EFFECT OF FINANCE DETERMINANTS ON LOAN REPAYMENT AMONG YOUTH ENTERPRISE DEVELOPMENT FUND BOARD BENEFICIARIES IN TRANS NZOIA COUNTY, KENYA

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Effect of Finance Determinants on Loan Repayment among Youth Enterprise Development Fund Board Beneficiaries in Trans Nzoia County, Kenya

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other university.

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This thesis has been submitted for examination with our approval as University Supervisors.

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DEDICATION

This work is dedicated to my late parents, Grace Hadija Nasike and Daniel Wachilonga Wafunafu, the rest of the family and above all my wife Ruth and children, Lorraine, Natasha and Annan. I know this dedication can in no way compensate for the time and other resources missed out during my education life. However it is to say that I really appreciate your love and your support.

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ACRONYMS

ANOVA	Analysis of Variance
BDC	Business Development Centre
C-YES	Constituency Youth Enterprise Scheme
E-YES	Easy Youth Enterprise Scheme
GDP	Gross Domestic Product
GoK	Government of Kenya
ILO	International Labour Organization
KNBS	Kenya National Bureau of Statistics
MFI	Microfinance Institution
MM	Modigliani and Miller
MRT	Modern Repayment Theory
MSE	Micro and Small Enterprise
NGOs	Non-Governmental Organizations
POT	Pecking Order Theory
PPPs	Public Private Partnerships
ROSCAS	Rotating Savings and Credit Associations
YEDFB	Youth Enterprise Development Fund Board

DEFINITIONS OF TERMS

Youth: The new Constitution defines youth as all individuals in the republic of Kenya who have attained the age of 18 years but have not attained the age of 35 years (GoK, 2010).

Micro Enterprises: "micro enterprise" means a firm, trade, service, industry or a business activity whose annual turnover does not exceed five hundred thousand shillings and which employs less than ten people(GoK, 2012).

Small Enterprises: "small enterprise" means a firm, trade, service, industry or a business Activity whose annual turnover ranges between five hundred and five million shillings and which employs between ten and fifty people(GoK, 2012).

Youth development: Entails coordinated and purposive series of activities and experiences Aimed at preparing young people to meet the challenges of adolescence and adulthood (Muthee, 2010).

Youth Enterprise Fund: A loan scheme established by the Kenyan Government to help curb The unemployment challenge amongst the youth.

Financial Literacy: a comprehensive financial literacy definition cited by OECD (2013) is stated as the consumers understanding of financial products and concepts, ability to appreciate financial risks and opportunities and to make informed actions to improve one's financial wellbeing.

Loan Repayment Performance: Refers to repayment behavior of borrowers. Borrowers are classified into three groups as good borrowers who repaid on time, delinquent borrowers who repaid three months from the due date and default borrowers who did not repay in full after six months from the due date. The data is based on their credit status on sampling date. The general approach is intended to explain why a particular population group falls under the three credit repayment categories (Nawai & Shariff, 2013).

ABSTRACT

The objective of the study was to examine the effect of finance determinants on loan repayment performance of Youth Enterprise Development Fund Board beneficiaries in Trans-Nzoia County. Specific objectives were: to determine the effect of portfolio size on loan repayment performance, to determine the effect of risk tolerance of borrower on loan repayment performance, to determine the effect of portfolio diversification on loan repayment performance, to determine the effect of finance literacy on loan repayment performance, to determine the effect of debt management on loan repayment performance and to determine the effect of cost of capital on loan repayment performance among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. The study used a descriptive survey research design. The target population comprised of 1,077 individual loan beneficiaries. A total of 438 respondents participated in the study. A semi- structured questionnaire was used to collect data. The pre-tested questionnaire was administered by the researcher with the help of three trained research assistants. Descriptive statistics such as frequencies, means and percentages was used to summarize the data. Cross tabulation, Chi-Square and ANOVA was used to determine the relationships between dependent and independent variables. A multinomial logistic regression model was applied because the dependent variable had a multiple outcome. Key findings revealed that the comparison between the three categories of repayers yielded a significant difference at ($p<0.05$) level as regards portfolio characteristics scores, risk tolerance scores, financial literacy and cost of funds scores for the three categories of YEDFB loan beneficiaries. However, there was no significant difference in means among three categories of the YEDFB loan beneficiaries regarding their portfolio diversification and their debt management practices. Based on the findings of the study it was concluded that optimal portfolio sizes may guarantee good repayment performance of YEDFB loans in Trans Nzoia County. YEDFB borrowers with higher risk tolerance levels (risk takers) are likely to be good loan repayment and YEDFB beneficiaries who practiced portfolio diversification in trade, service and agribusiness were good repayers. It was also concluded that financial

literacy enhances YEDFB loan repayment. However, the ability of YEDFB beneficiaries to make financial decisions was less satisfactory. Debt management practices such as control of diversion of funds, penalties, flexible repayment and evaluation of return on investment have not improved YEDFB loan repayment performance. It was also concluded that minimizing costs of accessing the YEDFB funds improves repayment performance. The study recommends that YEDFB should consider to give optimal loans to individual borrowers to enhance investment. This will enable the borrower to buy appropriate inputs and stocks that will guarantee high turnover and repayment. As it stands most borrowers were granted less amounts than what they applied for. Finance literacy should be scaled up in scope and content individual borrower should be trained separately from group borrowers to empower them to manage finances prudently and engage in viable business activities. This will enable the borrowers to pay on time and be legible for future loans. YEDFB officers should give attention to continuous follow up on proper loan utilization. This will minimize loan diversion to non-profitable business ventures like domestic consumption. YEDFB loan beneficiaries should be committed to acquiring entrepreneurial skills and concentrate on growing incomes so as to repay loans consistently. Flexible repayment schedules should be adopted to enable the borrowers to respond to adverse business cycles especially during natural calamities and political risks. At policy level, YEDFB should from time to time review their financial products and minimize costs of accessing the loans to enable borrowers pay on time. This will increase the revolving fund and enable more unemployed youths to access the money.

CHAPTER ONE

INTRODUCTION

1.1Background

Access to financing is an important aspect in the business operation of micro enterprises. However, problem is an obstacle to the financial institutions including microfinance institutions (MFIs) that offer microfinance based on individual lending approach to provide credit to micro entrepreneurs(Nawai & Shariff, 2013). The formal sector has been unwilling to provide credit to the Micro and Small Enterprises (MSE's) because the clients from this sector are largely poor, lacking securities that can be used as collateral in conventional lending. Commercial banks have therefore, for a longtime perceived such business as highly risky. The loan value required by the client in this sector is low hence proportionately low revenues generated from loans. This has made commercial banks shy away from lending these groups of people. This has made the government of Kenya to come with projects that aim at supporting these groups, and the Youth Enterprise Development Fund is one of these projects (Luvavo, 2013)

Examining repayment performance is important because if borrowers do not repay, then there may not be sufficient funds to ensure that the liquidity position of the MFI is maintained. When there is a loss in the MFI liquidity due to high levels of non-repayment, the cyclical flow of funds between the MFI and the borrowers will be interrupted (Nawai& Sharriff., 2013).Repayment performance refers to the total loans paid on time as stated in the loan agreement contract. Godquin (2004) defines repayment performance in terms of binary variable; based on an arbitrary definition of what constitutes repaying "on time" (a given maximum "grace period" is allowed). Guttman (2007) measures repayment performance based on the degree of arrears.

1.1.1 Youth Unemployment and Youth Enterprise Development

Youth unemployment around the globe has become a major challenge in the 21st century. Evidence shows that when jobs are scarce, young persons are more likely to be unemployed. There are more than one billion young people aged 15-24 in the world today, of which 85 percent live in developing economies and almost 100 million young people will be entering the global work force every year for the next ten years (International Labour Organization [ILO], 2010). Compared to adults, the youth of today are almost three times as likely to be unemployed and globally one in five working youths continues to live in extreme poverty on 1 US dollar a day (ILO, 2008).

In Africa, the Sub Sahara is one of the regions highly affected by youth unemployment. According to international labour office (ILO, 2005), projection of youth unemployment is estimated to be more than 21 percent, and that Sub- Saharan Africa will witness substantial growth in additional labour force of 28 million to 30 million between 2003 and 2015. According to the Kenyan 2009 census results, the national population stands at 38.8 million, the youth defined as young people of ages between 15-35 years are about 15 million which is 40% of the population (Kenya National Bureau of Statistics [KNBS], 2010). Kenya's economic growth provides for only 25% of employment leaving majority 75% unemployment.

Over time, small and micro enterprise sector has emerged as the main source of employment. For instance, the sector employed close to 8 million people in 2005 compared to 1.8 million in informal wage employment (Mongolia, 2009). Promotion of more effective youth entrepreneurship policies and strategies is therefore getting increased attention among governments and international organizations. As a result, there is a growing recognition that responsible youth entrepreneurship must be at the heart of tackling global, environmental, economic and employment challenges (ILO, 2010). However, several studies (Green, 2005; Schoof, 2006; Weeratunge, 2007) cite various constraints and barriers to youth entrepreneurship. They cite lack of enterprise culture in many countries, unfavourable legal, policy and regulatory frameworks for

youth entrepreneurship, lack of entrepreneurship education across formal and informal educational systems, lack of access to affordable financing in the form of start-up and support schemes for youth already in business or for those interested in pursuing an entrepreneurial career (ILO, 2010).Widespread poverty remains a critical development challenge in Kenya (Odhiambo et al., 2013).

To address the youth challenges, the government of Kenya established Youth Enterprise Development Fund Board (YEDFB) in 2006 as one of the flagship projects of Kenya vision 2030 under the social pillar as an objective, to promote youth entrepreneurship meant to be an alternative source of employment. The YEDFB loan targets all forms of youth owned enterprises whether individual, companies, groups or cooperative and the loan is accessible to any youth owned enterprise operating within a given county (Government of Kenya [GoK], 2011). However, a study by Maisiba and Gongera (2013) found out that most youths are not in groups. The study also revealed that the fund does not have adequate structures to disburse funds, the result being massive loan default, with many youth enterprises becoming shadows of their true potential.

1.1.2 Youth Enterprise Development and Financing

In Kenya, 60% of the population is youth. According to the Kenya Nation Bureau of Statistics (2010) report up to 75% of them are jobless or in non-formal employment. In order to offset their economic needs, these youths have started some small business enterprises while others cannot start any form of business enterprises because of lack of access to finance. There are close to 1.3 million youth enterprises that belong to the youth employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP, yet only 40% of these businesses can access formal credits (KNBS, 2010) and a further 10.4% receive some informal credit and other financial services (Ndinya, Cole, Goldberg & White, 2010).

The government and the formal banking sector in Kenya over the years have regarded the informal sector as risky and not commercially viable. Most financial institutions

have avoided lending to the youth due to their inability to comply with high costs of funds, difficulties in assessing and managing their risk profile and lack of the required collateral (Mongolia, 2009). Therefore in spite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions, such as commercial banks has been below expectation (Were, 2013). The potential of using other forms of credit and other financial services for small business growth among the youths in Kenya thus appear quite significant (Mugwanga, Muloti, Shitawa & Pesa, 2010). New, innovative, and pro-poor modes of financing youths operating and intending to start enterprises have been developed in Kenya.

Affordable finance is therefore often perceived as one of the biggest impediments for young people who, compared to older age groups, have no or less savings and resources, lack of securities in form of land and property that can be used as collateral in debt financing (ILO, 2010). In some countries, governments ease the collateral and legal requirements on young entrepreneurs to improve access to various types of microfinance, equity, venture and credit guarantee schemes (ILO, 2010).

The explosion of group lending programs amid the world is a recent phenomenon that has targeted the youth and women as vulnerable groups to affordable financial access. "Grameen Style" lending is characterized by loans to small groups of borrowers that are jointly liable for the loans granted to each member of their group (Umara & Saif, 2013). The implementation of group lending has been broadly considered one of the most innovative elements of micro-finance contracts to reduce the restriction of access to financial services (Carrillo, 2010). In practice it is a requirement that to receive credit, entrepreneurs must form small groups (5 to 20 people with size varying across countries and institutions) within their local communities. These groups are jointly liable for the loan and responds as a whole if one or more members default. Youth entrepreneurs therefore form groups on this basis in order to access microfinance loans (Carrillo, 2010).

In Kenya, the youth enterprise development fund Board (YEDFB) employs the symmetrical loan scheme in advancing loans to its beneficiaries. Youth Enterprise Development Fund Board provides loans to youths enterprises thorough two channels namely district committees and financial intermediaries. Under district committees the funds is disbursed through two components. First there is the Constituency Youth Enterprise Scheme(C-YES) that funds enterprises of youth groups in all constituencies. It caters for youth especially those at the lowest levels who have no experience in business and in dealing with financial institutions. The committees that preside over the C-YES are essentially community structures with representation from government, faiths, youth and other community leaders. Secondly there is the Easy Youth enterprise Scheme (E-YES) which was launched in April 2009 targeting individual youth members within a group, relying on group members for guarantee purposes. E-YES initially targeted members in groups that have completed loan repayment of C-YES in order to graduate them into taking bigger loans for individual enterprises. It has however introduced a new product where individuals with unique ideas can directly borrow from the fund without belonging to groups.

1.1.3 Determinants of Loan Repayment Performance

The world over, credit risk has proved to be the most critical of all risks faced by a banking institution. A study of bank failures in New England found that, of 62 banks in existence before 1984, which failed from 1989 to 1992, in 58 cases it was observed that loans and advances were not repaid in time, Sabrani (2002). Developed economies, such as the United States, Sweden and Japan and developing countries, including much of Latin America and South East Asia, and transitional economies, have had significant crises relating to non performing loans. China, an example of an economy that has been in transition, may currently be experiencing the biggest problem of them all, Campbell (2007).

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Such an event is called a default. Another term for credit risk is default risk. Investor losses include lost principal and interest, decreased cash flow, and increased collection costs.

Examining repayment performance is important because if borrowers do not repay, then there may not be sufficient funds to ensure that the liquidity position of the MFI is maintained. When there is a loss in the MFI liquidity due to high levels of non-repayment, the cyclical flow of funds between the MFI and the borrowers will be interrupted (Nawai et al., 2013). To attain financial viability, MFI must reach operational self-sufficiency first and in order to attain operational self-sufficiency, the MFI must ensure that the operational cost can cover non-financial expenses. This can be achieved by low delinquency where the MFI must maintain a low delinquency rate to ensure operational self-sufficiency (Nawai et al., 2013). Loan repayment performance refers to the total loans paid on time as stated in the loan agreement contract. This problem is an unsolved issue faced by the majority of financial institutions including MFIs and government led initiatives like YEDFB. When a loan is not repaid, it may be a result of the borrowers' unwillingness and/or inability to repay (Nawai et al., 2013).

Kabede, Tegegn and Tafese (2016) undertook a study in Ethiopa. The general objective of the study was to analyze and identify the major factors that determine loan repayment performance of the small scale enterprises and to identify the major challenges of the MFI's in the wolaita and Dawuro area. The study revealed that loan amounts, diversion and repayment period were found to be a significant determinant of loan repayment performance of borrowers.

Some authors link the repayment performance with firm characteristics such as Nannyonga (2000), Oke et al. (2007) and Roslan and Zaini(2009). Oke et al. (2007) and Nwaru (2004) mention that firm's profit significantly influenced loan repayment and raise the question of whether default is random or influenced by erratic behaviour. Similarly, important factors that contribute to loan repayment performance are the

design features of the loan. Nawai et al., (2013) categorise the design features into three categories namely access methods, screening methods and incentive to repay. Access methods generally ensure that poor people access the loans not the richer ones and the features include maximum loan ceilings and high interest rate. While, screening methods are used to screen out bad borrowers.

A study by Nawai and Shariff (2012) analysed the factors affecting repayment performance in microcredit programs in Malaysia. The study uses a sample from TEKUN National programs. The result of the study shows that there are ten factors that affecting the repayment performance of the borrowers namely age, gender, business experience, religious education, total household income, total sales, distance to the lender office, the formality of business, period of loan approval and loan monitoring. The study found that improvement in income and total sales will increase the repayment performance of borrowers. Therefore, by providing training to the borrowers such as how to market their products, financial management and accounting course will help them improve their business and increase their profits. This study aimed at establishing the effect of finance determinants on loan performance of Youth Enterprise Development Fund Board beneficiaries in Trans-Nzoia County

1.2 Statement of the Problem

Although YEDFB was created as a revolving fund meant to help Kenyan youths start or expand business, repayment of loans has proved more difficult among many youth owned enterprises in Kenya (Mwaura, 2010). Studies carried out in Kenya among them; Amenya(2011) and Mburu (2010)show that government micro credit programmes perform poorly in terms of low payment and high default rates. High default rate has affected the sustainability of the micro-credit initiatives. Studies done on government funded initiatives in Kenya show a lot has been disbursed, but very little recovered (Wakuloba, 2006; Opiyo, 2013). National loan recovery currently stands below 25% for the youths for the last five years the programme has been in place. A study done by Kiraka, Kobia and Kattulo (2013) on micro, small and medium term enterprise loan

recovery in 14 constituencies distributed in Nairobi, Nyeri, Nakuru and Kakamega respectively showed an average loan repayment rate. The average National Loan rate for C- Yes stands at a mere 35.22%. Similarly, in Trans Nzoia County, loans taken from YEDF board suffer from a considerable amount of default rate. This stands at 36.01% (the amount of loans not collected on current and past due loans for the reference period).

Studies reviewed reveal that there are several financial factors that determine loan repayment among micro credit groups. These factors include like Portfolio characteristics (Kabede, Tegegn & Tafese, 2016, Nawai & Shariff, 2013 and Osuji, Chedebelu & Okorji, 2012), financial risk tolerance(Olweny, 2015, Shikuku, 2014), Portfolio diversification diversification(Osuji, Chedebelu & Okorji, 2012), finance literacy(Sheila, 2011), debt management(Kabede, Tegegn & Tafese, 2016, Luvavo, 2013, Gebremedhin, 2010, Wakuloba, 2017 and Awoke, 2007) and cost of capital (Edakasi, 2013). The studies revealed both positive and negative effects of these determinants on loan repayment. The reviewed studies were conducted in parts of the world different from the locality of the current study. Considering also different cultures and norms in these parts of the world, as well as differences in the nature in which different banks world over recover their loans from clients, this necessitates the current study. It is also true that the factors influencing loan repayment capacity among borrowers are not only likely to differ by programs but also differ from country to country depending on the domestic business and economic environment (Tundui & Tundui, 2013).

Inequalities in well-being often take a regional dimension (Mburung'a, 2014). In Kenya, regional or geographic differences in well-being may mean ethnic differences in wellbeing as ethnic groups often reside in given geographical regions. There are stark differences in development opportunities and outcomes across Kenya's rural-urban divide and other regions too. In addition there exist serious inter constituencies disparities on the loan amount youth are borrowing, number of youth groups accessing

the loans and in repayment of the loan. For example Fafi Constituency had a repayment rate of zero while Nithi had 80% repayment rate (YEDF Report, 2011). This study focused on Trans Nzoia County which relies on agriculture as her major economic activity with high number of unemployed youths and multi-ethnic in nature to establish the effect of finance determinants on loan repayment performance of Youth Enterprise Development Fund Board beneficiaries.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to examine the effect of finance determinants on loan repayment performance among Youth Enterprise Development Fund Board beneficiaries in Trans- Nzoia County, Kenya.

1.3.2 Objectives of the Study

1. To determine the effect of portfolio size on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

2. To determine the effect of risk tolerance of borrower on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

3. To determine the effect of portfolio diversification on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

4. To determine the effect of finance literacy on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

5. To determine the effect of debt management on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

6. To determine the effect of cost of capital on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

1.4 Research Hypotheses

Ho_1. There is no significant difference in effect of portfolio characteristics on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

Ho_2. Risk tolerance of borrower has no significant difference in effect on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

Ho_3. There is no significant difference in effect of portfolio diversification on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

Ho_4. Finance literacy of borrower has no significant difference in effect on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

Ho_5. There is no significant difference in effect of debt management on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

Ho_6. There is no significant difference in effect of cost of capital on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County, Kenya

1.5 Justification of the Study

The study findings will be of significance to various stakeholders. The study findings will enable existing micro credit groups comprising of youths to understand the influence of finance determinants on loan repayment. As output of the analysis, identifying finance determinants that contribute to successful loan repayment will help policy makers to formulate successful credit policies and programs that will again help in allocating financial resources effectively and efficiently among the youths.

The study will have positive impact in promoting government investment and making it effective by creating smooth relationship between the borrower and the lender through its recommendations. Lesson will be drawn to loan defaulters in the YEDF board. Other researchers will make use of the research outcome because it will help them to identify the factors behind successful loan repayment and also will help them to extend research on similar issues. The study will also contribute to the body of knowledge by reducing the gap in the available literature on financial determinants and loan repayment performance.

1.6 Scope of the Study

The study was done in Trans-Nzoia County. Trans-Nzoia County is majorly an agri-business region. KIPPRA (2012) report indicated that MSE's in Kenya dominated in majority of the sectors, including wholesale and retail trade, restaurants, hotels, community and social services, insurance, real estate, business services, manufacturing, agriculture, transport and communication and construction. Many youths are un-employed because industrialization that accounts for a larger percentage of labour absorption is lacking. As a result, micro small and medium enterprise establishments are encouraged as a strategy to expand employment opportunities for the youth.

Group or individual lending through YEDFB is a government strategy to avail funds to enterprising youths to establish startup or expand existing business while remaining accountable in loan repayment. The study focused on self-employed youths who are beneficiaries of YEDFB loans.

All youths in organized groups and are beneficiaries of the YEDFB scheme were included in the study. This is because the study sought to establish why some beneficiaries succeed in loan repayment while others struggle or fail altogether. YEDFB beneficiaries participating in the study were randomly selected across the five sub counties namely Kwanza, Endebes, Cherang'any, Saboti and Kiminini. The study only focused on the finance related determinants as the explanatory variables. These include portfolio characteristics, risk tolerance, loan portfolio diversification, finance literacy, debt management and cost of borrowed funds.

1.7 Limitations of the study

The study could have been limited by methodological limitation during field data collection. This could have been due to lack of reception in the field during data collection process. To address this limitation, the researcher sought consent from the individual YEDFB loan beneficiaries and was also accompanied by YEDFB field officers. This helped to ensure that the researcher was able to get reception and access required information. The researcher faced the limitation of getting accurate information that reflected the situation as it is. To ensure accurate information was provided, the researcher informed the respondents the aim of the study and the confidentiality with which the data would be treated and that their identities would be withheld.

The researcher was faced with theoretical limitation. There was no single theoretical paradigm that supported the relationship between finance determinants and loan repayment. To address this the researcher used several theories that supported the objectives of the study.

The study was faced with the limitation of achieving linearity and normality tests given the polytomous nature of the dependent variable. This could have been due to fewer responses in some of the categories of the dependent variable. This was addressed and achieved by using a large sample size of 438 respondents

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers theoretical foundation of the study and review of the finance determinants affecting loan repayment portfolio. It also contains the conceptual framework of the study and research gaps.

2.2 Theoretical Framework

This study was guided by six theories. These theories are Loan Utilization Theory, Loan Portfolio Theory, Modigliani and Miller (MM) Theory, Pecking Order Theory (POT), Minimizing Ex-ante Moral Hazard Theory and Loan Game Theory. The theories are discussed as follows:

2.2.1 Loan Utilization Theory

The theory states that monitoring of loan utilization helps members to take their businesses seriously and to avoid destroying the business by taking money from the business for their families, Simanowitz (2000:129). This means: monitoring of loan utilization avoid unplanned usage of loan. The monitoring also gives an early warning of problems which can then be dealt with. The traditional microcredit throughout the world have faced loan diversion as a result of borrowers using their loan not for the purpose given on the loan application form or prescribed by the project, but for another more pressing purposes. Often loans are diverted for providential or non-productive purposes to meet emergence medical educational expense or any other. This study was guided by this theory because it will give clear explanation to Youth Enterprise Fund Board beneficiaries to take their businesses seriously and use loan for intended purposes.

2.2.2 Loan Portfolio Theory

Loan portfolio theory states that traditional objectives of maximizing returns for given levels of risk or minimizing risk for given levels of return have guided effort to achieve effective diversification of port folios, Markowitz (1959). Since the pioneering work of Markowitz (1959), portfolio theory has been applied to common stocks. Elton and Gruber (2005) portfolio theory is concerned with risk reduction when an investor switches from complete commitment on one asset for example shares in one company or one project to the, position when resources are split between two or more assets (Baisi, 2008).

This theory is applicable to Youth Enterprise Development Fund Board beneficiaries in diversifying their risks against the financial assets of their enterprises. Youths can select the optimum risk – return trade off for themselves depending on the extend of personal risk aversion (Baisi, 2008). This study was guided by this theory because the theory show part of financial knowledge needed by YEDFB beneficiaries to understand how to diversify their risks in order to get profit and hence repay their loans.

2.2.3 Modigliani and Miller (MM) Theory

A publication of capital structure irrelevancy framework by Modigliani and Miller (Modigliani &Miller, 1958) later generated a modern capital structure theory. They argued that a firm couldn't change the value of its outstanding securities by changing the proportions of its capital structure. Modigliani and Miller concluded that in a world without taxes, the value of the firm and also its overall costs of capital were independent of its choice of capital structure. A later study in 1963 by MM concluded that by incorporating corporate tax, the market value of a firm is increased and the overall cost of capital is reduced to the point of interest being tax deductible.

Since Modigliani and Miller's publication in 1958, many financial economists studied a number of leverage relevant theories to explain the variation in debt ratios across firms. The trade-off theory explained the relevance of debt with the existence of taxes and bankruptcy costs (DeAngelo & Masulis, 1980). The general result from this theory is that the combination of leverage costs and tax advantages of debt produces an optimal capital structure below 100% debt financing, as the tax advantage of debt is traded against the likelihood of incurring bankruptcy costs. Accordingly, this theory implies that the cost of capital does not affect the value of the firm and ability to repay the loans. The current study sought to find out if debt management and cost of capital affects loan repayment performance among YEDFB beneficiaries in Trans Nzoia County.

2.2.4 Pecking Order Theory(POT)

Pecking order model is another important theory in the study of corporate capital structure that explains the relevance of the debt and optimum capital structure. This theory was developed by Steward Myers in 1984 in his paper, "Capital Structure Puzzle". Myers (1984) presented two sides of the capital structure issue, which are called static trade-off theory and pecking order hypothesis. The static trade-off theory holds that the capital structure choices may be explained by the trade-off between benefits and costs of debt versus equity. A firm is regarded as setting a target debt level and gradually moving towards it.

The pecking order hypothesis contends, on the other hand, that there is no well-defined target debt ratio, and firm have an ordered preference for financing. According to Myers, firms prefer retained earnings as their main source of funds for investment followed by debt. The last resort sought by a firm would be external equity financing. The reason for this ranking was that internal funds were regarded as 'cheap' and not subject to any outside interference. External debt was ranked next as it was cheaper and has fewer restrictions compared to issuing equity. The issuance of external equity is seen as the most expensive and dangerous as it can lead to potential loss of control of the enterprise by the original owner and manager; hence, it was ranked the last. Thus it is expected that

entrepreneurs borrow after exhausting other sources of finance and prepared for the financial risk. This study established the finance determinants that affect loan repayment performance among youth enterprise development fund board beneficiaries in Trans Nzoia County to validate the theory.

2.2.5 Minimizing Ex-ante Moral Hazard Theory

Arko (2012) refers to moral hazard as the risk in which a party to a transaction provides misleading information about its assets, liabilities or credit capacity, or has an incentive to take unusual risks in a desperate attempt to earn a profit before the contract settles. Usually a party to a transaction may not enter into the contract in good faith, thus providing misleading information about its assets, liabilities or credit capacity. Monyi, Namusonge and Sakwa (2017) postulated that, moral hazard problems may be occasioned by asymmetric information which makes it difficult to distinguish between good and bad borrower. According to *(*Khurana, 2015) moral hazard may occur where the actions of one party may change to the detriment of another after a financial transaction has taken place. Minimizing ex ante moral hazard theory states that, borrowers often have private information of the amount of effort they exert in making their projects succeed or in the specific projects they undertake using the borrowed funds Guttman, (2007). Borrowers for example may have a number of alternative projects in which the borrowed funds can be invested. Higher yielding projects may require extra costs and efforts that can be saved by using funds for lower yielding projects or even using the funds for meeting family obligations. Given that legal means for enforcing repayment and individual collateral are generally lacking in the relevant context, borrowers can profitably shirk by choosing low cost, low yield, low effort projects, using loan for unintended purpose and then claiming that the projects failed, making repayment impossible. Therefore it is important for the Youth Enterprise development Fund Board beneficiaries to understand this knowledge in which it will help them in selection of the project to invest which will be having higher yield than others. This study was guided by this theory because it will give YEDFB beneficiaries clear

procedures to follow so as to choose the profitable business hence improve the performance of loan repayment.

2.2.6 Loan Game Theory

Besley and Coate (1995) set up a "Loan game" for group lending which illustrated how the formation of a group led to both positive and negative effects of Loan compared to individual loans. Above all the theoretical models, this formulation most aptly captures the opposing forces of group loan repayment and demonstrates the potential instability of group lending. Because of its ability to incorporate numerous facets of group lending, a variation of the Besley and Coate model was considered as a theoretical foundation of the empirical model for this study.

Given their project returns, each individual decides to contribute or not to contribute. In the case that one individual pays and the other does not, the repaying member decides whether or not to repay, for both or to default. Hence it is possible to have group solidarity (helping a member who cannot/will not repay) to maintain correct loan repayment. This study sought to establish finance related factors that explain the existence of non-repayment despite group solidarity among borrowers.

2.3 Conceptual Framework

The conceptual framework gives the relationship between independent and dependent variables of the study. The research adopted the conceptual framework illustrated in figure 1. Based on the empirical studies on the finance related factors influencing loan repayment performance, the following framework is conceptualized. The independent variables are the determining factors of group loan repayment performance. The control variables form the other determinants other than finance determinants that influence the loan repayment behavior of groups. In this study focus was on the relative importance among finance related factors in explaining the Loan repayment performance of the YEDFB loans in Trans-Nzoia County.

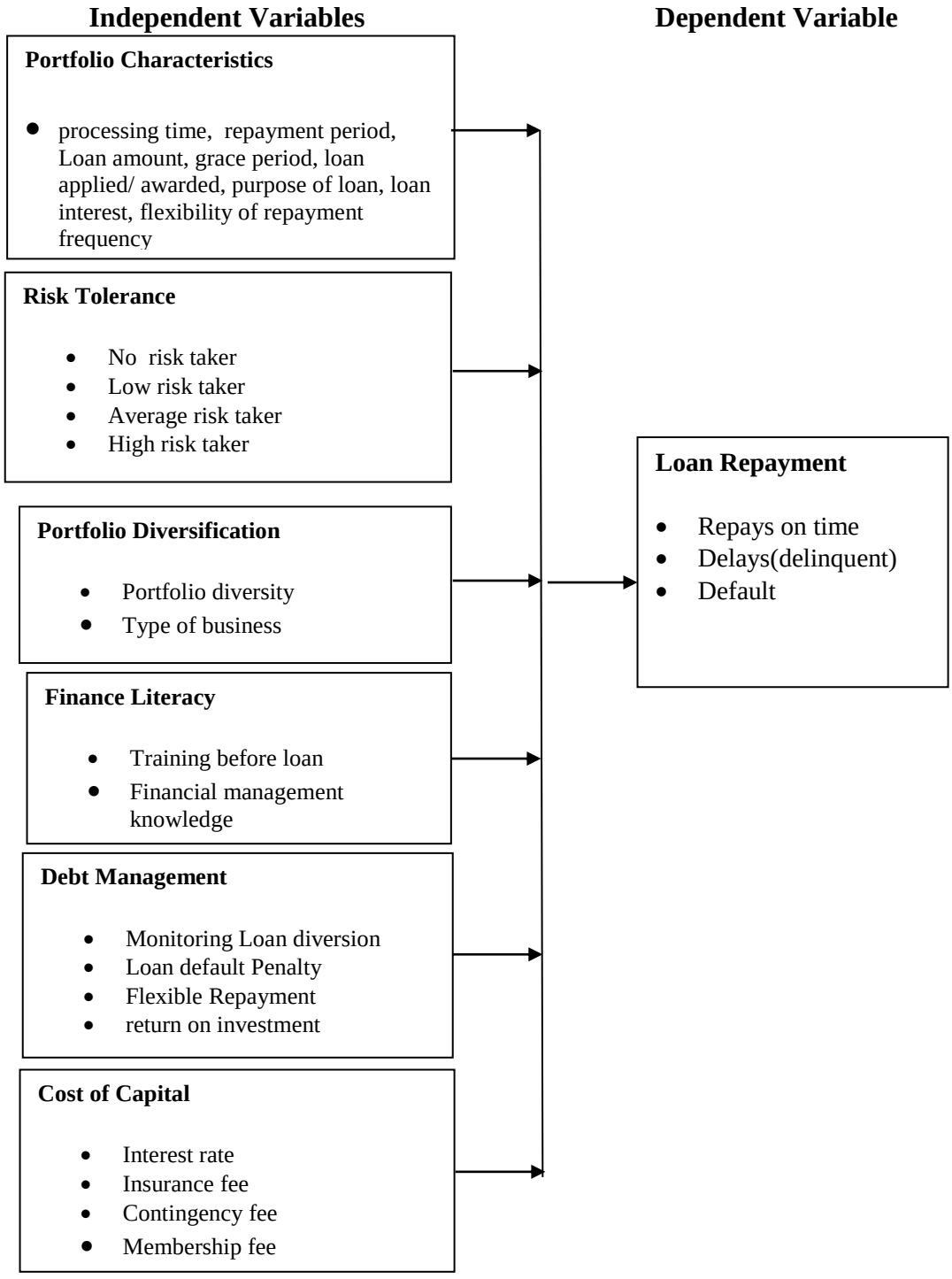

Figure 2.1: The relationship between finance determinants and Loan Repayment Status

2.4 Empirical Review of variables

This section reviews hitherto studies that touched on effect of finance determinants on loan repayment performance among micro credit globally, regionally and in Kenya. The review is outlined according to research objectives. Six research objectives were formulated to address effect of portfolio characteristics, financial risk tolerance, portfolio diversification, finance literacy, debt management and cost of capital.

2.4.1 Effect of Portfolio characteristics on loan repayment performance

Kabede, Tegegn and Tafese (2016) undertook a study in Ethiopa. The general objective of the study was to analyze and identify the major factors that determine loan repayment performance of the small scale enterprises and to identify the major challenges of the MFI's in the wolaita and Dawuro area. The specific objectives were to identify the major socio-economic factors that influence loan repayment rate of the borrowers of micro finance institution, to examine the businesses and loan related factors influence the repayment performance of the Private borrowers and to investigate the major problems faced by the borrowers and lenders in the repayment process in micro finance institution. The study employed explanatory research design with quantitative and qualitative methods. For this study multi-stage probability sampling techniques were used. About 300 sample respondents were selected through using simple random sampling technique. The study revealed that majority of those who have defaulted were granted a loan much lower than their request in relation to those of non-defaulter borrowers. Most borrowers request below sufficient amount and are granted even below their request. This condition leads to lower amount of investment on business, unable to hold all the necessary stocks demanded by the market and minimal return from business activity. The study results showed that purpose of borrowing may not have a notable implication on the loan repayment performance of borrowers. Loan diversion was also found as essential and significant determinant of loan repayment rate negatively. This means, diverting loan into non-income generating activities increases default rate. Therefore, it is recommended that the institution should give attention to continuous

follow-up on proper loan utilization. Repayment period is also found to be a significant determinant of loan repayment performance of borrowers. Suitability of loan repayment period for borrowers was found to significantly increase the probability of repaying loan. Therefore, the institution has to give enough time to clients so that they will be able to work with the loans they have borrowed and arrange the time to collect loan that will be suitable for them to sell their business output.

A study by Nawai and Shariff (2013) analyzed the repayment performance in microfinance programs in Malaysia that apply individual lending approach. The research framework of the study was built by four factors namely individual/borrower factors, firm/business factors, loan factors and institutional/lender factors as independent variables and repayment performance either paid on time, delinquent and default as dependent variables. The study used mixed methodology, combining quantitative and qualitative data through questionnaire survey, in depth interviews, publishes and unpublished reports. The data of the study was gathered from 401 respondents in Peninsular Malaysia through multistage random sampling. The data was analyzed by descriptive analysis and multinomial logit model. The results showed that total loan received, loan type and repayment schedule are the loan characteristics factor that statistically significant at $p < 0.1$ and $p< 0.01$ level. The result showed a strong effect at $p < 0.01$ in the relationship between default borrower and good borrower where the bigger total loan received by the borrowers, the higher probability of the borrowers to default. When the borrowers receive more loans, there is a tendency that the excess loan may be diverted to other unproductive, non-business uses such as for personal use, children's school fees and pay other debt (Norell, 2001).

Osuji, Chedebelu and Okorji (2012) studied on loan repayment of Loan Beneficiaries of Micro Finance Institutions in Southeast States of Nigeria used a multistage sampling technique to select a total of 144 loan beneficiaries of MFIs; namely formal (Commercial and development banks); semi-formal (NGOs, MFIs) and informal (ROSCAS, "Isusu" and co-operative societies) that were randomly selected and

interviewed. An ordinary least square (OLS) multiple regression analysis was carried out to isolate and examine the determinants of loans. The findings of the study indicated that Loan size was significant at 5% level of significance and was positively related to repayment rate. This implies, that the greater the size of the loan, the lower the default. This was true up to a certain point though as there was an optimum amount of loan (or funds) that would be required to break even in projects. Moreover, it is contended that bigger loans make possible larger investments with potentially higher returns. About 75% of the loan beneficiaries indicated that the sizes of their loans were inadequate, thus supporting this viewpoint.

Ojiako and Ogbukwa (2012) studied on economic analysis of loan repayment capacity of small holder co-operative farmers in Yewa North Local Government area of Ogun state, Nigeria. The result revealed a strong positive and significant relationship between loan size and capacity to repay. By implication, given that beneficiaries did not have the tendency to divert, if substantial amount was approved as loan to farmers, they would use the funds to acquire the basic tools, equipment, and improved technology and other inputs they would require to enhance their operational and marketing efficiency and make positive returns. In other words, larger loan sizes would enhance the beneficiary farmer's access to basic inputs and improved farm management opportunities, which would lead to higher productivity, reduced per unit cost and increased income. The investment would be able to pay back itself and consequently support the farmer to repay the borrowed fund within the specified period.

Similar positive influence of loan size on repayment performance had been variously reported in separate studies (Afolabi, 2010; Kohansal & Mansoori, 2009). Afolabi (2010), for example, contended that increases in amount granted enabled farmers to adopt improved agricultural innovations which could translate to increase in the levels of income and high loan repayment performance.

Njoku and Obasi (2001) isolated loan size, among two other variables, that are important and have positive relationship with loan repayment in Imo State. Olagunju (2007) in his study on the impact of credit use, agreed with this view point. Another perspective to this variable was the larger the loan, the higher is the borrower's cost of delaying payment. A larger loan is more difficult to repay if allowed to accumulate especially where there are compounding interest and sanctions (Osuji et al., 2012). This view puts pressure on the borrower to reduce late payments and serious default. In the sample, recorded incremental penalty rate of interest for delay payment was minimal.

The finding of Nawai and Shariff (2013) showed a negative effect between delinquent borrowers and good borrowers in terms of repayment schedule where the repayment schedule was statistically significant at $p<0.1$ level. The result showed that the monthly type of repayment schedule was more likely to bea good borrower than a delinquent borrower. The result contradict with previous study by Guttman (2007) who found that weekly repayment basis was more suitable because it could identify defaulters early and be pushed by the bank officer to "keep step" in their loan repayment. However, Field & Pande (2008) found that no significant effect of type of repayment schedule either weekly or monthly on client delinquency and default. They suggested a more flexible schedule to the clients because it can reduce transaction costs

2.4.2 Effect of financial risk tolerance of borrower on loan repayment performance

Shikuku (2014) studied the Effect of Behavioural Factors on Individual Investor Choices at the Nairobi Securities Exchange. Investors should not only focus on the significance of diversification to reduce the total repayment risk, but also learn how they can effectively diversify. Investors are fundamentally risk averse which means that if they have to choose between two assets with equal rates of returns they are more likely to choose the asset with the lower level of risk, and thus they need to combine assets into efficiently diversified repayments. Risk can be reduced if investors focus on the variability of expected returns and to achieve that, investors should pick assets that tend to have dissimilar price movement.

2.4.3 Effect of portfolio diversification on loan repayment performance

Munene, Nguta and Huka (2013) carried out a study in order to establish the causes of such repayment defaults in Imenti North District, Kenya. Using a descriptive survey design individual microfinance loan beneficiaries and microfinance institution officials were studied. A representative random sample of 400 respondents was selected from the study population using census and cluster sampling procedures for micro finance institutions officers and loan beneficiaries respectively. Data was collected using both structured and unstructured questionnaires were analyzed using descriptive and inferential statistics. The study findings showed that high cases of default of loan repayment were common (67.9%) in the manufacturing sector. This was followed by the service industry (64.0%) then by the agriculture (58.3%). The trade sector recorded the least (34.9%) cases of loan repayment defaults. This could be attributed to the observation that trade industry deals in fast moving products on high demand which could translate into good business performance and increased revenue that accounts for low default cases. Among businesses that had been in operation for less than two years, 52.4% had defaulted in loan repayment, 44.2% of those that had been in operation for a period of between two and five years had defaulted. It was noted that the highest (78.6%) default cases were regular in businesses that had been in operation for a period of between five and ten years. Loan repayment defaults were rare (0.0%) in business that had survived for more than 10 years. In addition, the businesses located within the municipality had high loan repayment default rates (55.7%) as compared to business outside municipality.

Osuji et al. (2012) indicates the proportion of beneficiaries who have secondary occupation as an indicator of asset repayment diversity within the group/respondents. The study showed that the majority (66%) of the respondents had trading as their secondary occupation.

Due to diversity, income within groups tended to be less covariant, thus making it easier to bail out errant members. As hypothesized, the coefficient of the variable was positively signed and significant at 5% level, indicating strong relationship (Osuji et al., 2012).

2.4.4 Effect of finance literacy on loan repayment performance

Inadequate financial analysis according to Sheila (2011) is a cause of loan default. This is when in the loans department the officers do not take a careful study of the applicants to ensure that he/she has a sound financial base such that the risk of loss is mitigated in case of default. Sheila (2011) also points out that in Uganda; the issue of inadequate loan support is another cause of loan default. He says that it is very important that the loan personnel collectively ascertain the position in which the loanee finds himself/herself so that in case he needs support, it's availed to him or her. Unfortunately that is not the case even when the support is given it is not adequate which leaves the business crumbling and hence leading to default. The research also pointed out that illiteracy and inadequate skills was another cause of default. Majority of the clients are engaged in traditional, low paying businesses and rarely diversify their businesses and skills. This implies that they do not have enough knowledge about alternative marketable skills that can benefit them when their businesses do not function properly. Secondly, most of them do not know how to read, write and make simple calculations. As a result, they do not know how to account for their businesses even when the lender makes an error, the borrowers are held liable to the loan. Again disappearance of loan clients was seen as another cause.

Olweny, Namusonge and Onyango (2012), carried out a study to assess the influence of socio-cultural background on individual investor risk tolerance at Nairobi Securities Exchange. The attributes included education level, financial knowledge measured by specialization, marital status, previous stock market experience and ethnic background. A sample of 500 was picked statistically and applied across tabulation, exact Pearson chi- square; analysis of variance and logistic regression model were then applied to test

the hypotheses. The study finding established that financial knowledge was a major positive determinant of risk tolerance. The current study sought to establish effect of financial literacy and risk tolerance on loan repayment performance among YEDFB beneficiaries in Trans Nzoia County.

Godquin (2004) cited in Ojiako and Ogbukwa (2012) emphasized that the provision of non-financial services such as training, basic literacy and health services has a positive impact onrepayment performance whereas Roslan and Karim (2009) succinctly argued that borrowers without any training in relation to their business have a higher probability to default.

Oke, Adeyemo and Agbonlaho (2007) studied an Empirical Analysis of Microcredit in Southwestern Nigeria. Years of formal education ranged from zero for no formal education to 18 years for respondents with higher degrees. The mean duration of education was 6.14years. This point to the fact that clients of microfinance NGOs were literate individuals in their rural communities. This is likely to afford them some level of managerial ability in their business pursuit.

Odonkor (2013) carried out a study on Factors Influencing Loan repayment Among Small Scale Women Fish Processors in the Tema Metropolis in Nigeria. The sample size for each community/zone was determined in proportion to the size of the zone and respondents randomly selected from each of the zones. The total sample size was one hundred and fifty-two (152). It was made up of different generations of borrowers from the selected MFIs who process fish within the Tema metropolis. Structured questionnaires were administered to these respondents to obtain a cross sectional data. Primary and Secondary data was also employed by the study. With these, it was founded that the level of financial education of the women fish processors, denoted by EDUC has a negative effect on loan repayment and the effect is significant at 99% confidence level.

It is generally expected that with higher formal level of education, the higher the knowledge and skill level of the individual. Giving training to clients prior to the transaction of each loan and financial incentives for the credit officers can be used to lower default rates (Norell, 2001).

Osuji (2012) found out that the level of education was significant at the 5% level, and was positively signed as hypothesized. This suggests that as the level of education improved the beneficiary also improved the ability to read and write and in the process, improved dexterity in the occupation, which concomitantly improved profit and the capacity to repay loans. This is in agreement with Coelli and Battese (1996) who carried out a similar study in India that revealed the figure for non-literate respondents was 30%, which suggested that there were lots of room for improvement in their education status.

Roslan and Zaini (2009) investigated the effect of borrowers' characteristics, project characteristics and Portfolio characteristics on loan repayment of agro bank micro credit scheme. The Portfolio characteristics were amount of loan and length of period. The data used in the study was primary data, which was gathered through a survey carried out among agro-bank micro credit scheme borrowers in 86 branches of agro bank throughout Malaysia. Self-explanatory questionnaire were provided to the respondents, where 2630 borrowers were chosen for the analysis by a simple random sampling. In order to determine the effect of borrowers characteristics on the probability of default, an econometric approach that relies on both probit and logit models were employed. The coefficient for the variable training was negative and significant. This result suggests that borrowers that did not have any training in relation to their business/project activity have a higher probability to default compared to those borrowers who had some training.

Paxton (1996) studied determinants of successful group loan; an application to Burkina Faso. In order to evaluate the prevalence of these positive and negative externalities, a survey of 140 groups was accomplished in Burkina Faso. A mean and covariance structural model was used to test the determinants of repayment problems arising and

whether or not the loans were recovered. This econometric method allowed for the use of latent variables with multiple indicators, a more complex error structure, and non-metric categorical variables. The results indicated that urban, homogenous group with good leadership and training and prior history of working in groups had the highest probability of repaying the loan. The results of the empirical model suggest that modifications to project design could enhance loan recovery. Leadership and training of the group was another variable that may lead to effective group loan repayment.

The leadership/training variable is an exogenous variable formed as an index. The survey questions related to whether or not the group members felt that the group leader was effective and whether or not the sectoral or village leadership had an integral part in loan monitoring and had met to discuss options and strategies for members who were unable to repay on a given repayment date (Paxton,1996).

2.4.5 Effect of debt management on loan repayment performance

a. The effect of Loan diversion on loan repayment performance

Kabede, Tegegn and Tafese (2016) undertook a study in Ethiopa. The general objective of the study was to analyze and identify the major factors that determine loan repayment performance of the small scale enterprises and to identify the major challenges of the MFI's in the wolaita and Dawuro area. The specific objectives were to identify the major socio-economic factors that influence loan repayment rate of the borrowers of micro finance institution, to examine the businesses and loan related factors influence the repayment performance of the Private borrowers and to investigate the major problems faced by the borrowers and lenders in the repayment process in micro finance institution. The study employed explanatory research design with quantitative and qualitative methods. For this study multi-stage probability sampling techniques were used. About 300 sample respondents were selected through using simple random sampling technique. The study results showed that purpose of borrowing may not have a notable implication on the loan repayment performance of borrowers. Loan diversion

was also found as essential and significant determinant of loan repayment rate negatively. This means, diverting loan into non-income generating activities increases default rate. The study recommended that the institution should give attention to continuous follow-up on proper loan utilization. Repayment period is also found to be a significant determinant of loan repayment performance of borrowers. Suitability of loan repayment period for borrowers was found to significantly increase the probability of repaying loan. Therefore, the institution has to give enough time to clients so that they will be able to work with the loans they have borrowed and arrange the time to collect loan that will be suitable for them to sell their business output.

Gebremedhin (2010) carried out a study on Determinants of Successful Loan repayment performance of Private Borrowers in Development Bank of Ethiopia, North Region. In the study, primary and secondary data collection methods were used. The study used stratified random sampling where borrowers were selected in such a way that it comprised their loan repayment status. The findings of the study revealed that diverting loans to more productive projects will have positive impact on successful loan repayment while if the loan is diverted to less feasible projects then it will have a negative impact on repaying the loan successfully. Hence, the sign of diverting loans to another purpose cannot be predetermined.

Luvavo (2013) carried out a research on Factors Influencing the repayment of the Youth Enterprise Development Fund Loan by youth groups in Sabatia constituency. The research targeted 52 groups' officials and the 2 Youth Enterprise Development Fund employees working in Sabatia Constituency. The study adopted a descriptive survey design where data was collected from fifty youth groups funded through Youth Enterprise Development Fund in Sabatia Constituency and two YEDEFB employees in the Constituency. Data was collected using questionnaires which were edited, coded and analyzed using descriptive statistics facilitated by use of Statistical Package for Social Sciences. The findings revealed that if loans are too large or clients are full of unpredictable crises, such as illness or death in the family then extra funds may go

towards personal use. Awoke (2004) reported that most of the default arose from poor management procedures, loan diversion and unwillingness to repay loans. Therefore, lenders must devise various institutional mechanisms aimed at reducing the loan diversion.

Wakuloba (2007) studied Causes of Default in Government Microcredit Programs: A Case Study of the Uasin Gishu County Trade Development Joint Loan Board Scheme, Kenya. Both primary and secondary data sources were used in this study. Primary data were collected through questionnaires while secondary from official reports. A sample of 100 clients was selected. Stratified and systematic sampling techniques were used. In the study, it came out that default was associated with diversion of funds to unprofitable uses, like paying school fees. Other factors included a lack of discipline in the use of working capital, poor management skills, and poor business performance. In some cases, defaults were believed to be a problem of attitude, with beneficiaries assuming that government funds are grants and need not be repaid.

b. Effect of Loan Penalty on loan repayment performance

Al-Azzam (2006) studied Essays on Group Lending: Evidence from Jordan, in this study data from a self-designed survey of 160 borrowing groups of the Micro fund for Women in Jordan was used to test the effect of screening, peer monitoring, group pressure, and social ties on borrowing groups' behavior. If the primary penalty for default or delinquency is denial of future loans, clients will presumably be more willing to risk bad behavior as their outside options expand. In such cases, factors such as repayment schedule may have a marginal impact on delinquency and default.

c. Effect of Flexible repayment schedules on loan repayment performance

Weber, Mubhoff and Petrick (2014) investigated on how flexible repayment schedules affect credit risk in agricultural microfinance. The study used secondary data extracted from the Management Information System (MIS) of the bank and includes loan and

respective client data. Despite the potential of flexible repayment schedules to increase the efficiency and outreach of MFIs, most MFIs are still reluctant to make schedules more flexible. They fear that more flexibility reduces repayment quality (Jain &Mansuri, 2003). However, there is no empirical evidence that could support this concern.

Most research studies focusing on the effects of flexible repayment schedules on loan repayment are based on experiments, and the results are mixed. In a field experiment in India, Field and Pande (2008) randomly assigned microfinance loans to mostly non-agricultural borrowing groups of a MFI with either monthly or weekly installments. They find that different repayment schedules have no significant influence on loan delinquencies. Most MFIs are still reluctant to make repayment schedules of standard loans more flexible out of fear that more flexibility might reduce repayment quality.

Shonchoy and Kurosak (2013) carried out a study on Impact of Flexible Microcredit repayment on and Food Consumption: Experimental Evidence from Rural Bangladesh. The study surveyed 1,440 households belonging to the borrower groups both before (baseline) and after one year of intervention (end line). Similarly, the study executed a short "seasonality'' survey during the time of "seasonality'' in 2011, to understand the severity of the seasonal conditions. Making use of survey and experimental methods, the study empirically analyzes the impact of the flexibility schemes on repayment and consumption. During the "seasonality'' period, microcredit borrowers may face difficulties in preparing the money needed for regular repayment. To facilitate the demand for repayment flexibility within this context, the treatment relaxes the repayment schedule in two ways during the "seasonality'' period, which for this purpose is designated to be more than three months. A moratorium is temporarily applied to schedule during the designated "seasonality'' period. During that moratorium, households within the groups do not pay any installment. After the "seasonality'' period, the borrowers begin to pay BDT 100 per week, so that their total repayment amount and period would be identical to those of the Control group.

As a variant, one-third of them are given income generation activities (IGA) support. Under IGA support, instead of providing cash, microcredit borrowers are provided with a productive asset of their choice, within the credit amount, along with advice for utilizing the asset; no further subsidy is provided (Shonchoy & Kurosak, 2013).

d. The effect of return on investment on loan repayment performance

A study by Osuji et al. (2012) investigated the effect of profitability of respondents' enterprises on loan repayment. The coefficient of profitability index was positive and significant at 5% level and was in consonance with hypothesis which stated that profitability index (ratio of income to costs) had direct and strong relationship with repayment. This was because difficulties in repayment arose whenever a business is unprofitable. This is an indication or index of management ability. In the event of not making profit, enterprises including NGOs (which are expected to break-even), become unsustainable.

2.4.6 Effect of cost of capital on loan repayment performance

Edakasi (2013) studied the Effect of Interest Rates on Loan repayment; a Case Study of Equity Bank Masindi Branch, Uganda. The research used both random sampling and purposive selection of a sample size of 60 comprising of 10 Equity bank officials and 50 bank customers.The level of interest rates has a direct effect on a consumer's ability to repay a loan. Thordsen and Nathan (1999), assert that when interest rates are low, people are willing to borrow because they find it relatively easy to repay their debt. When interest rates are high, people are reluctant to borrow because interest on loans cost more. Some consumers may even find it difficult to meet their existing loan schedules, especially if interest rates increase faster than the rise in a consumer's income. If interest rates rise sharply and stay high for a long period, some consumers will default on their loans.

2.4.7 The effect of loan repayment duration on loan repayment performance.

Kabede, Tegegn and Tafese (2016) undertook a study in Ethiopa to analyze and identify the major factors that determine loan repayment performance of the small scale enterprises and to identify the major challenges of the MFI's in the wolaita and Dawuro area. Repayment period was found to be a significant determinant of loan repayment performance of borrowers. Suitability of loan repayment period for borrowers was found to significantly increase the probability of repaying loan. Therefore, the institution has to give enough time to clients so that they will be able to work with the loans they have borrowed and arrange the time to collect loan that will be suitable for them to sell their business output.

Akerele, Aihonsu, Ambali and Oshisanya (2014) investigated factors affecting loan repayment performance among members of Cooperative Thrift and Credit Societies in Yewa North Local Government Area of Ogun State. The study drew a sample of hundred and four smallholder agricultural credit users who are members of Cooperative Thrift and credit society identified through a multi stage random sampling techniques. Relevant information on socio-economic characteristics, sources of loan preferred, payback period, factors affecting loan repayment of co-operators and constraints in obtaining loan were collected using structured questionnaires with personal interview and data collected were analyzed using descriptive statistics and multiple regressions. The results of the regression showed that loan duration positively and significantly influence loan repayment. The researchers concluded that credit agencies should always endeavour to draw a more convenient disbursement and amortization schedule to conform to economic needs. That is, loan must be adapted to the peculiar needs of the co-operators and repayment condition should be flexible enough to allow for variation and uncertainties in cooperative income.

Gebremedhin (2010) researched on Determinants of Successful Loan Repayment Performance of Private Borrowers in Development Bank of Ethiopia, North Region. In the study, primary and secondary data collection methods were used. The study used

stratified random sampling where borrowers are selected in such a way that it comprises their loan status. Out of 300 borrowers, 240 of them were successful borrowers and the rest 60 borrowers were defaulters. A sample of 100 borrowers was interviewed out of which 83 are successful and 17 of them are defaulters. Short repayment period might cause the borrower not to have enough revenue to make loans. On the other hand, long repayment period are detrimental to borrowers if they cannot access future loans until the existing loans is paid back. Hence both short and long-term repayment period can have negative effect on successful loan repayment, however if the period is medium it is expected that the borrower will have an opportunity to repay his/her loan successfully

Roslan and Karim (2009) studied Determinants of Microcredit repayment in Malaysia: The Case study of Agrobank. The results of the study indicated that shorter repayment period might cause the borrower not to have generated enough revenue for the person to make loan payment. On the other hand, longer repayment period are detrimental to borrowers if they cannot access future loans until the existing loans is paid back. Hence, both shorter and longer repayment period can have negative effects on the default rate.

2.4.8 Performance of Loan of Repayment

The repayment performance of rural farmer's loan beneficiaries of Microfinance Banks was carried out in Kogi State, Nigeria, using primary and secondary data (Abula, Otitolaiye, Ibitoye & Orebiyi, 2013). Two hundred and forty respondents were sampled, using the multi-stage random sampling. Statistical and econometric techniques such as means, percentages and regression were used for the analysis. Empirical results revealed that the mean loan repayment performance of respondents for all the agricultural enterprises was found to be 88.96%. To achieve a better repayment performance, group lending and credit delivery method now a common features of Microfinance credit delivery should be encouraged and sustained. This finding is consistent with Oke et al. (2007) who observed a mean repayment of 89.68percent in his work "An Empirical Analysis of Microcredit Repayment in South western Nigeria". According to Abula et al. (2013) implication of this finding is that there are reduced delinquent borrowers

among the various agricultural enterprise beneficiaries of MFBs programme in Kogi state. The implication is that rural farmers in the state can be able to access more loan as repayment capability is one of the major determinants of the amount of loan disbursed.

Mungai, Maingi and Muathe (2014) studied the crucial role of the government in providing start-up funds and their relationship to sustainability. The main focus of this research was to analyze the loan repayment and sustainability issues of government micro-credit initiatives in Murang'a County. The specific objective of the study was to establish the effect of borrower characteristics to micro-credit repayment in Murang'a County. The study adopted a positivism philosophy of research, where the researcher was independent on what was being observed and what was studied. Descriptive survey design was used to determine the level of government funded micro-credit loan repayment and its effect on sustainability for other borrowers. The target population was 1520 social and economic groups in Murang'a County. Clustering and Simple Random Sampling techniques were applied to select a sample size of 307 groups including a census of 16 constituency credit officers, who were interviewed. This, in total accounted to 19.5% of the total population. A questionnaire and an interview schedule were used to collect data. Descriptive data were analysed using tables and charts. Qualitative data were analysed using Chi square, Analysis of Variance and Logit Regression Model. Hypothesis testing revealed statistically significant results, for borrowers' characteristics effect to loan repayment and sustainability. The study found that due to problems of high risk and high cost of borrowing, uncertainty of repayment capacity on the rural borrower has been reported high due to irregular income streams.

2.5 Research gaps

Kenyan researchers have extensively analyzed the area of loan default. For instance, Angaine and Waari (2014) analyzed the factors influencing loan repayment in micro-finance institutions in Kenya, Meru Municipality. A descriptive survey design was used. Stratified proportionate and simple random sampling was employed. The study analyzed borrower characteristics, business and borrower characteristics that influence loan

repayment. The study did not address finance related factor considered in the current study. The findings of this study revealed that non-repayment was at 51.4%. This is high compared to 36.1% reported by YEDF board report, 2014 for Trans Nzoia County.

Similarly, Aseyo and Okibo (2013) carried out a study on causes of loan default within micro-finance institutions in Kenya. The target area was Trans Nzoia County. The study investigated how non-supervision, shrinking economic growth and diversion of loan funds lead default in loan repayment among MFIs in the county. The current study extends variables beyond loan diversion to more finance related factors. A study by Nguta and Huka (2013) on factors influencing loan repayment default in micro finance institutions in North Imenti district focused on business characteristics-age, type of business, location and profit. The findings revealed that cases of default of loan repayment were 67.9% in manufacturing sector, 64% in service industry, 58.3% in agriculture and 34.9% in the trade sector. A study on finance related factors causing default is important in explaining these high rates.

Mungai, Maingi and Muathe (2014) studied loan repayment and sustainability of government funded micro-credit initiatives in Murang'a County. The study focused on borrower characteristics that included spouse influence, informal borrowing and loan diversion. The repayment rate was slightly above 50%. The current study focused on how finance related factors like cost of capital, risk tolerance, debt management, repayment diversification, size and finance literacy influences loan repayment among YEDF board beneficiaries in Trans Nzoia County.

Other studies reviewed reveal that there are several financial factors that determine loan repayment among micro credit groups. These factors include like loan size, financial risk (risk tolerance), repayment diversification, finance literacy, debt management and cost of capital. The reviewed studies were conducted in parts of the world different from the locality of the current study and did not consider all the factors. For instance, Osuji et al. (2012) did their study in Nigeria, whereas Edakasi (2014) and Shonchoy and Kurosak (2013) did their researches in Uganda and Rural Bangladesh respectively. Considering

also different cultures and norms in these parts of the world, as well as differences in the nature in which different banks world over recover their loans from clients, this necessitates the current study.

Olweny, Namusonge and Onyango (2012) in their study assessed the influence of socio-economic background on individual investor risk tolerance at Nairobi Securities Exchange. This study sought to establish the effect of risk tolerance category of the borrower on loan repayment performance. In their study, Olweny et al. (2012) established a high correlation between finance literacy and risk tolerance. The current study independently cross tabulated finance literacy and risk tolerance of borrower with loan repayment performance and later regressed in a multi-nomial logistic model to establish their marginal coefficient effects among other finance factors with loan repayment performance.

Some of the reviewed studies targeted only women and which strategies they employ to repay loans (Osuji, 2012) whereas the current study targeted youths where both women and men were captured. The current study employed a multi-nomial logistic regression model in order to predict the probabilities of possible outcomes of loan performance given a set of independent variables but the reviewed studies employed logit and probit models to analyse internal and external delinquency of clients(Bassem, 2008 ; Roslan & Karim, 2009).

Reviewed studies demonstrated that data was majorly collected through the use of structured, unstructured interviews and natural experiment (Odonkor, 2013; Osuji, 2012; Shonchoy & Kurosak, 2013) respectively. The current study employed a questionnaire and interview guide as tools for data collection. This is deemed necessary for purposes of ensuring of validity of collected data. The current research considers use of more than one instrument crucial since a questionnaire for instance will cater for biasness which might arise when the researcher uses the interview guide only.

Reviewed studies employed multi-stage sampling (Osuji, 2012) where the target groups were banks, NGOs and Saccos. The current study will concentrate on beneficiaries of YEDFB in Trans Nzoia County and this will provide in depth analysis of the repayment situation. Other studies (Roslan & Karim, 2009; Wakuloba, 2007) employed case study research design whereas this study will use a descriptive survey design.

Luvavo (2013) studied factors affecting YEDFB loan repayment in Sabatia constituency and captured only one financial factor, loan diversion. This study combined other finance related factors such as loan size, period, repayment diversity, profitability, training, loan penalty, flexible and interest rate into an econometric model to establish the relative effect of YEDFB loan in Trans Nzoia County. Some of the factors have scanty information on them; profitability, repayment, diversity (Osuji et al. 2012); loan penalty (Al-Azzam, 2006)

2.6 Summary

This chapter reviews the literature on the relationship between finance determinants and loan repayment performance. The review proceeded from the general global and historical context of Group loan repayment until it narrowed to YEDFB in Kenya. Both quantitative and qualitative studies have illuminated a number of finance related factors as possible contributors to the persistence of poor Loan repayment by the groups especially among the youths. The issues discussed in the literature review are important in determining the factors that influence the Loan repayment of the capital. This chapter on literature review left no doubt that all the finance factors affecting loan repayment should be perceived as a unit within a system for successful business performance. Both theoretical models and empirical studies make assumptions about the elements of successful group lending programs throughout the developing world. A common prescription for solid loan repayment performance is to form homogeneous credit groups which exhibit group solidarity and group pressure in order to repay the loan. The philosophy behind this concept is that groups who have similar characteristics and know each other well will cover for each other in hard times and use social pressure to

encourage Loan repayment. The most famous group lending project, which has motivated numerous replications, is the Grameen Bank of Bangladesh. Nevertheless, despite reported success of the Grameen model, solidarity may function differently in settings outside of Bangladesh as indicated by contradictory low levels of repayment. To substantiate this argument, this study presented an alternative conceptual framework to the study of microfinance group loan repayment by focusing on the analysis of finance determinants like loan size, financial risk (risk tolerance), repayment diversification, finance literacy, debt management and cost of capital and their effect on an individual as well as other members' loan behavior among the youth borrowers in Trans Nzoia County.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology and design that will be used to gather information in order to complete the study. It gives details about the population of the study, the research design, data collection techniques and data analysis and presentation.

3.2 Research Philosophy

The study was based on a positivist philosophical paradigm. The proponent of the philosophy was a French philosopher, Auguste Comte in 1830. Positivist philosophy believes in the possibility to observe and describe reality from an objective viewpoint. The current study used theories, empirical data analysis and interpretation of the phenomena in a natural way and drew conclusions and provided recommendations. The study sought to determine the effect of finance determinants (quantitatively measured on likert scale) on loan repayment (categorical) among YEDFB beneficiaries in Trans Nzoia County.

3.3 Research Design

The researcher used a descriptive research design that employed mixed methods, which included both quantitative and qualitative techniques. The mixed method is considered to be very efficient in answering research questions compared to the quantitative and qualitative approaches when used in isolation (Creswell, 2002). Furthermore, by using a mixed method approach at different stages of research, any bias that exists in any single method can neutralize or remove the biases

The primary advantage of the design is that the researcher is able to gather a great deal of information in a relatively short period of time. It is a straightforward way of finding out what people thought, felt and did. Survey methods have become sophisticated that even using a very small sample is sufficient to infer with great accuracy how a larger group would respond (Feldman, 1996). Descriptive survey is important when detailed description of existing situation intended for the justification `of current practices is required. Yin (1984) argues for the use of surveys in educational fact-finding because they provide a great deal of information which is accurate. The intention of a survey research is to gather data at a particular point in time and use it to describe the nature of existing conditions.

3.4 Target Population

The target population was comprised of 1,077 YEDFB individual loan beneficiaries in Trans-Nzoia County according to YEDFB Status Report (2015). These groups were distributed across five sub counties: Kwanza, Endebes, Cherang'any, Saboti and Kiminini as indicated in Table 3.1

Table 3.1: Number of YEDF Group Beneficiaries per Sub-County

Sub County	YEDF Group	YEDF individual loan beneficiaries
Kwanza	40	200
Endebes	50	250
Cherang'any	48	192
Saboti	35	175
Kiminini	52	260
Total	**225**	**1,077**

Source: YEDF Status Report (2015)

3.5 Sample and Sampling Technique

The YEDF group beneficiaries were stratified according to sub-counties they operate from. A total of 1,077 individual loan beneficiaries were distributed in the county as shown in Table 3.1. One hundred and forty four groups randomly selected across the sub-counties constituted the sample using Yamene's formula for finite population (Reid & Bore, 1991). Since individual YEDFB loan beneficiaries ranged between 4-6 per group, three members were selected from each group. One key informant was selected purposively from each Sub-County. A total of 438 respondents participated in the study as shown in Table 3.2.

Table 3.2: Sampled Number of Respondents

Sub County	YEDF Sampled Groups	Sampled individual YEDFB loan beneficiaries
Kwanza	25	75
Endebes	33	99
Cherang'any	30	90
Saboti	22	66
Kiminini	36	108
Total	**146**	**438**

Source: YEDF Status Report (2015)

$$n=\frac{N}{[(1+N(e)2]}$$

Where N=225, e= 0.05 (level of significance at 95%). Substituting gives 146 groups

3.6 Data Collection Methods

For collection of data for the study both primary. Primary data are information collected by a researcher specifically for a research assignment. Primary data are original in nature and directly related to the issue or problem and current data. Primary data are the data which the researcher collects through various methods like interviews, surveys and questionnaires.A semi- structured questionnaire was used to collect data. A questionnaire refers to set of questions designed in a form format and is employed by researchers in eliciting information for the purpose of data analysis. Questionnaires are more efficient and require less expensive and permit collection of data from a much a larger sample. Questionnaires are also of particular importance in collecting information about a population in the fields of education and social sciences. They can also be used to collect information that is not directly observable since they among other things enquire about feelings, motivation, attitude, accomplishment, as well as an individual's experiences. An interview guide was used to solicit in depth information from key informants who were Youth Enterprise Development Fund officers monitoring loan.

3.7 Pilot Study

A pilot study was carried out using 20 youth enterprise development fund board beneficiaries operating business in Kitale town. The data collected was used to test the questionnaire's reliability. Reliability analysis was done to assess the reliability, internal consistency and validity of the survey instruments used. Reliability analysis was explained by Cronbach's reliability coefficient. The study made use of Likert scale hence suitability for reliability analysis as indicated in table 3.3. Likert scale enabled easier analysis as it minimised doubt on the type of response given. Cronbach's alpha coefficient was pegged on Mugenda, and Mugenda rule of thumb (0.6). Cronbach's alpha is a measure of reliability.

Table 3.3: Pilot test results

No.	Variable description	Cronbach alpha value-α
1	Portfolio characteristics	0.757
2	Borrower risk tolerance	0.750
3	Portfolio diversification	0.803
4	Borrower level of financial literacy	0.804
5	Debt management	0.750
6	Cost of funds borrowed	0.723

Source: Researcher 2016

3.8 Data Collection Procedure

The researcher secured an introductory letter from Jomo Kenyatta University of Agriculture and Technology to seek permission from YEDFB office and group leaders for data collection. Data was collected using questionnaires from sampled groups and members. The pre-tested questionnaire was administered by the researcher with the help of three trained research assistants. These research assistants were trained on the handling of the research tools and the topic under study before being allowed to collect data. The research assistants were closely supervised by the researcher during data collection. The questionnaire took approximately twenty minutes to administer. Data collection process took about two months. An appointment was booked with respective YEDFB field officers of sampled groups by researcher and interviewed for not more than thirty minutes.

3.9 Data Processing and Analysis

Data entry was done in Microsoft excel and exported to STATA V.10 for analysis. Frequencies mean and standard deviation were used to summarize the data. Chi-square was used to check for significant relationship between categorical independent variables

and the outcome variable (Loan repayment performance). ANOVA was used for continuous independent variables. The study employed a multinomial logistic regression model to analyze the primary data which was collected from the respondents. This model was appropriate for a dependent variable with three or more levels. Loan repayment performance is dependent variable, whereas finance related determinants are independent variables. Based on the loan repayment performance of the borrowers, the study classified the dependent variable into three groups comprising of those who repay on time, delinquent and defaulters. Repayer was the borrower who completely did not fail to repay loan, delinquent was the borrower who skipped or delayed to repay while defaulter was the borrower who completely failed to repay loan. This made loan performance to have multiple results.

3.9.1 Multinomial Logistic Regression Model Assumptions

1. The dependent variable should be measured at the nominal level. YEDFB loan repayment performance was either repays, delinquent or default.
2. There should be one or more independent variables that are continuous, ordinal or nominal (including dichotomous variables).the variables were measured on a five point likert scale items ("strongly agree" through to "strongly disagree
3. There should be independence of observations and the dependent variable should have mutually exclusive and exhaustive categories.
4. There should be no multicollinearity. Multicollinearity occurs when you have two or more independent variables that are highly correlated with each other.
5. There needs to be a linear relationship between any continuous independent variables and the logit transformation of the dependent variable.
6. There should be no outliers, high leverage values or highly influential points.

The model for loan repayment performance was constructed as follows:

$$\text{Logit}(Y=1) = \text{Log}\left[\frac{P(y-1)}{(1-(p-1)}\right] = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + ei \quad \ldots(1)$$

Where Y = loan repayment of borrowers;

p(y-1) = non- reference category(delinquents and defaulters)

1-(p-1) = reference category(repayers)

β_0 = constant;

$\beta_{1\text{-}6}$ = coefficient of explanatory variable;

X_1 = portfolio characteristics;

X_2 = risk tolerance;

X_3 =portfolio diversification;

X_4 = finance literacy;

X_5 = debt management;

X_6= cost of capital;

ei = error term

Before running the logistic model, the model was tested for existence of multi-collinearity and heteroskedasticty. Significance was set at α=0.05.

3.10 Variable definition and Measurement

Table 3.4: Variable definition and measurement

Variable	*Variable Definition*	*Variable Measurement*
Portfolio Characteristics	These are YEDFB loan attributes that influence repayment behavior	accessibility, processing time, repayment period, amount, grace period before repayment
Risk Tolerance	This is a borrower's level of risk absorption	Risk averse Low risk taker Average risk taker High risk taker
Finance Literacy	This is a borrower's financial knowledge and practices	Training before loan Financial management knowledge
Debt Management	YEDFB loan repayment enforcement strategies	Loan diversion Loan Penalty Flexible Repayment Return on investment
Portfolio Diversification	This is YEDFB loan utilization on investment decisions.	Portfolio diversity Type of business
Cost of Capital	These are costs that are that are incurred by the borrower as a compensation to the loan advanced	Interest rate Insurance fee Contingency fee Membership fee
Performance of Loan Repayment	This is the repayment behavior of the YEDFB loan	Repayment consistency(Repays on time) Delays(delinquent) Defaulter

Source: Researcher 2016

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents and discusses the results from the descriptive and econometric analysis. The first section of this chapter presents the descriptive statistics results and the second section presents the econometric model results of the study. The descriptive statistics analysis is conducted by using mean, percentage, standard deviation and frequency distribution. In addition, ANOVA and chi–square test statistics were employed to compare good payer, delinquent and defaulter individuals with respect to some explanatory variables.

4.2 Response Rate

A total of 438 survey questionnaires were administered to the respondents. All the questionnaires were collected. This was 100 percent response rate attributable to data being collected during the weekly group meetings where respondents filled and returned the questionnaires immediately. In addition all the YEDFB loan officers were available for interview in all the study areas. This excellent response rate was also attributable to appropriate introduction done to groups, training and good service rendered by the research assistants. It also reflects the high expectation of the respondents that their challenges and problems could be addressed through better financing of their groups.

4.3 Respondents Personal Characteristics

This study established the demographic characteristics of YEDFB beneficiaries. These characteristics include age, gender, educational level, marital status and experience in business. The business type, number of members in the group, respondent position in the group, loan application maturity and loan repayment duration were also established and disaggregated by repayment performance.

4.3.1 Age of Respondents

Table 4.1 shows the distribution of respondent's age (mean and range) across the five study areas. Descriptive statistics revealed that the average age of the respondents was approximately 26 (25.7397) years. The youngest beneficiary was 18 years while the oldest was 35 years with standard deviation of about 4 years around the mean. Youths in this age group constitute the very energetic youth and are likely to work effectively to increase their incomes. The results also indicate that majority of the youths are increasingly considering entrepreneurship as a preferred choice to employment and not as a last resort.

Table 4.1: Age distribution of YEDFB beneficiaries

Description	**Good payment**	**Delinquent**	**Default**	**F-value**	**p-value**	**Total**	
	Mean SD	Mean SD	Mean SD			Mean	SD
Age	26.1(4.2)	25.4(3.6)	25.0(2.7)	2.614	0.074	25.7397	3.898

Source: Field data 2016

4.3.2 Gender of Respondents

Majority, 226(51.6%) of the respondents were male and the rest 212(48.4%) were female. This implies that most beneficiaries of YEDFB loans male. The default level was 9.3% and 17.9% among male and female respectively. This implies that default rate is higher among female borrowers. This could be attributed to the role played by females in taking care of households. Females are more likely to spend part of their loans on household consumption. The difference between the two groups was positive and significant (p=0.015).

Table 4.2: Gender distribution of YEDFB beneficiaries

Gender	Good payment		Delinquent		Default		Chi-square value	p-value	Frequency	Percent
	n	%	n	%	n	%			N	%
Male	128	6.6	77	34.1	21	9.3	**8.454**	**0.015**	226	51.6
Female	119	6.1	55	25.9	38	17.9			212	48.4

Source: Field data 2016

4.3.3 Educational Level of Respondents

Table 4.3 shows the distribution of educational level of YEDFB beneficiaries. A very small proportion 8(1.8%) had no schooling while more than one third 152(34.7%) had attained tertiary and university levels of education. This indicates that many youths graduating from college have embraced entrepreneurial activities to generate income and create sustainable livelihoods. These results indicate that the government initiative of establishing the fund to create employment for the ever increasing number of graduates is achievable. Majority of the respondents across the study areas had attained secondary level of education.

Repayment performance was 100% among those borrowers with no schooling followed by those with primary education 53(84.1%). The findings indicate that default rate increased with increase in education level as indicated in table 2 below. The differences among the three groups of repayers was positively and significant ($p<0.001$).

Table 4.3: Distribution of educational level of YEDFB beneficiaries

Education	Good payment		Delinquent		Default		Chi-square value	p-value	Frequency	Percent
	n	%	n	%	n	%			N	%
No schooling	8	100	0	0	0	0			8	1.8
Primary	53	84.1	7	11.1	3	4.8	**39.480**	**0.000**	63	14.4
Secondary	105	48.8	84	39.1	26	12.1			215	49.1
Tertiary	53	54.6	25	25.8	19	19.6			97	22.1
University	28	50.9	16	29.1	11	20.0			55	12.6

Source: Field data 2016

4.3.4 Marital Status of YEDFB Beneficiaries

Table 4.4 shows the distribution of marital status of YEDFB beneficiaries. About one third 139(31.7%) of the respondents were single. Over half 76(54.7%) of the single respondents were good repayers while the rest 43(30.9%) and 20(14.4%) were delinquent and defaulters respectively. About half 218(49.8%) of the respondents were married. Over half 116(53.2%) of the married respondents were good repayers while the rest 71(32.6%) and 31(14.2%) were delinquent and defaulters respectively. Among those separated, majority 39(79.6%) were good repayers of loan while 10(20.4%) were delinquents as shown in table xx. The difference among the groups was positive and significant (p=0.015). Default rate was higher among those divorced or widowed compared to those married. These results show that most of the YEDFB beneficiaries were married and are likely to spend much of their income on their families. Since married beneficiaries are likely to have a larger family size, they will have higher expenses than single ones. Therefore single beneficiaries are likely to have better repayment ability than married ones. Beneficiaries who were separated were better

repayers compared to widowed or divorced. This could be attributed to spouses complementing their household expenditure and income reducing loan and profits diversion to unintended purposes.

Table 4.4: Distribution of marital status of YEDFB Beneficiaries

Marital status	**Good repayment**		**Delinquent**		**Default**		**Chi-square value**	**p-value**	**Freq**	**Percent**
	n	**%**	**n**	**%**	**n**	**%**			**N**	**%**
Single	76	54.7	43	30.9	20	14.4			139	31.7
Married	116	53.2	71	32.6	31	14.2			218	49.8
Separated	39	79.6	10	20.4	-	-			49	11.2
Divorced	8	50.0	5	31.2	3	18.8			16	3.7
Widowed	8	50.0	3	18.8	5	31.2	**18.928**	**0.015**	16	3.7

Source: Field data 2016

4.3.5 Experience of YEDFB Beneficiaries

Table 4.5 shows the mean experience in current business by YEDFB beneficiaries. The mean experience in business of the beneficiaries was 3.54(SD. 2.456). The results indicate that the YEDFB beneficiaries who defaulted had lower mean experience compared to those who were delinquent and repaid on time. The low level of business experience could negatively influence loan repayment abilities of the YEDFB beneficiaries in the study area.

Table 4.5: The mean experience in current business by YEDFB Beneficiaries.

Description	Good payment		Delinquent		Default		F-value	p-value	Total	
	Mean	SD	Mean	SD	Mean	SD			Mean	SD
Experience	3.42	5	3.92	3	3.22	4	**2.420**	**0.090**	3.54	2.456

Source: Field data 2016

4.3.6 Type of Business

Table 4.6shows the proportion of respondents operating under various sectors of the economy. The respondents were requested to indicate the type of business they were engaged in. Majority of the respondents indicated that they were engaged in trading 13(30.6%) and service 152(34.7%). Manufacturing sector had only 57(13.0%) of the respondents while Agribusiness had 95(21.7%). These sectors contribute a larger proportion in terms of employment creation despite its low uptake by YEDFB beneficiaries. Manufacturing and Agribusiness(agro-processing) is a grey area which should be exploited by youths given that Trans Nzoia County is largely agricultural and raw materials are cheaply available.

Those respondents who engaged in trading indicated good repayment performance with 87(64.9%) being good repayers while 12(9.0%) were defaulters. Only 20(35.1%) operating in the manufacturing sector were good repayers while 15(26.3%) were defaulters. Agribusiness sector was second in repayment performance where 51(53.7%) of the respondents were good repayers while 9(9.5%) were defaulters. The differences among the groups was positive and significant (p=0.002)

Table 4.6: Proportion of respondents operating in various business sectors

Type of business	Good payment	Delinquent		Default		Chi-square value	p-value	Frequency	Percent
	n %	n	%	n %				N	%
Manufacturing	20 35.1	22	38.6	15 26.3				57	13.0
Trading	87 64.9	35	26.1	12	9.0	**21.240**	**0.002**	134	30.6
Service	89 58.6	40	26.3	23 15.1				152	34.7
Agribusiness	51 53.7	35	36.8	9	9.5			95	21.7

Source: Field data 2016

4.4 Portfolio Characteristics

4.4.1 Amount of Loan Borrowed per individual in the Current Cycle

The mean amount of loan borrowed in the current cycle by the YEDFB beneficiaries was 105,673 shillings. The delinquent group borrowed larger amounts of loan (124,280). The mean difference in amounts of loans borrowed among the three categories of repayers was significant ($F=5.814$, $p<0.05$). Amount of loan borrowed may influence the investment/business size and returns generated. The amount of loan granted should be adequate to meet the group financial needs.

Table 4.7: Amount of Loan Borrowed per individual in the Current Cycle

Description	Good payment	Delinquent	Default	F-value	p-value	Total	
	Mean	Mean	Mean			Mean	SD
	SD	SD	SD	**5.814**	**0.003**		
Amount of loan borrowed	97894.7 (65123.6)	124280.3 (98174.4)	96610.2 (49883.0)			105,673.5	75,873.68

Source: Field data 2016

4.4.2 Amount of Loan Granted per individual in the Current Cycle

Although the amount of loan applied was between 25,000 shillings and 500,000 shillings, the amount granted was less. In the first cycle, groups qualify for 50,000 shillings and after successful repayment proceeds to second cycle and third cycle where borrowers access individual loans guaranteed by the group. Size of loan granted may influence loan repayment behavior of borrowers either positively or negatively. The mean amount of loan awarded to YEDFB beneficiaries was 68,379 shillings. The mean amount awarded to good repayers was 60,546 shillings while delinquent and defaulters received 79,507 shillings and 76,271 shillings respectively. The mean difference of amounts of loans awarded was significant ($F=6.653$, $p<0.05$). The finding of this study means that beneficiaries who received small amounts of loan repaid on time compared to those who were awarded larger amounts of loan.

Table 4.8: Amount of Loan Granted per individual in the Current Cycle

Description	Good payment	Delinquent	Default	F-value	p-value	Total	
	Mean SD	Mean SD	Mean SD			Mean	SD
Amount of loan awarded	60546.6 (41789.3)	79507.6 (66670.7)	76271.2 (48783.4)	**6.653**	**0.001**	68,379.00	52,075.90

Source: Field data 2016

4.4.3 Time between application and receiving of individual YEDFB loan

Majority 242(55.3%) of the YEDFB loan beneficiaries got the loans within 3-6 months after application while a small proportion 9(2.1%) received their loans within one month. This small proportion represents those borrowers who were in their third cycle and had good repayment profiles. 187(42.7%) of the respondents received their loans after more than 6 months from application. Majority 151(62.4%) of those who received their loans between 3-6 months were good repayers while 24(9.9%) defaulted. The finding showed further that 90(48.1%) of those who received their loans after more than 6 months paid promptly while 32(17.1%) defaulted. This implies that majority of the youths who apply for loans do so to meet their business needs and any delay in disbursement may affect business performance and ultimately loan repayment performance. The period of 3-6 months seem to be the appropriate time lag for loan disbursement for good repayment performance. The difference between the groups was significant (p=0.004).

Table 4.9: Time between application and receiving of individual YEDFB loan

Time	Good payment		Delinquent		Default		Chi-square value	p-value	Frequency	Percent
	n	%	n	%	n	%			N	%
One month	6	66.7	-	-	3	33.3			9	2.1
3-6 months	151	62.4	67	27.7	24	9.9			242	55.3
More than 6 months	90	48.1	65	34.8	32	17.1			187	42.7
							15.246	**0.004**		

Source: Field data 2016

4.5 Individual YEDFB Loan Repayment Status

Over half 247(56.4%) of the respondents were good repayers of YEDFB loans while 132(30.1%) were delinquent. 59(13.5%) of the respondents defaulted. Full repayment of the loan enables more youths to access and benefit from the fund. This implies that YEDFB loan has not achieved full repayment. This study sought to establish determinants (financial) that could be attributed to this level of repayment performance.

Table 4.10: Individual YEDFB Loan Repayment Status

Status	Frequency	Percent
Repays	247	56.4
Delinquency	132	30.1
Defaulted	59	13.5
Total	**348**	**100**

Source: Field data 2016

4.5.1 Causes for YEDFB Loan Repayment Behaviour

The respondents were asked to provide reasons for their YEDFB loan repayment behaviour. This was a multiple response. Those respondents who cited shortage of funds all, 26(100%) were delinquent while 14(70%) of those who cited not making profits were delinquent and 6(30%) defaulted. Among the respondents who cited not selling anything as a reason of poor loan repayment performance, 25(56.8%) were delinquents while 9(30%) were defaulters. Among the delinquents, 21(70%) delayed to pay because they spent money on other things while 46(64.8%) said they did not give it priority. The findings show that poor performance of youth enterprises was the reason for poor loan repayment. However, some the YEDFB loan beneficiaries were reluctant to repay the loan despite the business doing well.

Table 4.11: Causes for YEDFB Loan Delinquency and Default

Cause	**Delinquent**		**Default**		**Chi-square value**	**p-value**	**Frequency**	**Percent**
	n	%	n	%			N	%
Shortage of funds	26	100	-	-			26	13.6
Did not make profits	14	70	6	30			20	10.5
Did not sell anything	25	56.8	19	43.2			44	23
Spent money on other things	21	70	9	30			30	15.7
					15.375	0.004		
Did not give it priority	46	(64.8)	25	35.2			71	37.2

Source: Field data 2016

4.6 Financial Determinants of YEDFB Loan Repayment

Financial determinants that were surveyed in this study included portfolio characteristics, borrower's risk tolerance level, portfolio diversification, financial literacy, debt management and cost of borrowed funds.

4.6.1 Portfolio Characteristics

This variable comprised of various aspects of YEDFB loan. The variable was defined by eleven sub-variables. These sub-variables include loan accessibility, processing time, repayment period, loan amount, grace period before repayment, loan applied/awarded, purpose of loan, loan interest, flexibility of repayment frequency, security and incentives to repay loan such as repay to access future loans, penalties, simplified repeat loans and loss of eligibility to future loans. These sub-variables were measured on a five point likert scale ranging from strongly agree to strongly disagree. The mean response and standard deviation were used to interpret the data on each sub variable and overall variable.

a) YEDFB Loan Accessibility

About half 217(49.6%) of the respondents strongly disagreed that YEDFB loan is easily accessible. Sixty (13.7%) strongly agreed while 122(27.9%) agreed that YEDFB loan is easily accessible less than 10% (8.9%) were undecided. This implies that majority of the youths do not regard YEDFB loan as easily accessible. This finding is against the government goal of establishing the fund that was to create a financial product accessible by all youths across the country to enable them start or expand their businesses to ease unemployment levels. There are some regions in Kenya where undisbursed funds are high and have raised lots of concern from the general public. However, to ensure loan repayment, youths are expected to form groups that act as collateral. Formation of sustainable groups among the youth is still elusive and this could be the reason why respondents perceived difficulty in accessing the loans.

b) YEDFB Processing Time

85(19.6%) of the respondents strongly agreed that there is timely processing of the loan while 169(38.6%) agreed on the same. 84(19.2%) and 73(16.7%) disagreed and strongly disagreed respectively that there is timely processing of the loan. Majority 254(58.0%) agreed that YEDFB loan is processed timely. This implies that YEDFB loans have reduced procedures compared to commercial bank loans. This is attributable to government commitment to ensure that funds are provided to youths on time for them to actualize their entrepreneurial skills and improve on livelihoods.

c) Favourable YEDFB loan repayment period

The respondents were asked to state whether the loan repayment period was favourable. 138(31.5%) of the respondents strongly agreed while 152(34.7%) of the respondents agreed that loan repayment period was favourable. One third (30.4%) either disagreed of strongly that the loan repayment period was favourable. Overall the respondents agreed that loan repayment period was favourable (M=2.33, SD=1.286). This is attributable to the Government policy of providing affordable funds to youths to start businesses.

d) Adequacy of YEDFB Loan Amount

The respondents were requested to rate the premise that the loan amount given by YEDFB was adequate. Over one third 143(32.6%) disagreed while 89(20.3%) strongly disagreed that the loan was adequate. 175(40.0%) either agreed or strongly agreed that the loan was adequate. Overall, the respondents disagreed that loan awarded was adequate (M=3.21, SD=1.36). This attributable to the progressive loan amounts as a mode of ensuring full repayment. However, the initial loan amount is only adequate for group business.

e) Favourable YEDFB loan repayment grace period

On whether the grace period provided before repayment was favourable, 97(22.1%) of the respondents strongly agreed while 235(53.7%) agreed. A small proportion, 59(13.5%) and 23(5.3%) disagreed and strongly disagreed respectively. Overall, the respondents agreed that the grace period provided before repayment was favourable (M=2.26, SD=1.11).

f) Loan applied for versus awarded

The respondents were asked to rate whether the loan applied for was what was given. Over half either strongly agreed 92(21%) or agreed 135(30.8%) while 121(27.6%) disagreed and 78(17.8%) strongly disagreed. This implies that some of the respondents were awarded what they applied for while others were not. Overall, majority of the respondents agreed that what they applied for is what they were granted (M=2.90, SD=1.46). This implies that YEDFB is quite fair in awarding loans.

g) Purpose of YEDFB Loan awarded

69(15.8%) of the respondents strongly agreed while 138(31.5%) agreed that the loan was usually granted strictly for the purpose stated. 71(16.2%) were undecided while 100(22.8%) and 60(13.7%) disagreed and strongly disagreed respectively. Overall, the respondents agreed that loans were strictly awarded for the purpose stated (M=2.87, SD=1.31).

h) Cheap and affordable Loan

Majority 270(61.7%) strongly agreed and agreed that loan interest charged on YEDFB loan was cheap. 75(17.1%) disagreed while 73(16.7%) strongly disagreed. Overall the respondents agreed that YEDFB loans are cheap and affordable (M=2.69, SD=1.40).

i) Flexible repayment frequency

Over half 256(58.5%) agreed that repayment frequency was flexible while 148(33.8%) disagreed. Overall the respondents agreed that YEDFB loan repayment frequency was flexible (M=2.69, SD=1.37).This implies that incase a group had difficulty in repayment, frequency could be flexed.

j) Security/collateral to access loan

Majority 261(59.6%) disagreed that security was required for one to access loan. YEDFB use group guarantee as security to access loans as a way of reducing bottle necks of getting financial services. Overall the respondents disagreed that security/collateral is required to access YEDFB loans (M=3.52, SD=1.39).

k) Incentives to repayment of YEDFB loans

YEDFB establishes incentives to motivate repayment of loans. Majority 253(57.8%) agreed that one must repay to access future loans and rebates. Over half 221(50.6%) agreed that late repayment attracted penalties while majority 237(54.1%) agreed on simplified application process for repeat loans. Over half 230(52.6%) agreed on loss of eligibility to future loans.

Table 4.12: Portfolio Characteristics

Statement	SA		A		U		D		S D		Mean	SD
	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent		
	N	%	n	%	n	%	N	%	N	%		
YEDFB Loan is easily accessible to youths	60	13.7	122	27.9	39	8.9	158	36.1	59	13.5	3.08	1.313
There is timely processing of the loan	85	19.4	169	38.6	27	6.2	84	19.2	73	16.7	2.75	1.4
The loan repayment period is favourable	138	31.5	152	34.7	15	3.4	84	19.2	49	11.2	2.44	1.39
The loan amount given by YEDFB is adequate	52	11.9	123	28.1	31	7.1	143	32.6	89	20.3	3.21	1.36
The grace period provided before repayment is favourable	97	22.1	235	53.7	24	5.5	59	13.5	23	5.3	2.26	1.11
The loan applied for is what is given	92	21	135	30.8	12	2.7	121	27.6	78	17.8	2.90	1.46
The Loan is usually granted strictly for the purpose stated	69	15.8	138	31.5	71	16.2	100	22.8	60	13.7	2.87	1.31
Loan Interest charged is cheap	88	20.1	182	41.6	20	4.6	75	17.1	73	16.7	2.69	1.40
Repayment Frequency is flexible	91	20.8	165	37.7	34	7.8	85	19.4	63	14.4	2.69	1.40
Security is required for one to access loan	39	8.9	102	23.3	36	8.2	118	26.9	143	32.7	3.52	1.39
The YEDFB provides Incentives to repay the loan such as;												
Repay to access to future loans, rebates,	81	18.5	172	39.3	15	3.4	86	19.6	81	18.5	2.80	1.43
late payment has penalties,	73	6.7	148	33.8	39	8.9	136	31.1	42	9.6	2.83	1.29
simplified application process for repeat loans;	60	13.7	177	40.4	32	7.3	104	23.7	63	14.4	2.85	1.32
loss of eligibility to future loans	69	15.8	161	36.8	25	5.7	88	20.1	95	21.7	2.95	1.44

Source: Field data 2016

4.6.2 Borrower's Risk Tolerance

4.6.2.1 Potential Risks faced by youth enterprises

The respondents were asked to rate the most likely risks they encountered in their business enterprises. Over half 232(53.0%) reported market/ investment risk as most common. 101(23.0%) of the respondents rated structural risk as the second most common risk they encountered. This implies that most groups face group dynamic challenges that weigh heavily on successful YEDFB loan repayment. 67(15.3%) of the respondents reported liquidity and funding management risk while 38(8.7%) reported capital management as a risk. Youth groups require information and skills on how to mitigate these risks that could affect enterprise development. These uncertainties/risks may affect loan repayment behavior. This implies that mitigation of risk may enhance loan repayment performance.

Table 4.13: Potential Risks faced by youth enterprises

Risk Type	Frequency (n)	Percent (%)	Rank
Market/investment risk	232	53.0	**1**
Structural risk	101	23.0	**2**
Liquidity and funding management	67	15.3	**3**
Capital management	38	8.7	**4**
TOTAL	**438**	**100**	

Source: Field data 2016

4.6.2.2 Respondents view on Risk appetite and Tolerance

The study sought to establish the risk appetite and tolerance of the respondents towards engagement in entrepreneurial activities. Majority 282(64.4%) of the respondents either strongly agreed or agreed that they were not willing to accept risks in most circumstances. Less than one third, 124(28.3%) of the respondents either disagreed or strongly disagreed that they were not willing to accept risks in most circumstances. This implies that majority of the YEDFB loan beneficiaries are risk averse (M=2.57, SD=1.29). However, majority 246(66.1%) of the respondents were willing to accept some risks in certain circumstances (M=2.58, SD=1.28)**.** about half 245(53.9%) of the respondents were willing to accept opportunities having high inherent risk (M=2.75, SD=1.33) while 259(59.1%) preferred low risk and low returns in their investments.

Table 4.14: Respondents view on Risk appetite and Tolerance

Statement	Strongly agree		Agree		Undecided		Disagree		Strongly disagree		Mean	SD
	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)		
Not willing to accept risks in most circumstances	81	18.5	201	45.9	32	7.3	73	16.7	51	11.6	2.57	1.29
Willing to accept some risks in certain circumstances	107	34.4	139	31.7	51	11.6	112	26.6	29	6.6	2.58	1.28
Willing to accept risks	111	25.3	146	33.3	18	4.1	82	18.7	81	18.5	2.72	1.48
Willing to accept opportunities having high inherent risk	78	17.8	167	38.1	36	8.2	102	23.3	55	12.6	2.75	1.33
I prefer low risk and low returns in my investment	97	22.1	162	37.0	38	8.7	76	17.4	65	14.8	2.66	1.38
I prefer medium risk and medium returns in my investment	82	18.7	129	29.5	29	6.6	137	31.3	59	13.5	2.91	1.38
I prefer high risk and high returns in my investment	73	16.7	162	37.0	33	7.5	73	16.7	95	21.7	2.90	1.44
I prefer no risk and some returns in my investment	91	20.8	151	34.5	32	7.3	82	18.7	80	18.3	2.79	1.44

Source: Field data 2016

4.6.3 Portfolio Diversification

The respondents were asked to state how they invested their loans. Majority 288(65.8%) either strongly agreed or agreed that loan granted was invested in different sectors of the economy. This implies that YEDFB beneficiaries diversified their investment across sectors to minimize risks (M=2.60, SD=1.29). This was supported by 165(55.0%) of the respondents who did not concentrate their loan portfolio in a particular sector of the economy. About half 236(53.9%) of the respondents reported that the decision to diversify loan investment was only taken by group officials (M=2.86, SD=1.26). YEDFB loans in the first cycle are given to group enterprises and the group decides the type of business to invest the loan in. 234(53.4%) of the respondents reported that diversification reported that diversification had improved their loan repayment while 154(35.1%) disagreed. Overall the respondents agreed that diversification improved loan repayment (M=2.74, SD=1.39). Over half 253(57.8%) of the respondents further agreed that diversification reduced exposure to financial risks (M=2.66, SD=1.38). Half 251(57.3%) of the respondents reported that default level had reduced due to diversification in business activities (M=2.68, SD=1.40).

Table 4.15: Portfolio Diversification

Statement	Strongly agree (SA)		Agree (A)		Undecided (UD)		Disagree (DA)		Strongly disagree(SDA)		Mean	SD
	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)		
Loan granted is invested in different sectors of the economy	66	15.1	222	50.7	28	6.4	59	13.5	61	13.9	2.60	1.29
I do not concentrate my loan portfolio in a particular sector in an economy	103	23.5	138	31.5	62	14.2	78	17.8	55	12.6	2.64	1.35
Decision to diversify loan investment is only taken by group officials	50	11.4	186	42.5	16	3.7	141	32.2	43	9.8	2.86	1.26
Diversification has improved loan repayment	96	21.9	138	31.5	48	11.0	90	20.5	64	14.6	2.74	1.39
Diversification reduces exposure to financial risks	101	23.1	152	34.7	37	8.4	86	19.6	60	13.7	2.66	1.38
Default level has reduced due to diversification in business activities	102	23.3	149	34.0	35	8.0	88	20.1	62	14.2	2.68	1.40

Source: Field data 2016

4.6.4 Respondents Level of Financial Literacy

The study assessed the respondents' level of financial literacy. 102(23.3%) and 129(29.5%) of the respondents reported their ability to make financial decisions as moderately satisfactory and less satisfactory respectively. About one third 135(30.3%) reported their ability to make financial decisions as either most satisfactory or very satisfactory. The respondents awareness of financial and business risks was less satisfactory (M=3.29, SD=1.2) and their concept of management of money and assets was less satisfactory (M=3.13, SD=1.23). Less than half, 190(43.2%) of the respondents reported their knowledge on financial plan for their business as either most satisfactory of very satisfactory. Overall the respondents rated preparation of written statements of income and expenditure, financial records, capital investment decisions and basic business skills as less satisfactory.

Table 4.16: Respondents Level of Financial Literacy

Statement	Most Satisfactory		Very satisfactory		satisfactory		Moderately satisfactory		Less Satisfactory		Mean	SD
	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)		
I am able to make financial decisions	42	9.6	93	21.2	69	15.8	102	23.3	129	29.5	3.42	1.36
I am awareness of financial and business risks	40	9.1	72	16.4	120	27.4	134	30.6	72	16.4	3.29	1.2
I have basic concept of management of money and assets	38	8.7	119	27.2	94	21.5	115	26.3	69	15.9	3.13	1.23
I have a financial plan for my business	76	17.4	113	25.8	71	16.2	117	26.7	61	13.9	2.94	1.33
I prepare a written statements of income and expenditure	49	11.2	93	21.2	85	19.4	148	33.8	63	14.4	3.19	1.24
I prepare financial records and accounts	52	11.9	128	29.2	51	11.6	118	26.9	86	19.6	3.13	1.35
I have basic business skills	55	12.6	120	27.4	80	18.3	85	19.4	98	22.4	3.12	1.36
I am able to make capital investment decisions wisely	69	15.8	113	25.8	48	11.0	118	26.9	90	20.5	3.11	1.40

Source: Field data 2016

4.6.5 Respondents Level of Debt Management

The study sought to establish the level of debt management of YEDFB loans by beneficiaries in Trans Nzoia County. Over half 232(53.0%) of the respondents agreed that they spent the entire loan on purposes specified in the loan agreement while 35(8.8%) strongly agreed. Over one third 148(33.8%) of the respondents either disagreed or strongly disagreed. Overall majority of the respondents agreed that they spent loans on purposes indicated in the agreement (M=2.79, SD=1.26). This implies that not all YEDFB beneficiaries spent their loans on purposes intended. This may affect their repayment behavior.

Slightly above one third 163(37.2%) of the respondents either disagreed or strongly disagreed that they diverted the borrowed funds to unintended business. 181(41%) of the respondents either agreed or strongly agreed that they diverted the borrowed funds to unintended business. 94(21.5%) of the respondents were undecided. Overall the respondents agreed that they diverted their loans to unintended businesses (M=2.98, SD=1.26).

Over half 247(56.4%) of the respondents either strongly agreed or agreed that their businesses were productive at the time of the study. 153(35%) of the respondents either disagreed of strongly disagreed that their businesses were productive. Overall, the respondents agreed that the respondents agreed that their businesses were productive (M=2.65, SD=1.39).

About half 179(40.9%) either strongly agreed or agreed that they diverted the loan funds to non- income expenditure. 204 (46.6%) of the respondents either disagreed or strongly disagreed that they diverted the loan funds to non- income expenditure. Overall the respondents disagreed they diverted loans to non-income expenditure (M=3.10, SD = 1.34).This means that YEDFB loans are strictly managed incomes for investment choice

Over half 222(50.7%) of the respondents either strongly agreed or agreed that they diverted the loan to income expenditure (M=2.99, SD=1.35) Almost half, 218(49.8%) of the respondents reported that there were other members in the group that had diverted their loans from the response proposed (M =2.96, SD =1.4) Almost half 210(47.9%) either strongly agreed or agreed that loan penalty enhances loan repayment rates.

Almost half 206(47.0%) of the respondents either agreed or strongly agreed that flexible repayment schedules do not improve loan repayment. (M=2.94, SD=1.34) This implies that allowing flexibility in YEDFB loan repayment does not improve repayment performance. However, 250(58.5) of the respondents either agreed or strongly agreed that they were comfortable with the compulsory monthly repayments (M= 2.7, SD=1.40). This implies that enforcement of loan repayment consistency can enhance debt management. Slightly over half, 247(56.4%) of the respondents either agreed or strongly agreed that compulsory monthly savings enhanced loan repayment (M=2.80, SD=1.44)

Table 4.17: Respondents Level of Debt Management

Statement	SA		A		UD		DA		SDA		Mean	SD
	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent		
	(n)	(%)	(n)	(%)	(n)	(%)	(n)	(%)	(n)	(%)		
I spend the entire loan on purposes specified in the loan agreement	35	8.8	232	53.0	23	5.3	84	19.2	64	14.6	2.79	1.26
I diverted the borrowed funds to unintended business	54	12.3	127	29	94	21.5	100	22.8	63	14.4	2.98	1.26
My businesses are currently productive	112	25.6	135	30.8	38	8.7	101	23.1	52	11.9	2.65	1.39
I diverted the loan funds to non-income expenditure	57	13.0	122	27.9	55	12.6	127	29	77	17.6	3.10	1.34
I diverted loan to income expenditure	52	11.9	170	38.8	19	4.3	123	28.1	74	16.9	2.99	1.35
There are other members in the group that have diverted their loan from the proposed purpose	71	16.2	147	33.6	33	7.5	104	23.7	83	18.9	2.96	1.4
Loan penalty enhances loan repayment rates	60	13.7	150	34.2	37	8.4	98	22.4	93	21.2	3.03	1.4
Flexible repayment schedules do not improve loan repayment	60	13.7	146	33.3	74	16.9	76	17.4	82	18.7	2.94	1.34
The return on investment affects loan repayment	91	20.8	138	31.5	9	2.1	113	25.8	87	19.9	2.92	1.48
I am comfortable with the compulsory monthly repayments	87	19.9	169	38.6	51	11.6	50	11.4	81	18.5	2.70	1.40
Compulsory monthly savings enhances loan repayments	86	19.6	161	36.8	32	7.3	72	16.4	87	19.9	2.80	1.44

Source: Field data 2016

4.6.6 Cost of Borrowed Funds

The study sought to establish the effect of cost of funds on YEDFB loan repayment among the beneficiaries. Majority 316(72.2%) of the respondents either strongly agreed or agreed that there was positive relationship between interest rate offered by YEBFB and better loan repayment performance. Over half 249(56.9%) of the respondents either strongly agreed or disagreed that insurance fee as a cost of borrowing has not affected loan repayment performance (M=2.61,SD-1.30).214(48.9%) either strongly agreed or agreed that contingency reserve (compulsory savings) had not affected loan repayment performance of YEDFB loan. However, 183(41.8%) disagreed with this statement. Majority 263(60.0%) of the respondents either strongly agreed or agreed that membership fee improved loan repayment performance. This implies that this fee may bar potential non-repayers from joining the groups resulting in good payment performance.

Over half 237(56.1%) either strongly agreed or agreed that cost of borrowing had not led to poor loan repayment performance of YEDFB loans (M=2.85, SD=1.33).

Table 4.18: Cost of Borrowed Funds

Statement	Strongly agree		Agree		Undecided		Disagree		Strongly disagree		Mean	SD
	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)	Freq (n)	Percent (%)		
There is positive relationship between Interest rate offered by YEDFB and better loan repayment performance	113	25.9	203	46.3	3	0.7	72	16.4	47	10.7	2.40	1.32
Insurance fee as a cost of borrowing has not affected loan repayment performance	94	21.5	155	35.4	53	12.1	100	22.8	36	8.2	2.61	1.30
Contingency reserve (Compulsory savings) has not affected loan repayment performance	53	12.1	161	36.8	41	9.4	137	31.3	46	10.5	2.91	1.26
Membership fee as improves loan repayment performance	107	24.4	156	35.6	32	7.3	78	17.8	65	14.8	2.63	1.41
Cost of borrowing has not led to poor loan repayment performance of YEDFB loans	66	15.1	171	39.0	18	4.1	128	29.2	55	12.6	2.85	1.33

Source: Field data 2016

4.6.7 Loan Repayment Duration

Table 4.19: Loan Repayment Duration

Loan repayment duration	Freq (n)	Percent (%)	Loan Repayment Status						Chi-Value	p-Value
			Pays		Delays		Defaults			
			N	%	N	%	N	%		
Short Term	67	15.3	23	34.3	36	56.7	6	9.0		
Medium Term	145	33.1	75	51.7	47	32.4	23	15.9		
Long Term	226	51.6	149	65.9	47	20.8	30	13.3	**34.123**	**<0.001**

Source: Field data 2016

4.7 Hypotheses Testing

This section will test the null hypotheses of the study. The study was guided by six hypotheses. These hypotheses were formulated from six research questions. One way ANOVA was used to determine whether there existed any significant difference in effect of financial determinants on the three possible YEFB repayment performance outcomes: repay on time, delinquent and default.

A one-way analysis of variance (ANOVA) was used to analyze YEDFB loan repayment performance as influenced by financial determinant scores. YEDFB loan beneficiaries were divided into three groups according to their repayment performance (repays on time always, delays (delinquent), and defaulters).

4.7.1 Hypothesis 1

***Ho$_1$**: There is no significant difference in effect of portfolio characteristics on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County*

The result of the mean comparison between the three categories of repayers yielded a significant difference at the $p < 0.05$ level as regards Portfolio characteristics scores $F(2, 435)=7.083$, $p=0.001$. This implies that portfolio characteristics such as ease of loan accessibility, processing time, repayment period, loan amount, repayment grace period and incentives to repay significantly predict YEDFB loan repayment behavior. Therefore, the null hypothesis is rejected and the alternate hypothesis is accepted. There is a significant difference in effect of portfolio characteristics on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County.

4.7.2 Hypothesis 2

***Ho_2**: Risk tolerance of borrower has no significant difference in effect on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County*

The result of the comparison between the three categories of repayers yielded a significant difference at the $p < 0.05$ level as regards risk tolerance scores $F(2, 435)=13.150$, $p<0.05$. This implies that the level of risk tolerance of YEDFB beneficiaries may be a significant predictor of loan repayment outcome. Therefore, the null hypothesis is rejected and the alternate hypothesis accepted.

4.7.3 Hypothesis 3

Ho_3: There is no significant difference in effect of portfolio diversification on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County

The ANOVA results indicated that there was no significant difference in mean response among three categories of the YEDFB loan beneficiaries regarding their portfolio diversification $F(2, 435) =1.391$, $p=0.250$)

4.7.4 Hypothesis 4

Ho_4: *Finance literacy of borrower has no significant difference in effect on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County*

The result of the mean response comparison between the three categories of repayers yielded a significant difference at the $p < 0.05$ level as regards Portfolio characteristics scores $F (2, 435) = 7.083$, $p=0.001$, risk tolerance scores $F (2, 435) = 13.150$, $p<0.05$, financial literacy $F (2, 435) = 9.177$, $p<0.05$ and cost of funds scores $F (2, 435) = 4.684$, $p=0.010$.

4.7.5 Hypothesis 5

Ho_5: *There is no significant difference in effect of debt management on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County*

However, there was no significant difference in means responses among three categories of the YEDFB loan beneficiaries regarding their portfolio diversification $F (2, 435) = 1.391$, $p=0.250$ and their debt management $F (2, 435) = 1.320$, $p=0.268$.

4.7.6 Hypothesis 6

Ho_6: There is no significant difference in effect of cost of capital on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County

The result of the mean response comparisons between the three categories of repayers yielded a significant difference at the $p < 0.05$ level as regards Portfolio characteristics scores $F (2, 435) = 7.083$, $p=0.001$, risk tolerance scores $F (2, 435) = 13.150$, $p<0.05$, financial literacy $F (2, 435) = 9.177$, $p<0.05$ and cost of funds scores $F (2, 435) = 4.684$, $p=0.010$.

ANOVA tested the null and alternate hypotheses:

H_0: The means of all the groups are equal

$\mu 1 = \mu 2 = \mu 3$

H_a: Not all the means are equal

From the findings of the study, the null hypothesis was rejected and the alternate hypothesis accepted.

Table 4.20: Analysis of variance (ANOVA) results

Financial determinants	Differences	Sum of Squares	Df	Mean Square	F	Sig.
Portfolio	Between Groups	3.807	2	1.904	7.083	**.001**
Characteristic	Within Groups	116.917	435	.269		
	Total	120.724	437			
Risk Tolerance	Between Groups	8.373	2	4.187	13.150	**.000**
	Within Groups	138.494	435	.318		
	Total	146.867	437			
Portfolio	Between Groups	.974	2	.487	1.391	**.250**
	Within Groups	152.228	435	.350		
Diversification	Total	153.202	437			
Financial	Between Groups	6.118	2	3.059	9.177	**.000**
Literacy	Within Groups	145.003	435	.333		
	Total	151.121	437			
Debt	Between Groups	.832	2	.416	1.320	**.268**
	Within Groups	137.086	435	.315		
Management	Total	137.918	437			
Cost of Funds	Between Groups	3.399	2	1.700	4.684	.010
	Within Groups	157.860	435	.363		
	Total	161.259	437			

4.8 Post Hoc Analysis

Table 4.24shows Post Hoc analysis results. Post-hoc comparisons using the Tukey HSD test indicated that the mean score for repayers on time (M=3.0539) and defaulters (M=3.2790) was statistically significantly ($p<0.05$) different regarding Portfolio characteristics. The difference in mean score was also significant between delinquents (M=2.9744) and defaulters (M=3.2790) regarding Portfolio characteristics. There was no significant difference in mean scores between repayers on time (M=2.7915) and delinquents (2.788), delinquents (M=2.7682) and defaulters (M=2.8068) pertaining their risk tolerance and cost of funds respectively at $p<0.05$.

Table 4.21: Adhoc multiple comparisons

Dependent Variable	Repayment Group(I)	Repayment Group(J)	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Portfolio characteristics	Pay on time	Deliquency	.07952	.05590	.330	-.0519	.2110
		Defaulted	-.22513*	.07512	**.008**	-.4018	-.0485
	Deliquency	Pay on time	-.07952	.05590	.330	-.2110	.0519
		Defaulted	-.30465*	.08119	**.001**	-.4956	-.1137
	Defaulted	Pay on time	.22513*	.07512	**.008**	.0485	.4018
		Deliquency	.30465*	.08119	**.001**	.1137	.4956
Risk Tolerance	Pay on time	Deliquency	.00267	.06084	.999	-.1404	.1457
		Defaulted	.40590*	.08176	**.000**	.2136	.5982
	Deliquency	Pay on time	-.00267	.06084	.999	-.1457	.1404
		Defaulted	.40323*	.08836	**.000**	.1954	.6110
	Defaulted	Pay on time	-.40590*	.08176	**.000**	-.5982	-.2136
		Deliquency	-.40323*	.08836	**.000**	-.6110	-.1954
Financial Literacy	Pay on time	Deliquency	-.22686*	.06225	**.001**	-.3733	-.0805
		Defaulted	.10296	.08366	.436	-.0938	.2997
	Deliquency	Pay on time	.22686*	.06225	**.001**	.0805	.3733
		Defaulted	.32982*	.09042	**.001**	.1172	.5425
	Defaulted	Pay on time	-.10296	.08366	.436	-.2997	.0938
		Deliquency	-.32982*	.09042	**.001**	-.5425	-.1172
Cost of funds	Pay on time	Deliquency	-.16413*	.06495	**.032**	-.3169	-.0114
		Defaulted	-.20273	.08729	.054	-.4080	.0026
	Deliquency	Pay on time	.16413*	.06495	**.032**	.0114	.3169
		Defaulted	-.03860	.09434	.912	-.2605	.1833
	Defaulted	Pay on time	.20273	.08729	.054	-.0026	.4080
		Deliquency	.03860	.09434	.912	-.1833	.2605

Source: Field data 2016 *. The mean difference is significant at the 0.05 level.

Table 4.22: The difference in mean score of financial determinants

Financial determinant	Repayment Performance	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
Portfolio	Pay on time	247	3.0539	.54055	.03439	2.9861	3.1216	1.77	4.23
	Deliquency	132	2.9744	.53223	.04632	2.8827	3.0660	1.54	4.08
Characteristics	Defaulted	59	3.2790	.36971	.04813	3.1827	3.3754	2.69	4.31
	Total	438	3.0602	.52560	.02511	3.0109	3.1096	1.54	4.31
Risk Tolerance	Pay on time	247	2.7915	.50144	.03191	2.7287	2.8543	1.75	4.12
	Deliquency	132	2.7888	.65929	.05738	2.6753	2.9023	1.75	4.62
	Defaulted	59	2.3856	.58275	.07587	2.2337	2.5375	1.75	4.25
	Total	438	2.7360	.57973	.02770	2.6816	2.7905	1.75	4.62
Financial	Pay on time	247	3.1093	.59175	.03765	3.0351	3.1835	1.88	4.25
Literacy	Deliquency	132	3.3362	.55990	.04873	3.2398	3.4326	2.12	4.50
	Defaulted	59	3.0064	.55390	.07211	2.8620	3.1507	2.12	4.12
	Total	438	3.1638	.58806	.02810	3.1086	3.2190	1.88	4.50
Cost of Funds	Pay on time	247	2.6040	.56668	.03606	2.5330	2.6751	1.20	4.20
	Deliquency	132	2.7682	.53107	.04622	2.6767	2.8596	2.00	4.20
	Defaulted	59	2.8068	.85012	.11068	2.5852	3.0283	1.60	4.60
	Total	438	2.6808	.60746	.02903	2.6238	2.7379	1.20	4.60

Source: Field data 2016

4.8.1 The model test of relationship between significant financial determinants and YEDFB loan repayment

For a Multinomial Linear Regression analysis there is need to describe the overall test of relationship, in this case a relationship between the dependent and independent variables. The presence of a relationship between the dependent and combination of independent variables is based on the significance of the final model chi-square shown in the table below; termed as model fitting information. In this analysis, the distribution reveals that the probability of the model chi-square (F=111.194) was $p<0.001$, less than

the level of significance of 0.05($p<0.05$) as shown in the table below. This means that the existence of a relationship between the independent variables and the dependent variable was supported. Therefore, the full model significantly predicts the dependent variable better than the intercept-only model alone as shown in table 4.26.

Table 4.23: Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2Log Likelihood	Chi-square	df	Sig.
Intercept only	833.980			
Final	722.786	111.194	8	0.000

Source: Field data 2016

4.8.2 Strength of Model Relationship between the financial determinants and YEDFB loan repayment

Cox & Snell R Square and the Nagelkerke R square value provide an indication of the amount of variation in the dependent variable. These are described as pseudo R square. The distribution below reveals that the values are 0.224 and 0.263 respectively; suggesting that between 22.4% percent and 26.3% percent of the variability in dependent variable is explained by the set of independent variables used in the model.

Table 4.24: Pseudo R-Square

Cox and Snell	**0.224**
Nagelkerke	**0.263**

Source: Field data 2016

Table 4.25: Model Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	736.543	13.757	2	.001
Portfolio characteristics	772.361	49.575	2	.000
Risk Tolerance	783.854	61.069	2	.000
Financial Literacy	744.328	21.542	2	.000
Cost of Funds	747.420	24.634	2	.000

Source: Field data 2016

4.9 Discussion of Findings

The results are discussed according to the study research objectives. A multinomial logistic regression was applied to estimate the effect of financial determinants on loan repayment performance. Table 4.29shows the multinomial logit estimation model results of loan repayment performance. A positive beta coefficient indicates that an increase in the independent variable score will result in an increase probability of being in the delinquent or default category than that of being in the paid on time category. On the other hand, a negative beta coefficient indicates that an increase in the independent variable score will result in a decreased probability of being in the delinquent or default category.

4.9.1 Effect of portfolio characteristics on repayment of YEDFB loan beneficiaries in Trans Nzoia County

The Beta value for portfolio characteristics in the model of delinquency versus repay was 0.581. This result implies that an increase in portfolio characteristics by one unit the relative risk for a borrower being a delinquent than a repayer would be expected to

decrease by 0.581units while holding other factors in the model constant. This implies that increase in YEDFB Portfolio characteristics such as loan amounts and repayment period by a unit will cause the beneficiary to be 0.559 times likely (55.9% higher) to be a repayer than a delinquent. This probability is significant predicted by the model. From the model results increase in the Portfolio characteristics statistically significantly predicts the borrowers to be a good repayer of YEDFB loan (EXP (B) =0.559).

The defaulter group was compared to the repays on time as a reference group. The sign for beta value for Portfolio characteristics was positive (B=2.182). This positive sign indicates that an increase in Portfolio characteristics by a unit increase the relative risk of borrower being a defaulter by 2.182 units. The expected beta value is 8.868 times likely (786.8% higher) than being a repayer. This probability was strongly significantly predicted by the model ($p = 0.001$).

From the above models' results, increase in loan characteristics may either predict both good repayment and default among YEDFB loan beneficiaries. The results revealed that YEDFB beneficiaries who received less amounts of loans were good repayers compared to those who received larger loans. This finding is supported by a study by Nawai and Shariff (2013) who analyzed the repayment in microfinance programs in Malaysia that apply individual lending approach. The research framework of the study was built by four factors namely individual/borrower factors, firm/business factors, loan factors and institutional/lender factors as independent variables and repayment either paid on time, delinquent and default as dependent variables. The results showed that total loan received, loan type and repayment schedule are the loan characteristics factor that statistically significant at $p < 0.1$ and $p< 0.01$ level. The result showed a strong effect at $p < 0.01$ in the relationship between default borrower and good borrower where the bigger total loan received by the borrowers, the higher probability of the borrowers to default. Norell (2001) explained that when borrowers received more loans, there is the tendency that the excess loan may be diverted to other unproductive, non for business uses such as for personal use, children's school fees and pay other debt (Norell, 2001).

This finding differs with a study by Osuji, Chedebelu and Okorji (2012) on Loan Beneficiaries of Micro Finance Institutions in Southeast States of Nigeria that used a multistage sampling technique to select a total of 144 loan beneficiaries of MFIs. The findings of the study showed that Loan size was significant at 5% level of significance and was positively related to repayment rate. This implies, that the greater the size of the loan, the lower the default. This was true up to a certain point though as there was an optimum amount of loan (or funds) that would be required to break even in projects. Moreover, it was contended that bigger loans make possible larger investments with potentially higher returns. A larger loan may also be more difficult to repay if allowed to accumulate especially where there are compounding interest and sanctions (Osuji et al., 2012). This view puts pressure on the borrower to reduce late payments and serious default.

Similarly, Ojiako and Ogbukwa (2012) studied on economic analysis of loan repayment capacity of small holder co-operative farmers in Yewa North Local Government area of Ogun state, Nigeria. The result revealed a strong positive and significant relationship between loan size and capacity to repay. Afolabi (2010) contended that increases in amount of loans granted enabled farmers to adopt improved agricultural innovations which could translate to increase in the levels of income and high loan repayment.

4.9.2 Effect of risk tolerance on repayment of YEDFB loan beneficiaries in Trans Nzoia County

The Beta value for risk tolerance in the model of delinquency versus repay was 0.338.This implies that an increase by one unit in risk tolerance by a YEDFB beneficiary, the relative risk of being a delinquent than a repayer decreases by 0.338 units while holding other variables in the model constant. Therefore, if the borrowers risk tolerance increases, the probability of being a repayer is greater than probability of being a delinquent.

However this probability was not statistically significant as predicted by the model (p=0.150). A Borrower with high risk tolerance is 0.713 times likely (71.3% higher) to be a repayer than being a delinquent (EXP (B) =0.713)

The defaulter group was compared to the repays on time as a reference group. The beta sign for risk tolerance was negative (B= -2.739) .This result implies that an increase in borrower risk tolerance by a unit, the relative risk of being a defaulter decreases by 2.739 units. The expected beta (Exp(B) = 0.065) means that if a borrowers risk tolerance increases by a unit , the probability of a borrower being a repayer is 0.065 times likely(6.5% higher) than being a defaulter. This probability was strongly statistically and significantly predicted by the model ($p<0.001$) .This implies that borrowers with high risk tolerance are likely to be good repayers than being defaulters. Therefore risk tolerance significantly predicts repayment performance. Risk tolerance level of a borrower may predict repayment behavior. Borrowers with high risk tolerance are likely to be good repayers of loan. Majority of the YEDFB beneficiaries are not risk takers. This reduces the ability of YEDFB beneficiaries to repay their loans. Shikuku (2014) studied the Effect of Behavioural Factors on Individual Investor Choices at the Nairobi Securities Exchange. The researcher portends that investors are fundamentally risk averse which means that if they have to choose between two assets with equal rates of returns they are more likely to choose the asset with the lower level of risk, and thus they need to combine assets into efficiently diversified repayments. Risk can be reduced if investors focus on the variability of expected returns and to achieve that, investors should pick assets that tend to have dissimilar price movement.

Olweny, Namusonge and Onyango (2012), carried out a study to assess the influence of socio-cultural background on individual investor risk tolerance at Nairobi Securities Exchange. The study finding established that financial knowledge was a major positive determinant of risk tolerance. This implies that YEDFB beneficiaries require substantial financial knowledge to improve their risk tolerance levels and hence repayment performance. Godquin (2004) cited in Ojiako and Ogbukwa (2012) emphasized that the

provision of non-financial services such as training, basic literacy and health services has a positive impact onrepayment whereas Roslan and Karim (2009) succinctly argued that borrowers without any training in relation to their business have a higher probability to default.

4.9.3 Effect of portfolio diversification on repayment of YEDFB loan beneficiaries in Trans Nzoia County

The ANOVA results indicated that there was no statistically significant difference in mean response among three categories of the YEDFB loan beneficiaries regarding their portfolio diversification F (2, 435) =1.391, p=0.250). However, those beneficiaries who diversified in trade, service and agri-business sectors had good repayment performance.

This finding is supported by Munene, Nguta and Huka (2013) who carried out a study in order to establish the causes of such repayment defaults in Imenti North District, Kenya. The study findings showed that high cases of default of loan repayment were common (67.9%) in the manufacturing sector. This was followed by the service industry (64.0%) then by the agriculture (58.3%). The trade sector recorded the least (34.9%) cases of loan repayment defaults. This could be attributed to the observation that trade industry deals in fast moving products on high demand which could translate into good business performance and increased revenue that accounts for low default cases. In addition, the businesses located within the municipality had high loan repayment default rates (55.7%) as compared to business outside municipality.

4.8.4 Effect of financial literacy on repayment of YEDFB loan beneficiaries in Trans Nzoia County

The Beta and Expected beta values for financial literacy in the model of delinquency versus repay were 0.0904 and 2.470 respectively. This result means if a borrower's literacy level increases by one unit the probability of being a delinquent is 2.470 times(147% higher) than being a repayer. This probability was strongly significantly

predicted by the model (P = 0.001) Therefore, the results indicate that high financial literacy is more likely to predict delinquency than timely payment. Those YEDFB beneficiaries with high financial literacy were delinquent compared to payers.

The defaulter group was compared to the repays on time as a reference group. Financial literacy was not significant predictor of loan repayment taking default as a comparison group and repays on time as a reference group. However, the beta value was negative implying that an increase in literacy by a unit, reduces the relative risk of a borrow being a defaulter by 0.245 unit. Borrowers with high financial literacy are 0.657 times likely (65.7% higher) to be repayers in time than being defaulters. Financial literacy was a strong statistically significant predictor of YEDFB Loan repayment performance ($p<0.001$).

Financial literacy level is a good predictor of loan repayment. Borrowers with high literacy levels are likely to be either delinquent or good repayers of loan. Financial literacy programs are aimed at enhancing financial decision making processes of a borrower such as awareness of business and financial risks and proper debt management which improves the credit worthiness in order to support livelihoods, economic growth and sound financial systems. This finding is supported by Odonkor (2013) who carried out a study on Factors Influencing Loan repayment Among Small Scale Women Fish Processors in the Tema Metropolis in Nigeria. The study showed that the level of financial education of the women fish processors has a negative effect on loan repayment and the effect is significant at 99% confidence level. Those loan beneficiaries with higher financial literacy are aware of time value of money and therefore may delay repayment in order to get more economic returns. However, it is generally expected that with higher formal level of education, the higher the knowledge and skill level of the individual. Giving training to clients prior to the transaction of each loan and financial incentives for the credit officers can be used to lower default rates (Norell, 2001).

The findings of this study disagree with a study by Roslan and Zaini (2009) who investigated the effect of borrowers' characteristics, project characteristics and loan characteristics on loan of agro bank micro credit scheme. The result suggested that borrowers that did not have any training in relation to their business/project activity have a higher probability to default compared to those borrowers who had some training.Sheila (2011) also points out that in Uganda, illiteracy and inadequate skills was another cause of default. Majority of the clients are engaged in traditional, low paying businesses and rarely diversify their businesses and skills. This implies that they do not have enough knowledge about alternative marketable skills that can benefit them when their businesses do not function properly. Secondly, most of them do not know how to read, write and make simple calculations. As a result, they do not know how to account for their businesses which increases default.

Godquin (2004) cited in Ojiako and Ogbukwa (2012) also emphasized that the provision of non-financial services such as training, basic literacy and health services has a positive impact on repayment performance whereas Roslan and Karim (2009) succinctly argued that borrowers without any training in relation to their business have a higher probability to default.

4.9.5 Effect of debt management on repayment of YEDFB loan beneficiaries in Trans Nzoia County

ANOVA results indicated that there was no significant difference in mean responses among three categories of the YEDFB loan beneficiaries regarding their debt management F (2, 435) =1.320, p=0.268.This implies that debt management is not a significant predictor of YEDFB loan repayment. Therefore, debt management does not affect loan repayment of YEDFB beneficiaries in Trans Nzoia County. The findings of this study are supported by Gebremedhin (2010) who carried out a study on Determinants of Successful Loan repayment of Private Borrowers in Development Bank of Ethiopia, North Region. The findings of the study revealed that diverting loans to

more productive projects will have positive impact on successful loan while if the loan is diverted to less feasible projects then it will have a negative impact on repaying the loan successfully. Hence, the sign of diverting loans to another purpose cannot be predetermined.

Al-Azzam (2006) noted that if the primary penalty for default or delinquency is denial of future loans, clients will presumably be more willing to risk bad behavior as their outside options expand. In such cases, factors such as repayment schedule may have a marginal impact on delinquency and default. Applying penalties on delayed payments such as denial of future loans may either have positive or negative effects on YEDFB loan repayment.

An investigation by Weber, Mubhoff and Petrick (2014) on how flexible repayment schedules affect credit risk in agricultural microfinance revealed that despite the potential of flexible repayment schedules to increase the efficiency and outreach of MFIs, most MFIs are still reluctant to make schedules more flexible. They fear that more flexibility reduces repayment quality (Jain & Mansuri, 2003).Therefore, debt management does not significantly predict YEDFB loan repayment behavior.

4.9.6 Effect of cost funds on repayment of YEDFB loan beneficiaries in Trans Nzoia County

When the delinquent group was compared to the repay on time, the beta value of cost funds was positive. This implies that an increase in cost of funds by a unit increases the relative risk of a borrower being a delinquent by 0.553 units. The expected beta (Exp (B)) for cost of funds was 1.739.When cost of funds borrowed increase by a unit the probability of a borrower being a delinquent is 1.739 times more likely(73.9% higher) than being a repayer. This probability was strongly significantly predicted by the logistic regression model (p=0.006). This result implies that increase in cost of funds is likely to result in delinquency among YEDFB loan beneficiaries.

The defaulter group was compared to the repays on time as a reference group. The beta estimate is 1.376. This implies that an increase in one unit cost of funds increases the relative risk of default by 1.376 units. The expected beta is 3.960. This implies that if the cost of funds increase by a unit, the probability of a borrower being a defaulter is 3.960 times likely (296% higher) compared to being a regular repayer. Therefore an increase in cost of funds increases the probability of loan default among YEDFB beneficiaries.

The two models also revealed that increase in cost of funds may increase the probability of being either delinquent or defaulter. The findings of this study are in support of a study by Edakasi (2013) on the Effect of Interest Rates on Loan repayment; a Case Study of Equity Bank Masindi Branch, Uganda. The findings showed that the level of interest rates has a direct effect on a consumer's ability to repay a loan. Similarly, Thordsen and Nathan (1999), assert that when interest rates are low, people are willing to borrow because they find it relatively easy to repay their debt. When interest rates are high, people are reluctant to borrow because s on loans cost more. If interest rates rise sharply and stay high for a long period, some consumers will default on their loans.

Table 4.26: Multinomial Logistic Regression Model Parameter Estimates

Repays on time		B	Std. Error	Wald	df	Sig.	Exp(B)	95% Confidence Interval for Exp(B)	
								Lower Bound	Upper Bound
Deliquency	Intercept	-2.340	.867	7.285	1	.007			
	Portfolio characteristics	-.581	.244	5.657	1	**.017**	.559	.347	.903
	Risk Tolerance	-.338	.235	2.072	1	.150	.713	.450	1.130
	Financial Literacy	.904	.222	16.519	1	**.000**	2.470	1.597	3.820
	Cost of Funds	.553	.203	7.422	1	**.006**	1.739	1.168	2.589
Defaulted	Intercept	-4.302	1.443	8.887	1	.003			
	Portfolio characteristics	2.182	.408	28.549	1	**.000**	8.868	3.982	19.748
	Risk Tolerance	-2.739	.399	47.037	1	**.000**	.065	.030	.141
	Financial Literacy	-.245	.302	.657	1	.418	.783	.433	1.416
	Cost of Funds	1.376	.306	20.291	1	**.000**	3.960	2.176	7.207

Source: Field data 2016 a. The reference category is: Pay on time.

Table 4.27: Summary of Effect of Financial Determinants on YEDFB Loan Repayment

Financial Determinant	**Model 1** **Delinquent versus Repays on time**	**Model 2** **Default versus Repays on time**
Effect of:	**YEDFB Loan Performance**	**YEDFB Loan Performance**
Increase in Portfolio characteristics	Repays on Time	Default
High Risk Tolerance	Repays on Time	Repays on Time
High Financial Literacy	Delinquent	Repays on Time
Increase in Cost of Funds	Delinquent	Default

Source: Field data 2016

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the findings and conclusions drawn. Recommendations based on the conclusions are presented.

5.2 Summary

The Youth Enterprise Development Fund was established in the year 2006 as one of the Government initiatives of increasing economic opportunities and participation by Kenyan youth through enterprise development and strategic partnerships. This was meant to increase financial access to credit constrained youth for micro enterprise development. It was premised that micro, small, and medium enterprise development initiatives are likely to have the biggest impact on job creation. Small and micro enterprises in Kenya cut across all sectors of the economy and provide one of the main sources of employment and generate widespread economic benefits.

Although YEDFB was created as a revolving fund meant to help Kenyan youths start or expand business, repayment of loans has proved more difficult among many youth owned enterprises in Kenya (Mwaura, 2010). Studies carried out in Kenya among them; Amenya (2011) and Mburu (2010) show that government micro credit programmes perform poorly in terms of low payment and high default rates. High default rate has affected the sustainability of the micro-credit initiatives. Majority of the youths are yet to see the benefits of the programme due to poor loan repayment. In fact this poor recovery by previous beneficiaries threatens to block other potential youths in need of the funds to access it. It is imperative that any loan to the youths require a careful examination of the financial determinants to make loan successful, which otherwise will lead to poor allocation of credit that results in poor investment projects, raises costs to

the successful borrowers and erodes the fund that would be available for future investment. Thus the objective of the study was to establish the effect of finance determinants on loan repayment performance of Youth Enterprise Development Fund Board beneficiaries in Trans-Nzoia County.

The study tested six null hypotheses that were derived from six corresponding objectives: There is no significant difference in effect of portfolio characteristics on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County; risk tolerance of borrower has no significant difference in effect on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County; there is no significant difference in effect of portfolio diversification on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County; finance literacy of borrower has no significant difference in effect on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County; there is no significant difference in effect of debt management on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County and there is no significant difference in effect of cost of capital on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County.

The study employed a descriptive and quantitative research design. The target population comprised of 225 youth groups. One hundred and forty two groups randomly selected across the sub-counties constituted the sample. Three members were selected from each group. One member was purposively selected (group leader) while the other two respondents were randomly selected. A total of 438 respondents participated in the study. A semi- structured questionnaire was used to collect data. An interview guide was used to solicit in depth information from key informants. The pre-tested questionnaire was administered by the researcher with the help of three trained research assistants.

Descriptive statistics such as frequencies, means and percentages will be used to summarize the data. Cross tabulation, Chi-Square and ANOVA was used to determine the relationships between dependent and independent variables. A multinomial logistic regression model was applied because the dependent variable has a multiple outcome.

Over half 247(56.4%) of the respondents were good repayers of YEDFB loans while 132(30.1%) were delinquent. 59(13.5%) of the respondents defaulted. Full repayment of the loan enables more youths to access and benefit from the fund. This implies that YEDFB loan has not achieved full repayment. Demographic results showed that males were better repayers of YEDFB loan compared to females. The study also revealed that youths with low schooling were better repayers than those with better education. Trading and service sectors followed by agribusiness sector had better loan repayment compared to manufacturing sector.

Financial determinants that were surveyed in this study included loan characteristics, borrower's risk tolerance level, portfolio diversification, financial literacy, debt management and cost of borrowed funds.

The portfolio characteristic was defined by eleven sub-variables. These sub-variables include loan accessibility, processing time, repayment period, loan amount, grace period before repayment, loan applied/awarded, purpose of loan, loan interest, flexibility of repayment frequency, security and incentives to repay loan such as repay to access future loans, penalties, simplified repeat loans and loss of eligibility to future loans. These sub-variables were measured on a five point likert scale ranging from strongly agree to strongly disagree.

A one-way analysis of variance (ANOVA) was used to analyze YEDFB loan repayment performance as influenced by financial determinant scores. YEDFB loan beneficiaries were divided into three groups according to their repayment (repays on time always, delays (delinquent), and defaulters). The result of the comparison between the three

categories of repayers yielded a significant difference ($p<0.05$) level as regards portfolio characteristics scores F (2, 435) =7.083, p=0.001, risk tolerance scores F (2, 435) =13.150, $p<0.05$, financial literacy F (2, 435) =9.177, $p<0.05$ and cost of funds scores F (2, 435) =4.684, p=0.010 for the three categories of YEDFB loan beneficiaries. However, there was no significant difference in means among three categories of the YEDFB loan beneficiaries regarding their portfolio diversification F (2, 435) =1.391, p=0.250 and their debt management F (2, 435) =1.320, p=0.268.

Post-hoc comparisons using the Tukey HSD test indicated that the mean score for repayers on time (M=3.0539) and defaulters (M=3.2790) was significantly ($p<0.05$) different regarding loan characteristics. The difference in mean score was also statistically significant between delinquents (M=2.9744) and defaulters (M=3.2790) regarding loan characteristics. There was no significant difference in mean scores between repayers on time (M=2.7915) and delinquents (2.788), delinquents (M=2.7682) and defaulters (M=2.8068) on time pertaining their risk tolerance and cost of funds respectively at $p<0.05$.

Cox and Snell R Square and the Nagelkerke R square value, provided an indication of the amount of variation in the dependent variable. These are described as pseudo R square. The distribution revealed that the values are 0.224 and 0.263 respectively; suggesting that between 22.4% percent and 26.3% percent of the variability in dependent variable is explained by the set of independent variables used in the model. This means that financial determinants explain between 22.4% and 26.3% variation in the repayment behavior

The first objective of the study was to assess the effect of portfolio characteristics on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. Multinomial logistic regression results showed that an increase in portfolio characteristics by one unit, the relative risk for a borrower being a delinquent than a repayer would be expected to decrease by 0.581units while holding other factors

in the model constant. This implies that increase in YEDFB loan characteristics by a unit will cause the beneficiary to be 0.559 times likely to be a repayer than a delinquent. This probability is significantly predicted by the model ($p<0.005$). From the model results increase in the loan characteristics significantly predicts the borrowers to be a good repayer of YEDFB loan.

The defaulter group was also compared to the repays on time as a reference group. The sign for beta value for loan characteristics was positive (B=2.182). This positive sign indicates that an increase in portfolio characteristics by a unit increase the relative risk of borrower being a defaulter by 2.182 units. The expected beta value was Exp(B)=8.868 meaning that increasing portfolio characteristics a borrower is 8.868 times likely to a defaulter than being a repayer. This probability was strongly significantly predicted by the model ($p> 0.001$).

The second objective was to assess the effect of risk tolerance of borrowers on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. Multinomial regression results showed that an increase by one unit in risk tolerance by a YEDFB beneficiary, the relative risk of being a delinquent than a repayer decreases by 0.338 units while holding other variables in the model constant. Therefore, if the borrowers risk tolerance increases, the probability of being a repayer is greater than probability of being a delinquent. However this probability was not significant as predicted by the model ($p=0.150$). A Borrower with high risk tolerance is 0.713 times likely to be a repayer than being a delinquent (Exp (B) =0.173).

When default was compared with repay on time, the beta sign for risk tolerance was negative (B= -2.739) .This result implies than an increase in borrower risk tolerance by a unit, the relative risk of being a defaulter decreases by 2.739 units. The expected beta (Exp(B) = 0.065) means that if a borrowers risk tolerance increases by a unit , the probability of a borrower being a repayer is 0.065 times likely than being a defaulter. This probability was strongly significantly predicted by the model ($p<0.001$).

The third objective of the study was to assess the effect of portfolio diversification on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. One way ANOVA results showed that there was no significant difference in means among three categories of the YEDFB loan beneficiaries regarding their portfolio diversification $F(2, 435)=1.391$, $p=0.250$.

The fourth objective of the study was to assess the effect of finance literacy on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. The Beta and Expected beta values for financial literacy in the model of delinquency versus repay were 0.0904 and 2.470 respectively. This result means if a borrower's literacy level increases by one unit the probability of being a delinquent is 2.4 70 times than being a repayer. This probability was strongly significantly predicted by the model ($p<0.001$)

Financial literacy was not significant predictor of loan repayment taking default as a comparison group and repays on time as a reference group. However, the beta value was negative implying that an increase in literacy by a unit, reduces the relative risk of a borrow being a defaulter by 0.245 unit. Borrowers with high financial literacy are 0.657 times likely to be repayers in time than being defaulters.

The fifth objective of the study was to assess the effect of debt management on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. One way ANOVA results indicated that there was no statistically significant difference in means among three categories of the YEDFB loan beneficiaries regarding their debt management $F(2, 435) =1.320$, $p=0.268$. This implies that debt management is not a significant predictor of YEDFB loan repayment.

The sixth objective of the study was to assess the effect of cost of capital on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. The beta value of cost funds was positive. This implies that an increase in

cost of funds by a unit increases the relative risk of a borrower being a delinquent by 0.553 units. The expected beta (Exp (B)) for cost of funds was 1.739 when cost of funds borrowed increase by a unit the probability of a borrower being a delinquent is 1.739 times more likely than being a repayer. This probability was strongly significant predicted by the logistic regression model (p=0.006).This result implies that increase in cost of funds is likely to result in delinquency among YEDFB loan beneficiaries.

Cost of funds was a strongly significant (p<0.001) predictor of YEDFB Loan repayment when default was a comparison and repay on time a reference variable. An increase in one unit cost of funds increases the relative risk of default by 1.376 units. If cost of funds increase by a unit, the probability of a YEDFB beneficiary being a defaulter is 3.960 times likely compared to he/she being a regular repayer. This implies that increase in cost of funds increases the probability of loan default among YEDFB beneficiaries.

5.3 Conclusions

From the findings of this study, it can be concluded that the repayment of YEDFB loans among beneficiaries in Trans Nzoia County is indeed affected by financial determinants such as portfolio characteristic, borrower's risk tolerance, portfolio diversification, financial literacy, debt management and cost of capital. The findings of the study were discussed according to the objectives.

The first objective of the study sought to assess the effect of portfolio characteristics on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. The findings revealed that an increase in portfolio characteristics by one unit, the relative risk for a borrower being a delinquent than a repayer would be expected to decrease by 0.581units while holding other factors in the model constant. Similarly, when the defaulter group was compared to the repays on time as a reference group, the sign for beta value for portfolio characteristics was positive (B=2.182). This positive sign indicates that an increase in portfolio characteristics by a unit increases the

relative risk of borrower being a defaulter by 2.182 units. The expected beta value was Exp (B) =8.868 meaning that increasing portfolio characteristics, a borrower is 8.868 times likely to be a defaulter than being a repayer. This probability was strongly significantly predicted by the model (p> 0.001). From these findings, it can be concluded that increase in YEDFB portfolio characteristics may result in either paying on time or default. Therefore, optimal portfolio sizes may guarantee good repayment of YEDFB loans in Trans Nzoia County.

The second objective of the study sought to assess the effect of risk tolerance of borrowers on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. The results showed that an increase by one unit in risk tolerance by a YEDFB beneficiary, the relative risk of being a delinquent than a repayer decreases by 0.338 units while holding other variables in the model constant. Therefore, if the borrowers risk tolerance increases, the probability of being a repayer is greater than probability of being a delinquent. Similarly, comparing repayers and defaulters, the expected beta was (Exp(B) = 0.065) which means that if a borrowers risk tolerance increases by a unit , the probability of a borrower being a repayer is 0.065 times likely than being a defaulter. This probability was strongly significantly predicted by the model (p<0.001). Therefore, it can be concluded that YEDFB borrowers with higher risk tolerance levels (risk takers) are likely to be good loan repayment. However, most YEDFB beneficiaries were not risk takers.

The third objective of the study was to assess the effect of portfolio diversification on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. The results showed that there was no significant difference in means among the three categories of the YEDFB loan beneficiaries regarding their portfolio diversification F (2, 435) =1.391, p=0.250. From the findings it can be concluded that YEDFB beneficiaries practiced portfolio diversification and trade, service and agribusiness were good sectors. However, benefits that accrue from diversified portfolio had not favoured repayment.

The fourth objective of the study was to assess the effect of finance literacy on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. The results of the study showed that financial literacy level of a borrower was a good predictor of YEDFB loan repayment. Borrowers with high literacy levels are more likely to be either delinquent or good repayers of loan. From the results, it can be concluded that financial literacy enhances YEDFB beneficiary repayment. However, the ability of YEDFB beneficiaries to make financial decisions was less satisfactory

The fifth objective of the study was to assess the effect of debt management on loan repayment among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. The results indicated that there was no significant difference in means among three categories of the YEDFB loan beneficiaries regarding their debt management. From the results, it can be concluded that debt management practices such as diversion of funds, penalties, flexible repayment and return on investment have not improved YEDFB loan repayment in Trans Nzoia County.

The sixth objective of the study was to assess the effect of cost of capital on loan repayment performance among Youth Enterprise Development Fund Board beneficiaries in Trans Nzoia County. The results showed that an increase in cost of funds is likely to result in delinquency and loan default among YEDFB loan beneficiaries in Trans Nzoia. From the results, it can be concluded that minimizing costs of accessing the YEDFB funds improves repayment.

The study sought to assess the effect of finance determinants on loan repayment among youth enterprise development fund board beneficiaries in Trans-Nzoia County in Kenya. The study focused on six financial determinants: portfolio characteristics, borrower risk tolerance, portfolio diversification, financial literacy, debt management and cost of capital.

From the results, it can be concluded that portfolio characteristics, borrower risk tolerance, financial literacy and cost of capital are significant predictors of loan repayment while portfolio diversification and debt management despite having been theorized to affect loan repayment did not.

5.4 Recommendations

Based on the conclusions of the study, the following recommendations were drawn;

1. YEDFB should consider to give optimal loans to individual borrowers to enhance investment. This will enable the borrower to buy appropriate inputs and stocks that will guarantee high turnover and repayment. As it stands most borrowers were granted less amounts than what they applied for.
2. Finance literacy should be scaled up in scope and content individual borrower should be trained separately from group borrowers to empower them to manage finances prudently and engage in viable business activities. This will enable the borrowers to pay on time and be legible for future loans.
3. YEDFB officers should give attention to continuous follow up on proper loan utilization. This will minimize loan diversion to non-profitable business ventures like domestic consumption. YEDFB loan beneficiaries should be committed to acquiring entrepreneurial skills and concentrate on growing incomes so as to repay loans consistently. Flexible repayment schedules should be adopted to enable the borrowers to respond to adverse business cycles especially during natural calamities and political risks.

4. At policy level, YEDFB should from time to time review their financial products and minimize costs of accessing the loans to enable borrowers pay on time. This will increase the revolving fund and enable more unemployed youths to access the money.

5.5 Areas for Further Research

Based on the findings and the gaps in the study, a similar study can be carried out for YEDFB individual loan beneficiaries in other counties in order to test whether the conclusions of this study will be valid. The focus of this study was on effect of finance determinants on YEDFB loan repayment. It is, therefore, recommended that further research should introduce moderating factors.

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APPENDICES

Appendix 1: Introduction letter

Wachilonga Lewis Wakoli

Jomo Kenyatta University of Agriculture and Technology

Kitale CBD

P. O. Box 3347-30200

Kitale.

July, 2015

Dear Respondent,

Re: Permission to Administer Research Questions

I am a PhD student in Business Administration in the School of Human Resource DevelopmentJomo Kenyatta University of Agriculture and Technology (JKUAT), undertaking a research on ***"The Effect of Finance Determinants on Loan Repayment among YEDFB Beneficiaries in Trans-Nzoia County, Kenya"***

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

Thank you

Yours sincerely,

Lewis Wakoli Wachilonga

(Reg No: HD 433-C008-0553-2011)

Appendix II: Questionnaire for Youth Group Members (QYGM)

SECTION A: RESPONDENTS' PERSONAL CHARACTERISTICS

A1	Please indicate the year in which your born----------
A2	Please indicate your gender Male?[ ] Female? [ ]
A3	What is your highest educational level No schooling [ ] Primary [ ] Secondary [ ] Tertiary [ ] University [ ]
A4	Please indicate your marital status Single [ ] Married [ ] Separated [ ] Divorced [ ] Widowed [ ]
A5	What is your experience in years in this business? ----------
A6	Please indicate the type of business you operate Manufacturing [ ] Trading [ ] Service [ ] Agribusiness [ ]

SECTION B: PORTFOLIO CHARACTERISTICS

B1. Indicate amount of loan borrowed in the current cycle (Kshs)…….

B2. Indicate amount of loan granted in the current cycle (Kshs)…….

B3. How long did it take between application and receiving loan?

One week	[ ]
One month	[ ]
3-6 months	[ ]
More than 6 months	[ ]

B4. Please responded to the following statements by indicating the extent to which you agree or disagree (Key: strongly agree 5, agree 4, undecided 3, disagree 2, strongly disagree 1

Sno.	**Statement**	**Strongly agree**	**Agree**	**Undecided**	**Disagree**	**Strongly disagree**
B4a	YEDFB Loan is easily accessible to youths					
B4b	There is timely processing of the loan					
B4c	The loan repayment period is favourable					
B4d	The loan amount given by YEDFB is adequate					
B4e	The grace period provided before repayment is favourable					
B4f	The loan applied for is what is given					
B4g	The Loan is usually granted strictly for the purpose stated					
B4h	Loan Interest charged is cheap					
B4i	Repayment Frequency is flexible					
B4j	Security is requiredfor one to access loan					
B4j	**The YEDFB provides Incentives to repay the loan such as;**					
	Repay to access to future loans, rebates,					
	late payment has penalities,					
	simplified application process for repeat loans;					
	loss of eligibility to future loans					

SECTION C: BORROWER'S RISK TOLERANCE

C1. Please rank the potential risks faced by your enterprise STARTING WITH THE most severe 1 next 2 till end of the list.

Market/Investment Risk	[ ]
Structural Risk (Asset/Liability Mismatch Risk)	[ ]
Liquidity and Funding Management	[ ]
Capital Management	[ ]
Market/Investment Risk	[ ]

Risk Appetite and Risk Tolerances

In your opinion, how do you rate the following statements on risk appetite on a scale of 1-5: 1- Strongly Agree (S.A), 2- Agree (A), 3- Undecided (UD), 4- Disagree(DA), 5- Strongly Disagree (SD**)**

Sno.	**Statement**	**Strongly agree**	**Agree**	**Undecided**	**Disagree**	**Strongly disagree**
C1	Not willing to accept risks in most circumstances					
C2	Willing to accept some risks in certain circumstances					
C3	Willing to accept risks					
C4	Willing to accept opportunities having high inherent risk					
C5	I prefer low risk and low returns in my investment					
C6	I prefer medium risk and medium returns in my investment					
C7	I prefer high risk and high returns in my investment					
C8	I prefer no risk and some returns in my investment					

SECTION D: PORTFOLIO DIVERSIFICATION

In your opinion, how do you rate the following statements on portfolio diversion on a scale of 1-5: 1- Strongly Agree (S.A), 2- Agree (A), 3- Undecided (UD), 4- Disagree (DA), 5- Strongly Disagree (SD**)**

Sno.	**Statement**	**Strongly agree**	**Agree**	**Undecided**	**Disagree**	**Strongly disagree**
D1	Loan granted is invested in different sectors of the economy					
D2	I do not concentrate my loan portfolio in a particular sector in an economy					
D3	Decision to diversify loan investment is only taken by group officials					
D4	Diversification has improved loan repayment					
D5	Diversification reduces exposure to financial risks					
D6	Default level has reduced due to diversification in business activities					

SECTION E: RESPONDENTS LEVEL OF FINANCIAL LITERACY

In your opinion, how do you rate the following statements on level of financial literacy on a scale of 1-5: 1- most satisfactory (M.S), 2- Very satisfactory (VS), 3- Satisfactory (S), 4- Moderately Satisfactory (MS), 5- Less Satisfactory (LS**)**

Sno.	**Statement**	**Most Satisfactory**	**Very satisfactory**	**satisfactory**	**Moderately satisfactory**	**Less Satisfactory**
E2	I am able to make financial decisions					
E3	I am awareness of financial and business risks					
E4	I have basic concept of management of money and assets					
E5	I have a financial plan for my business					
E6	I prepare a written statements of income and expenditure					
E7	I prepare financial records and accounts					
E8	I have basic business skills					
E9	I am able to make capital investment decisions wisely					

SECTION F: DEBT MANAGEMENT

G1.In your opinion, how do you rate the following statements on debt management on a scale of 1-5: 1- Strongly Agree (S.A), 2- Agree (A), 3- Undecided (UD), 4- Disagree(DA), 5- Strongly Disagree (SD**)**

Sno.	**Statement**	**Strongly agree**	**Agree**	**Undecided**	**Disagree**	**Strongly disagree**
F1a	I spend the entire loan on purposes specified in the loan agreement					
F1b	I diverted the borrowed funds to unintended business					
F1c	My businesses are currently productive					
F1d	I diverted the loan funds to non-income expenditure					
F1e	I diverted loan to income expenditure					
F1f	There are other members in the group that have diverted their loan from the proposed purpose					
F1g	Loan penalty enhances loan repayment rates					
G1h	Flexible repayment schedules do not improve loan repayment					
F1i	The return on investment affects loan repayment					
F1j	I am comfortable with the compulsory monthly repayments					
F1k	Compulsory monthly savings enhances loan repayments					

SECTION G: COST OF BORROWED FUNDS

H1. In your opinion, how do you rate the following statements on cost of borrowed funds on a scale of 1-5: 1- Strongly Agree (S.A), 2- Agree (A), 3- Undecided (UD), 4- Disagree (DA), 5- Strongly Disagree (SD**)**

Sno.	**Statement**	**Strongly agree**	**Agree**	**Undecided**	**Disagree**	**Strongly disagree**
G1a	There is positive relationship between Interest rate offered by YEDFB and better loanrepayment performance					
G1b	Insurance fee as a cost of borrowing has not affected loan repayment performance					
G1c	Contingency reserve (Compulsory savings) has not affected loan repayment performance					
G1d	Membership fee as improves loan repayment performance					
G1e	Cost of borrowing has not led to poor loan repayment performance of YEDFB loans					

SECTION H: LOAN REPAYMENT DURATION

What is your loan repayment period?

Short Term [ ]

Medium Term [ ]

Long Term [ ]

SECTION I: LOAN REPAYMENT STATUS

I1. What is your loan repayment status?

Pays on time always [ ]

Delays to repay (Deliquency) [ ]

Failed to repay (Defaulted) [ ]

I2. If you did not pay on time, what was the cause of the default?

Shortage of funds [ ]

Did not make profits [ ]

Did not sell anything [ ]

Spend money on other things [ ]

Did not give it a priority [ ]

THANK YOU

Appendix III: Map of Study area.

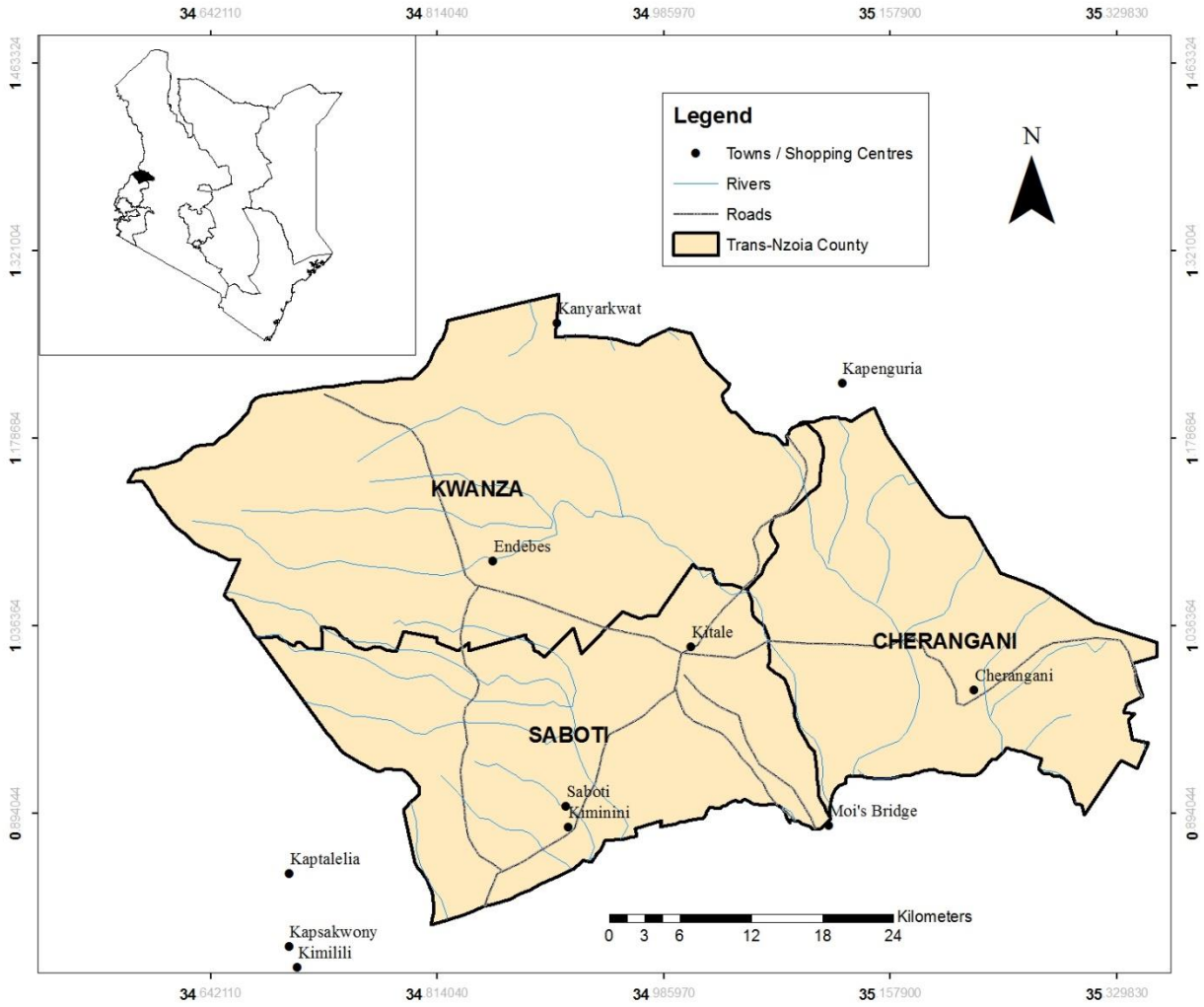
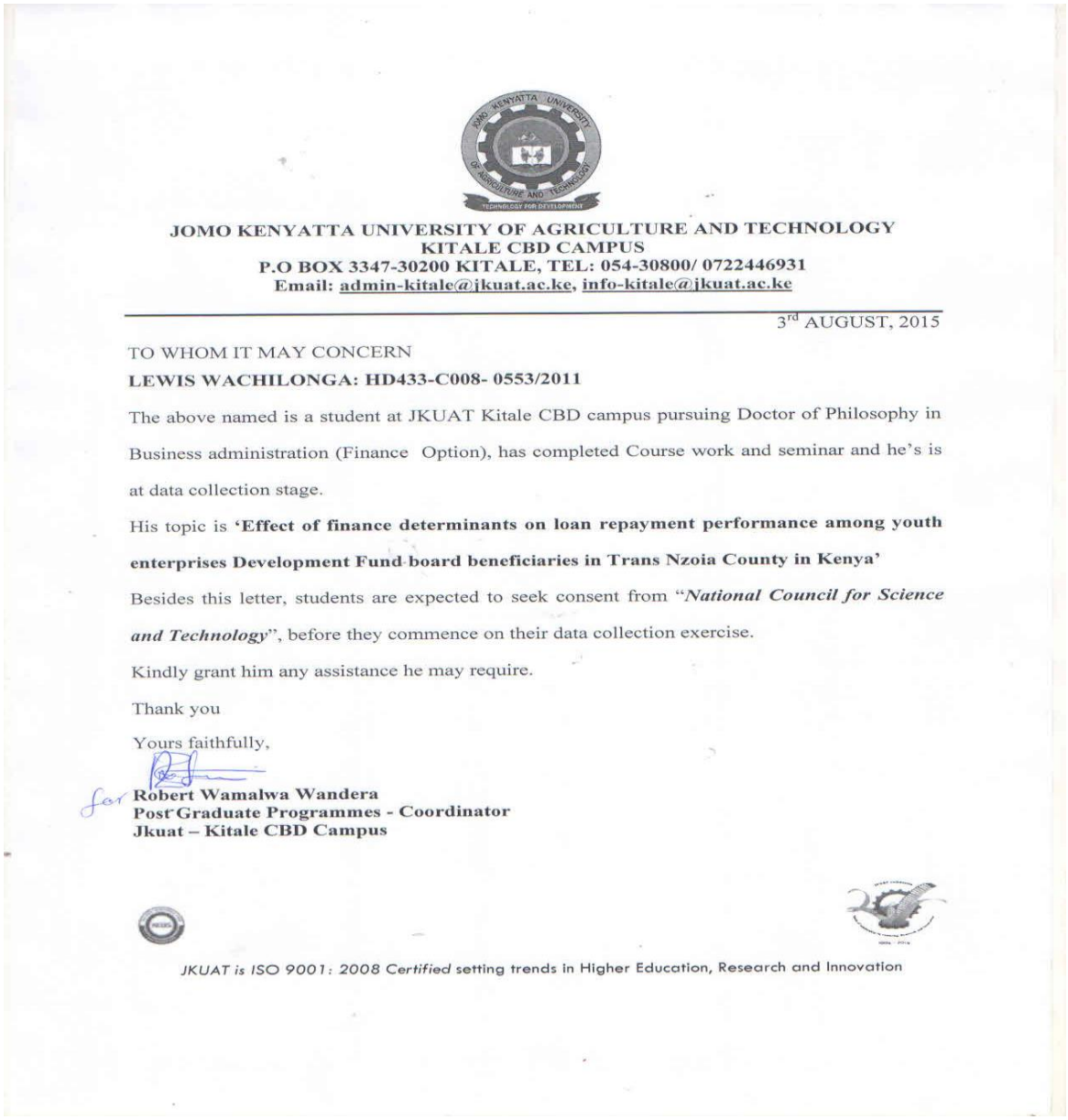


Fig3.1. Study Site Map of Trans-Nzoia County**,** Source: ROK, 2012

Appendix IV: Letter from institution



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3rd AUGUST, 2015

TO WHOM IT MAY CONCERN

LEWIS WACHILONGA: HD433-C008- 0553/2011

The above named is a student at JKUAT Kitale CBD campus pursuing Doctor of Philosophy in Business administration (Finance Option), has completed Course work and seminar and he's is at data collection stage.

His topic is **'Effect of finance determinants on loan repayment performance among youth enterprises Development Fund board beneficiaries in Trans Nzoia County in Kenya'**

Besides this letter, students are expected to seek consent from "***National Council for Science and Technology***", before they commence on their data collection exercise.

Kindly grant him any assistance he may require.

Thank you

Yours faithfully,

for **Robert Wamalwa Wandera**
Post Graduate Programmes - Coordinator
Jkuat – Kitale CBD Campus

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