik-sub County, Kenya. The study also determines how youth's entrepreneurship affects economic growth and development and the impact of youth's entrepreneurship in economic development. To the stakeholders, The study provides information that can be used to formulate policies by policy makers. To academicians and researchers, the study is a source of reference material for future researchers on other related topics and aids other academicians who undertake the same topic in their studies. Therefore the survey is of much significance to the research institutions, students and other researchers who would get the findings useful in their investigation in the area of study.

The financial institutions benefit from the study as they are able to come up with products which are tailor made to fit into youth financial needs. In addition through the financial institutions corporate social responsibilities youth groups concerns are factored in. In the recent times the Government of Kenya has started a number of loan schemes for various social groups. Among them is the Youth Enterprise Fund (Y.E.F). The Women Enterprise Fund (W.E.F). There is need to monitor these funds to find out factors that may form may form hindrances to their uptake. The factors may affect access to the funds and consequently the performance of the businesses by which they are funded. Therefore the survey is of significance to the government of Kenya, for the purpose of increasing borrowing of the credit, among its beneficiaries to increase business growth and the Consequent social standard improvement. There has been increased activity from financial institutions on loan facilities targeted at small

traders. Many banks for instance have started projects and put a lot of resources, their aim being to attract these traders. The result of the survey is of so much significance to these institutions since they would know from the results of the study the constraints faced by the borrowers of credit and reduce them, to increase the lending.

1.7 Limitations of the Study

The researcher had anticipated facing some limitations in this research study which include poor state of the roads. Alternative means of transport was used including motorcycle, bicycle and footing. Unwillingness or failure of the respondent to respond to questions thus nature of the questionnaire was such that sensitive issues were concealed from direct interpretation which minimized failure and unwillingness of the respondent to participate. Confidentiality was also maintained.

1.8 Basic assumptions of the study

The assumption of the study was that all respondents were to give information objectively and honestly. The sample selected was a representative of the target population and the data collection instrument was valid and reliable in measuring the desired outcomes.

1.9 Delimitation of the study

The study was confined to factors influencing access to credit in Sotik-Sub County among youth entrepreneurs

1.10 Definition of significant terms as used in the study

Access to credit by youth Entrepreneur; Refers to the possibility that youth enterprises can easily seek credit without any difficult. Access to finance can be broadly defined as access to financial products (e.g. deposits and loans) and services (e.g. insurance and equity products) at a reasonable cost.

Collateral securities; Collateral is a property or other assets that a borrower offers a lender to **secure** a loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses.

Interest Rates charged It is the proportion of a loan that is charged as interest to the borrower expressed as an annual percentage of the loan outstanding. In the case of lending money, the

lender could have invested the funds instead of lending them out. With lending a large asset, the lender may have been able to generate income from the asset should they have decided to use it themselves. The interest rate charged is the amount of interest that must be paid on top of a amount borrowed.

Application procedures; Lack of flexible policy regulatory environment. Flexible policy, regulatory environment involves better business registration processes and requirements, affordable loans for business start-ups and prompts disbursement of funds.

Education and entrepreneurial training; Entrepreneurship education is a formal structured instruction that conveys entrepreneurial knowledge and develops focused awareness relating to opportunity, recognition and the creation of new ventures among the youths. Entrepreneurship training generally refers to programmes that promote entrepreneurship awareness for career purposes and provide skills and training for business creation and development.

1.11 Organization of the Study

The research report is organized in five chapters with chapter one featuring background of the study, statement of the problem, purpose of the study and objectives of the study.

Included also in chapter one are research questions, significance of the study, limitations of the study as well as assumptions of the study besides delimitation of the study, definition of significant terms are also outlined. Chapter two captures the study of literature review against background of key study variables. It also highlights the theoretical framework and the conceptual framework of the study.

Chapter three captures research methodology used in the study including research design, target population, sample size and sampling procedures, data collection procedures, data analysis technique ethical considerations and operationalization of variables. Chapter four deals with data analysis, presentation, interpretation and discussions and finally, Chapter five contains summary of findings, conclusion and recommendations

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter seeks to review the various issues which in one way or another may help the researcher, to address the key factors which affect the accessibility of credit among youths. These factors range from how the demand for collateral from traders by financial institutions, the interest rates charged, the application procedures, education and entrepreneurial training of youths influences access to credit by youths.

2.2 Concept of Access to credit by youth entrepreneur

Access to finance can be broadly defined as access to financial products (e.g. deposits and loans) and services (e.g. insurance and equity products) at a reasonable cost. Accessibility to credit can also refer to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services (GOK, 2013). Those who involuntarily have no or only limited access to financial services are referred to as the unbanked or under banked, respectively (Beck and Honohan, 2010). According to World Bank (2011) access to credit is the absence of price and non-price barriers in the use of financial services. The limited access to credit has been attributed to factors such as lack of collateral, high risk profile of SMEs, an oligopolistic banking sector and bias by commercial banks against the SMEs (Waita, 2012). Banks in most African countries have made little effort to reach SMEs due to difficulties in administering loans particularly screening and monitoring small scale borrowers high cost of managing loans and high risk of default (Yahie, 2011).

In an effort to create jobs for the youth, various measures addressing the demand side and supply side of labour have been implemented. Promotions of entrepreneurship financing and overall self-employment are increasingly considered as viable options by African governments. Indeed, previous research shows that in addition to job creation, entrepreneurship has the potential to improve livelihoods and economic independence of young people (Schoof, 2006).

The age of borrowers affects the loan repayment performance of the group as well as the individual. This variable was expected to influence the dependent variable positively. Vigano (1993) noted that with increase in age, it is usually expected that borrowers get more stability and experience in their business consequently they can generate high income leading to high

repayment performance. Attesting to this Berhanu (2005) and Godquin (2004) found concurrent results arguing that elder borrowers may accumulate more wealth than youngsters and they feel responsibility for the loan. On the other hand, Fikirte (2011) noted in his study that age of the borrower was negative and significantly influenced loan repayment performance.

Access to debt finance entails the firm's ability to get and use financial services that are affordable, usable and meets its needs (Claessen, 2006). According to Musamali and Tarus (2013), access to finance is measured in terms of access to certain institutions such as banks, micro-finance or services that these institutions provides. Financial access has four key dimensions- physical access, affordability, appropriateness to the user needs and terms that do not effectively exclude any category of potential user. (Ibid) Musamali and Tarus (2013) asserted that access to debt finance was more adverse to MSE's due to high fixed cost associated with loan appraisals, supervision and collection. This made lenders prefer lending larger amounts of credit to large enterprises than small amounts to many smaller enterprises.

According to OECD,2014 barriers to obtaining finance for disadvantaged and under-represented groups in entrepreneurship are (1) market barriers since members of disadvantaged and under-represented groups in entrepreneurship tend to own fewer collateral assets (e.g. real estate property, vehicles, etc.), (2)cultural barriers women and youth may not approach banks because they think that on average female and young entrepreneurs are less likely to obtain a loan than male and senior entrepreneurs, thus turning into "discouraged borrowers" (kon and storey, 2003). This is especially true when members of these groups have experienced prolonged periods of labour market inactivity. (3) Skills barriers. Most loan applications are rejected because the information submitted is incomplete or wrong. Three common skills barriers involve business planning, business management and financial literacy. Many of the people from disadvantaged and under-represented groups in entrepreneurship who first approach external suppliers of finance have never developed a business plan and have never managed an enterprise before, whereas these are common requirements of lending institutions to give credit. members of some social target groups (such as low-educated, migrant and senior entrepreneurs) may also lack a good grasp of business finance concepts that are key to understanding the risks and opportunities associated with an entrepreneurial venture (e.g. interest rates, time value of money, etc.). Skills barriers can be addressed through business advice, mentoring schemes and financial education programmes.

(4) Institutional barriers. There are a number of potential problems in the way that finance institutions operate that can affect entrepreneurs from disadvantaged and under-represented groups. For example, some forms of microcredit do not enable beneficiaries to build a credit history, which could eventually help them to obtain loans from senior lending institutions at lower interest rates than those offered in the microfinance sector. Lack of legislation about new sources of finance relevant to disadvantaged entrepreneurs is another example of an institutional barrier. The diffusion of the internet has made new sources of finance possible (e.g. crowd funding and peer-to-peer lending), but only recently have policy makers started to legislate on these new channels of business finance. Furthermore, it is generally not enough to enforce a law or introduce a new programme to improve the provision of finance, but it is also important to inform would-be beneficiaries about the change. Information and awareness-raising initiatives are key to overcoming this barrier

The major factors that can influence demand for formal credit include; high interest rates, bureaucratic loan process, high transaction cost, collateral risk and asymmetric information (Adebajo 2010). Potential borrowers can be rationed out of the loan market due to a number of market imperfections. These imperfections include; monopoly power in credit market, interest rate ceiling, large transactional costs incurred by borrowers in applying for loans and moral hazard problems (Rahji *et al*, 2010). Growth, survival and performance of MSEs is influenced by access to debt finance. Firms that have access to debt finance are expected to perform better than those without access (Machirori, 2012).

Access to finance/seed capital is often cited as one of the biggest barriers affecting youth enterprise startups. The youth tend to have less savings, lack business experience, lack collateral and title deeds which are often required in debt financing (Llisterri *et al.*, 2006, Owualah, 1999, Chigunta, 2002). Easing the collateral and legal requirements on youth entrepreneurs and improving access to various types of finance micro, equity, venture and credit guarantee schemes are important factors in improving the access to finance for young entrepreneurs. According to Bartokova and Durcova (2013), the banks and microfinance organizations that give loans to young entrepreneurs get customers automatically due to the rate of unemployment facing the nation at the moment.

A major constraint to the growth of YREs is lack of access to finance. While potential youth entrepreneurs and existing YREs generally lack access to credit in both DCs and LDCs, the problem is particularly acute in the latter. Not only are there few micro-finance institutions in many countries, but those specifically targeted at youth are even fewer. A review of 902 Organisations in 96 countries listed under the Microcredit Summit's Council of Practitioners revealed only 21 organisations with 'youth' in their title (Curtain 2000). Admittedly, there are credit schemes directed at young people in the mainstream microcredit organizations, but surveys reveal that youth are an underrepresented group. Lack of sufficient collateral, experience and biases further disadvantage young people.

It is also important to note that many micro-credit schemes, especially youth credit schemes, have failed in many countries. The overall message from the failure of these schemes suggests that success or failure in terms of financial viability and servicing the poor, in this case young people largely depends on the design of the programme (Curtain, 2000).

In many Kenyan microfinance institutions youth forms only 24% of the customers while over 40% are individuals aged over 40 years (Mueni, 2012). In Kenya 90% of youth micro enterprises collapse in their first year of start-up, due to lack of financial resources. Although many financial institutions have been vigorously marketing their credit facilities, few youth enterprises have been accessing them (Ataya, 2012). Existence of many regulatory barriers hampers effective delivery youth financial services by many microfinance institutions in Kenya. Interventions by policy makers and regulators such as Ministry of Finance, Ministry of Youth, Ministry of Education, Central Bank, and financial services supervisory authorities have not yet enabled many young people to easily access micro finance services (Ataya, 2012)

According to Schoof (2006), access to business support services such as mentoring, support networks, business clubs and incubators by young people, increases the chances of sustaining their enterprises beyond start up stage. However, young entrepreneurs often lack the support services that are key to transforming fragile individual start-ups into successful small and medium-sized businesses (World Bank, 2008). The literature review revealed that one of the most significant problems faced by youth group MSEs is financing problems. Such constraints have been identified by Naidu and Chand (2012) to include inability to obtain external and internal financing, insufficient working capital, high start-up costs, high interest rates on loans

and inability to meet financial obligation. According to Naidu and Chand, (2012) and Wanjohi (2010), there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development. Another crucial financial problem faced by MSEs is managing sales and debtors (Mbonnyane and Ladzani, 2011). According to Ejembi and Ogiji (2007, p. 7), it can become problematic to run a business if the finances are not available or not managed and the owners cannot make projections. Mbonnyane and Ladzani, (2011) confirmed that MSEs struggled to obtain loans from financial institutions which previous finding established that are playing insignificant role in funding group MSEs (Wawire and Nafukho, 2010).

There is a great need for youth entrepreneurs to get access to credit facilities and the policy makers should understand and develop successful strategies to address the issue (World Bank, 2008). Data from Southern Africa suggest that there are some important differences between YREs and AREs (Chigunta, 2001; Kambewa, 2001). In general, the data suggest that, compared to adults, young people are disadvantaged in the following areas: more youth face problems of access to resources such as capital; more young people start their enterprises with lower levels of initial capital; more enterprises owned by young people have a lower market value or inventory; more youth entrepreneurs are engaged in a narrower range of activities; more young people tend to operate from homes or streets (lack of access to space); more young people do not bring experience and contacts to the business, and; more enterprises owned by youth tend to rely on simple tools or have no equipment at all.

These constraints expose YREs to greater risk than AREs. Many YREs in both developed and developing countries also largely rely on the local market. Available evidence suggests that heavy reliance on the local market, especially in poor countries, is a key constraint on earnings and growth of enterprises. Available literature shows that youth enterprise support programmes in many developing countries fail due to, among other factors, inadequate funding.

Kiira(2013) established that MSEs required finance for speedy innovations so that they can improve their productivity and maintain competitiveness. Atieno(2009) argues that lack of access to finance is a major constraint facing MSE's and one of the reasons for its slow growth in Kenya. According to The International centre for economic growth (1999) only 1.5% MSEs had received loans from Commercial Banks in Kenya and 50% of rural individuals had never

used any credit (Financial Survey, 2009). It therefore follows that Financial Institutions seem not to be providing enough credit to new economic activities and in particular the expansion of MSE's.

In spite of the potential the sector has, its growth has been constrained by challenges arising from lack of financial services among other factors (Livingstone, 2001). Pretorius and Shaw (2004) posit that access to external finance was essential to solving shortage of the firm's cash flows.

The survey results from Southern Africa suggest that lack of experience and expertise, among other factors, tend to push potential youth entrepreneurs into high risk and low-value adding self-employment situations where failure is highly probable (Chigunta, 2001; Motts, 2000).

Research studies reveal that age, capital, size, information access, risk and financial records are key factors influencing credit access by firms. Others include; interest rates, borrower's education level and past financial performance. These factors can be categorized into three namely; entrepreneur characteristics, firm characteristics and financial characteristics world (Hamadi, 2010).

2.3 Collateral securities and Access to credit by youth entrepreneurs

Collateral, especially within banking, traditionally refers to secured lending (also known as asset-based lending). More recently, complex collateralization arrangements are used to secure trade transactions (also known as capital market collateralization). The item used as collateral provides security to the lender, letting them know that they'll get their money back whether or not you're able to satisfactorily repay the loan. The former often presents unilateral obligations secured in the form of property, surety, guarantee or other as collateral (originally denoted by the term security), whereas the latter often presents bilateral obligations secured by more liquid assets such as cash or securities, often known for margin.

Most banking institutions demand collateral as one of the requirements for the access to credit facilities. This becomes a constraint among youths participation in SME's, most of them may not have deeds to capital assets to present as security against the loans.

When a financial institution gives a loan, it wants to make sure it will get its money back. That is why a lender usually requires a second source of repayment called collateral. Collateral is personal and business assets that can be sold in case the cash generated by the small business is not sufficient to repay the loan. Every loan program requires at least some collateral. If a

potential borrower has no collateral, he/she will need a co-signer who has collateral to pledge. Otherwise it may be difficult to obtain a loan. This is one of the factors which prevent youth entrepreneurs from accessing loans. The youth possess little resources and assets that are inadequate and in some cases unacceptable as collateral for loans by Financial Institutions (Nganga, 2015).

The collateral secures the debt when it is valuable for both parties involved in the contract, when the lender can take possession of the security without incurring high transaction costs according to the legal framework (Fleisig, 1995) and when its value does not diminish with use. Because the collateral's value often surpasses the loan (Picker, 1992), it is easier to recover a secured debt than an unsecured one.

The compulsory savings which is a pre-requisite for borrowing, act partly as security. However, collateral is put in writing such that on default by a member, the group members can sell the given security to recover the loan. Social collateral works through reputation effects on group members in which repayment of loans is seen by group members as necessary to maintain their social standing in the community, (Woolcock, 2002). Bendig (2010) claimed that the availability of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses in case of default (Muratha, 2015).

Collateral reduces the riskiness of a loan by giving the financial institution a claim on a tangible asset without diminishing its claim on the outstanding debt. According to Coco (2000), Collateral security is the lender's second line of defense which can be used by the firm to solve the problem of asymmetry in valuation of project's risks and the cost of supervising the borrower's behavior.

Coleman(2000) pointed out that many MSEs are in service industry and lacked assets that could be used as a Collateral security. Thus, firms that invested heavily in tangible assets tended to have a higher financial leverage as they could borrow at lower interest rates given that the debt is fully secured with such assets (Barbosa and Moraes, 2004). Bongheas et al (2005), noted that Collateral security was an important factor for MSEs in order to access debt finance as it reduced the riskiness of the loan by giving lenders claims on tangible assets.

Youth entrepreneurs face many problems. Kimathi (2009) emphasize that small businesses are held back by tough local conditions some of them are unable to raise huge collaterals demanded by banks as a condition to access loans. This has created an impression that they are too big for microfinance institutions but too small for conventional banks

Banks and other financial institutions have had difficulties in advancing loans to youths operating youth enterprises. The main reason for this is include; lack of collaterals required by the financial institutions; inadequately compiled financial records and lack of technical and management skills of the youths (Wanjohi, 2008). Lenders would be willing to provide more credit if borrowers provided collaterals, a guarantor or if they borrowed credit to carry out a business related activity (Pham & Lensink 2007).

Financial market imperfections, such as information asymmetries and transactions costs, are likely to be especially binding on the talented poor and the micro- and small enterprises that lack collateral, credit histories, and connections, thus limiting their opportunities and leading to persistent inequality and slower growth(Muratha,2015)

Credit constraints can occur when banks increase collaterals for loans. As a result, low interest borrowers (including MSEs) may be removed from the list of potential customers and banks may skip these customers (Stiglitz& Weiss, 1981).Gangata &Matavire, (2013) in their study on challenges facing MSEs in accessing finance from financial institutions, found out that very few MSEs succeed in accessing funding from financial institutions, the main reason being failure to meet lending requirements, chief among them being provision of collateral security.

A similar challenge was raised by more than 200 young entrepreneurs who gathered in Toronto in June 2010 for the G20 Young Entrepreneur Summit who noted that they had had great difficulty accessing finance because they tended to have little experience and few assets (Ernst and Young, 2011).Many credit institutions refuse access to credit for young people, because they cannot provide collateral (FMECD 2010). Furthermore, due to insufficient information and access to support networks young business people often have problems getting access to markets (FMECD 2010). The main reason for this is that they have not been yet involved with much economic activity due to studies and have not gotten any work experience. However according to Paulson and Townsend (2004) it has been said that over 60% of all small business start-ups, the initial investment has come from family, friends or other relatives. In this case what is

considered to be a barrier can sometimes also be an encouraging incentive for the owner to succeed and do better.

Access to credit is cited as a key obstacle for young entrepreneurs in Swaziland who often lack collateral and are considered 'higher risk' because of their limited business experience (United Nations report, 2013). Youth face challenges to secure loans due to the lack of collateral and financial history; the formal financial institutions thus often exclude youth from their business services. Commercial banks usually consider youth unreliable and risky and are wary of offering them loans. Commercial banks have observed the following challenges in the provision of finance to youth: the lack of collateral; mostly 'necessity driven' entrepreneurship; and inadequate contingency planning and poor risk assessment, resulting in a low business success rate and loan repayment rate. A young entrepreneur summarizes the situation: 'Even when our business is viable, banks are hesitant to give us credit you because of our age....they view young people as unstable and unreliable.' (UN report, 2013)

Gender of the borrower is hypothesized to have a positive relationship to micro-credit group participation because females are disadvantaged compared to the male in terms of collaterals (Kangogo et al, 2013). According to Barslund and Tarp (2007) and Nguyen (2007) there is no gender bias in microcredit participation in the peri-urban areas in contrast to what is in rural Vietnam. This is consistent to the findings of Doan *et al.* (2010) using Tobit model that gender does not really matter in credit participation but it plays a role in explaining loan size.

Their findings showed that male-headed households received lower amounts of loans than female headed households. The finding is contrary to the common trend in developing countries because females are often involved in small businesses which need smaller loans (Armendariz and Morduch, 2005). Similar findings have been found by Owour (2009) who indicated immense involvement of women in rural economy as well as the fact that women get more attracted to micro-credit groups that peg no tangible credit to lending, reason being that a majority of women in Africa still lack right to property to hold as collateral against credit.

Lack of access to credit facilities is almost universally indicated as key problem for small and micro enterprises. In most cases, even where credit is available mainly through banks, the entrepreneurs may lack freedom of choice because the banks' lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the bank. Credit

constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends and relatives. Lack of access to long-term credit for micro, small and medium enterprise forces them to rely on high cost short term finance (Wanjohi & Mugure, 2008).

Cressy and Toivanen (2001) say that, “better borrowers get larger loans and lower interest rates; collateral provision and loan size reduce the interest rate paid. The bank is shown to use qualitative as well as quantitative information in the structuring of loan contracts to small businesses.” In effect, it may therefore be that simple because banks approach the lending process in a risk-averse way (in order to protect the funds of savers), and thus turn down a number of propositions perceived to be ‘riskier’, that there is an apparent ‘discrimination’ against for example women youth and ethnic minorities.

Ugwu (2006) argued that most entrepreneurship related policies and programs in Nigeria fall short of appropriate development frameworks. Mostly, financiers require collateral from the youthful entrepreneurs as a prerequisite to funding. The risk of losing one’s property right is one of the second most important financial risks for young people when starting a business though loans from financial organizations. Lacks of collateral and high interest rates are an impediment to access to loans from Micro finance institutions (MFIs) by the youths (Mushimiyimana, 2008).

Financial market imperfections, such as information asymmetries and transactions costs, are likely to be especially binding on the talented poor and the micro- and small enterprises that lack collateral, credit histories, and connections, thus limiting their opportunities and leading to persistent inequality and slower growth.

In Kenya, the lack of capital and access to affordable credit is cited by youth as the main factor behind the low productivity in agriculture (Kangai *et al.*, 2011). Access to bank credit especially by young farmers is still a major challenge despite the fact that Kenya has a relatively well developed banking system (IFAD, 2009). Risks associated with agribusiness coupled with complicated land laws and tenure systems that limit the use of land as collateral make financing of agriculture unattractive to the formal banking industry in Kenya (MoA, 2009). Thus, family support is a common finance source for youth willing to start a farming activity which is usually very limited. Loans are the most commonly offered financial products to youth. However, many

a times, accessing credit remains difficult for young people since they often lack the required collateral such as land or savings to obtain credit from financial institutions (Herbel *et al.*, 2010). Credit accessibility challenges notwithstanding, FAO (2010) revealed that young people in rural areas are often hesitant of taking loans because they are afraid they may not be able to manage the reimbursement. McNulty and Nagarajan (2005) reported that loans are generally only provided to youth who have an established business rather than to start-ups. Apart from credit, McNulty and Nagarajan (2005) confirmed that savings are extremely important for youth; it helps them build assets, plan for life events and respond to emergencies. Regrettably, financial service providers tend to focus more on credit instead of enabling savings. McNulty and Nagarajan (2005) reported that it is only less than half of microfinance providers in most of the developing world that offer savings products.

According to the CBS/ICEG/K-Rep (1999), the two key challenges include poor access to markets and limited access to financial services. Lack of tangible security, the procedural bureaucracies of credit borrowing were some of the facts highlighted that constrain small-scale entrepreneurs from accessing credit from formal credit institutions. The impact of these challenges has led to majority of MSE operators confining themselves to narrow markets where profit margins are low due to intense competition. Consequently, most of the MSEs are stagnating, retrogressing to micro status or closing after few years of operation. Very few manage to graduate to medium and large-scale enterprises (Ministry of Labour and Human Resource Development-GoK, 2004).

Ebadi et al, (2011) argue that tangible assets reduce moral hazard risks as they convey a positive signal to creditors in case of default. Thus, Collateral security reduces bankruptcy cost which in turn increases credibility and access debt market. Collateral security is used to address moral hazard and adverse selection problems (Bester, 1985; Boot, 2000). The more serious these informational problems are, the more likely it is that banks will use Collateral security to exclude low quality borrowers from bank credit. Where the quality of information is poor, banks will depend more on Collateral security to signal the quality of borrowers and to reduce the incentive to deviate loan funds into activities other than the project for which they are intended.

It is also possible that banks may demand very high Collateral security requirements as a way of rationing credit.

Globally, like youths, women face legal obstacles in starting and running a business. According to World Bank reports (2012) on Women Business and Law, women in Middle East and North African countries have fewer inheritance rights than men. The report also indicates that women only own one percent of the world's property and in two thirds of countries, legal rights of women decline with marriage. Makena, et al., (2014), in their study on challenges facing women entrepreneurs in accessing business finance in Kenya: Case of Ruiru Township, Kiambu County, lack of collateral was one of the objectives. However, the study found out that like lack of collateral was a greater hindrance to credit accessibility by women entrepreneurs just like youths. This is due to lack of tangible assets like land, which are used as assets to secure credits. Among their recommendations is that the government should play its role of enabling SMEs to obtain finance from financial institutions

Like youths most women who venture into businesses in the rural areas and need financing lack the needed collateral to enable them secure bank loans (Karwenji, 2012). Responsibility of entrepreneurs for dependants has limited opportunities to make savings or undertake business expansion and diversification (Athanne, 2011). Women owned businesses are known for their low start up and working capital just like those for youths (Siwadi et al 2011,)

Mwangi and Shem (2012) studied accessibility of credit in Kenya. They used bivariate probit model to analyze the access of informal credit. They argued that accessibility to credit was a constraint in Kenya especially for poor urban and rural households since they lack collaterals. They also noted that borrowers who are willing to pay prevailing credit interest rates cannot access the funds at those rates because lenders are unwilling to lend to them due to dearth of information about them and lack of collateralisable assets, severely constraining their access to credit.

Borrowers poor in collateralisable assets and for whom lenders have poor information about their creditworthiness have resorted to the use of social capital to improve their accessibility to credit (Mwangi & Ouma, 2012). Social capital refers to connections among individuals that characterize social networks where norms of reciprocity and trustworthiness

arise(Putman,1993). In other words, these are sources that may include friends, family members, and professionals among others, where a social connection exists between the lender and the borrower (Ngechu, 2014).

Mushimiyimana, (2008) cited lack of collateral and high interest rates as an impediment to access to loans from Micro finance institutions (MFIs) by micro entrepreneurs. Micro entrepreneurs who secure funds from such institutions spend the bulk of their returns on investment in paying the cost of capital, thus leaving them with none or little savings for reinvestment. As a result, majority of micro enterprises fail to grow into Small and eventually Medium enterprises.

Atieno (2001), states that lending to businesses in the informal sector has been difficult because most formal financial institutions are considered “uncreditworthy”. Atieno (2009) further imputed lack of access to funds for MSEs to the segmented and nature of financial markets which increases transaction costs attached to financial services. Alila and Pederson (2001) also ascribed the challenge of inaccessibility of funds to less involvement of commercial banks, which perceived MSEs to lack marketable collateral and that they had no established credit rating. These perceptions have posed financial challenges to youth and women-owned enterprises as they dominate the informal sector (Moraa, 2014).

Majority of the youths in Bomet County suffer from limited access to formal credit due to lack of collaterals.

2.4 Interest Rate charged and Access to credit by youth Entrepreneurs

An interest rate is the rate at which interest is paid by a borrower (debtor) for the use of money that they borrow from a lender (creditor). Specifically, the interest rate (I/m) is a percent of principal (P) paid a certain amount of times (m) per period (usually quoted per annum). For example, a small company borrows capital from a bank to buy new assets for its business, and in return the lender receives interest at a predetermined interest rate for deferring the use of funds and instead lending it to the borrower. Interest rates are normally expressed as a percentage of the principal for a period of one year. Interest-rate targets are a vital tool of monetary policy and are taken into account when dealing with variables like investment, inflation, and unemployment.

According to Huka Sharu and Dr. Wario Guyo, (2013), the central banks of countries generally tend to reduce interest rates when they wish to increase investment and consumption in the country's economy. The study established that the youth SME owners were experiencing problems in raising capital and accessing financial services to a very great extent while accessing credit was experience to a moderate extent. In addition, due to the lack of self-sustaining resources, the absence of a substantive credit history, sufficient collateral or guarantees to secure loans or lines of credit, young people are often seen as particularly risky investments and therefore face difficulties in accessing finance. The study found that most of the youth SME owners in this study had not borrowed loans since the start of their business. In addition, to the youth SME owners, short repayment period, high interest rates and lack of collateral were common challenges in obtaining a loan for their business. Other challenges quoted by the respondents include, guarantors requirement, long process, record keeping as part of the requirement and financial institutions lack of trust in the youth (Guyo and sharu, 2013)

Keynes argued that, investment is a decreasing function of interest rate. This implies that whenever interest rate rises up, investment will eventually fall, this is because with higher interest rate the possibility of making profit out of investment is very low, hence high interest rate reduces the marginal efficiency of capital. Therefore as a rule of thumb, investors will like to borrow from banks at a lower interest rate (H. M. Aliero and S. S. Ibrahim ,2013).

On the contrary, bank charges interest to investors out of which certain percentage will be paid to savers as deposit rate. At higher deposit rate, saving will be attractive and similarly banks will extend more loans, but investors will reject further loans as interest rises. Higher interest rate discourages rural poor to deepen their financial access. Interest rates are very higher in developing countries especially, on micro-credits due to the higher administrative costs in relations to their scale of operations (Sacerdoti, 2005). It is very obvious that higher interest rates discourage borrowing.

Given the constraints on the supply side of debt finance, an option for MSEs would be to resort to external financing (Mac et al., 2010). Owners of MSEs, particularly from those which have high growth possibilities, might be willing to concede some control in a firm and attract venture capital funding. Nevertheless, formal venture capital by institutional investors has been so far a viable option only for a very small minority of MSEs, the ones with high growth and feasible

exit possibilities for outside investors (European Commission, 2010). Moreover, the supply of venture capital is insufficient, and the costs of this form of finance for MSEs at the start-up stage are high.

Saleemi, (2007) defined interest as the return on capital. Cost of credit can be classified as; gross interest and net interest. Gross interest is the total amount that the debtor to a creditor and the net interest means the part of interest that is for the use of capital only. The interest rate usually, is a percentage of the borrowed amount, determines by the amount of interest over duration which may be a year. High interest rate therefore increases the cost of credit.

Weiss (2008) carried out a study on factors affecting credit demand by SME's and Youth. The study was done in the U.S. Using a sample size of 800 out of the targeted population of 8674, He found out that Youth pay higher interest rate than other age groups. He also found out that lending institutions charge a higher interest rate to youth because of inadequacy of enough collateral.

In his analysis for demand for credit among youth in Sao Paulo, Brazil, Nehman(1973) observed that borrowing costs strongly affect the willingness of youth to take loans from formal lenders. If lenders do charge high interest rate, this increases the risk they are exposed to by discouraging low risk, low return borrowers from seeking loans ultimately discouraging lenders from lending to young entrepreneurs altogether (Njoroge & Gathung, 2013). He also observes that no business can possibly exist without having access to credit.

The findings on barriers to start-ups from the Swaziland Enterprise Survey (World Bank, 2006) shows that access to finance, soft infrastructure (phone, internet), corruption and informal practices as well as high tax rates were key obstacles for small (employing 1-19 employees) and medium-sized (employing 20 – 99 employees) firms. These messages were echoed in the last three Global Competitiveness Reports (2010/11, 2011/12 and 2012/13), where investors identified access to finance, corruption, and inefficient government bureaucracy as the three most problematic factors for doing business in the country (World Economic Forum, 2010; 2011 and 2012).

According to Mbegue, 2013 many countries in Africa have established interest rate ceilings to protect consumers from high interest rates charged by micro lenders. Such ceilings are often the response of governments facing political or cultural pressure to keep interest rates low. The

general idea is that interest rate ceilings limit the tendency of some financial service providers to increase their interest yields (all income from loans as a percentage of the lender's average annual gross loan portfolio) especially in markets with a combination of no transparency, limited disclosure requirements and low levels of financial literacy. The study also noted that despite good intentions, interest rate ceilings can actually hurt low-income populations by limiting their access to finance and reducing price transparency. If ceilings are set too low, financial service providers find it difficult to recover costs and are likely to grow more slowly, reduce service delivery in rural areas and other more costly markets, become less transparent about the total cost of loan, and even exit the market entirely (Mbengue,2013)

High interest rate on credit may discourage youths from borrowing, hence reducing the accessibility of credit among them. Every business needs financing, even though at first glance it might appear that funding is unnecessary. It is important that financing be as efficient as possible.

A study was done on challenges faced by Small & Medium Enterprises (SMEs) in obtaining credit in Ghana. Based on the responses received through the questionnaires circulated, it became evident that SMEs in Ghana like most SMEs in other countries are faced with major challenges in accessing credit. These challenges were revealed by the study to include, the inability of SMEs to provide collateral and other information needed by banks such as audited financial statement couple with the high cost of loan in terms of high interest rates make it extremely difficult to access bank loans (Vuvor&Ackah, 2011).

Fiona (2008), on her study on Government's administrative burden on SMEs in East Africa concluded that Governments in the region have begun to recognize that lower-level policies and administrative procedures impose significant constraints on private sector development, stemming primarily from the command and control bureaucracies that characterized colonial governance. There are three priority areas for administrative reform: business licensing and registration, tax and customs procedures and specialized approvals.

(Bowen et al, 2009) on their study Management of Business Challenges Among Small and Micro Enterprises in Nairobi-Kenya found out that SMEs face the following challenges; competition among themselves and from large firms, lack of access to credit, cheap imports, insecurity, high interest rates and debt collection.

Kangogo et al, 2013 noted that Interest rate is of great concern in determining both the participation and level of participation in credit groups (Khanh, 2011).The high cost of credit in terms of high interest rates, loan processing fees, transaction costs, legal fees and insurance charges combined make loans expensive for less established young entrepreneurs (Nganga, 2015). Institutional policies and government regulatory framework that inhibit economic freedom dampen people's alertness to opportunities through their negative effect on personal agency beliefs that is internal locus of control and personal efficacy (Harper, 2003).

Peninah (2012) suggested that although more businesses have become the customers of banks, the overall volume of credit has not necessarily increased. Taken together with a squeeze in demand for their products and high inflation, small businesses are not always eager for larger bank loans at higher interest rates.A general lack of experience and exposure just like youth restricts women from venturing out and dealing with banking institutions. Those who do venture out often find that transaction costs for accessing credit are high, and cannot be met by the cash available to them. Because of this, they are dependent on the family members for surety or collateral and hence restrict the money they borrow. This results in lower investments. Alternately they tend to find working capital at higher rates of interest. The availability of finance and other facilities, such as industrial sheds and land for women entrepreneurs are often constrained by restrictions that do not account for practical realities (Hannan and Freeman, 1989).

(Wachira, 2012) points out that in Eldama Ravine, there is a negative relationship between interest rates and the uptake of the credit by the youths and that youths did not apply for credit because of the requirements of huge collaterals.In a study to assess the effectiveness of credit management systems on loan performance of microfinance institutions, Moti, Masinde, Mugenda and Sindani (2012) find that interest rates have a negative effect on loan performance in that the higher the interest rates the lower the loan performance.Mwangi and Bwisa, 2013, carried out a study on Challenges facing entrepreneurs in accessing credit a case of youth entrepreneurs in Makuyu,Kenya.and they found that 90% of youth entrepreneur interviewed said that the rate of interest for credit is high. High interest rates will make the youth entrepreneurs shy away from accessing credit. Others may lack ability to meet the high interest accompanying credit. They also noted that most of youth entrepreneurs faced challenges in accessing credit due

high cost of credit evidenced in high loan processing fees, high rate of legal fee, high rate of interest, high cost of credit insurance and high expenses incurred in travelling in the process looking for credit. The research recommends that the financial institutions should look for ways of developing credit products that would attract the youth. The lenders and other stakeholders should explore lowering rate of interest for credit products meant for the youth.

Another study was done on effects of access to financial credit on the growth of youth owned small retail enterprises in Uasin Gishu County: a case of Kapseret Constituency. The study found out that interest rates affected access to credit by youth entrepreneurs owning small scale business enterprises in Kapseret Constituency (Cheluget, 2013).

2.5 Application procedures and access to credit by youth Entrepreneurs

Previous literatures reveal that access to financial services by small-scale entrepreneurs is normally seen as one of the constraints limiting their benefits to improve their economic status (CBS/ICEG/K Rep,1999). In most cases the access problem especially experienced from formal financial institutions is one created by the credit institutions. Commercial banks and other formal institutions fail to cater for the credit needs of smallholders mainly due to their lending terms and conditions.

One of the pain areas for MSEs is finding appropriate sources of funding. Inadequate information on various lenders policies, products and services, interest rates, terms and conditions limit options for credit especially in rural areas. Failure to access crucial information especially on Government Supported Schemes make applications and disbursement process long and tedious which discourage youth entrepreneurs from applying. Programs such as the youth fund and Women fund have come into existence over the past three years to provide the much needed credit. However, few youth, especially in rural areas, know about these programs, in regard to where to go, what to do and how to do it with regard to loan application processes and support services. Financiers on the other hand have inadequate credit history of the youth, thus cannot be able to assess their credit worthiness as the youth do not furnish credit bureaus with this information as they are unaware of such credit bureaus (Educational Development Centre [EDC], 2009).

According to the World Bank (2005) administrative and regulatory burdens on youth entrepreneurship especially on access to micro financing are among key barriers for start-ups of young people in high-income and developing countries. To access financing from reputable micro financial organizations, bureaucratic demands like business registration processes for instance are still cumbersome in most developing countries.

World Bank (2005) observed that business registration procedures and costs can be a major obstacle for young people lengthening the process of acquisition of financial services and products. De Sa, (2005) revealed that in developing and transition countries particularly; these procedures are often associated with bureaucracy, corruption and lack of transparency or accountability. In this context, young people get easily tied up in red tape and lose their entrepreneurial enthusiasm.

Bureaucratic lending procedures has been postulated as a major constrain to access to credit by women and youth (Manson & Mat 2010) .Chigunta (2002), in his analysis of empirical data for two programs that have been successful in promoting youth entrepreneurship- (Imprenditorialita Giovanile (IG) S.P.A in Italy and the Prince's Trust - Business (PTB) in the United Kingdom) reported that one of the factors for the success of these programs was adequate funding from the government and a supportive policy regulatory environment that allows for efficient provision of business development services to youth entrepreneurs. Chigunta, (2002) reports that the major reasons given for the failure of government funded projects in developing countries is inadequate funding and lack of a flexible policy regulatory environment. Flexible policy, regulatory environment involves better business registration processes and requirements, affordable loans for business start-ups and prompts disbursement of funds

Czura, Karlan and Mullainathan (2011) also establish a negative relationship between flexibility and loan repayment in their analysis on the extent of structured flexible repayment schedules on borrowers' investment level in Rural India. The study revealed that higher flexibility resulted in worse loan repayment performance and that the probability of default increased from 54% to 87% as a result of increased flexibility. According to UN Report, (2013) Barriers in the business environment can have a negative impact on youth, who generally lack experience and links to professional networks and that Young people perceive the prevailing business environment as unfriendly mainly due to cumbersome administrative procedures as well as the lack of

transparency and accountability in doing business. Due to greater experience and networks, adult entrepreneurs are able to complete registration and licensing requirements a lot quicker than their younger counterparts, even though the former group also found the procedures cumbersome and lengthy. Young people consider the lack of reliable information on business procedures and opportunities troublesome. As one of the young entrepreneurs pointed out: 'Business information is difficult to obtain, particularly for the non-traditional sectors. Reliable statistical information is limited, and often data on sector specific performance or projections are not even available.' (UN report, 2013)

Youth also mentioned poor quality of assistance received from the business services providers. Specifically, these entities often use templates to prepare business plans, without involving the young entrepreneurs. Not only are plans prepared in such a way too general, the entrepreneurs are also not able to present them to financial institutions in a convincing way. In this regards, entrepreneurs in South Africa face a similar challenge (Herrington, 2011). From this study it also became apparent that young people are not well informed about regulatory requirements they need to meet in order to start business or obtain loan. In fact, they are not even fully aware of the various institutions and services available to support youth entrepreneurship. A well-targeted training could go a long way in this regard (UN report, 2013)

Schmidt and Kropp (1987) pointed out that in most cases the access problem especially among formal financial institutions, is one created by the institutions mainly through their lending policies. What is displayed in form of prescribed minimum loan amounts, complicate application procedures and give restrictions on credit for specific purposes (Messah, 2011). The type of financial institution and its policy will often determine the access problem to credit borrowers. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access (Schmidt and Kropp, 1987). Development Financial Institutions (DFIs) have their lending policies which according to Schmidt and Kropp (1987) assumption, the loan borrowing policies that the DFIs put up play a part in influencing credit demand among credit borrowers.

Matavire et al., (2013), in their study on challenges facing SMEs in accessing finance from financial institutions: The case of Belaway, Zimbabwe found out that SMEs fail to secure loans

because of restrictive requirements of the financial institutions, top among them being collateral security. Among their recommendations is that the government should play its role of enabling SMEs to obtain finance from financial institutions.

Djankov (2005) notes that regulations and bureaucracies are likely to impede sustainable performance of youth-owned enterprises because these influence accessibility to business development services such as operating and expanding capital

The concern about availability of credit for youth suggests that they pay a higher rate or face more requirements to get a loan than an equally credit worthy larger business. As a result, they raise less money than larger businesses in the same locality and are unable to take advantages of economies of scale to raise capital (Musha, 2014).

According to Kisunza &Theuri(2014), in attempt to attain sustainability, micro-lending institutions are forced to adopt stringent measures in order to deal with such uncertainties like loan repayment, fraud, delinquencies among others. For example, in a study to examine the determinants of loan default among agri-based SMEs in Kenya, Wambugu and Ngugi (2013) cite that the high default rate associated with agri-based SME lending necessitated a reduction in credit extension to agri-based SMEs and adoption of more stringent measures to control the situation.The 2011 YEDF status report outlines the requirements to be accomplished before qualifying for the fund. This proposed study intends to examine the conditions of microfinance contracts involved in YEDF such as application procedures, vetting process, disbursement, utilization and repayment as possible factors that may influence accessibility of the fund by new applicants or those applying for the second and third time.

Wanjohi, (2011) points out that that lack of access to credit is almost universally indicated as a key problem for youth enterprises. This affects technology choices by limiting the number of alternatives that can be considered. Many youth enterprises may use an inappropriate technology because it is the only one that they can afford. In some cases even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavily immovable equipment that can serve as collateral for the loans (kilele et al). The stringent lending conditions prevent Kenyan SMEs run by the youths too from accessing credit. Requirements imposed on SMEs such as having a registered business, a trading license as a precondition for applying for institutional finance is also a challenge facing youth in initiating

businesses due to the prohibitive financial costs involved, long processes and long queues at the registry (Okurut and Ama, 2013).

The Africa Youth Report (2011) revealed that several African countries have adopted youth entrepreneurship policies to encourage youth delineation from the economic mainstream. However, according to the CDE (2007) small business development in countries such as South Africa remains weak despite the government's insistence that encouraging emerging entrepreneurs are central to transforming the business sector and tackling poverty. Nasser (2003) revealed that South Africa's micro financial institutional and regulatory frameworks prevent entrepreneurial creativity among young people.

According to Hopkins et al.(2011), Youth face the following three barriers to accessing and using formal financial services: Restrictions in the legal and regulatory environment (e.g., minimum age requirement to open account and transact on own and identification requirements), Inappropriate and inaccessible financial products offered by FSPs and Poor financial capabilities of youth. They also noted that to overcome these barriers, a youth-friendly regulatory environment that recognizes the needs of youth, and is both inclusive and protective of youth is essential.

Legal and regulatory barriers are a key challenge to delivering financial services for youth, according to 75 per cent of respondents in the Global Youth-inclusive Financial Services Survey conducted by Making Cents International. The most common barrier for youth, across developing countries, is a minimum age requirement (generally either 16 or 18 years old) to open and transact a savings account on their own. Out of the seven UNCDF-YouthStart countries the minimum age requirement in one country is 14 for working youth; In one country it is 16; and in five countries it is 18. Youth that do not meet this minimum age requirement need a parent or guardian to open the account and withdraw money, although often they are permitted to deposit money on their own. In many cases youth do not wish to inform their parents or guardians about their finances, so they are less likely to open a joint account than an individual account. The joint ownership with a parent or guardian may pose a potential threat to youth since most governments do not limit the transactions that the adult can make on the account, thus allowing them to make withdrawals without the consent of the youth account holder.

Notwithstanding the policy framework, some FSPs who view youth as a risky market Segment, due to its mobility, and do not see the business case due to small deposits and high administrative Costs may set higher age requirements to open and transact a savings account than those imposed by the government. A better understanding of the youth market may help providers to be more flexible with account specifications (e.g. lower their age limits and take other steps to attract and retain youth).

Age restrictions are exacerbated by identification requirements, particularly for children and youth. Seventy percent of children in the world's least developed countries do not have birth certificates or registration documents. In addition, many parents may not have these required documents and are not willing to obtain them due to costs and hassle of obtaining the documents, and the lack of support for their children to open an account. Thus identification documents such as birth certificates, proof of residence and proof of income are other common regulatory barriers for youth financial inclusion.(Hopkins et al 2011).According to Hopkins second challenge to providing youth financial services is that often these services are inappropriate for the lifecycle needs of youth and their varying income levels or are offered through delivery channels that are inaccessible or inconvenient for youth. Youth typically save small amounts of money received either from parents, relatives or in exchange for labor.

Research conducted by Youth Save revealed that youth typically have irregular income that comes primarily from two sources. Smaller and more frequent inflows received mainly from parents, especially for in-school and younger youth, are often used to buy lunch or snacks at school. Larger and less frequent inflows received from parents or other family members are usually in the form of gifts around holidays or in-migration times. Youth, especially out-of-school youth, receive money for some type of labor such as petty trade, working in shops, and domestic labor, as well as seasonal agricultural work in rural areas.

Research conducted by UNCDF-Youth Start revealed that the sources of income for youth vary often by age and occupation (e.g. in-school, out-of school). In general youth under the age of 14 receive revenue mostly from their parents or visiting relatives and some may get paid for occasional labor. Youth older than 15, tend to diversify this income with small or part-time jobs.

Due to the informal nature of the sources, the income earned and/or received is small in size and irregular in frequency.

In Kenya, the YEDF has designed different products and services for the youth in order to enhance uptake of loans by the youth. There is the C-YES, E-YES, Agri-Vijana, Direct Lending and through Financial Intermediaries. Each of these loans has got different access procedures and is aimed at specific target groups. This agrees with Sieverding (2012), whose study in Egypt found out that youth fail to access funds due to fear of losing the money and not being able to pay back the loan. Others cited complexity of loan processing and the risk entailed in taking a loan in general. It used to take two to three months to process the loan once an application has been made. However, the YEDF board chairman said it will now take one month to process it (Otuki, 2014). This is an indication that the disbursement procedures are challenging and this may put off some youths from applying for the fund. The ability to access the funding needed at the right time and amount allows one to take advantage of existing opportunities.

Signhild Brosvik (2010) found out that access to capital was one of the major obstacles to entrepreneurial growth among the youth. It was observed that the money obtained was insufficient for business development. Governments should ensure that there is an enabling environment for young people to start and run business and improve access to finance, by subsidizing credit, guaranteeing loans and supporting micro credit initiatives (ILO, 2013). This will ensure growth of sustainable youth enterprises, in particular micro, small and medium-sized enterprises. Circumstances need to be made friendlier to remove fear of loans from the youth, for example fear of defaults. The idea of group lending is one such initiative. In group lending, the loan is secured by the co-signature of members within the group and not by micro-finance institution (Armendariz de Aghion, 1999). This group sanction is important in discouraging defaults among members in a group (Van Tassel, 1999).

In a study to determine the effect of the YEDF on youth enterprises in Siaya County in Kenya, Odera, et al. (2013) reveal that disbursement procedures for the YEDF are stringent and some needy and illiterate youth are not able to fulfill some of the requirements. Mugira's (2012) study on the factors affecting repayment of the YEDF in Kasarani Constituency reveals that 78% of the youth who received loans indicated that their long duration between applications and

receiving of funds and that they were awarded small amounts of loans with high interest rates. This factor is however not restricted to the YEDF alone as revealed by other studies done on micro-lending schemes. Small and Medium Enterprises are usually more credit constrained than other segments of the economy because of high cost of credit, low level of access to information on credit and complicated borrowing procedures(Mwangi and Bwisa,2013)

Among the concerns mentioned by participants of the Farm Loans Programs (Farm Bill Forum Report, 2013) regarding the loaning process included the fact that the loan application process was complicated and lengthy and that loan limits had not kept pace with inflationary changes. Mwangi & Shem (2012) indicate that in Nakuru County, different channels have been used to disburse soft loans to the youths. These include disbursement through financial institutions and through government agencies. It has been evident that lending requirements by bank and other financial institutions are harsh and lock out the poor from accessing credit. The bureaucracies of lending create barriers for the youths thereby stopping them from accessing loans as they cannot meet them (Kilele et al, 2015).

A study by Moraa,2014 in Embakasi South noted that Cumbersome Procedures is a Challenge for YEDF Applicants Up to ninety five percent (40% “serious” and 55% “very serious”) of the successful applicants and all (100%) of unsuccessful applicants cited that the procedures for applying for YEDF loans were unnecessarily long and cumbersome compared to those in other financial institutions. She added that respondents had to visit many offices (the Ministry, going for good conduct certificates, approval by the local chief, YEDF offices, financial intermediary through which they received money) for approval of their forms as part of the application process. Upon enquiry from one of the key informants, it was confirmed that there is a lot of bureaucracy involved in the vetting and approval of the applicants because the latter in most cases do not have viable collateral to guarantee their loan repayment. The youth had to; therefore, go through an intensive profiling/vetting before they were awarded the YEDF loans. We can, therefore, conclude that no matter how necessary these cumbersome and long procedures were, they may have hindered easy access of the loan by youth thus making it a factor that could influence access to credit by youth entrepreneurs in Embakasi South Constituency. (Moraa, 2014).

In addition, it was established through qualitative data collected from respondents in the youth groups that unsuccessful groups had never been contacted by the YEDF office to tell them whether they had been awarded the loan or not and why. All respondents in this category said that they had made several visits to the YEDF office to check on the progress of their applications but they were always told to wait until the time of this study.

“Nobody has ever called or contacted us about our application. We just keep going to the YEDF office for more than six months now. All they tell us is to wait as the application is still on queue for vetting. Now even our members have started losing hope in us leaders because they may think we received the money and divided amongst ourselves” (Respondent 15, 17th July 2014, Mukuru Kwa Reuben) Respondents from successful groups said one of the challenges they faced while applying for YEDF was the long time taken for YEDF to respond to them. They also confirmed that they made several trips to the YEDF office before they were awarded the loans (Moraa 2014)

2.6 Education and entrepreneurial training and access to credit by youth Entrepreneurs

According to (Bruton et al. 2000) entrepreneurship training generally refers to programmes that promote entrepreneurship awareness for career purposes and provide skills and training for business creation and development. Entrepreneurship training can play a major role in changing attitudes of young people and providing them with skills that will enable them to start and manage small enterprises at some point in their lives. Sexton and Similor (1997) defined entrepreneurship education as a formal structured instruction that conveys entrepreneurial knowledge and develops focused awareness relating to opportunity, recognition and the creation of new ventures among students. The major objective of enterprise education is to develop enterprising people and inculcate an attitude of self-reliance using appropriate learning processes.

A good general education system and a supportive overall training infrastructure within the economy will strengthen the entrepreneurial environment (Ernst and Young, 2011). Education provides a person with the ability to recognize commercial opportunities, have the knowledge, self-esteem and skills to act on them. It also gives young entrepreneurs the ability to access sources of financing (Kisunza & Theuri, F.2014). Access to funding facilitates the creation, survival and growth of Small and Medium Enterprises (SMEs). Financial literacy may be defined as the ability to understand finance sufficiently to make appropriate decisions regarding one's personal finances (Making Cents International, 2011) understand finance sufficiently to make appropriate decisions regarding one's personal finances (Making Cents International, 2011).

Youth entrepreneurship policies are fairly recent and hence have not been widely tried and tested. Schoof (2006) observed that owing to their cross-cutting nature, youth entrepreneurship policies require collaboration between different ministries, such as education, labour, industry, youth and finance, and the development of a collaborative multi-stakeholder approach.

Irwin and Scott (2010) did a research using a telephone survey of 400 SME in the UK and found that graduates had no difficulties in raising finance from banks. The researcher interpreted that more educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a relationship with financial institution compared to less educated entrepreneurs. A study conducted by Kim (1996), involving

entrepreneurs in Singapore, demonstrates that, after entering the entrepreneurial world, those with higher levels of education were more successful in acquisition of micro financial services and products because university education provided them with knowledgeable and modern managerial skills, making them more conscious of the business world and thus in a position to use their learning capabilities to negotiate for favourable products and services from financiers.

According to Schoof (2006) entrepreneurship education is not only a means to foster Youth Entrepreneurship; it also seeks to equip young people with entrepreneurial attitude and skills. Schoof (2006) further suggested that entrepreneurship education is crucial in assisting young people to develop entrepreneurial attributes, behaviors and develop enterprise awareness to understand and realize entrepreneurship as a career option. Since the 1990s, entrepreneurship education has grown substantially especially in countries already known to be entrepreneurial such as the US, Canada and Australia as well as in Nordic European countries (Schoof, 2006).

According to OECD (2010) many experts believe that entrepreneurial education and training should begin as early as possible for two main reasons; first in that it forms an essential component in the preparation of potential young entrepreneurs to go into business by themselves. Second is that it instills entrepreneurial habits in the mind and work skills which can serve equally well for successful employees in the new, globalised, post-industrial economy and those who actually choose to establish their own enterprises. Entrepreneurship education has expanded gradually over the past few recent years. The European Commission (EC) in 2004 for instance proposed that all EU member states should introduce entrepreneurship education into their national curriculum and in all institution of learning. Lundström (2005) confirmed that there has been a rapid development in the area of enterprise education in the Nordic countries (Denmark, Sweden, Norway, Finland and Iceland) over the last decade.

However, a report by European Network on youth employment (2010) suggested that in many European countries entrepreneurship education is not yet sufficiently integrated into the curriculum of higher education institutions particularly in some of the Member States that joined the EU after 2004. Providing entrepreneurship training at secondary schools can be regarded as an element of life-skills education, but it also aimed at sensitizing young people to entrepreneurship as a career option (ILO, 2006). Ryan (2003) states that as traditional job-for-life

career paths become rarer, youth entrepreneurship is regarded as an additional way of integrating youth into the labour market and overcoming poverty. Supporting this shift in policy is the fact that in the last decade, most new formal employment has been created in small enterprises or as self-employment. Given global demographic trends, it is important that the social and economic contributions of young entrepreneurs be recognized. Entrepreneurship can unleash the economic potential of young people since it enables them to have the capacity to plan and seek financing from micro finance organizations. Much of the youth entrepreneurship in Africa may be attributed to necessity (Rogerson, 2001).

Hopkins et al(2011),noted that one of the challenges that threatens the provision of youth financial services is poor financial capabilities of youth in developing countries. Financial capability is defined as “the combination of knowledge, skills, attitudes, and especially behaviors that people need to make sound personal finance decisions, suited to their social and financial circumstances” Youth typically lack knowledge of formal financial institutions and the terms and benefits of financial products such as savings and credit. They also may have misperceptions about banks, such as banks are only for rich people or for adults. Ninety-three percent of respondents to the CYFI survey said that the lack of understanding of money and resources hinders children and youth’s development into adulthood (Hopkins et al,2011).

Field research with UNCDF-Youth Start grantees confirmed that youth do not use formal financial services due mainly to misconceptions about financial institutions and lack of knowledge about how financial services work (e.g. fees, requirements for account opening, etc.) and how they can benefit youth. These reasons include the following: Fear of losing access to their money, Fear that the institution will collapse, Fear of losing their money due to fraud or high fees, Perception that financial institutions are only for adults, Perception that financial institutions are only for the rich, Perception that financial institutions are only for depositing large amounts of money.

According to Chigunta, 2001, Potential youth entrepreneurs and existing YREs need more than access to credit. As the successes of both the IG in Italy and the PTB in Britain suggest, they also need to know how to develop a business plan, business management, management of business

finances (budgeting), time management, stress management, improving sales, managing and reducing costs, debt recovery techniques, stock control techniques, marketing and recruitment. Chigunta, 2001 suggested the need for an integrated package for the promotion of youth entrepreneurship. Thus, there is need for the following:- Skills training, Business counseling, Mentor support, Access to working space, Business expansion support, and Creating support networks. The study also noted that training should also be extended to service providers in order to improve their professional and technical competence, especially in the areas of programme conception, design, implementation and evaluation.

In Morocco, Skalli (2001) explains, there is an alarming status of illiteracy among the female population, demonstrating that investment in human capacities tends to favour men over women. Instead of attending educational institutions, young girls are often left to take on traditional chores such as cleaning and providing the household with water and wood. Various reasons are behind the exclusion of girls from education in Morocco; mainly, the patriarchal ideology that prioritizes the education of male children in Moroccan families over females. Financial institutions often have the perception that youth form even more risky client category than the elderly. According to FAO (2010), African and Latin American rural youth often lack knowledge on how to draft business plans and have thus difficulties in 'selling' their business ideas to financial institutions. As a consequence, youth often obtain access to finance through informal sources such as families and friends (IFAD, 2009).

Various studies on the success of micro-credit programmes highlight financial literacy as one of the reasons that impedes beneficiaries from being able to successfully access credit or effectively utilize acquired credit. In a study by Guttenbeil-Likiliki (2009) on youth enterprise development in Tonga it is revealed that majority of youth lack basic financial literacy which contributes to their unwillingness to initiate business ventures due to a lack of knowledge on how to manage the businesses. Boateng's (2012) report on field experiences in rural enterprise growth and development in Sub-Saharan Africa shows that financially literate clients make better financial decisions and maintain a better overall financial well-being. While it is evident that young people require financial literacy, the Making Cents International (2011) guide for programming, policy

making and partnership building, asserts that there is no evidence to prove that financial capability actually helps young people to develop financial stability and well-being.

In their analysis on loan repayment performance of small holders under the Special Emergency Loan (SEALS) in Nigeria they reveal that education has a negative influence on loan repayment. Similarly, in a study to establish factors inhibiting the growth of youth enterprises, Omondi (2013) concludes that more years of formal education is seemingly a factor limiting the development of youth entrepreneurs due to higher expectation or optimism that comes with higher levels of education. The study reveals that lack of vocational training is likely to improve the desirability for self-employment.

Martin and Staines (2008) established that lack of managerial experience, skills and personal qualities led to MSEs' failure in South Africa. According to Cheung (2008, p. 501), small business owners often lack experience and training in management of their businesses. Previous study by Wawire and Nafukho (2010), shows that poor management is the second most cause of MSEs' failure after lack of enough funds. This is despite the fact that management has been established to be a very important aspect that affects the success of any given enterprise. Despite the numerous institutions providing training and advisory services, there is still a skills gap in the MSE sector as a whole (Kayanula & Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency (King & McGrath, 2002). As a result, the current schooling system in South Africa places very little emphasis on preparation of youth to have the knowledge required to be a successful business owner. Good financial literacy, marketing and management skills are not being conveyed to the students. And on top of this a high failure rate means that very few students have access to tertiary education, and are prevented from essential training and education to be a good entrepreneur.

In a study to establish the relationship between credit schemes and financial accessibility in Nyakagyeme Sub County- Rukungiri District Uganda, Peace (2011) establishes a clear relationship between basic literacy and financial literacy. The study reveals that people who

cannot read and write are also slow to understand during seminars where members are trained on skills like book keeping, numerical skills, project identification skills and communication skills. The role of entrepreneurship education is mainly to build an entrepreneurial culture among young people and in turn improve their career choices towards entrepreneurship (Deakins, et al. 2005). Entrepreneurship education should be mainly focused on starting a business and subsequent sustainability of such business seeking affordable finances from microfinance institutions. Entrepreneurship is not an easy option for everyone; it is only best suited to those with the necessary skills and acumen.

According to the YEDF report 2011, Entrepreneurship training and provision of appropriate Business Development Services are key to the Fund's achievement of its mandate. Besides ensuring that the youth have adequate skills, it also assist them in identifying and tapping into business opportunities, while embracing modern business management techniques. Entrepreneurial education helps to arm young people with an understanding of and skills necessary in starting and managing a business, embracing a saving culture and seeking additional funding through writing business plans and proposals. Unfortunately most systems of education in Africa and in Kenya in particular have less emphasis on entrepreneurship education (EDC, 2009). Level of education is seen to influence effective utilization of youth enterprise development funds (Ernst and Young, 2011). Boateng's (2012) report that the higher the level of education, the more the youths are able to manage their businesses hence the more the YEDF is being effectively utilized.

In a report developed collaboratively with the United Nations Development Program (UNDP) and the International Labor Organization (ILO), Kenya was encouraged to develop a training capacity in entrepreneurship that could lead to the creation of an "enterprise culture" in the country (Amenya et al. 2010). Empirical evidence indicates that young people get involved in enterprise to solve socio-economic problems such as lack of employment, income generation and contending with poverty (Chigunta, 2001). Youth entrepreneurship reduces crime, poverty and income inequality. This indirectly induces an environment for national and regional economic growth and development (Mutezo, 2005). The drive for youth entrepreneurship in Kenya is premised on the need to get young people gainfully employed and contributing economically,

despite the inevitable challenges like financing. To support the assertion, the government of Kenya has come up with programmes like the Youth Enterprise Fund and Uwezo fund to complement the youth entrepreneurs by channeling the funds through micro financial institutions for easier access by the youth (Kiberenge, 2013).

The difficulties faced by young people in most developing countries in finding work are attributed to limited expansion of employment opportunities, skills mismatches and limited or no work experience (AfDB et al., 2012). As a result, most African youth engage in low quality informal sector jobs. The informal sector accounts for about 90 percent of the jobs created in the continent (World Bank, 2009).

Studies conducted in Kenya by Omolo (2010) on unemployment in Kenya established that entrepreneurship and entrepreneurial culture is an important ingredient in youth employment in Kenya. Kenyan youth are all individuals in the Republic who are between 18 and 35 years (KNBS, 2010). It is estimated that 78.31% of Kenyans are below 35 years and that 64% of unemployed persons in Kenya are the youth. Only 1.5% of the unemployed youth have formal education beyond secondary school level and over 92% have no vocational or professional training with majorities in rural areas (KNBS, 2010). This clearly shows that youth constitute a key demographic domain of poverty. This implies that the youth are not fully engaged in productive economic activities, which puts a big burden to society and to their families in particular. This problem is compounded by their rural to urban migration in search of white collar jobs instead of seeking gainful self employment through agricultural value chain activities to enhance household food security and poverty reduction. Therefore, efforts by Kenya to achieve international targets within the framework of MDGs as well as the national policy objectives contained in the medium development plans and the Vision 2030 need to rally the potential of the youth as a very significant demographic group (GoK, 2012).

Due to a lack of work experience and an inability to compete with skilled and experienced workers as a consequence of inadequate education, first-time job seekers tend to encounter more barriers to employment (FMECD 2010). Particularly in times of economic recession young people are likely to fail as entrepreneurs before adult people, partly because the latter possess

better negotiation power and more stable work contracts. Both aspects lead to the greater likelihood of young people entering informal and precarious working relationships, particularly in developing countries (temporary and part-time work, poorly paid, often high-risk jobs without insurance) (FMECD 2010) they cannot meet the future needs of society. Ahmad (2009, p. 98) adds that factors that hamper MSEs growth include a lack of abilities and skills. Ihua (2009, p. 199) reports that one of the serious constraints on small business growth is lack of management skills, which results in the poor management actions taken by small business owners (Wawire and Nafukho, 2010). Literature makes it clear that 54 per cent of those who manage the MSEs had no training at all, while 38 per cent had some limited project management knowledge (Wawire and Nafukho, 2010). The literature is confirmed by finding of Mbonyane and Ladzani, (2011) that almost no training was provided for MSE staff.

According to Oywa, (2012), existing norms, policies, and practices have resulted in limited roles for young people in community life and negative attitudes toward youth. In this view, youth are seen as immature and incapable while adults are seen as experts. Youth lack knowledge, experience, and capacity to develop worthwhile ideas, to address critical community issues, or to handle major decision-making responsibility (Lekies, 2008). As a result, their involvement in meaningful forms of participation in community life is restricted, and expectations of what they can contribute are low (Messias *et al.*, 2008). Camino (2000) described partnerships between youth and adults as „„breaking new ground“ “ and „„new territory.“ “ Adults and youth are accustomed to established, less participatory ways of working.

A research done on factors that influence the Kenyan youth entrepreneurs towards the YEDF in Gatundu by Namusonge and Kanyari (2013), found out that the training had a positive difference in the development and growth of the MSMEs and therefore recommended the youth programme should put more investment into public business training, and have alternative avenues to train business people as well as educating them. They further advocated for localized approaches to business trainings.

Education creates a strong foundation for business owners, not least because it aids in the development of critical thinking skills and can provide at least a basic grasp of business planning, management and accounting. The disparity in education levels between men and women presents a major challenge for female business owners, particularly in developing

countries. Less educated women are less likely to start their own business and lower levels of education may contribute to lower survival rates among women-owned SMEs.

(Birech, 2013) asserts that in Nakuru town, there is a significant correlation between financial literacy and uptake of credit by the youths. Provision of entrepreneurship training to sensitize and inculcate entrepreneurial culture among the young people is crucial to identifying emerging business talents. The provision of continuous and relevant business development services to youth entrepreneurs is key to the success of enterprise development initiatives in creating long term employment. Most the beneficiaries of these trainings have managed to access financing through the financial intermediaries and the constituency component. Public sensitization and information for accountability and education on YEDF has been one of the focal functions of the Fund since inception. The timing of the Fund's establishment and the sensitivity of the target group makes the Fund an initiative that enjoys high public interest.

Lack of information and awareness on the available business opportunities undermines uptake of credit by youth (MUSHA, 2014). Amenya *et al* (2011) most of the youth are not properly informed about the loans which make it a challenge in accessing. There is need to provide the youth with adequate information on youth fund objectives and loan features.

2.7. Theoretical Framework Demand theory

Demand theory was first raised as a fundamental principle of microeconomics by a French economist Leon Walras (1834-1910). The theory is an analysis of the relationship between the demand for goods or services and prices which examines purchasing decisions of consumers and subsequent impact of prices on commodity demanded. According to Walras (1834-1910), price of a commodity influences its demand.

This theory was criticized by later up-coming economists as shallow; however, they used it as a base to develop the law of demand, stated by many economists as: an inverse relationship exists between the price of a commodity and the quantity demanded of the product, that is, when the price of some commodities goes up, the quantity we consume of these commodities goes down and vice versa, other things held equal (Lispsey et al., 1987; Livingston and Ord, 1994; Saleemi, 2000; Mudida, 2003). Livingston and Ord (1994), argued that the amount an individual wishes to buy of a commodity depends on several factors. Firstly is his/her taste or preference, which may be influenced by factors such as age, sex, education or religion. Secondly, the amount an individual buys may depend on the price of the commodity. Therefore, if the goods are very expensive, the buying power is reduced and vice versa. In the credit market, this consideration is on implicit and explicit costs of credit, which are added costs to business operators and have to be considered when making a decision to borrow or not to borrow and from which source. Thirdly, Livingston and Ord (1994) explained that amount bought is affected by availability of other goods. This applies more to close substitutes like in this case, consideration of borrowing credit from commercial formal institutions, formal government subsidized institutions, or from informal credit markets. If formal markets prove expensive, borrowers are likely to turn to informal markets. The opposite will apply if the informal markets are expensive. Lastly, Livingston and Ord (1994) pointed out that the size of a household's income affects the amount it buys of a commodity. If the income increases, they will be able to buy more. This argument holds only for necessity goods such as credit borrowing to finance business operations, otherwise it will not apply to inferior goods.

The theory of Livingston and Ord (1994) can be supported by the econometric model of Mukras (1993) on demand which is expressed as; $Q_c = f(Y, P_c, P_r)$, Q_c = Quantity demanded of a commodity, Y = Income, P_c = Price of commodity, P_r = Price of related commodities. The broad conclusion of this econometric model on analysis of demand is that quantity demanded of a

commodity is a factor of income, price of the commodity and price of related commodities. David (2001) also argues that when cost of credit goes up, the marginal utility per Shilling raised from that credit goes down. The household therefore chooses to consume, or use less of the credit. The concept of utility and marginal utility used by economists explains consumer demand on a commodity. Utility is the capacity or power of a commodity to satisfy the desire of a user (Lisper et al., 1987). Any commodity that satisfies human wants has utility. For example, if credit borrowed will satisfy financial needs of a household, then credit has utility (Saleemi, 2000). The main objective of any individual business operator is to maximize satisfaction out of any financial support borrowed, given or self-made. Jhingan (2001) highlights the application of the Keynesian Theory given by J.M. Keynes (1891) to underdeveloped countries. The theory is about relationship between consumption and income. Jhingan points out that one of the important tools in Keynesian economics is the propensity to consume. When income increases, consumption also increases but by less than the increment in income. This behaviour of Consumption further explains the rise in savings as income increases.

Keynesian theory goes further to analyze this consumption behaviour that relationships between income, consumption and savings do not hold in underdeveloped countries because people are too poor. When their income increases, they spend more on consumption because their tendency is to meet their unfulfilled wants. Keynes' assumption was supported by Long (1968) when he set-up a formal model for household borrowing where the household has to choose the allocation of wealth between present and future consumption, between holding capital in risky and less risky forms, and the allocation of time between labour and leisure. Based on data from India and Thailand, his results indicate that giving loans to poor households at low interest rates will do little to improve their plight unless the loans are accompanied by other inputs which shift their productions.

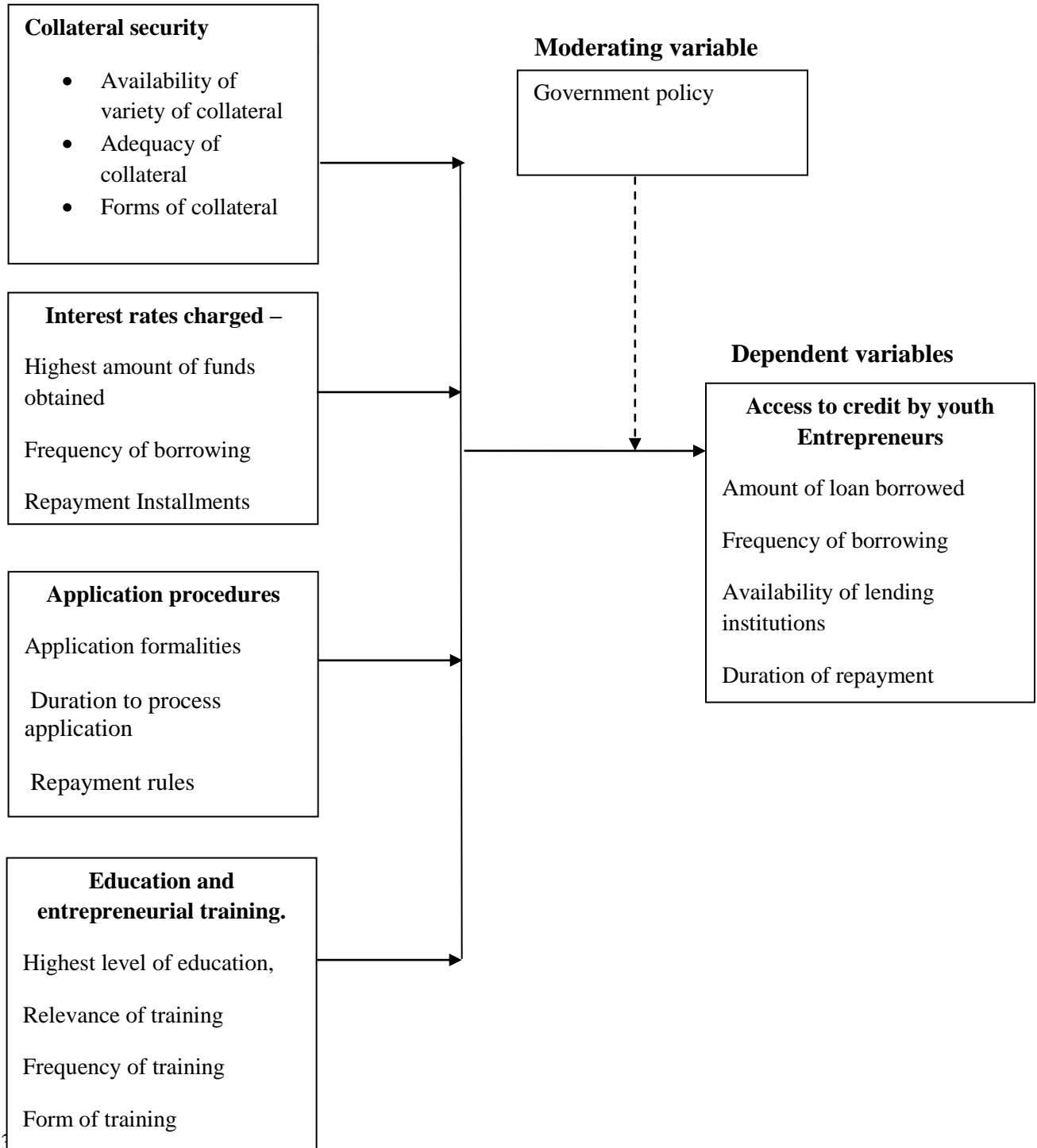
Nyandemo and Singh (2003) defined demand as that quantity of a commodity which consumers are willing and able to purchase at a given price over a period of time. Small-scale industry is mostly operated by people with low income who have many needs but have limited purchasing power. Though the need for credit may be there, the sector operators may not be able to demand credit. An individual's level of income has important effect on his/her level of demand for most products. Mudida (2003), points out that if income increases, the demand for most goods will

increase. Small-scale investors tend to cluster and limit their business activities to similar products mostly of low quality that target low income earners. This leads to low business returns that cannot empower the business owners to borrow credit from formal institutions where the trader will be required to undergo implicit and explicit costs. Mudida (2003) further states that prices of related goods, which may be either substitutes or complementary goods or services, affect behaviour of consumers. The CBS-GoK, (1993) showed that the bulk of the small-scale enterprise credit came from informal savings and credit associations that is 69.1%. This finding compares with the 1995 Economic Survey which showed that 10.8% of the small enterprises had accessed credit and that only 3.4% received credit from formal sources.

2.8 Conceptual Framework

A conceptual framework is a product of qualitative process of theorization which interlinks concept that together provides a comprehensive understanding of a phenomenon or phenomena (Jabareen, 2009). The concepts that constitute a conceptual framework support one another, articulate their respective phenomena, and establish a framework-specific philosophy that defines relationships. The conceptual framework of this study relates to independent variables; collateral requirements, Interest rates , application procedures, and education and entrepreneurial training, while the dependent variable; Access to credit facilities by youths in Sotik-sub county, Sotik sub_county Bomet County, Kenya.

Independent variables



2.9 Research Gaps

Although factors that influence MSEs have called for the attention of some researchers both internationally (Onugu, 2005; Olawale and Garwe, 2010; and Krasniqi, 2010) and locally (Wanjohi, 2009; Wawire and Nafukho, 2010), little is still known about the factors influencing performance of small Kenyan enterprises especially those run by the young entrepreneurs (Irwin, 2011) and Sotik sub county in particular. In as much as recent efforts have been made to better understand this subject in an African context (such as researches by Global Entrepreneurship Monitor (GEM), (2010)), these studies only focused on MSEs owned by individual entrepreneurs (Fumo and Jabbur, 2011), and never included Young entrepreneurs owned MSEs especially in Sotik-sub county. The literature reviewed has left a relative gap in state-of-the-art on this subject, particularly in the context of Sotik sub-county. Thus, there is little apparent evidence on factors influencing performance of MSEs owned by young entrepreneurs in Sotik-sub County. As a consequence, the motivation for this study was: what are the main factors influencing access to credit by small scale youth entrepreneurs in Sotik-sub County; Bomet County.

2.10. Summary of Literature Review

The literature reviewed offers insight into the studies done on how different initiatives have been put forward to address the question of youth unemployment. It is noted that youth especially in the developing world face almost similar challenges. The main one is access to funds for entrepreneurship. Though studies show that youth are willing to venture into business and self-employment, lack of capital is a major concern. Various government initiatives have been put in place but the challenge of access to credit still remains. . Literature reviewed deduced that the youths were willing to get credit to start businesses as sources of income. The youth were also much aware about the availability of credit facilities for starting or financing income generating activities. The banks and microfinance institutions are the ones which are in a better position to give adequate loans or credit to start business than friends and personal savings. However, many youths did not access the funds from the institutions but preferred their personal savings. Literature reviewed noted that lending institutions charge high interest rates to youth entrepreneurs and that there was a negative relationship between interest rates and the uptake of the credit by the youths. Furthermore many youths did not apply for credit because of the requirements of huge collateral securities by the financial institutions. Administrative and regulatory burdens on youth entrepreneurship especially on access to micro financing are among

key barriers for start-ups of young people in high-income and developing countries. To access financing from reputable micro financial organizations, bureaucratic demands like business registration processes for instance are still cumbersome in most developing countries.

World Bank (2005) observed that business registration procedures and costs can be a major obstacle for young people lengthening the process of acquisition of financial services and products.

The funds accessed are not sufficient and it takes a long time to process the same after one has applied for it. The literature reviewed has also shown the importance of training in financial management. This increases the success rate of the youth fund and also eliminates the fear the youth have towards loans.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains the research design, target population, sample size and sample selection. It also captures data collection instruments together with instrument's pre-testing, instruments validity and instruments reliability. Moreover, the chapter also presents data collection procedures, Techniques of data collection, methods of data analysis and ethical consideration.

3.2 Research design

Research design is the researcher's plan for achieving research objectives. It is a blue print for conducting the research.

This study used descriptive survey design. Descriptive survey designs are used when the objectives are systematic or descriptive of facts and characteristics of a given population or sample of the population or area of interest is factual and accurate (Kothari, 2007). This design will be the most appropriate given the exploratory and descriptive nature of this study (Wawire & Nafukho, 2010). The design seeks to obtain information that describes existing phenomena by asking individuals about their perceptions, attitudes, behavior or values (Mugenda & Mugenda 2003). It gathers data at a particular point in time with intention of describing the nature of existing conditions, identify standards against which the existing conditions can be compared and determining the relationship that exist between specific events (Orodho, 2005). Descriptive survey seeks to uncover the nature of factors involved in a given situation, the degree in which it exists and the relationship between them (Traver, 1969). This design is suitable because the study will strive to investigate factors affecting access to credit of by young entrepreneurs in Kenya without manipulating the variables.

3.3. Target population

This study targeted all youths operating small businesses in Sotik-sub County. They were found in small market centers which are in Sotik-sub County. According to the financial records of 2016 at the youth office of Sotik sub-county, there were 120 licensed youths operating small

businesses spread in the 5 small market centers. Their business include operating shops, Mpesa, Groceries, selling mitumba, buying and selling milk, potatoes, operating salon, bodaboda etc

3.4 Sample Size and Sampling Procedure

3.4.1 Sample Size

According to Kothari (2003), sample size refers to the number of items to be selected from the target population. The sample size should be optimum to fulfill the requirements of efficiency, reliability, representation and flexibility.

No sampling, census method was used because licensed small scale youth entrepreneurs were few.

3.4.2 Sampling Procedure

Licensed small scale youth entrepreneurs in Sotik-Sub County were only 120, therefore all of them were sampled, census method was used.

3.5 Research instruments

This study employed both primary and secondary data collection methods structured questionnaires were used to collect information from respondents. Data was collected by use of questionnaires composed of open ended and closed ended questions because was easy to administer, cheap and less time consuming. Key informants were also contacted to give certain classified information along the study themes.

3.5.1 Piloting/pre-test of Instruments

Pilot testing means pre-testing the instrument with a few respondents to test their accuracy of the data collection instrument (questionnaire). The researcher used split-half technique. This involves randomly dividing the sample into two sets and then administering instrument to each group to respond to without prior notification. According to Mugenda and Mugenda (2003) a pre test sample of a tenth of the total sample with homogenous characteristics is appropriate for the pilot study. Validity of the instrument can be known by studying responses to the questions and also by identifying gaps in the instrument.

3.5.2 Validity of Instruments

Mugenda and Mugenda (1999) define validity as the accuracy and meaningfulness of inferences which are based on research results. According to Kathuri and pack (1998) validity is the degree to which a test actually measures variables it claims to measure. In other words validity is the degree of which results obtained from the analysis of the data actually represents the phenomenon under study. The items of questions should reflect four objectives and four research questions based on the terms under literature review. It should relate accurately to the research questions. According to Mugenda and Mugenda (2003) content validity is a degree to which data collected using a particular instrument represent a specific domain of indicators or content of a particular concept. In order to ascertain the validity of the research instruments, expert advice and guidance was sought from the supervisor

3.5.3 Reliability of Instruments

Mugenda and Mugenda (1999) define reliability as a measure of degree to which research instrument yields consistent results after repeated trials. Reliability in research is influenced by a true measurement being addressed by researcher. An instrument is reliable when it can measure a variable accurately and consistently and obtain same results under same condition over time. Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials Mugenda and Mugenda (2003). The researcher used test-retest method to ensure the reliability of the data. This was done by issuing a questionnaire to the respondent, then collects the data and analyze. After a period of one week the same was repeated to the same respondent, collect data, analyze and compared.

3.6 Data Collection Procedures

Data collection commenced immediately after research proposal was approved by the supervisor. Secondly, the researcher sought for a permit from the National Council for Science and Technology-Ministry of higher education, prepare permit relevant to my area of study, and then begin collecting data from respondents using questionnaires. The questionnaires consisted of close and open-ended questions. The open-ended questions provided additional information that will not be captured in the close-ended questions. The questionnaires were coded. Then data analysis followed.

3.7 Data Analysis Techniques

Questionnaires were subjected to careful scrutiny for completeness and accuracy. The researcher used MS excel and SPSS in the analysis of data. Data was coded and keyed into computer for analysis to make interpretation possible. Data analysis deals with statistics to be used to analyze data organization, interpretation, and presentation of data collected. Data was presented by use of frequency tables and analyzed by use of percentages in line with research questions.

3.8. Operationalization of Variables

Factors influencing access to credit finance by youth entrepreneurs include Independent variables such as collateral requirements which has the following indicators; Availability of variety of collaterals, Adequacy of collateral and forms of collateral, Interest rates which has the following indicators; highest amount of loan borrowed, frequency of borrowing and repayment period. Application procedures which had the following indicators; Application formalities, Duration to process application and Repayment rules. Another variable is Education and Entrepreneurial training which has the following indicators; highest level of education, relevance of training, frequency of training, and forms of training. And finally Moderating variables include government policy and fixing of interest rates.

Table Operational definition of Variables

Dependent variable

Objectives	Variable	Indicators	Measures	Scale
Factors influencing access to credit finance by youth Entrepreneurs	Access to credit finance by youth entrepreneurs	Sustainable small scale youth enterprises	-To know the performance of SMES	Interval

Independent Variables

Objective	Variable	Indicators	Measures	Scale
1.To examine the influence of collateral on accessibility of Finance by small scale Youths entrepreneurs	Collateral	-Availability of variety of collateral	If variety of collateral are available	-Nominal
		-Adequacy of collateral	How adequate collaterals are	-Ordinal
		-Forms of collateral	If available forms of collaterals are acceptable	-Nominal

Objectives	Variable	Indicators	Measures	Scale
2. .To investigate the influence of interest rates on accessibility of finance by small scale youths Entrepreneurs in Sotik-Sub county	Interest rates	-Highest amount of funds obtained -Frequency of borrowing -Repayment period	-If there is a limit in the amount obtained -How frequent do youths borrow a loan -How do repayment period influence interest rates	Nominal Ordinal Ordinal
3.Influence of application procedures on access to credit by youths	Application procedures	Application formalities Duration to process application Repayment rules	If they have application documents How long does it take to process application How do repayment rules influence access to credit.	Nominal Ordinal Ordinal

Objective	Variable	Indicator	Measures	Scale
4. Influence of Education and Training on access of finance by youths.	Education and training	Highest level education	If they have Professional certificate	Nominal
		Relevance of training	If they can read and write	Nominal
		Frequency of training	How frequent do they participate in training	Ordinal
		Forms of training	If they are involved in workshop/ seminars, inservice, software	Nominal

3.8 Ethical Considerations

The researcher first obtained a research permit from the National Council for Science, Technology and Innovation (NACOSTI). The researcher, and then had to identify herself to the respondents. The researcher was also required to brief the respondents on the study and why she was carrying out the study. To ensure confidentiality, Names of respondents were not used in the study and that they were not forced to fill the questionnaire. All the sources used to obtain the information were acknowledged.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1. Introduction

This chapter contains data analysis, presentation, interpretation and discussions on the basis of key study variables: It shows influence of collaterals, interest rates, application procedures, education and entrepreneurial training, on accessibility of finance by small scale youth entrepreneurs in Sotik-sub County, Bomet County, Kenya.

4.2. Questionnaire return rate

Response rate refers to the number of subjects that respond to a research instrument. The researcher issued 120 copies of questionnaires. Only 110 copies of questionnaires were returned, which represented 91.67%. This study therefore returned an excellent questionnaire response rate hence the study continued. A response rate of 50% is adequate for analysis and reporting, a response rate of 60% is good and a response rate of 70% and above is very good, (Mugenda and mugenda 2003).

4.3. Demographic characteristics of the respondents

This section presents the results on the background of the youths who responded to the study. It gives the gender, age and education level of the respondents. It also presents the sources of credits to the youths.

4.3.1 Distribution of respondents by Gender

Table 4.1. Distribution of respondents by Gender

Gender of the Respondents	Frequency	Percent
Male	73	66.3
Female	37	33.7
Total	110	100.0

The study received most of the information from male youths. This is according to the findings presented in table 4.1 above which shows that majority (66.3%, n=73) of the respondents were male while the female respondents were 37 representing 33.7% of the respondents. This illustrates that, mostly the male youths are active in investment activities which are financed through loans. It was also deduced that few women entrepreneurs were applying for loans,

because women empowerment was still low and the economy was not able to develop fast. This is similar to a study which was done by World Bank reports, 2012, Makena, et al, 2014, Siwadi et al 2011, Kangogo et al, 2013, Moraa, 2014, Armendariz and Morduch, 2005 .

4.3.2 Distribution of respondents by age

Table 4.2

Age bracket of the respondents	Frequency	Percent
18-22 years	10	9.0
23-26 years	27	24.6
27-31 years	30	27.3
32-35 years	43	39.1
Total	110	100.0

From the table, it is clear that, the youth age groups were all represented in the study where most of them were aged 32-35 years. This group had 43 respondents making 39.1% of the respondents. 30 (27.2%) were aged 27-31 years. 27(24.6%) of the respondents were aged 23-26 years and the least were the respondents in the age group 18-22 years which had 10 respondents representing 9.0% of the total respondents which means very few youths of ages 18-22 years venture in business in Sotik-Sub County. Majority of youths between 18-31 years were seeking credit to start small scale businesses as a source of employment. Similarly studies done by Ernest and Young, 2011, FMECD 2010, United Nations report, 2013), noted that young had great difficulty in accessing credit because they tended to have little experience and few assets.

4.3.3 Distribution of respondents by level of Education

Table 4.3

Respondents	Category	Frequency	Percentage%
Level of education	Primary and below	48	43.6
	Secondary level	39	35.5
	Tertiary level	15	13.6
	University	8	7.3
	Others	0	0

N=110

According to the study results presented in the table 4.3 above, majority of the respondents 43.6 % (n=48) had their highest level of education being primary and below. Followed by secondary level with 35.5 % (n=39) then tertiary level with 13.6 % (n=15) while the least were the respondents who had university education has their highest education level achieved representing 7.3% (n=8) of the respondents. This shows that a big majority of the respondent had acquired satisfactory education to be able to comprehend and fill the questionnaires appropriately. 23(20.9%) had gone up to tertiary and university level but because of unemployment they decided to venture into business.

4.3.4 Distribution of respondents by marital status

Table 4.4

Respondents	Category	Frequency	Percentage %
Marital status	Single	40	36.5
	Married	60	54.5

	Divorced	6	5.4
	Widowed	4	3.6

N=110

40 (36.5%) of licenced small scale youth entrepreneurs in Sotik-Sub County are single thus lack collateral which enable them access finance in the lending institutions.60 (54.5%) of them are married.6 (5.4%) of them are divorced 4(3.6%) of them are widowed and extended family cannot allow for succession to enable them own title deed which they can use to apply for loans.

4.3.5 Distribution of respondents by primary sources of credit

Table 4.5

Primary Sources of Credit	Frequency	Percentage
Banks	3	2.7
Cooperatives	4	3.6
Relatives and Friends	80	72.7
Government Institutions/Agencies	5	4.5
Employer	2	1.8
Microfinance institutions	16	14.5

Table 4.3.5 gives the primary sources of credit to the youths for their business investments. From the table, only 2.7% (n=3) of the respondents had access to banks where they were able to borrow funds for investments very few youths can borrow from bank since banks require

collaterals. 3.6% (n= 4) obtained their business capital and credits from cooperatives, 72.7% (n=80) sourced credits for their businesses' operations from relatives and friends. Those who were able to access credits from government institutions/agencies were 5 representing 4.5% of the respondents, employers were main source of credits to only 2 (1.8%) can access credit from the employer. and 16 (14.5%) had access to credits from microfinance institutions. This therefore indicates that friends and relatives are the main sources of credits to the youths for investments as these were given by more respondents than the other sources. Similarly available literature shows that the main source of credits to small scale youth entrepreneurs are from personal savings, Friends and relatives(OAYEC,2000,ramachandar and pertti,2009,World Bank youth report,2003, McNulty and Nagarajan ,2005)

4.3.6 Factors influencing access to credit by licensed small scale youth entrepreneurs in Sotik-sub County.

The researcher sought the opinions from small scale youth entrepreneurs on collaterals, interest rates, application procedures and education and their feedback captured in form of a table and finally analyzed as shown below.

4.4 Collateral security and Access to credit by youth Entrepreneurs.

Table 4.6 Indicate the kind/form of collateral in your possession

Form of collateral	Frequency	Percentage%
a) Assets	4	3.6
b) Title deed	4	3.6
c) Payslip	2	1.9
d) Logbook	0	0
e) None of the above	100	90.9
f) Others	0	0

N=110

In Sotik-Sub County only 4(3.6%) of small scale youth entrepreneurs had some assets. 4(3.6%) own title deeds 2(1.9%) were employed and had payslips as security for a loan. Majority of licenced small scale youth entrepreneurs in Sotik-Sub County 100(90.9%) did not have any form of collateral and this is one of the factors they cannot access credit finance from lending institution. Similarly, Emphirical studies shows that most small scale youth entrepreneurs could not access credit due to lack of collateral securities(United Nations report,2013, Cressy and Toivanen (2001), Mushimiyimana, 2008, Herbel *et al.*, 2010, Kangogo et al,2013)

Table 4.8 is the collateral in your possession adequate/fully acceptable by lending institutions?

Item	Frequency	Percentage%
a) Strongly agree	2	1.8
b) Agree	2	1.8
c) Strongly disagree	47	42.7
d) Disagree	43	39.2
e) Neutral	16	14.5
f) Others	0	0

N=110

2(1.8%) of small youth entrepreneurs strongly agree that collateral/security in their possession is fully acceptable by lending institutions in Sotik-sub county. 2 (1.8%) are in agreement that collateral within their disposal is fully acceptable. 43(39.2%) of them disagree about acceptance of collateral by banks. 47(42.7%) which is the majority strongly disagreed about acceptance of collateral by lending institutions and finally 16(14.5%) were undecided/neutral. In conclusion 4(3.6%) of all licenced small scale youth entrepreneurs who possessed either title deed or assets were of the opinion that they were fully acceptable by lending institutions as collaterals. Inadequacy of collaterals was also noted by United Nations report,(2013), Cressy and Toivanen (2001), Mushimiyimana, (2008), Herbel *et al.*,(2010), Kangogo et al,(2013).

Table 4.9 Do all lending institutions in your area require collateral?

Item	Frequency	Percentage%
a) Strongly agree	100	90.9
b) Agree	5	4.6
c) Strongly disagree	1	0.9
d) Disagree	1	0.9
e) Neutral	3	2.7
f) Others	0	0

N=110

100(90.9%) of licensed small scale youth entrepreneurs in Sotik-Sub County who are the majority are in agreement that collateral is required by all lending institutions near them.5 (4.6%) also agree that lending institutions require collateral.1 (0.9%) of them strongly disagree, 1(0.9%) disagree, 3(2.7%) were neutral/undecided. in conclusion all lending institutions if any in Sotik-Sub County requires collateral. Available literature shows that all credit lending institutions requires collateral securities (World Bank report (2012), Bester, (1985); Boot, (2000), . McNulty and Nagarajan (2005), Ebadi et al, (2011).

ii) Interest rates

1. Please consider the given statement and indicate your opinion by ticking in the appropriate column (✓)

Key: SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree.

Table4.8

SN	STATEMENT	OPINION				
		SA	A	N	D	SD
(i)	Are you	0%	0%	0%	5(4.5%)	105(95.5%)

	comfortable with the cost of borrowing loan					
(ii)	The cost of borrowing is normally high	105(95.5%)	5(4.5%)	0%	0%	0%
(iii)	The cost of borrowing is generally low	0%	0%	0%	5(4.5%)	105(95.5%)

In Sotik-sub county, 105(95.5%) of small scale licensed youth entrepreneurs strongly disagreed that they were comfortable with the cost of borrowing loan, 5(4.5) %disagreed that they were comfortable with the cost of borrowing, and none was comfortable with the cost of borrowing loan. Many of them, 95.5% strongly agreed and 5(4.5%) agreed that the cost of borrowing was high and that 105(95.5%) strongly disagreed that the cost of borrowing was low and also 5(4.5%) disagreed that the cost of borrowing was low. Similarly; Available literature deduced that young entrepreneurs faces the challenge of high cost of borrowing(United Nations report, 2013, Cressy and Toivanen (2001) , Wanjohi & Mugure, 2008 , Ugwu (2006)

Table 4.9 State the highest amount of loan you have so far obtained?

Amount	Frequency	Percentage%
a) 200000	1	0.9
b) 150000	2	1.8

c) 100000	16	14.5
d) 50000	91	82.7
e) others(specify)	0	0

N=110

In Sotik-sub county, 1(0.9%) of all the small scale youth entrepreneurs have been able to obtain a maximum loan of kshs.200000, 2(1.8%) have been able to obtain a maximum of kshs. 150000. 16(14.5%) have been able to obtain a maximum of kshs.100000 and finally majority of 91(82.7%) small scale youth entrepreneurs have access a maximum of kshs.50000. This trend can be attributed to high interest rates which tremendously affect accessibility of credit finances from lending institutions In Sotik-Sub County High cost of borrowing makes small scale youth entrepreneurs either to shy away from borrowing or they borrow a very small amount. This is similar to what was done by (Kimuyu and Omiti, 2000, Kamau, 2013)

Table 4.10 How frequent do you borrow loan from any lending institution?

Item	Frequency	Percentage%
a) Very frequently	2	1.8
b) Frequently	5	4.6
c) Occasionally	33	30
d) Rarely	70	63.6
e) Others	0	0

N=110

In Sotik-sub county, of all the licensed small scale youth entrepreneurs, 2(1.8%) borrow loan very frequently, 5(4.6%) do it frequently, majority of them 33(30%) do it occasionally and 70(63.6%) rarely borrow loan. High interest rates and lack of collateral is attributed to occasional and rare borrowings of credit loan by youth entrepreneurs, as these are the key factors which

influence access to credit by youth entrepreneurs. Mbonyane and Ladzani, 2011, Pretorius and Shaw (2004) also noted that youth entrepreneurs rarely borrow loans due to high interest rates.

Table 4.11 State the maximum length of repayment of the loan you have taken from any lending institution?

Duration	Frequency	Percentage%
a) 5 years	1	0.9
b) 4 years	3	2.7
c) 3 years	46	41.8
d)1 year	60	54.5
c) Others	0	0

N=110

In Sotik-sub county, 1(0.9%) of youth entrepreneurs have taken a maximum of five years to repay a maximum loan applied.3 (2.7%) of small scale youth entrepreneurs took a maximum of four years of repayment, 46(41.8%) of youth entrepreneurs have taken a maximum of three years of repayment and majority of them 60(54.5%) have taken an average of one year to repayment. Due to high interest rates, small scale youth entrepreneurs take a small of loan which is to be repaid within a very short period of time ((Rahji *et al*, 2010).

III) Application procedures on access to credit by youth Entrepreneurs.

Please consider the given statement and indicate your opinion by ticking in the appropriate column (✓)

Key SA-strongly agree, A-agree, N-Neutral, D-Disagree, SD-Strongly Disagree.

Table 4.12

SN	STATEMENT	OPINION				
		SA	A	N	D	SD
(i)	Are lending application procedures customer friendly	0(0%)	0(0%)	0(0%)	11(10%)	99(90%)
(ii)	Have you been approached by any loan agent from any financial institution	5(4.5%)	8(7.3%)	1(0.9%)	40(36.4%)	56(50.9%)
(iii)	Are lending institutions in your area (if any) customer friendly	36(32.7%)	27(24.5%)	18(16.4%)	16(14.6%)	13(11.8%)
(iv)	Repayment rules hinder access to loans by youths.	99(90%)	11(10%)	0(0%)	0(0%)	0(0%)

In Sotik-sub county,99(90%) who were the majority of licenced small scale youth entrepreneurs strongly disagreed that lending application procedures were customer friendly. 11(10%)were of the disagreement that lending application procedures were customer friendly. 96(87.3%) had never been approached by any loan agent from any financial institution and 13(11.8%)had been approached by loan agent. 16(14.6%) of them disagree that lending institutions were friendly and 13(11.8%) strongly disagree that lending institutions were friendly. 18(16.4%)were

neutral/undecided. This mean 57.2% were of the opinion that lending institutions in Sotik-Sub County are friendly to the customers.99 (90%) of the small scale youth entrepreneurs in Sotik-Sub County strongly agreed that repayment rules hinder access to loans by youths and 11(10%)agreed that repayment rules hinder access to loans by youths. Similarly, Odera, et al. (2013) reveal that disbursement procedures for the YEDF are stringent and some needy and illiterate youth are not able to fulfill some of the requirements hence could not access credit.

Table 4.13How long does it take to process application?

Duration	Frequency	Percentage%
a) 4 months	50	45.4
b) 3 months	42	38.2
c) 2 months	10	9.1
d) 1 months	8	7.3
e) Others (specify)	0	0%

N110

In Sotik-Sub County 50(45.4%) of small scale youth entrepreneurs noted that application process took 4 months.42 (38.2%) noted that the process took 3months.10 (9.1%) also noted that it took 3 months and 8(7.3%) noted that it took one month. This means application process is taking much time. (Farm Bill Forum Report, 2013) regarding the loaning process included the fact that the loan application process was complicated and lengthy and that loan limits had not kept pace with inflationary changes.

Iv.Level of education and entrepreneurial training on access to credit by youth Enpreneurs

Table 4.4.1 Indicate your level of education

Education level	Frequency	percentage%
a) Primary and below	48	43.6
b) Secondary level	39	35.5
c) Tertiary	15	13.6
d) University	8	7.3
e) Others	0	0

N=110

In Sotik-Sub County level of education of majority of licensed small scale youth entrepreneurs 48(43.6%) is primary and below thus literacy level is very low among them.39(35.5%) of them have secondary level of education thus are literate that is able to read , write and interpret banks loan requirements.15(13.6%) have gone up to tertiary level of education and finally 8(7.3%) have highest level of education so generally higher percentage of youth entrepreneurs in Sotik-Sub County have low literacy level and has affected accessibility of finance from lending institution by youths in Sotik-sub county. Peace (2011) establishes a clear relationship between basic literacy and financial literacy. The study reveals that people who cannot read and write are also slow to understand during seminars where members are trained on skills like book keeping, numerical skills, project identification skills and communication skills.

Table 4.4.2 what area have you trained in?

Item	Frequency	percentage%
a) Business management	10	9.1
b) Community development	6	5.5
c) project planning and management	3	2.7
d)Information,communication and technology.(ICT)	4	3.6
e) Others	0	0

N=23

From the above table, those who have trained are those in Tertiary and University level which constitute 23(20.9%),other 87(79.9%) have not had any training at all.10(9.1%) have trained in business management which is the relevant course in entrepreneurship.6(5.5%) have trained in community development.3(2.7%) have trained in project planning and management. And finally 4(3.6%) have ICT training.it can be concluded that majority of small scale youth entrepreneurs 87(79.9%) in Sotik-Sub County have no formal training which is required for SMEs sustainability.literature review revealed that providing entrepreneurship training at secondary schools and tertiary levels and can be regarded as an element of life-skills education, but it also aimed at sensitizing young people to entrepreneurship as a career option (ILO, 2006).

Table 4.4.3. How frequently do you engage in training?

Item	Frequency	Percentage%
a) Very frequently	2	8.7
b) Frequently	2	8.7
c) Occasionally	3	13
d) Rarely	14	60.87
e) Others	2	8.7

2(8.7%) of licensed small scale youth entrepreneurs engaged in training both very frequently and frequently 3(13%) engaged in training occasionally. Majority of youth entrepreneurs 14(60.87%) of those who train in Sotik-Sub County rarely engaged in training and that is why most SMEs have high mortality rate. The role of entrepreneurship education is mainly to build an entrepreneurial culture among young people and in turn improve their career choices towards entrepreneurship (Deakins, et al. 2005).

Table 4.4distribution of respondents by nature training

Nature of training	Frequency	Percentage%
a) Formal training	2	8.7
b) On the job training	2	8.7
c) Workshops & seminars	14	60.87
d) Use of training software	3	13.0
e) Others	2	8.7

N=23

Of all the small scale youth entrepreneurs in Sotik-Sub County 2(8.7%) have undergone formal training and also 2(8.7%) have undergone on the job training, 14(60.87) have undergone training

in form of workshops and seminars, 3(13%) have undergone software training and majority 87(79%) have not undergone any training,in conclusion majority of licensed small scale youth entrepreneurs in Sotik-Sub County have not gone for any training in entrepreneurship. Providing entrepreneurship training at secondary schools can be regarded as an element of life-skills education, but it also aimed at sensitizing young people to entrepreneurship as a career option (ILO, 2006).

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSIONS AND
RECOMMENDATIONS.

5.1. Introduction

This chapter gives the summary of the research findings, discussions, conclusions, recommendations, recommendations for policy formulation and recommendations for further research.

5.2. Summary of the findings

The research findings were based on factors influencing access to credit finance by small scale licensed youth entrepreneurs in Sotik-sub county;Bomet county Kenya. The successful field research obtained a response rate of 91.67%. Majority of the respondents were male youths in the study (66.3%). All the youth age groups were represented in the response where most of them were aged 32-35 years and the least were the aged 18-22 years. Of these, the least (7.3%) were university graduates followed by the middle level college graduates (13.6%) and then secondary level (35.5%) while majority were the youths with primary education as their highest education level. The study found out that the main sources of credits for the youths to invest are; relatives and friends, the microfinance institutions, government institutions/ agencies, cooperatives, banks, and employment in decreasing order of the number of youths served.

Evaluating the effect of the credit terms on the youth's credit uptake, the findings indicated that, the collateral requirements on credit issuance to the youth from the financial sources are too high for them to meet. However, the funds loaned are neither sufficient nor insufficient in meeting the youths' intended project budgets. In Sotik-Sub County 4(3.6%) of small scale youth entrepreneurs have some assets, 4(3.6%) own title deed while 2(1.9%) are employed and their payslip act as security for a loan. Majority of licenced small scale youth entrepreneurs in Sotik-Sub County 100(90.9%) do not have any form of collateral and this is one of the reasons why they could not access credit finance from lending institutions.100(90%) of licensed small scale youth entrepreneurs in Sotik-Sub County who are the majority strongly agreed that collateral is required by all lending institutions near them.5 (4.6%) also agreed that lending institutions require collateral.1 (0.9%) of them strongly disagree,1(0.9%) disagreed,3(2.7%) were

neutral/undecided. In conclusion, all lending institutions in Sotik-Sub County require collateral as a security for a loan.

The interest rates attached on the loans offered to the youths are also too high thus affecting the number of the youths willing and able to obtain a loan. In Sotik-sub county, of all the licensed small scale youth entrepreneurs, 2(1.8%) borrow loan very frequently, 5(4.6%) do it frequently, majority of them 33(30%) does it occasionally and 70(63.6%) rarely borrow loan. High interest rates and lack of collateral is attributed to occasional and rare borrowings of credit loan by youth entrepreneurs, as these are the key factors which affect access to credit finance by youth entrepreneurs. The study findings indicated that, most of the youths (82.7%) had been granted a loan amounting to at most 50,000 shillings.

In Sotik-sub county, 1(0.9%) of youth entrepreneurs have taken a maximum of five years to repay a maximum loan applied. 3 (2.7%) of small scale youth entrepreneurs took a maximum of four years of repayment, 46(41.8%) of youth entrepreneurs have taken a maximum of three years of repayment and majority of them 60(54.5%) have taken an average of one year of repayment. Due to high interest or high cost of borrowing small scale youth entrepreneurs take a small amount of loan which takes a short time to repay. High cost of borrowing makes youths either to shy away from borrowing or they borrow very low amounts.

In Sotik-sub county, 99(90%) of small scale youth entrepreneurs strongly disagreed that lending application procedures were customer friendly. While 11(10%) of them disagreed that lending application procedures were customer friendly. 5(4.5%) strongly agreed, 8(7.3%) agreed, 1(0.9%) neutral, 40(36.4%) disagreed and 56(50.9%) were in a disagreement that they had been approached by any loan agent. In addition 36(32.7%) strongly agreed, 27(24.5%) agreed, 18(16.4%) neutral 16(14.6%) disagreed and 13(11.8%) strongly disagreed that lending institutions are customer friendly. Furthermore, Majority 99(90%) of small scale youth entrepreneurs in Sotik-Sub County strongly agreed that application rules hinder access to loans. While 11(10%) strongly agreed that application rules hinder access to loans. To process an application most 50 (45.4%) of the small scale youth entrepreneurs were of the opinion that it takes four months, 42(38.2%) noted that it takes three months, 10(9.1%) of the opinion that it takes 2 months and 8 (7.3%) one month to process an application.

Those who had been trained are those in Tertiary and University level which constitute 23(20.9%), other 87(79.1%) had not been trained any at all.10 (9.1%) have trained in business management which is the relevant course in entrepreneurship.6 (5.5%) have trained in community development.3 (2.7%) have trained in project planning and management. And finally 4(3.6%) have ICT training. It can be concluded that majority of small scale youth entrepreneurs 87(79.1%) in Sotik-Sub County had no formal training which is required for SMEs sustainability.2(1.8%) of licensed small scale youth entrepreneurs engaged in training very frequently and frequently.3(13%) engaged in training occasionally 14(60.87%)rarely train. Majority of youth entrepreneurs 87(79%) in Sotik-Sub County had no training at all and that is why most SMEs have high mortality rate. The researcher also found that, their training took different forms that is 2(8.7%) had undergone formal training, 2(8.7%) had undergone on the job training, 14(60.87%) undergone training in form of workshops and seminars, 3(13%) have undergone software training and majority 87(79.1%) have not undergone any training. In conclusion majority of licensed small scale youth entrepreneurs in Sotik-Sub County had not gone for any training in entrepreneurship. Similarly, Irwin and Scott (2010) did a research using a telephone survey of 400 SME in the UK and found that graduates had no difficulties in raising finance from banks compared to non graduates.

5.3 CONCLUSION

Based on the findings of the research, the following conclusion was made;

Banking institutions demand collaterals as one of the requirements for the access to credit facilities. This becomes a constraint among small scale youth participation in SME's in Sotik-Sub County, most of them do not have title deeds or capital assets to present as security against the loans. Commonly accepted tangible form of collateral is land of which youth entrepreneurs in

Sotik-Sub County do not own. This is similar to studies did by Nganga, 2015 in Gatundu South Constituency, and also Kimathi, 2009.

High interest rate on credit discouraged small scale youth entrepreneurs in Sotik-Sub County from borrowing, hence reducing the accessibility of credit finance among them. Every business needs financing; the amount of interest rate charged is sometimes intertwined with the security of the loan, and the use for which it has to be used, or the nature of the business. The researcher therefore concluded that there is negative relationship between demand for credit finance and interest rates. The study also found that lending application procedures and repayment rules hinders access to credit finance by youths in Sotik-Cub County. UN Report, 2013, Herrington, 2011, Chigunta, 2002, Okurut and Ama, 2013 also cited the same problems as limiting youth entrepreneurs from accessing credit.

Most of the respondents had basic education of up to secondary level. This means that they only have basic knowledge on financial management which may not be adequate to manage a profitable enterprise. They may lack some pertinent knowledge and skills to engage profitably in entrepreneurship. Some of the youths who might have qualified for a loan had in mind that they had to strain to repay the loans. The youths are more accountable for their financial operations and budgeting in their businesses and also have the required marketing skills to run a business. However, they lack experience in loan investments and repayments which influence their ability to secure loans for investments from the lending institutions. Similarly, Irwin and Scott (2010) did a research using a telephone survey of 400 SME in the UK and found that graduates had no difficulties in raising finance from banks compared to non graduates. Other Empirical studies also noted the same problem (Hopkins et al, 2011, FAO, 2010 and Martins and Staines, 2008)

5.4 RECOMMENDATIONS

With regard to the findings and conclusions derived from these findings, the researcher makes policy recommendations that could be adopted to address the challenges as well as the obstacles that the youths undergo in their efforts towards successful business operations. The recommendations are therefore as follows: the credit terms attached to the loans issued have been

evaluated as greatly affecting the level at which the youths apply for credits from the financial lenders.

This therefore should be regulated to ensure stability and favorable conditions for the youth so as to encourage them to obtain more loans for their businesses. This would then result to increased investment and revenue source for economic growth. It is recommended that the financial institutions should encourage the use of affordable collaterals that will ensure that youth entrepreneurs are able to access credit. Lack of affordability collateral was one of the challenges that were highlighted as hindrances to youths accessing credit.

High interest rates makes youths entrepreneurs shy away from borrowing, so lending institutions should reduce interest rates to make it youth-friendly to encourage many youths to apply due to affordability.

The study also recommends that the financial institutions should establish lending procedures which will attract youth entrepreneurs and accommodate them in access to credit. It is recommended that the application procedures to be made easier and more friendly for the youth. This is because some of the youth had to apply for the funds more than once and still some failed to access the same. The duration taken to process the applications needs to be made shorter to encourage more youths to apply and also the funds to be sufficient for their needs.

Based on the findings of this study, it is recommended that training in financial management before and after the disbursement of the funds is necessary. This is because the target group which is the youth has only basic education, which may not be adequate in managing the funds, received, bearing in mind that these funds are loans which have to be repaid. There is need to enlighten the youth more on all the new developments and all packages of the youth fund available in order to increase the number of youths accessing the funds. This is because the youth may not be aware that they could access the funds individually even if they belong to youth groups. Business workshops and seminars should be organized and oriented towards encouraging the youth on innovativeness and entrepreneurial skills so as to equip them with risk management skills and other vital business management skills which would encourage their investment through credits.

The youth should be informed accordingly about the existence of credits for business purposes. To do this, appropriate channels should be employed to convey the information regarding these credits which should also be convenient in transferring the information to meet more audience as possible. This will consequently enable them to have relevant information for them to be successful in business operations.

.Lending institutions should open more branches to serve large population of youth entrepreneurs in the remote villages that cannot for one reason or the other access them in urban areas.

5.4.1. Recommendations for policy issues/formulation

The government should ensure there is totally free and compulsory education in both primary and secondary. The poor cannot afford however subsidized it is. Free means even the uniforms should be provided by government. In marginalized areas government should provide feeding programme and free uniforms. Government to build more secondary day schools to assist many young women who dropped from school due to early marriage.

As far as high interest rates are concerned, the government through Central Bank should regulate interest rates to make them affordable and customer-friendly to encourage many potential youth entrepreneurs. Low interest rates motivate many potential youth entrepreneurs to access credit finance and start sustainable business venture.

As per numerous youth entrepreneurs which outnumber few lending institutions, government should come up with fiscal policy which allows proliferations of lending institutions in remote villages to ensure accessibility.

5.4.2. Recommendations for further research

Further research is recommended in the following areas;

Many potential young entrepreneurs have problem of lack of awareness of the existence of some lending institutions and the various services and products they offer. There is no enough flow of information to all able young in all corners to know what is happening in the market so there is need for further research in this area.

Further research should be conducted on why many small scale young entrepreneur's businesses have high mortality rate that is they cannot celebrate third birth day in other words majority of these small business cannot last, that is they are not sustainable in Sotik-sub county.

The factors influencing youth participation in the entrepreneurial activities and attainment of gender parity in the entrepreneurship. This was suggested due to the low number of female youths participating in entrepreneurship.

A study can also be carried out to determine the impact of government micro-credit to household/ business income over time when the funding has been made available in both rural and urban setup.

A similar study could be carried out on other variables not included in this study.

Studies that relate to the effective implementation of programs and support policies for young MSEs provided by stakeholders and Kenyan government.

The study recommends further research in the following areas; the effect of credit on the profitability of micro and small enterprises; the effect of information technology on MSEs access to credit facilities in Kenya.

In future, a similar research should be done covering urban areas as this research only covered micro and small enterprises in rural areas of Sotik-sub county.

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APPENDICES

APPENDIX I-RESPONDENTS QUESTIONNAIRE

I am a student doing a Master of Arts in Project Planning and Management at University of Nairobi. Currently, I am doing research on “Factors influencing access to credit finance by youths entrepreneurs in,Sotik sub-county Bomet county, Kenya.” You have been identified as a respondent in this research. The information you provide is expected to assist policy makers to reduce barriers preventing youths from accessing credit finance from financial institution.

The information you give will be treated as confidential. Kindly provide the information which is well known to you. Your support and cooperation is very important and will be highly appreciated.

Thank you.

SECTION A

Demographic characteristics of Youths

Please answer the following questions by putting a tick () where appropriate

- 1 Name (Optional) _____
- 2 Please tick your Gender? Male() Female()
3. What is your age?
 - 18-23 years []
 - 24-29 years []
 - 30-35 year []
 - Above 35 years []
4. What is your current level of education?
 - Never went to school []
 - Primary level []
 - Secondary level []
 - College or university []

5. What is your marital status?

- Single []
- Married []
- Divorced []
- Widowed []

6. Have you done any course in financial management?

- Yes []
- No []

7. What is your primary source of credit? (Tick whichever applicable).

- Banks []
- Cooperatives []
- Relatives and Friends []
- Government Institutions/Agencies []
- Employer []
- Micro finance institutions []
- None of the above []

SECTION B

(I) Influence of collateral

Table 4.5 Indicate the kind/form of collateral(s) in your possession

- a) Title deed []
- b) Payslip []
- c) Logbook []
- d) Quarantors []
- e) Others(specify).....

2) Is the collateral in your possession adequate/fully acceptable by lending institution(s)

- a) Strongly agree []
- b) Agree []
- c) Disagree []
- d) Strongly disagree []
- e) Neutral []
- e) Others (specify).....

3).Do all the lending institutions in your area require collateral/security

- a) Strongly agree []
- b) Agree []
- c) Strongly disagree []
- d) Disagree []
- e) Neutral []
- e) Others (specify).....

4) In your own opinion explain the influence of collateral on access to credit by small scale youth entrepreneurs.....

(11) Influence on Interest Rates

Please consider the given statement and indicate your opinion by ticking in the appropriate column (✓)

Key: SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree.

1.

SN	STATEMENT	OPINION				
		SA	A	N	D	SD
(i)	Are you comfortable with the cost of borrowing loan					
(ii)	The cost of borrowing is normally high					
(iii)	The cost of borrowing is generally low					

2 State the highest amount of loan you have so far obtained?

- a) 200000 []
- b) 150000 []
- c) 100000 []
- d) 50000 []
- e) Others (specify).....

3) How frequently do you borrow loan from any lending institution?

- a) Very frequently []
- b) Frequently []
- c) Occasionally []
- d) Rarely []
- e) Others (specify).....

4) State the maximum length of repayment of the maximum loan you have taken from any lending institution(s)

- a) 5 years []
- b) 4 years []
- c) 3 years []
- d) 1 year []
- e) Others (specify).....

5) In your own opinion explain the influence of interest rates on access to credit by small scale youth entrepreneurs.....

(111)Influence of application procedures

Please consider the given statement and indicate your opinion by ticking in the appropriate column (✓)

Key SA-strongly agree, A-agree, N-Neutral, D-Disagree, SD-Strongly Disagree.

SN	STATEMENT	OPINION
----	-----------	---------

		SA	A	N	D	SD
(i)	Are lending application procedures customer friendly					
(ii)	Have you been approached by any loan agent from any institution					
(iii)	Are lending institutions in your area (if any) customer friendly					
(iv)	Repayment rules hinders access to loans by youths.					

2 How long does it take to process application?

a) 4 months

b) 3 months

c) 2 months

d) 1 months

e) Others (specify)

3) In your own opinion explain the influence of application procedures
On access to credit by small scale youth entrepreneurs

IV Influence of education and training on access to credit by youths

1. Indicate your highest level of education

- a) Primary and below []
- b) Secondary level []
- c) Tertiary level []
- d) University []
- e) Others (specify) -----

2 .In what area have you trained?

- a) Business management []
- b) Community development []
- c) project planning and management []
- d) Information, communication and Technology []
- e) Others (specify) -----

3) How frequently do you engage in training?

- a) Very frequently []
- b) Frequently []
- c) Occasionally []
- d) Rarely []
- e) Others (specify) -----

4) Indicate the nature the training normally takes?

- a) Formal training []
- b) On the job training []
- c) Workshops and Seminars []
- d) Use of training software []
- e) Others (specify) -----

5) In your own opinion explain the influence of education and entrepreneurial training on access to credit by youths. -----