

**FACTORS INFLUENCING YOUTH ENTERPRISE DEVELOPMENT  
FUND LOAN REPAYMENT AMONG YOUTH IN KENYA: A CASE  
STUDY OF KONOIN CONSTITUENCY BOMET COUNTY**

**BY**

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## DECLARATION

I declare that this Dissertation is my own original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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## ABSTRACT

Despite the continued increase in financial support to youth enterprises by the government and other development agents, there is still failure and high collapse rate of youth projects in Kenya. The YEDF loan repayment level in Kenya is low and its default rate is 33.3%. The purpose of this study was to establish the factors influencing the repayment of youth enterprise development fund (YEDF) loan among funded youth groups in Konoin Constituency. This study reviewed relevant literature on Microenterprise funds and factors influencing loan repayment performance which included the business factors, loan factors and the group dynamics. The study adopted a descriptive research design. All the 221 funded youth groups in Konoin constituency formed the target population. Cluster sampling and random sampling techniques were applied to select 134 youth. Questionnaires were used to collect the data. The data collected was analyzed using descriptive analysis technique using SPSS. A multiple regression model was used to determine whether there is relationship between loan factors, business factor and group dynamics on the YEDF loan repayment. The findings were presented using charts, tables, percentages, frequencies and mean scores. The study results indicated that loan factors were significant in explaining loan repayment ( $B=0.214$ ;  $p<0.05$ ). Loan factors influencing loan repayment to a very great extent included training on the usage of loan, loan access procedures, loan supervision, loan diversion, and loan size. The study also established that business factors significantly influenced YEDF loan repayment performance ( $B=0.282$ ;  $p<0.05$ ). Poor proceeds from the business, business experience, and location of the business, inadequate capital, and nature of business, age of the business and size of the business were the majors that had a significant effect on loan repayment. The study results revealed that group dynamics significantly influence YEDF loan repayment ( $B=0.353$ ;  $p<0.05$ ). Group factors affecting loan repayment significantly included lack of trust among members, attitude of members and officials, group internal rules and regulations, peer pressure, group formation, group size and group family composition. The following recommendations were made. First, the youth that are advanced loans should be trained on basic financial management and business planning skills. Moreover, the government should supervise and monitor the businesses that benefit from the loans. Secondly, the national and county governments should have business and youth support centres where the youth that are starting small businesses are mentored and developed. Lastly, youth should improve their skills and have an impetus of risk taking.

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## **ABBREVIATIONS AND ACRONYMS**

<b>MOYAS</b>	MINISTRY OF YOUTH AND SPORT
<b>YEDF</b>	YOUTH ENTERPRISE DEVELOPMENT FUND
<b>C-YES</b>	CONSTITUENCY YOUTH ENTERPRISE SCHEME
<b>GOK</b>	GOVERNMENT OF KENYA
<b>CRB</b>	CREDIT REFERENCE BUREAU
<b>NYP</b>	NATIONAL YOUTH POLICY
<b>SMEs</b>	SMALL AND MEDIUM ENTERPRISES
<b>MFI</b>	MICROFINANCE INSTITUTION
<b>SPSS</b>	STATISTICAL PACKAGE FOR SOCIAL SCIENCE

## **DEFINITION OF TERMS**

### **Youth Enterprise Development Fund**

Refers to the loans disbursed to youth groups in Konoin Constituency County for business start-ups or expansions (MOYA, 2006).

### **Development**

Development is a process by which youth in a society increase their personal and institutional capacities to manage and mobilize resources to produce sustainable and equitable distributed improvements in their quality of life (Emery, 2000).

### **Youth Policy**

A document that demonstrates and declares the priority and directions that Kenya intends to give to the development of youth (NYP, 2006).

# CHAPTER ONE

## INTRODUCTION

### **1.1 Background of Study**

A number of third world countries Kenya included have embarked on transformation agenda of regulating and reforming financial institutions and intermediaries into an effective and reliable institution to offer financial services to all segment of the population. These financial intermediaries have made tremendous significant in alleviating poverty eradication through offering loans and small credits to marginalized less privileged groups including youth and women to start their own business to earn their daily bread and better living (Omino, 2005).

The formal sector such as commercial banks has in the past unwilling to offer credit to Medium & small enterprises due to lack of collateral or security to support their loans, high transactions costs, lower level of education and high monitoring cost. Commercial banks therefore see these businesses as highly risky due to poor revenue or low revenue generated hence the shy away from lending to these groups of people (Schoombee, 2000).

These challenges has made the government to come up with initiatives as motivated by economic pillar of vision 2030 and social pillar Youth and sports flagship to support micro finance institutions and these marginalized groups especially youth through the creation of Youth Enterprise Development Fund. The Kenya Government has tried to address the unemployment problem over the years through a number of initiatives. One of them has been to encourage the growth of the informal sector which is able to generate job opportunities and to giving access to loans to youth to start their own business through youth fund; uwezo fund (Gok, 2006).

According to Farstad (2002) the highest number of entrepreneurs is mostly coming from those with poor background. High unemployment rate amongst the youth has been attributed to poor of economic condition, lack of appropriate knowledge and skills, lack of

job awareness and poor coordination and implementation of policies that are geared toward job creation for the youth. These challenges are attributed to poor employment creation, poor economy and weak entrepreneurship culture and unequal opportunities due to lack of employability (Gudda & Ngoze, 2009).

### **1.1.1 Loan Repayment**

Successful loan repayment can be define as the ability to repay the loan as per the loan agreement and loan defaulting as the inability to repay the loan by either failing to complete the loan as per the loan agreement or neglect to service the loan, however she stress that repayment performance is an important element because if borrowers do not pay there will be liquidity crisis in the financial institutions since the fund is a cyclical flow between the lenders and the borrowers (Rose, 2007).

The main reasons for the existence loan faults among the borrowers is that the financial institution are not keen on their terms of loan repayment since most borrowers may take advantage of the loophole and hence they are unwilling to repay and also the financial institution's staffs are not responsible to shareholders a and if loans are given without the proper evaluation of the borrowers business (Norell, 2001).

The repayment mechanism and infrastructures put in place in some part of the country especially in rural areas poses serious challenges to disbursement of loan and inability to repay due to lack of financial intermediaries and loan repayment avenues disadvantages the youth in those areas (YEDF, 2012).

### **1.1.2 Youth Enterprise Development Fund**

The government established a fully-fledged Ministry of State for Youth Affairs (MOSYA) in December 2005 to cater for the vulnerable youth. Through this ministry, the government developed a comprehensive National Youth Policy (NYP) in line with the development priorities articulated in the Economic Recovery for Wealth Empowerment Creation 2003-

2007. MOSYA established a Youth Enterprise Development Fund (YEDF) whose operation regulations are articulated in the Kenya Gazette Supplement No. 89 of 8<sup>th</sup> December 2006. It came legally into operation through legal notice No. 167 of 8<sup>th</sup> Dec 2006. The Fund was designed to address the wider issue of poverty and unemployment among youth. It was officially launched by President on 1<sup>st</sup> February 2007. Later on 11<sup>th</sup> May 2007 through Legal notice No. 63 the fund was transformed into a state corporation. It's one of the flagship projects of the Kenya Vision 2030, under the social pillar Youth and sports flagship project ([www.youthfund.go.ke](http://www.youthfund.go.ke)).

The main objective of the fund was to provide loans to youth enterprises attract and facilitate investment in micro, small and medium enterprises, oriented commercial infrastructure that will be beneficial to youth enterprises, support youth oriented micro, small and medium enterprises to develop linkages with large enterprises and to provide market linkages to the products and services of youth enterprises both in the domestic and international (YEDF, 2011).

The purpose of the fund was to create employment and provide youth entrepreneurs with capital for business start-up and expansion through growth and to increase economic opportunities for Kenyan youth through enterprise development and strategic partnerships. The Vision of the fund is to be a sustainable and growing fund, economically empowering Kenyan youth. YEDF has opened ten regional offices countrywide and employed two constituency officers in every constituency to help the youth at the grassroots (YEDF Status Report, 2007-2012).

In 2006 YEDF loan started with capital of Kshs. 1 Billion. Kshs. 210 Million was allocated through the Constituency Youth Enterprise Scheme (C-YES) directed to young entrepreneurs so that they can access finance to set up or expand businesses in order to

improve their lives through engaging in income generating activities. This amount was allocated equally among all constituencies (YEDF Status Report, 2007-2012).

YEDF funds are disbursed in 3 ways the Constituency Youth Enterprises Scheme (C-yes) maximum amount Ksh. 50,000. Easy Youth Enterprise Scheme the scheme finances project of individuals who belong to groups that have completed repayment of the C- YES loan. Individuals start with loans of Ksh. 25,000 and graduate upwards to Ksh 100,000 after which they can access the loans through financial intermediaries (YDEF guide, 2009).

## **1.2 Statement of the Problem**

Despite the fact that the government of Kenya in its blue print Vision 2030 has attempted to address the increasing unemployment among the youth through the creation of Youth Enterprise Development Fund in 2006 to provide loans to youth at a lower interest rate, this revolving fund that was meant to help Kenyan Youth start businesses is now chalking up bad debt, causing fear of a looming liquidity crisis due to low recovery of loan. These poor recoveries by the beneficiaries threaten to slow down the government initiatives to reduce unemployment among the youth (YEDF report, 2012). In 2010 its default rate on the first 2.5 Billion lent out stood at 40% almost five times the financial services sectors average of 8% ([www.youthfund.go.ke](http://www.youthfund.go.ke)).

However according to YEDF (2014) out of Ksh. 11,159,099 disbursed to youth group in Konoin Constituency as at November 2014, only 7,418,571 have been repaid. This indicate that majority of the groups faces serious challenges on the repayment which has significantly affected their business or projects they initiated, hence the default rate stood at 33.5%.

In South Africa the government established Umsobomvu Youth Fund in order to promote and facilitate the creation of jobs among the youth through provision of loans, but this fund faces challenges due to clients defaulting to repay the loan granted (UYF strategic plan, 2001). The case were also noted in Botswana where Citizen Young Farmers Fund that

were established by the government to eradicate poverty, unemployment also suffered a major blow due to the poor recovery of loans granted to the Youth (CYFF strategic plan, 2001).

Langat (2012) in his study on the effects of YEDF on the growth of small enterprises concluded that increasing awareness on the roles and objectives of YEDF to the youth will have positive effects on the growth of small enterprises thus more youth will be able to take up more loans and utilize them prudently in order to repay. Momanyi (2013) in his study concentrated on the role of YEDF loans in job creation while Kimando (2012) studied the factors affecting the success of YEDF projects initiated and implemented by the youth in Kigumo District. These studies have concentrated on the impact of YEDF projects and the role of these projects in job creation in the economy, hence creating a gap that needs to be studied. This study therefore sought to establish the factors that influence the repayment of Youth Enterprise Development Fund (YEDF) loans among the youth groups in Konoin Constituency, Bomet County.

### **1.3 General Objective**

To establish the factors influencing the Youth Enterprise Development Fund Loan Repayment among youth in Konoin Constituency.

### **1.4 Specific Objectives**

1. To find out the loan factors influencing the repayment of Youth Enterprise Development Fund Loans.
2. To establish the business factors that influence the repayment of Youth Enterprise Development Fund Loans.
3. To determine the group dynamics influencing the repayment of Youth Enterprise Development Fund Loans.

### **1.5 Research Questions**

1. Do the loan factors influence the repayment of Youth Enterprise Development Fund Loan?
2. Does the business factor influence the repayment of Youth Enterprise Development Fund Loan?
3. Do group dynamics influence the repayment of Youth Enterprise Development Fund Loan?

### **1.6 Significance of the Study**

The study would enable the ministry to assess how the fund is helping the youth to start and run successfully enterprises and to evaluate and address the youth unemployment problem in Kenya and to set up guideline and rules that will guide the implementation of the Fund ([www.youthfund.go.ke](http://www.youthfund.go.ke)).

The finding of this study would help the board to develop policies governing the disbursement and repayment of loan by youth groups in Kenya. This would enable the board to evaluate the current methods used to recover the loans ([www.youthfund.go.ke](http://www.youthfund.go.ke)).

### **1.7 Scope of the Study**

The study covered 221 youth groups which had received loans from the YEDF from the times it was introduced in 2007 to date in Konoin Constituency, Bomet County.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews literature with a view of understanding what other researchers contributed regarding microenterprise funding and the factors influencing repayment performance in microcredit programs.

#### **2.2 Theoretical Framework**

This section discusses various theories related to loan repayment. The theories discussed here are Bangladesh's Grameen Bank model, Joint Liability theory and Experiential Learning theory.

##### **2.2.1 Bangladesh's Grameen Bank Model**

The Grameen Bank is well-known for its innovative approach to poverty alleviation. The Bank operates by recruiting members in small teams from among the very poorest households. The Grameen Bank has been imitated in several other countries so the impact of this form of lending goes far beyond Bangladesh. In Bangladesh, the Bank currently lends to about two million people, most of whom are rural, landless women. The Bank operates in 36,000 villages, or about half of all villages in the country. Grameen Bank borrowers organize themselves into self-selected groups of five people men and women are in different groups, as dictated by social norms in Bangladesh. All group members must be from the same village. After the formation of the group, members receive training from bank employees and begin weekly meetings. From the outset, each member makes small, weekly savings deposits. Several weeks after the group is formed, two members receive a loan. If the initial borrowers make their required weekly payments and if the group otherwise adheres to the rules of the Grameen Bank, two more members receive loans, and so on. Loans are small and must be

repaid in weekly instalments over a period of 1 year. If any member of a group defaults, all members are ineligible for Grameen Bank credit in the future (Khandker et al., 1995).

### **2.2.2 Joint Liability Theory**

This theory is applied to MFIs (Microfinance) and SACCOs who practice group lending in a bid to minimize the risks of by default and delinquency by the borrowers. Wahid (1993) stress that through joint liability the financial institutions have been able to reach to many people such as the un- bankable and the poor that does not have collaterals to secure loans. This theory support unconventional lending practiced by the Grameen bank.

Ghatak and Guinnane (1999), the Joint liability lending institutions ask borrowers to form groups in which all borrowers are jointly liable to one another. These lenders are also characterized by intensive monitoring of the borrowers and rely heavily on past borrowers to ensure compliance.

Ghatak (1999) puts it that for the lending institutions to experience high repayment rates from borrowers there is need to encourage the borrowers to form groups such that the paying members can pressurize the non-paying, or those on the verge of defaulting to honour their contractual obligations. The foremost bond of allegiance is between the borrowers whereby a case of default is treated as a departure from the set norms and ideals of the group. In this the lending institution is able to follows on its clients and ensures that constant monitoring on their loan repayment behaviour can is achieved. This thus ensures that there are costs sharing between the borrowers and the lending organization (Morduch, 1999).

### **2.2.3 Experiential Learning Theory (ELT)**

David Kolb's developed ELT in 1984. The theory combines experience perception, cognition and behaviour of an individual as a holistic perspective which applies to all facets of life, all age groups and different cultures and various organizations setting. Kolbs model offers better ways to understand individual learning styles. They propose that an individual moves through

a series of immediate experiences which leads to observation and reflections on the experiences. These reflections are then absorbed and linked with previous knowledge and translated into concept which results in new ways and actions to adjust the experience.

Kolb describe the management process as a way of learning for individuals and organization to solve problems and make informed decisions identifies entrepreneurship opportunities and challenges. ELT involves integration of the functioning of the persons thinking, feelings, perceptions and behaviours.

Norel (2001) argued that lending institutions should trained borrowers prior to loan disbursement since the trainers must be able to take into consideration the behaviour and nature of the learners, thus being cognizant to the need to inculcate the borrowers to practice certain behaviour of commitment and repayment hence the need to from Kolb's theory of ELT.

## **2.3 Empirical Review**

This section explains what other researchers had contributed about loan repayment factors. These include loan factors, business and group dynamics.

### **2.3.1 Loan factors and Repayment Performance**

The loan factors influencing repayment performance includes the amount of loan (loan size), repayment method, repayment period and amount of loan. Various institutions offering loans a larger amount of money in terms of loan are more progressively carefully. As the absolute amount of the loan increases, the authority to delegate responsibility for it is more limited and the decision is made further up the management hierarchy of the bank. Furthermore, it is also argued that smaller amounts of loans are insufficient creating cash flow problems to the borrowers, significantly affecting the project. Thus the larger the amount the lower the default rate (Roslan & Mohd Zaini, 2009; Eze & Ibekwe, 2007; Guttman, 2007).

Loan defaults generally arise from the lack of knowledge and skills among the youth on the choice of the project or business they intend to start and hence they end up starting unjustifiable project which may collapse hence failing to raise revenue thus chances of defaulting is higher(Capisarow, 2000).

Mashatola and Darroch (2003) on his study on the factors affecting the loan status and repayment scheme of sugarcane farmers in South Africa found that the size of the farm and annual turnover determine the ability of the farmers to repay the loan in since the liquidity to fund the future operations and debt repayment are available.

Derban et al. (2005) demonstrates that cash flow determines the borrowers' capacity to repayment. Shorter repayment period might cause the borrowers not to generate enough revenue for borrowers to make loan repayment while the longer repayment periods are detrimental to borrowers if they cannot access further loans until the existing loan is paid back. Hence, both shorter and longer repayment periods can have negative effects on the default rate.

Awunyo-Vitor (2012) investigated the determinants of loan repayment default among farmers in Brong Ahafo Ghana. He sample 374 farmers in five districts. The results found that farm size, engaging in other business that generates income reduces the chances of loan repayment default significantly. They also found that the larger amount of loan and longer repayment period and access to training on the use of loan received reduces the chances of loan defaulting among the farmers, hence any policy that aimed at improving farm sizes, farm income and cultivation of cash crops would significantly reduce loan repayment default. Financial institutions should provide training before loan disbursement in order to minimise chances of default.

Jemal (2003) on his study on the factors that influence microfinance loan repayment evaluated the loan rationing mechanism and impact of the program on the livelihood of

borrowers. The results found that level of education, income, supervision of loan by the lender, repayment period and availability of other sources of credit are significant factor that influences the repayment performance while the diversion of loan and the size of the loan significantly increase the rate of loan default.

Olagunju and Adeyemo (2007) studied factors that determine loan repayment decisions among farmers in south western Nigeria during 2005. Data from 180 respondents were collected through multistage sampling technique. Obit regression results showed farming experience, farm location, and cost of obtaining loan, borrowing frequency and education as important factors in determining loan repayment. Farm size and dependence showed no significant effect. Okibo (2013) study the causes of loan default within micro finance institutions in Kenya. The study found that if the lender does not monitor the loan utilization by the borrowers then the rate of default is higher.

Weinberg (2006) noted that the interest rate and the loan size are the main factors affecting repayment of the loans. Using the interest rate that an individual or group is willing to pay by most of the financial institution poses a serious challenge as individual as a device to identified borrower with a high probability of repayment. This may be dangerous since high risk-takers are the worst rate payers.

In a study that investigated the factors affecting repayment rate of loan beneficiaries of MFIs in the Southeast States of Nigeria, Onyeagocha, Chidebelu, & Chukwuemeka (2012) found that default rate decreased with loan size, level of education, the length of experience in occupation, the ability of the supported business to make profits and portfolio diversity or ownership of multiple enterprises.

Eze and Ibekwe (2007) conducted a study on the determinants of loan repayment under the indigenous financial system in Nigeria. He used multiple regression and the results show that the total amount of loan received, the age of the borrower, level of education,

household size influences the repayment of loan. Abafita (2003) did a study on Microfinance and Loan Repayment Performance in Ethiopia by analysing the factors that influence microfinance loan repayment and evaluating the loan rationing mechanism and also assessing the impact of the program on the livelihood of borrowers.

Acquah and Addo (2011) on their study on the determinants of loan repayment performance of fishermen in Ghana. They employed multiple regressions. Their results shows that low level of education, lack of alternative source of income , difficult loan processing procedures are the main causes of high loan default. They also identified the incomes that are generated from fishing and the sizes of loan invested are the as significant indicators' of loan repayment.

Oladeebo and Oladeebo (2008) in their study Determinant of loan repayment performance among smallholder farmers in Oyo state, Nigeria. The results shows that the higher the amount of loan granted to the farmers enable them to acquire sophisticated machines hence increasing the level of turnover and thus loan repayment is higher and vice versa since increase in annual turnover due to higher level of production hence loan repayment capacity is high.

### **2.3.2 Business factors and Loan Repayment**

Mpunga (2004) asserts that the level of business income and the size of the business are the most important factor that would determine the credit worthiness of a borrower. At higher level of business there is more money to save and in future used to purchase collateral which can be used loan guarantee as opposed to low level of business income which has little money to be saved. Hence the larger the business the higher the chances of accessing the loan and hence the repayment rate is higher.

Godquin (2004) suggests that the offering of training, basic literacy and skills to the borrowers by the lender before advancing loan has a positive impact on repayment performance while Roslan & Mohd Zaini (2009) found that borrowers that did not have any basic training in relation to their business have a higher probability to default but Awoke (2004), found that default arises from poor management procedures, loan diversion and borrowers unwillingness to repay loans when they fall due. Therefore, the lenders must devise mechanisms that aimed at minimising or removing the risk of loan default.

Akhavein (2001) indicated that the past history of any business is the main factors that may influence the ability to repay the loan in time. López (2007) asserted that both hard and soft information has a significant effect on the loan repayment patterns of the borrowers. Hard information includes borrowers' capacity, indebtedness and monthly instalments need to be taken into consideration.

Godquin (2004) found that age of the borrower and size of loans have an inverse relationship to repayment performance, while Pang (2010) pointed out that the main determinants of repayment obligations are the interest charged and the amount of loan an individual get thus the higher loans granted there is a high chance of default hence repayment problems.

Unexpected instances in the borrowers business such as poor business revenue generated, natural calamities and borrows sickness may cause involuntary defaults hence affecting the ability to repay the loan in time while voluntary defaults is caused by moral hazard of the borrowers behaviour since the borrowers may refuse to pay the loan because of lack of proper mechanism of the lenders to enforce the regulation of repayment (Brehanu & Fufa, 2008).

According Bhatt & Tang 2002, the level of education entrepreneurs may have the higher the ability to understand and analyze difficult decision and have higher entrepreneurial

competence enabling them to make the right business decision. Similarly the results of a study conducted by Baklouti (2013) on the Tunisian Microfinance Bank found that the higher educational level was significant and positively related to better repayment performance among the borrowers.

Roslan and Abd Karim (2009) conducted study on micro credit loan repayment behaviour in Malaysia. They concentrated on loan borrowers from agro bank where beneficiaries were Agricultural business. The results show that those borrowers who have longer repayment period had a higher chance of defaulting, but those who have training on their business and borrow high loans had lower chances of defaulting.

Addisu (2006) studied microfinance repayment in the informal sector in Addis Ababa. The results found that the higher the education level the higher the repayment rate. They also noted that borrowers who planned their business activities in advance and have prior experience are least likely to default. In contrast, they found that the levels of monthly turnover were directly related to non-repayment of loans.

Eze and Ibekwe (2007) conducted research on determinants of loan repayment in Imo State in Nigeria. The results found that several factor such as loan size borrowed, age of beneficiaries, household size and the level of formal education as the main factors that influences loan repayment.

### **2.3.3 Group Dynamics and Loan Repayment**

Group dynamics refer to the forces that may results from interaction of the group members. These interaction influences the behaviour of both individual group member and the group as a whole. Group dynamics have a negative effect on the social emotional needs and goals attainment of the group hence may leads to unproductive meetings that may disadvantage the group activities, but if social sanctions are not very strong group lending may lead to default by members who have repaid under individual lending (Toseland & Rivas, 2005).

Jain and Mansuri (2003) argued that for the lenders to ensure that there is no default on the loan repayment they have advanced to the borrowers they must devise structure and mechanism to monitoring borrowers' actions though the use of innovative mechanisms such as regularly scheduled repayments which may indirectly enhances the way lenders get an informed decisions thus ensuring that moral hazard are prevented.

Bassem (2008), on his study assessed the factors affecting the repayment performance of group lending in Tunisia. The results reveal that internal rule of conduct in the group, the way the business is managed, the knowledge of the other members of the group before formation, the peer pressure within the group, the self-selection, the sex, the education level of the group members. However, the homogeneity and the marital status are among the main factors negatively impact on the repayment performance of groups.

Francis and Abel (2009), study factors that influence loan repayment performance in microcredit institutions (MFIs) in Tanzania. Their findings revealed that experience, training time and sanctions within the group have significant effects and thus the rate of default on loan repayment among group clients of MFIs is low, but transaction costs and the size of the group had negatively and significant effects on loan repayment performance.

Kocenda and Vojtek (2009), reveal that the number of previously repaid loans in a certain group is the most important behavioral characteristic which indicates the possibility of default risk; as this will decrease as the number of credit rotations increases. However, Oladeebo and Oladeebo (2008) found that the number of years of experience with credit has significantly positive influence on loan repayment.

In a study that investigated the borrower's socio-economic determinants of loan repayments in microcredit programmes that applied the group lending in the US, Bhatt and Yang (2002) found that repayment increased with the level of education. On the other hand,

the study found that the level of household income, business type and borrower's experience were not significant predictors of loan repayment.

Woolcock (2001) argued that group lending by the financial institutions has improved loan repayment performance by the borrowers as oppose to individual lending. He further explains that the support and guidance within the group provides a strong incentive for each individual to operate effectively due to one's personal reputation within the group. Furthermore, since groups generally are formed by members from the same village or community which have a common goal and objective thus loan can be repaid in time as this may affect the credibility and accountability within the community at large. However, this social effect can favour the outcomes for the microfinance institutions, some researchers believe that it can lead to an unhealthy social environment within the community at large.

Proper utilization of the social capital and the local information within the group reduces the chances of defaulting. The cost of screening and monitoring of the borrowers can be as low due to familiarity with the borrowers hence leading to inherent implicit economies of group lending mechanism. In this instance information is easy to obtain because of living nearer to the borrower. Group members understand each other's characters and behavior other than outsider's thus social pressure in the group is high and efficient hence there is a motivational factor that influences the loan repayment (Fischer & Ghatak, 2010).

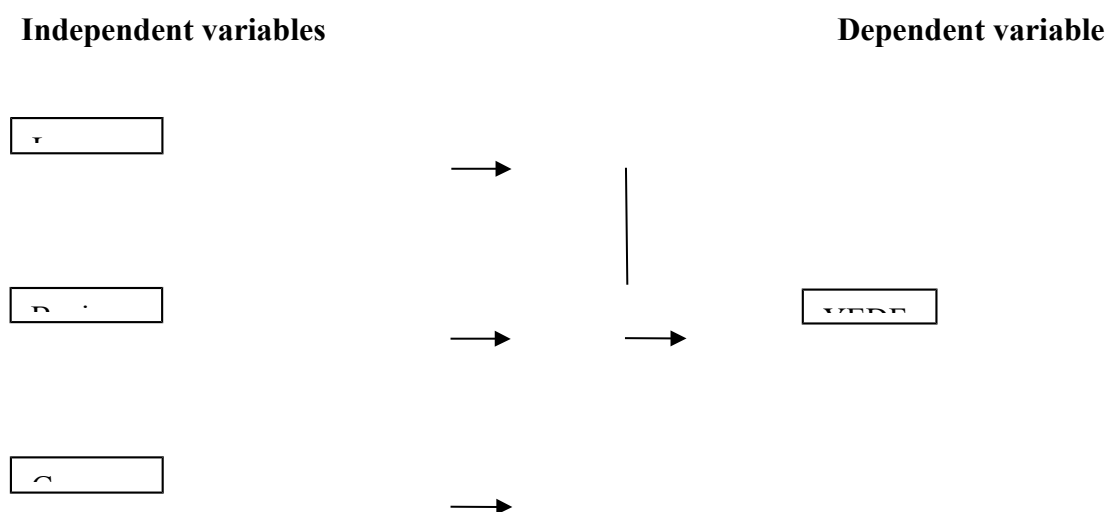
Sungwacha Stephen (2014), study factors influencing loan repayment performance by group borrowers in Bungoma County. They found that group meetings with MFIs prior to loan disbursement enhances discipline and order among the members. Proximity of lenders to borrowers is not significant since MFIs have devices other venues such as electronic money transfer and mobile services to minimize travelling challenges among the group. They also found that MFIs schedule meetings with the groups to offer basic training on financial

matters before loan disbursement. They also identify politics within the group poses a high risk of defaults.

Bhatt and Tang (2002) on his research on the determinants of loan repayments in microcredit in group lending approach. They concentrated on the borrower's socio economic factors instead of the elements of group lending for their influence on loan repayment behavior. The results show that a higher educational level is significant and reduces the chances of loan default while female borrowers, level of income, the type of business and the borrowers experience had no significant effects on the loan repayment.

## 2.4 Conceptual Framework

The conceptual framework is a hypothesized model that identifies the concepts under study and their relationship (Mugenda and Mugenda, 2003). A conceptual framework shows the relationship between the dependent and independent variables.



**Figure 1: Conceptual Framework**

## 2.5 Operationalization of Variables

Table 1 presents the variables focused in the study, their indicators and the levels of measurement used.

**Table 1: Operationalization of Variables**

VARIABLES	INDICATORS	MEASUREMENTS SCALE
Loan Factors	Loan size Repayment period Interest rate Amount of loan received Loan diversion	Ordinal/interval
Business Factors	Age of the business Size of the business Location Nature of the business Turnover/revenue	Ordinal/interval
Group Dynamics	Peer pressure Group size Group formation Level of education Marital status	Ordinal/intervals

## 2.6 Research Hypothesis

*H<sub>01</sub>: There is no significant relationship between loan factors and YEDF loan repayment.*

*H<sub>1</sub>: There is significant relationship between loan factors and YEDF loan repayment.*

*H<sub>02</sub>: There is no significant relationship between business factors and YEDF loan repayment.*

*H<sub>2</sub>: There is significant relationship between business factors and YEDF loan repayment.*

*H<sub>03</sub>: There is no significant relationship between group dynamic and YEDF loan repayment.*

*H<sub>3</sub>: There is significant relationship between group dynamics and YEDF loan repayment.*

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the various stages and approaches that were used when carrying out the study so as to meet the objective outlined by the study. It contains the following topics: research design, population, sample and sampling techniques, and data collection methods, data analysis and presentation.

#### **3.2 Research Design**

The study adopted a descriptive research design. It involved collecting of information by administering questionnaire to a sample of individuals (Orodho, 2003). This design is identified as the most convenient and ensured that the data obtained give answers to the research questions. Descriptive design also offers the opportunity for a logical structure of the inquiry into the problem of the study. It is most appropriate when collecting information about people's characteristics, attitudes, habits or social issues (Orodho & Kombo, 2002).

### 3.2 Target Population

Population is defined as the total collection of all elements which the researcher wishes to make some inferences (Kothari, 2004). This study targeted a population of all youth groups who had received loans from the Youth Enterprise Development Fund in Konoin constituency in Bomet County. According to the information obtained from the Sub County Youth Development Officer (YEDF Report, 2014), there were 221 registered youth groups who had benefited from YEDF loan.

### 3.3 Sample and Sampling Procedure

Orodho and Kombo (2002) defines sampling as a process of selecting by systematic or random procedures a number of individuals or objects a population such that the selected group contains elements representative of the characteristics found in the entire group.

The ultimate test of a sample is how best it represents various characteristics of the population. It must be accurate and precise. The study used cluster sampling and simple random sampling. Cluster sampling was suitable in this case because the population was divided into different cluster according to the wards (Mugenda & Mugenda, 2003).The youth groups were stratified into five strata according to the wards they belonged. Konoin Constituency had 5 wards. A simple random sampling technique was then used to select 67 youth groups. In each group two members were selected, thus the final sample size was 134. This is summarized in Table 2.

**Table 2: Sample size**

<b>Ward</b>	<b>No. of groups</b>	<b>Perc. (%)</b>	<b>Group Sample size</b>	<b>Target 2 member</b>	<b>Final sample size</b>
Mogogosiek	54	35	18	2	36
Boito	36	30	10	2	20
Chepchabas	40	30	12	2	24

Embomos	45	30	13	2	26
Kimulot	46	32	14	2	28
Totals	221		67		134

### **3.4 Instrumentation**

Questionnaires were used to collect data. Orodho (2004) defines a questionnaire as an instrument used to gather data, which allows a measurement for or against a particular viewpoint. The study used both closed and open ended questions which allowed respondents to answer them in their own words. Questionnaires were preferred for the study since they were simple to administer, reliable, had fixed response to reduce variability and for easy coding, analysis and interpretation of data.

### **3.5 Data Collection**

The questionnaires were administered by researcher in person to the respondents for the purpose of collecting data. Where possible the respondents were expected to complete the questionnaire and return to the researcher immediately. However the drop and pick method was used where the respondents were not able to complete the questionnaires immediately.

### **3.6 Validity and Reliability**

Reliability is the degree of consistency and the extent to which results are free from sampling error or the same results or data when repeatedly administered (Golafshani, 2003). The researcher administered 5 questionnaires to test the reliability. Cronbach's Alpha Coefficient (2004) was used to determine the reliability of the instrument with score of 0.7 and above considered reliable.

Validity measures the degree to which an instrument measure that which it is out to measure (Joppe, 2000). The questionnaires were validated through application of content validity that

was determined by an expert judgement. There was also consultation with the peer and supervisor on the content validated by the expert judgement (Luvai, 2014).

### **3.7 Data Analysis and Presentation**

Completed questionnaires were edited to ensure completeness, consistency and uniformity. The data was then be coded for easy keying. Data collected was analyzed using descriptive analysis techniques. Statistical Package for Social Science (SPSS) was used to analyze the data.

The findings are presented using tables, charts, percentages, frequencies and mean scores.

A multiple regression model was used to determine whether loan factors, business factors and group dynamics influence the YEDF loan repayment among youth groups in Konoin constituency.

The regression model,  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$  was applied.

Where;

$Y$  = is the YEDF loan Repayment

$X_1$  = is the Loan factors affecting loan repayment.

$X_2$  = is the Business factors affecting loan repayment

$X_3$  = is the Group dynamics influencing loan repayment.

$\beta_0$  = is the intercept of the regression equation which represented the loan repayment when no fundamental factors affecting YEDF loan repayment.

$\beta_1, \dots, \beta_3$  = is the slope / gradient

$\varepsilon$  = is the error term for the model.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND INTERPRETATION**

#### **4.1 Introduction**

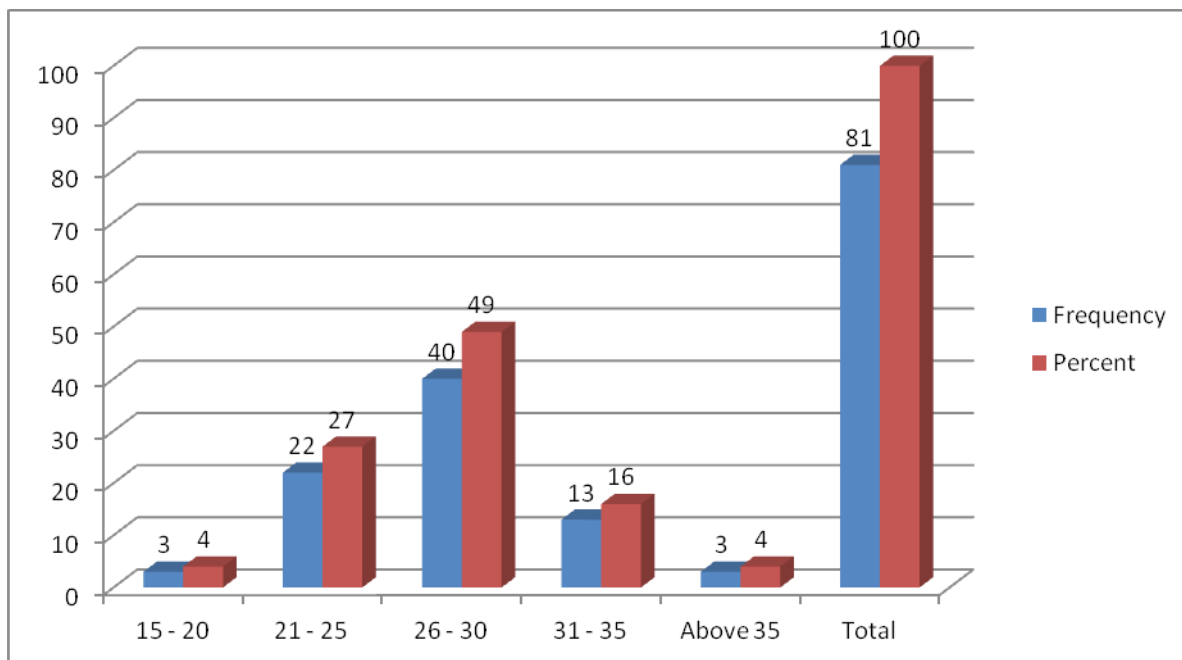
This chapter presents the findings of the study and their discussion. The data analysis, the interpretation of the analysis and presentation of the findings in Tables and figures is presented in this chapter. Presented in this chapter hence are the findings relating to factors influencing youth enterprise development fund loan repayment among youth in Kenya with a focus on Konoin Constituency, Bomet County.

#### **4.2 Response Rate**

The targeted respondents in the study were 134, out of which 81 filled and returned the questionnaires. This was a response rate of 60%. This response rate was considered adequate for analysis. This conforms to the stipulation by Babbie (2011) that a response rate of 50% or above for paper-based questionnaires is adequate for a survey.

#### **4.3 Demographic Characteristics**

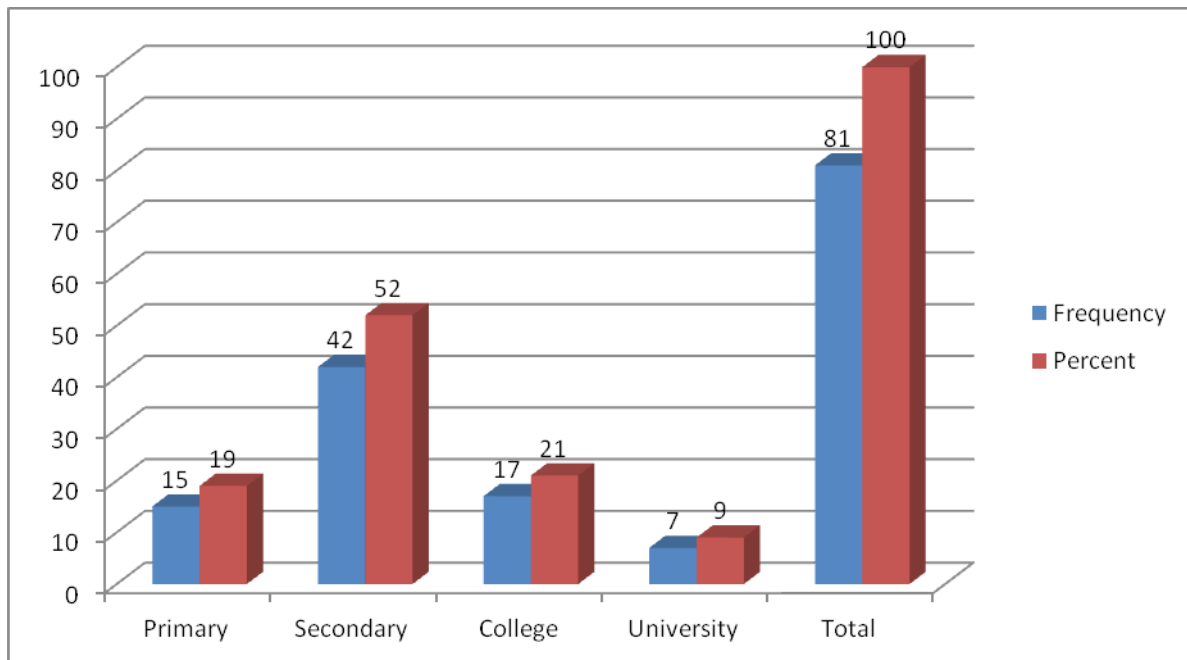
The results on the age of respondents are presented in Figure 2. The findings indicate that most of the respondents (49%) were aged between 26 and 30 years. Those who were aged 15-20 years were four percent while those aged above 35 years were also four percent. The YEDF is only accessible to those who are categorised as the youth (age of 35 years and below) (YEDF, 2012). The four percent of the respondents who were above 35 years was understood to be those beneficiaries who were below 35 years of age when they benefitted from the loans.



**Figure 2: Age of Respondents in Years**

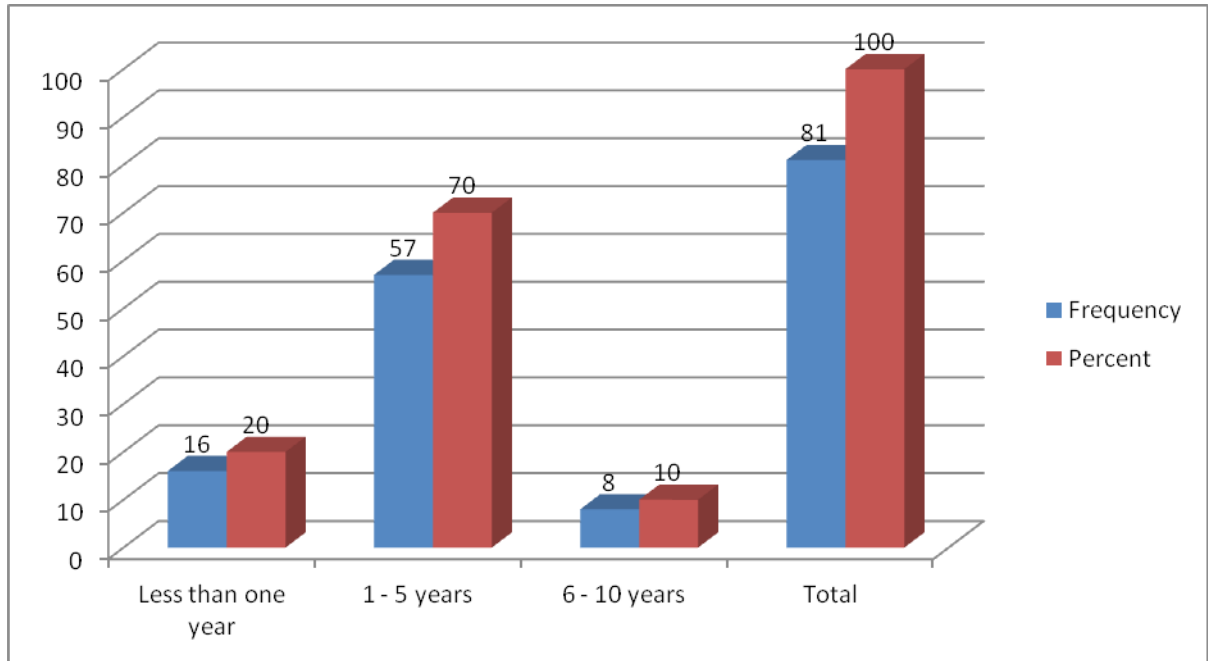
The other demographic characteristic investigated in the study was gender of the respondents. Results established that male respondents were 53% while female respondents were 47%. This indicated a gender balanced representation indicating that youth groups in Konoin Constituency of Bomet Country are well gender balanced.

Education level of the respondents was also enquired. Results are presented in Figure 3 where those that had secondary level of education were 52% while those who had university level of education were nine percent. Those with only primary level of education were 19%. These results indicate that most of the beneficiaries of the YEDF were of average education and had not attained any form of tertiary education. In terms of education, it is observed that many of the beneficiaries may hence lack the requisite education and technical capacity to engage and manage businesses efficiently. This may also affect their loan repayments.



**Figure 3: Education Level of Respondents**

Lastly on demographics, the study enquired about the number of years that the groups had been in existence. The results are presented in Figure 4. The results indicate that most groups (70%) had been in existence for 1-5 years while no group had been in existence for over 10 years. There were 20% of the groups which were indicated to have been in existence for less than one year. The YEDF was established in 2006 (YEDF, 2012) and hence all the youth groups formed to take advantage of this fund were started after that date.



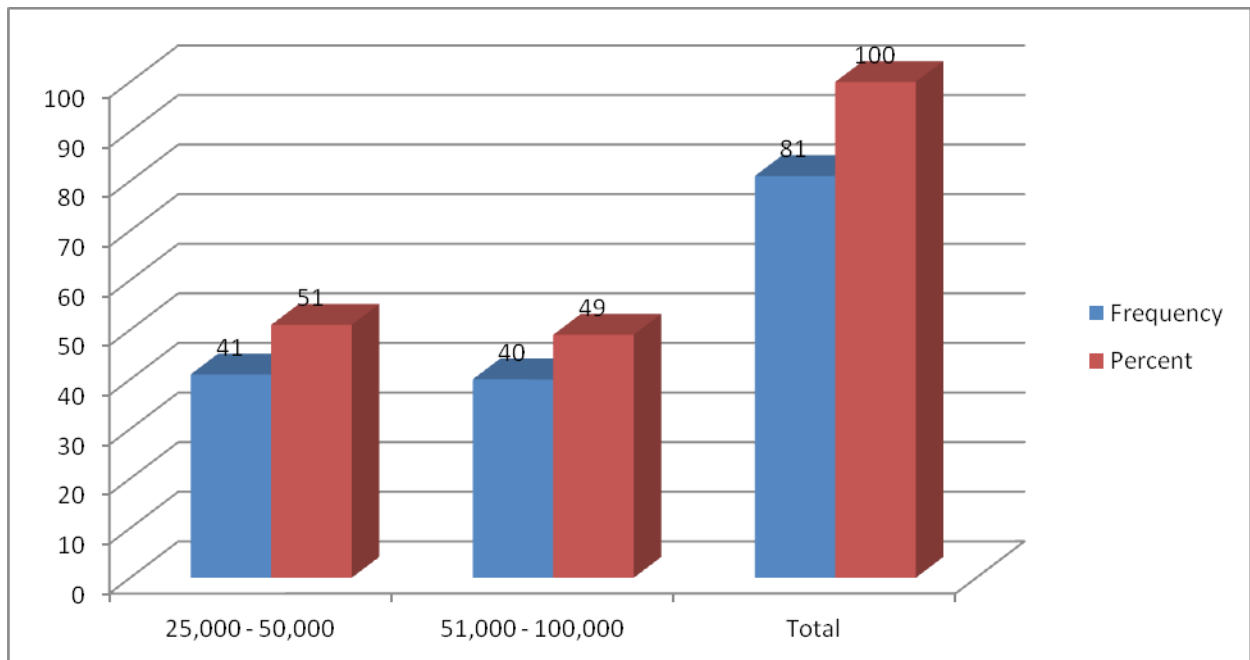
**Figure 4: Age of the Groups**

#### **4.4 Loan Factors**

The first objective of the study was to find out the loan factors influencing the repayment of Youth Enterprise Development Fund Loan. This section provides the findings on loan factors.

##### **4.4.1 Amount of loan received**

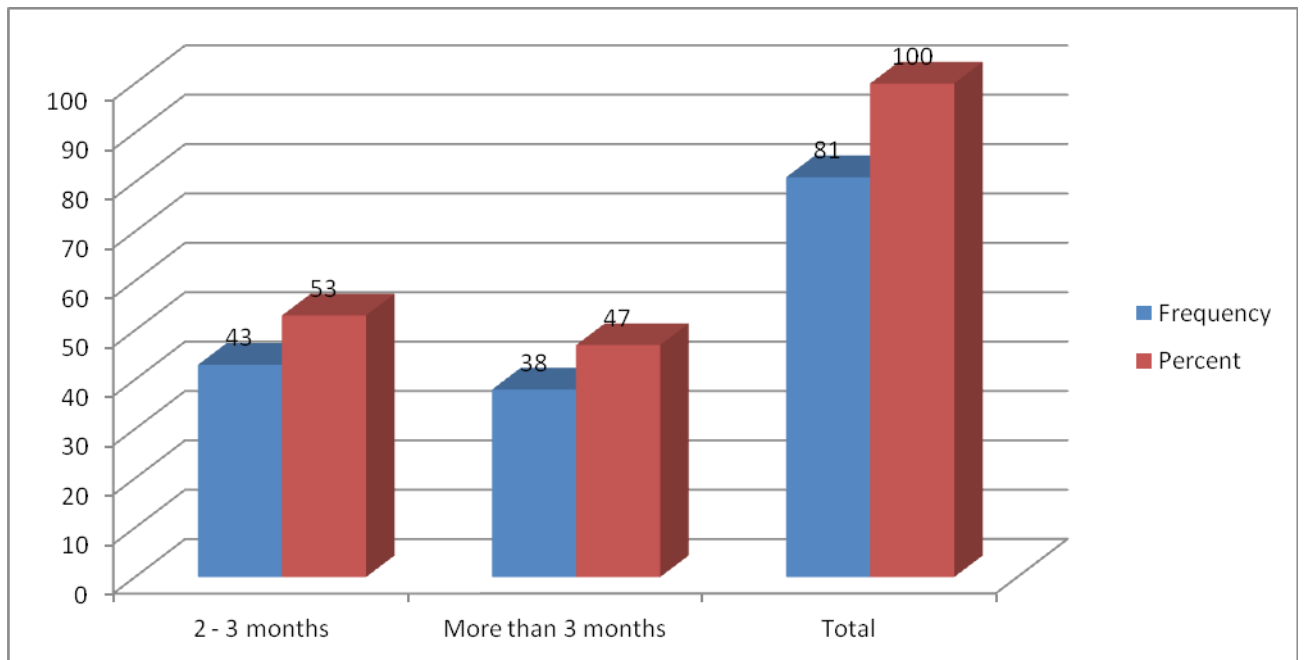
The first item in the question regarding loan factors enquired on the amount of money that the group received from the YEDF. The results are presented in Figure 5 which indicated that 51% of the groups received Ksh 25,000-50000 while 49% indicated that they received Ksh 51,000-100,000. These amounts are small and only able to create microenterprises. Their ability to improve economic and entrepreneurial capacity of the youth may be very limited.



**Figure 5: Amount Received from YEDF**

#### **4.4.2 Time lapse between application and loan receipt**

The study enquired on the time taken by the group between the loan application date and receipt of the loan amount from YEDF. Findings were presented in Figure 6. The results indicate that 53% of the loans take more than three months from the time of approval to receipt while 47% indicate that the loans took 2-3 months to be approved and received. No respondent indicated that loans took a week or a month to process. The slow process in processing of loans is typical of government agencies which have huge layers of bureaucracy and complex administrative procedures and structures. This is unlike private banks and microfinance institutions where the processing of loans can be even on the same day that the loan is applied.



**Figure 6: Time lapse between application and loan receipt**

#### 4.4.2 Rating on Loan Repayment

The respondents were asked to indicate the extent to which they rated their group on the amount of loan repaid so far. The results are presented in Table 3. Findings reveal that 58% of the respondents indicated that their groups were moderate payers of loans while one percent a piece indicated that their groups paid to a little extent and not at all. Those who indicated that their groups repaid loans a great extent were 31% and nine percent indicated that their groups repaid loans to a very great extent. These findings agree with YEDF report (2014) that out of Ksh. 11,159,099 disbursed to youth groups in Konoin Constituency as at November 2014, only 7,418,571 had been repaid. This indicate that majority of the groups faced serious challenges on the repayment which had significantly affected their business or projects they initiated, hence the default rate stood at 33.5%. The findings from this study were that the situation had not improved and loan repayment was still poor.

**Table 3: Extent of Loan repayment**

<b>Extent of repayment</b>	<b>Frequency</b>	<b>Percent</b>
Very great extent	7	9
Great extent	25	31
Moderate	47	58
Little extent	1	1
Not at all	1	1
<b>Total</b>	<b>81</b>	<b>100</b>

#### 4.4.3 Extent of Loan repayment Challenges

The study also enquired the extent that youth groups in Konoin Constituency faced challenges in loan repayment. Findings are presented in Table 4. The results establish that 55% of the groups were experiencing challenges to a great extent in loan repayment. Those groups that had no problems in loan repayment were seven percent. These findings support the finding by YEDF report (2014) that there was a high default rate (33.5%) for loans advanced to groups in Konoin Constituency as at November 2014.

**Table 4: Extent Group Faces Loan repayment Challenges**

<b>Extent of challenges</b>	<b>Frequency</b>	<b>Percent</b>
Very great extent	11	14
Great extent	45	55
Moderate	16	20
Little extent	3	4
not at all	6	7
<b>Total</b>	<b>81</b>	<b>100</b>

#### 4.4.4 Factors influencing Loan repayment

Factors influencing loan repayment were listed and respondents were requested to rate the extent that those factors influenced loan repayment in the surveyed groups. The rating provided was on a five likert rating scale (1=Very Great extent, 2=Great extent, 3=Moderate, 4=Little Extent, 5=Not at all). Mean scores and standard deviations were used to analyse the responses and results presented in Table 5.

**Table 5: Factors Influencing Loan Repayment**

<b>Factors</b>	<b>Mean score</b>	<b>Standard deviation</b>
Loan Diversion	2.10	0.752
Loan supervision	1.84	0.719
Repayment period	2.27	0.658
Training on the usage of loan	1.30	0.580
Loan Size	2.11	0.632
Interest rate	2.14	0.833
Access procedures	1.48	0.595

Results in Table 5 reveal that the greatest challenge affecting loan repayment was indicated to be training on the usage of loan (mean score = 1.30). The findings also indicated that access procedures (mean score = 1.48) was a challenge that affected loan repayment to a very great extent.

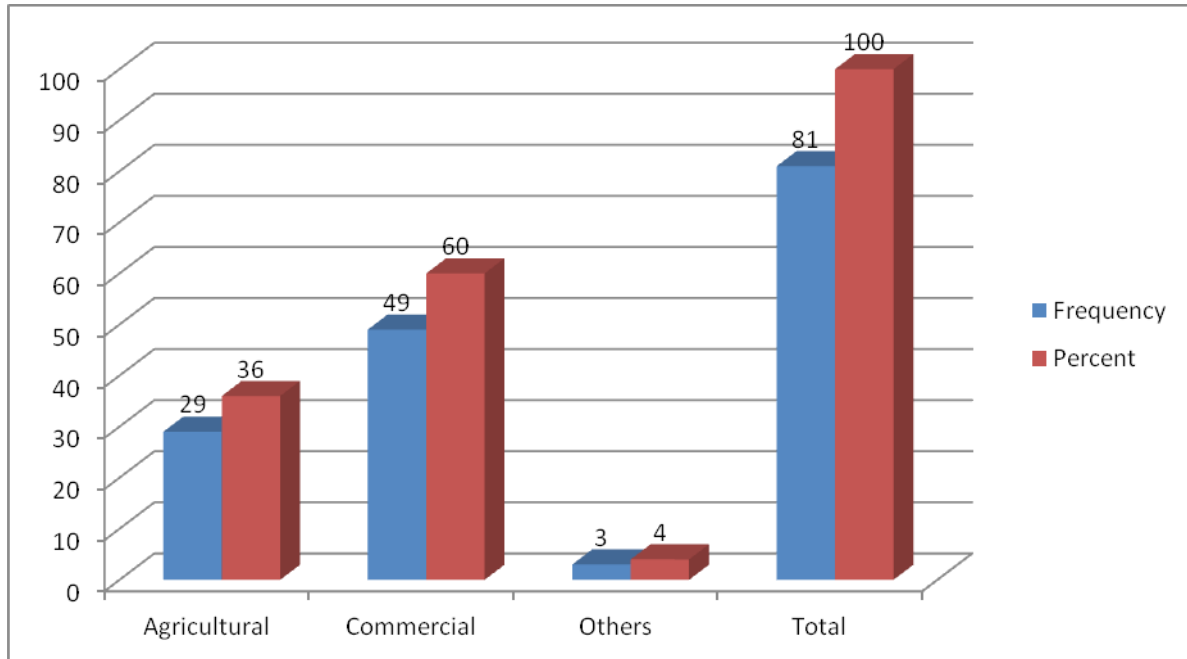
Study results also established that loan supervision affected loan repayment to a great extent (mean score = 1.84). Other challenges influencing loan repayment to a great extent were loan diversion (mean score = 2.10), loan size (mean score = 2.11), interest rates (mean score = 2.14).

#### **4.5 Business Factors**

The second objective of the study was to establish the business factors that influence the repayment of YEDF Loan. This section provides results related to business factors and the mechanics through which they would have affected loan repayment by youth groups in Konoin Constituency of Bomet County.

#### 4.5.1 Type of business the groups conduct

The study investigated the types of business that the youth groups engaged in. Results are presented in Figure 7.



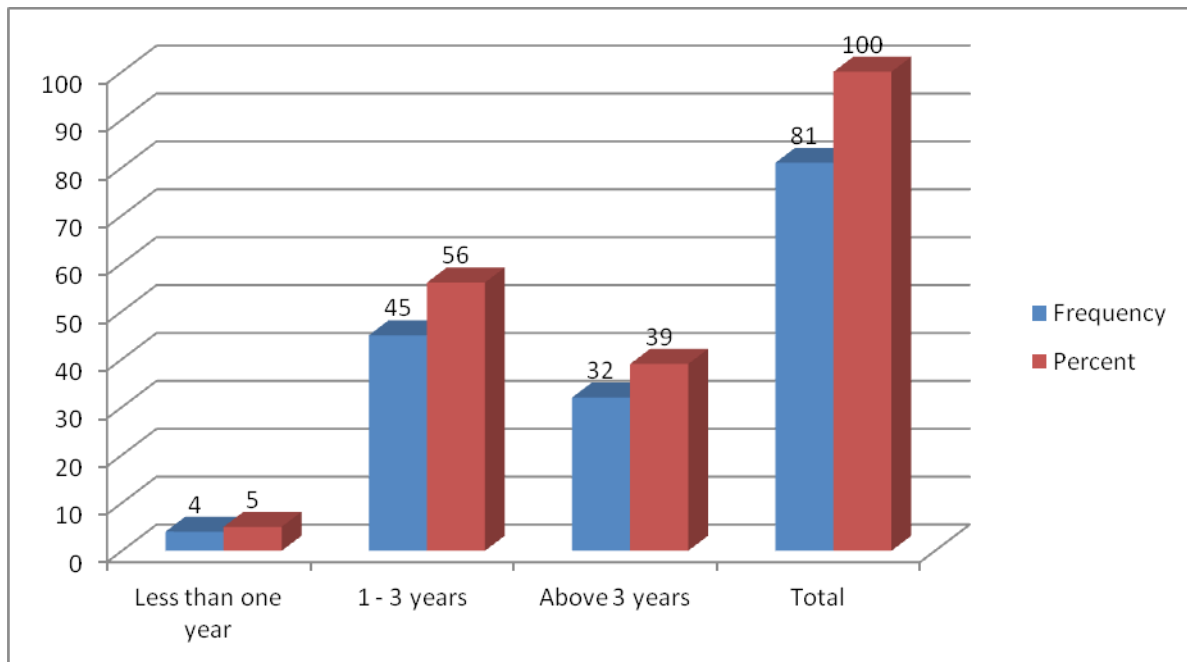
**Figure 7: Types of Businesses conducted by Groups**

The results in Figure 7 indicated that 60% of the groups engaged in commercial businesses while 36% engaged in agricultural activities. Those that engaged in other businesses, such as light manufacturing, were four percent. Konoin Constituency is a rural constituency and hence engaging in small commercial businesses is mostly attractive to the youth.

#### 4.5.2 Length of time the groups had been in business

The study also enquired on the time length that the groups had been engaging in businesses.

Findings are presented in Figure 8



**Figure 8: Length of time the groups had been in business**

Results in Figure 8 reveal that most of the groups (56%) had been in business for between one and three years while 5% had been in business for less than one year. Those that had been in business for more than three years were 39%. The study established that most of the groups had engaged in businesses for very few years thus may lack the necessary experience and skills for learning the businesses.

#### **4.5.3 Influence of business performance on loan repayment**

The study establishes the extent to which business performance influenced loan repayment by the groups. Respondents were requested to indicate the extent that performance of the group businesses influenced loan repayment. Findings are presented in Table 7.

**Table 6: Extent That Group Business Performance Influence Loan Repayment**

<b>Extent</b>	<b>Frequency</b>	<b>Percent</b>
Very great extent	23	28
Great extent	37	46
Moderate	19	24
Little extent	2	2
<b>Total</b>	<b>81</b>	<b>100</b>

Findings on Table 7 establish that group business performance affected loan repayment to great and very great extent according to 74% of the respondents. Those who indicated that business performance affected loan repayment to a small extent were 2%. These findings support Mpunga (2004) that the level of business income is an important factor that would determine loan repayment. At higher level of business performance, there is more money for operations and meeting business obligations as opposed to low level of business income which has little money for meeting business obligations.

#### **4.5.4 Business factors hindering loan repayment**

The study sought to establish the factors that act as hindrance to loan repayment. Respondents were requested to rate the listed factors in regard to the extent that they hindered loan repayment. The rating was on a five likert scale (1=Very High, 2=High, 3=Moderate 4=Low, 5=Very low). Findings are presented in Table 8.

**Table 7: Business factors hindering loan repayment**

<b>Factors</b>	<b>Mean score</b>	<b>Standard deviation</b>
Nature of the business	2.03	0.716
Age of the business	2.27	0.863
Poor Proceeds	1.48	0.714
Competition	2.14	0.687
Location of the business	1.71	0.708
Size of the business	2.38	0.909
Business experience	1.65	0.814
Inadequate capital	2.01	0.887

The findings presented in Table 8 indicate that poor proceeds (mean score = 1.48) affected loan repayment to a very great extent. The factors that affected loan repayment to a

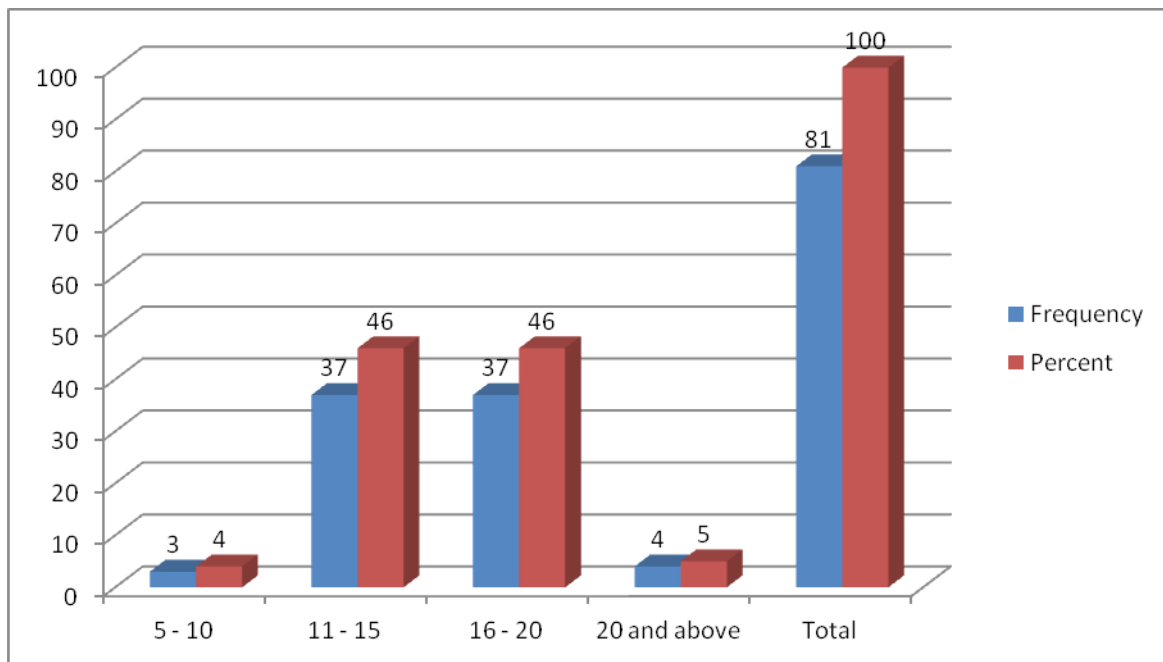
great extent were business experience (mean score = 1.65), location of the business (mean score = 1.71), inadequate capital (mean score = 2.01), nature of business (mean score = 2.03) and competition (mean score = 2.14). Other business factors that hindered loan repayment to a great extent were age of the business (mean score = 2.27) and size of the business (mean score = 2.38).

#### 4.6 Group Dynamics

The third objective of the study was to determine the group dynamics influencing the repayment of Youth Enterprise Development Fund Loan. Findings relating to responses on group dynamics are presented in this section. Factors included are size of group, peer pressure, group internal rules & regulations, group formation, group family composition and attitude of members and officials.

##### 4.6.1 Number of Members in the Group

The study investigated the number of members that the groups contained. The findings are presented in Figure 9.

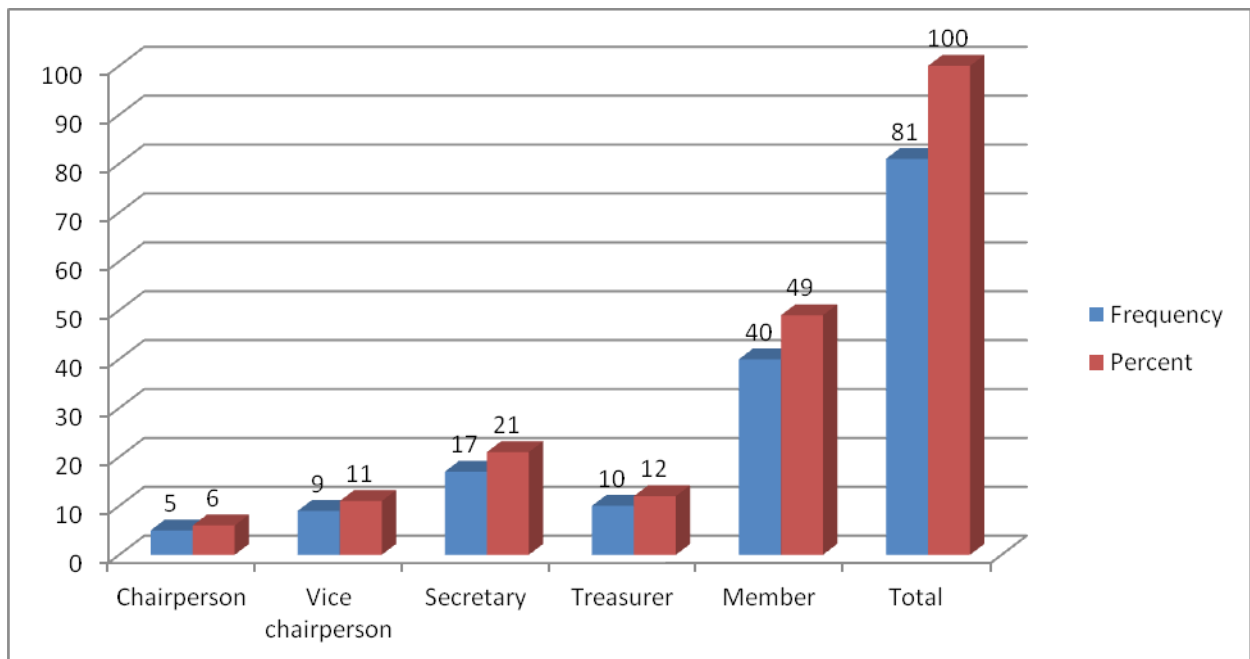


**Figure 9: Number of Members in the Group**

Findings in Figure 9 indicate that groups with 16-20 members and those with 11-15 members were the most with 92%. Those groups with five to ten members were 4% while those with 20 members and above were 5%. The group lending model was indicated by Wahid (1993) to be an effective model that stresses joint liability. However, the size of the group may have an effect on how the loan advanced to members will be repaid.

#### 4.6.2 Position of the Respondent in the Group

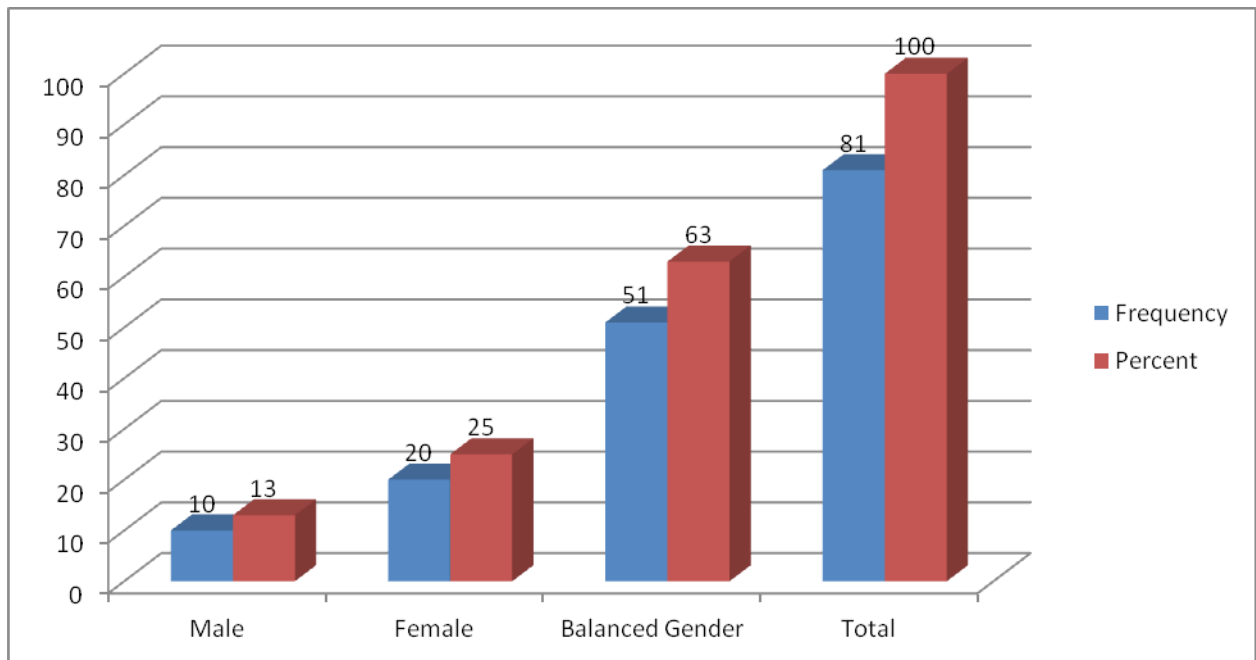
The positions that the respondents held in the group were also investigated. Results are presented in Figure 10. The results indicate that 49% of the respondents were members in the groups while only six percent were chairpersons of the groups.



**Figure 10: Position of the Respondent in the Group**

#### 4.6.3 Gender composition in the group

The study further investigated the gender composition of the groups. This was to establish whether the groups were well diversified for effectiveness. Results are presented in Figure 11.



**Figure 11: Gender composition in the group**

Results in Figure 11 reveal that 63% of the groups were gender balanced while 25% were all male and 13% being all female groups. The gender composition of the group does not necessarily influence loan repayment or the effectiveness of the group since these are determined by the qualities depicted by the group (Khandker et al., 1995). Following the Bangladesh's Grameen Bank Model, the group should be self-selected groups with members as dictated by cultural, social and economic norms.

#### **4.6.3 Extent of loan Repayment by the group**

The study sought to establish the extent that the groups had repaid their loans. Results are presented in Figure 12. The results indicate that 58% of the groups had partly repaid their loans while 19% had not yet repaid. Those that had fully paid their loans were 23%.



**Figure 12: Extent of loan Repayment by the group**

#### 4.6.4 Group factors affecting loan repayment

The study also investigated the group factors that acted as hindrances to loan repayment. A list of factors was provided and respondents were expected to indicate the extent that those factors hindered loan repayment. The rating scale was on a five likert point (1=Very High, 2=High, 3=Moderate, 4=Low, 5=Very low). Results were analysed using mean scores and standard deviations are presented in Table 9.

The results indicate that lack of trust among members was the major factor affecting loan repayment to a very great extent (mean score = 1.37). Group factors affecting loan repayment to a great extent included attitude of members and officials (mean score = 1.71) and group internal rules & regulations (mean score = 1.97).

**Table 8: Group factors affecting loan repayment**

Factors	Mean score	Standard deviation
Peer pressure	2.16	0.517
Group internal rules & regulations	1.97	0.868
Homogeneity	2.63	0.754
Group Formation	2.24	0.809
Group size	2.36	0.799
Group family composition	2.48	1.021
Attitude of members & officials	1.71	0.775

Lack of trust among members	1.37	0.664
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Other factors affecting loan repayment to a great extent included peer pressure (mean score = 2.16), group formation (mean score = 2.24), group size (mean score = 2.36) and group family composition (mean score = 2.48). This agrees with findings from a study in Tunisia by Bassem (2008) that internal rule of conduct in the group, the way the business is managed, the knowledge of the other members of the group before formation, the peer pressure within the group, the self-selection. However, the homogeneity and the marital status are among the main factors negatively impact on the repayment performance of groups.

#### 4.7 Testing of Hypotheses

The study conducted multiple regression analysis to test the four hypotheses that were in the study. The average for the ratings for loan factors, business factors and group dynamics were used as measures of the independent variables. The rating on the extent that the group had been able to repay loans was used as the indicator for loan repayment (dependent variable).

Before the regression analysis was conducted, various diagnostic tests and test for reliability were conducted. Cronbach's Alpha was used to test for reliability of the rating items. Table 10 indicate the results of the reliability tests.

**Table 9: Reliability of Items**

Variable	Cronbach Alpha
Loan Factors	0.817
Business Factors	0.892
Group Dynamics	0.761
Loan repayment	0.738

The results as indicated in Table 10 indicate that the likert rating items were reliable in relation to business factors ( $\alpha=0.892$ ), (loan factors ( $\alpha=0.817$ ), group dynamics ( $\alpha=0.761$ ) and loan repayment ( $\alpha=0.738$ ). This illustrates that all the four variables were reliable as they were above 0.7 (Golafshani, 2003).

Testing for multicollinearity was conducted using tolerance and variance inflation factor (VIF) values for the independent variables. Results are as indicated in Table 11.

**Table 10: Test for Multicollinearity**

Variable	Collinearity Statistics	
	Tolerance	VIF
Loan factors	.928	1.077
Business factors	.951	1.051
Group dynamics	.973	1.027

The results in Table 11 indicate that there was no collinearity among the variables as all VIFs were below 10.

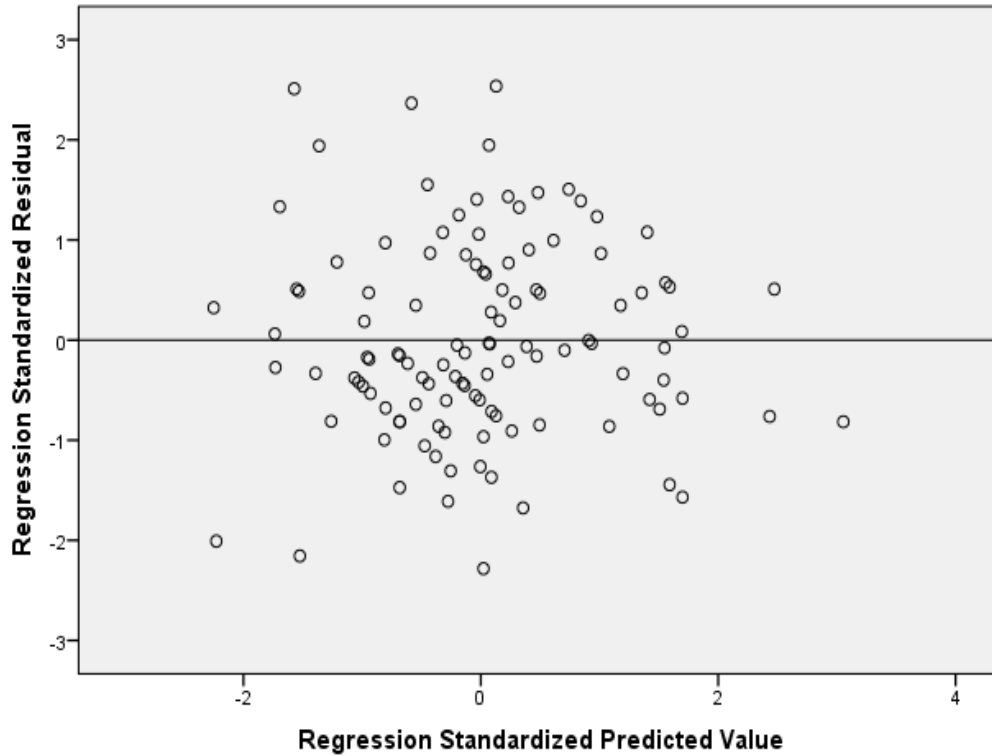
Finally, normality of the residuals was tested. The assumption that residuals are normally distributed is one of the assumptions of linear regression analysis. Meeting this assumption is important as it ensures that the p-values for the t-tests are valid. The Kolmogorov-Smirnov test was used which is ideal for sample sizes above 50. Findings presented in Table 12 indicate that all the residuals for the variables were normally distributed as they were all above 0.05.

**Table 11: Tests of Normality**

Variables	Rating scale	Kolmogorov-Smirnov		
		Statistic	df	Sig.
Loan Factors	Very great extent	.181	57	.387
	Great extent	.178	16	.174
	Moderate	.160	8	.157
Business factors	Very great extent	.115	55	.597
	Great extent	.195	15	.169
	Moderate	.100	5	.161
Group dynamics	Very great extent	.190	12	.226
	Great extent	.160	38	.319
	Moderate	.163	21	.351
	Low	.173	5	.242

The other test that was done was the test of heteroscedasticity. This was conducted by plotting the standardized residuals against the standardized predicted. Results in Figure 8

indicate that there was no trend in the plots indicating that the variances were independent and equal to zero as indicated by the Y axis reference line. The conclusion therefore was that the variances of errors were equal and hence there was homoscedasticity.



**Figure 13: Test of heteroscedasticity**

After the diagnostic tests, the multiple linear regressions was conducted with loan factors, business factors and group dynamics being the independent variables while loan repayment was the dependent variable. Results from the analysis as indicated in Tables 13 to 15. Table 13 presents the explanatory power of the model which is provided by the r squared. The results indicate that the model explained 21.4% of loan repayment. This indicates that there are other factors that explain loan repayment by youth groups in Konoin Constituency.

**Table 12: Explanatory Power of the Model**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.462	.214	.181	.653

Table 14 presents the analysis of variance which provided the fit and statistical significance of the model. The findings indicate that the model was statistically significant ( $F = 6.972$ ;  $p < 0.05$ ). These findings indicate that the three independent variables included in the study can be used as predictors of loan repayment. The linear regression model was also fit for the data.

**Table 13: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	8.327	3	2.776	6.972	.001
Residual	30.660	77	.398		
Total	38.987	80			

Table 15 presents the statistical significance of the independent variables (loan factors, business factors and group dynamics).

**Table 14: Significance of Independent Variables**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.159	.327		.485	.629
Loan factors	.214	.095	.239	2.252	.027
Business Factors	.282	.115	.262	2.444	.017
Group dynamics	.353	.133	.289	2.661	.010

Results in Table 15 indicate that the multiple linear regression equation ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$ ) results to:

$$Y = 0.159 + 0.214X_1 + 0.282X_2 + 0.353X_3$$

These findings indicate that loan factors ( $B = 0.214$ ;  $p < 0.05$ ), business factors ( $B = 0.282$ ;  $p < 0.05$ ) and group dynamics ( $B = 0.353$ ;  $p < 0.05$ ), were all significant in influencing loan repayment. The most significant factor was group dynamics ( $t = 2.661$ ) followed by business factors ( $t = 2.444$ ) and lastly loan factors ( $t = 2.252$ ).

The regression analysis enabled the testing of the study hypotheses. The first hypotheses were;

H<sub>01</sub>: There is no significant relationship between loan factors and YEDF loan repayment.

H<sub>A1</sub>: There is significant relationship between loan factors and YEDF loan repayment.

The regression results indicate that loan factors were significant in explaining loan repayment ( $B = 0.214$ ;  $p < 0.05$ ), hence H<sub>0</sub> was rejected.

The second hypotheses of the study were:

H<sub>02</sub>: There is no significant relationship between business factors and YEDF loan repayment.

H<sub>A2</sub>: There is significant relationship between business factors and YEDF loan repayment.

Regression results indicate that business factors were significant in influencing loan repayment ( $B = 0.282$ ;  $p < 0.05$ ) hence H<sub>0</sub> was rejected.

The last hypotheses of the study were;

H<sub>03</sub>: There is no significant relationship between group dynamic and YEDF loan repayment.

H<sub>A3</sub>: There is significant relationship between group dynamics and YEDF loan repayment.

Study results revealed that group dynamics were the most significant factors influencing loan repayment in the study ( $B = 0.353$ ;  $p < 0.05$ ), hence H<sub>0</sub> was rejected.

## **CHAPTER FIVE**

### **SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the key study findings, conclusion drawn from the findings and study recommendations. The conclusions and recommendations drawn were focused on addressing the objective of the study.

#### **5.2 Summary and Discussion of Findings**

##### **5.2.1 Loan Factors**

The amount of loan received by the groups as indicated in figure 4.5 shows that the amount is too little for youth to enable them to start small business. This concurs with the findings by Kimando (2012) who noted that the YEDF project in Kigumo District had not been very successful in creating jobs and encouraging entrepreneurship among the youth. Eze and Ibekwe (2007) related loan size and risk of default and established that smaller amounts of loans are insufficient thus creating cash flow problems to the borrowers, significantly affecting the project and hence increasing the risk of default.

On the time lapse between the application and receipts of the loan as presented in figure 4.6, the study found that the loan is taking too long to be process. These concur with, Acquah and Addo (2011) that the longer loan processing time may increase the risk of default since the purpose for which the loan was applied for may escalate in the processing period. This can affect the returns from the loan and hence adversely affect repayment.

The study found that the greatest challenge affecting the loan repayment as presented in table 4.3 show that training on the usage of loan and access procedures. This supports Capisarow (2000) that loan defaults generally arise from the lack of knowledge and skills among the youth on the choice of the project or business they intend to start and hence they end up starting unjustifiable projects which collapse hence failing to raise revenue for loan repayment and Acquah and Addo (2011) in Ghana that difficulty in loan processing procedures are the main causes of high loan default.

Other size affecting the loan repayment were loan supervision, loan diversion, loan size and diversion of the loan with different mean score as presented in table 4.3. These support the findings by Jemal (2003) that supervision of loan by the lender is a significant factor that influences the repayment performance while the diversion of loan and the size of the loan significantly increase the rate of loan default. Okibo (2013) also had similar findings that if the lender does not monitor the loan utilization by the borrowers then the rate

of default is higher. These also agree with previous findings that amount of loan advanced affected the loan repayment and default rate, the larger the amount the lower the default rate (Roslan & Mohd Zaini, 2009; Eze & Ibekwe, 2007; Guttman, 2007). Similarly, the findings concurred with Weinberg (2006) that interest rate and the loan size are major factors affecting repayment of the loans.

The findings also agree with Derban et al. (2005) that loan repayment period influences loan repayment to a great extent. Derban established that shorter repayment period might cause the borrowers not to generate enough revenues to make loan repayment while the longer repayment periods are detrimental to borrowers if they cannot access further loans until the existing loan is paid back. Hence, both shorter and longer repayment periods can have negative effects on loan repayment.

### **5.2.2 Business Factors**

The study found that most youth engages in simple commercial enterprises and agricultural activities, and also most youth groups have been in existence for less than three years thus lacks necessary experience. The finding supports Godquin (2004) that age of the business may negatively influence repayment as young business face higher risks of bankruptcy and failure unlike established businesses. These findings concurred with Roslan and Mohd Zaini (2009) that those youth who have little training in business engages in simple commercial enterprises and agriculture as they require little training.

The study also found that poor proceeds, business experience, location of the business, inadequate capital, nature of the business and competition as the factors that affects loan repayment. This finding supported Brehanu and Fufa (2008) that poor business revenue generated affects the ability to repay the loan in time. These findings also agreed with Godquin (2004) and Pang (2010) that age of the business and amount of business capitalization affected loan repayment. The study also agreed with Mpunga (2004) that size

of the business is a critical factor that would determine the credit worthiness of a borrower and the ability of the borrower to repay the advanced loan. The larger the business the higher the chances of accessing the loan and hence the repayment rate is higher.

### **5.2.3 Group Dynamics**

The finding reveals that most groups were between 11-20 as presented in figure 4.9. the group lending model were indicated by Wahid (1993) to be an effective model that stress joint liability. The finding concurs with Ghatak and Guinnane (1999) that when the group is too small or too big, it is not efficiently placed to enforce loan repayment. A group should hence be of optimum size which is determined by various factors.

The findings also found that lack of trust among members, group internal rules and regulations, attitude of members and officials as the most major factors that hinder group loan repayment. These findings concur with Jain and Mansuri (2003) that a group needs a robust procedure and system to monitor group members. It hence needs strict rules and regulations and also the correct attitude to ensure that members adhere to loan repayment regulations.

These results support earlier findings by Bassem (2008) that group dynamic factors such as internal rule of conduct in the group, the way the business is managed, the knowledge of the other members of the group before formation, the peer pressure within the group, the self-selection, and the education level of the group members influence loan repayment.

Other studies with similar findings included Francis and Abel (2009), Kocenda and Vojtek (2009), and Fischer and Ghatak (2010). Factors indicated in these prior studies to influence loan repayment included peer pressure, attitude, rules and regulations, norms, politics and group management.

Homogeneity of the group affected loan repayment to a moderate extent (mean score = 2.63). This finding agrees with Khandker et al. (1995) and the model applied by Grameen Bank where borrowers organize themselves into self-selected groups as dictated by social

norms. The members engage others in groups depending on how well they relate and not according to gender or other demographic, social or cultural factors. A group having similar members is not hence expected to have problems in efficiency and loan repayment. These findings were however contrasting those by Bassem (2008) that homogeneity was among the main factors negatively impacting on the repayment performance of groups.

#### **5.4 Conclusions**

The study makes the following conclusions based on the objectives of the study. First, the loan factors such as processing of loans, loan size, repayment terms and interest rates have a significant influence on loan repayment by youth groups in Konoin Constituency in Bomet County. The loan repayment history of the groups in the area was poor and was due to a variety of loan factors associated with how the loan is advanced, the recipients and how the loan is applied to the purpose for which it was applied.

Business related factors are significant in explaining loan repayment by youth groups in Konoin Constituency in Bomet County. Business related factors with the most significant effect included lack of business knowledge for the loan recipients, poor proceeds from the funded business, lack of experience for the borrowers and stiff competition among other small and micro businesses.

Group dynamics had the most significant effect on loan repayment among the factors considered in the study. Group dynamic factors that affected loan repayment significantly included trust among group members, attitude of members and officials, group internal rules and regulations and peer pressure. Similarly, factors such as group formation, group size and number of family or related members in a group were critical in influencing loan repayment.

#### **5.5 Recommendations**

The following recommendations are made. First, the YEDF board should institute procedures to ensure that the youth that are advanced loans are trained on basic financial management

and business planning to ensure that the funds are put into good use. Moreover, the government through the various agencies and arms that engage in disbursing the loans should supervise and monitor the businesses that benefit from the loans. This is expected to reduce incidences of funds diversion and improve loan repayment.

Secondly, the study recommends to the both the national and county governments to have business and youth support centres where the youth that are starting small businesses are mentored and developed. This would make the youth to have a wider view of businesses that they can engage in not just focussing on agriculture and commercial services. This would result to reduced duplicity and reduced competition among the small businesses.

The study also recommends to the youth to improve their skills and have an impetus of risk taking. This would enable them have the courage to enter into sectors that have not been conventional such as IT, tourism and manufacturing. This would provide more focus where the youth can enter and grow in businesses.

### **5.6 Recommendations for Further Research**

This study was conducted in Konoin Constituency of Bomet County and established the loan, business and group factors that influence loan repayment. Another study is recommended in other rural countries in Bomet County or even in formerly marginalized counties such as Turkana to establish the role played by the YEDF in growing young business and also assess loan repayment in those areas.

Moreover, a study would be recommended in areas that have high YEDF repayment rate for and establish the lessons that other constituencies can learn from those constituencies. It would be critical to establish how the constituencies with high YEDF repayment rates have been able to deal with the challenges established in this study.

### **5.7 Limitation of Study**

The researcher faced limitation of data collection due geographical distance of the respondent. The respondents were reluctant to fill the questionnaires promptly and others failed to complete them at all. This limited the number of respondents involved in the study.

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## **APPENDIX I: Questionnaire**

### **Section A: General Information**

Tick the appropriate box

1. Name of the group.....
2. Location of the group.....
3. How old are you? Tick your age bracket in the opinions given;  
15-20  21-25  26-30  31-35  Above 35
4. How old your group been in existence?  
Less than one (1) year  1-5 years  6-10 years  over 10 years
5. Level of Education  
Primary  Secondary  College  University
6. Gender.  
Male  Female

### **SECTION B.LOAN FACTORS**

Tick a  $\surd$  in the space provided or write your response in the space given (.....) where applicable.

7. How much does your group received from YEDF loan?  
25,000-50,000  51,000-100,000
8. Indicate the time taken by your group between the loan application date and time of receiving from youth fund.  
One week  One Month  2-3 Months  More than 3 months
9. To what extent do you rate your group on the amount of loan repaid so far?  
Very Great extent  Great extent  Moderate  Little Extent  Not at all
10. To what extent does your group faces challenges while repaying the loan?

Very Great extent  Great extent  Moderate  Little Extent  Not at all

11. What extent does your group rate the following factors as influencing your Loan repayment? Please Tick your opinion in the appropriate box in the scale of 1-5 where 1=Very Great extent, 2=Great extent, 3=Moderate, 4=Little Extent, 5=Not at all

Scale/factors	1	2	3	4	5
Loan Diversion					
Loan supervision					
Repayment period					
Training on the usage of loan					
Loan Size					
Interest rate					
Access procedures					

**SECTION C. BUSINESS FACTORS**

12. What type of business does your group engage in?

Agriculture  Commercial  Others .....

13. How long does your group operate/engages in business?

Less than 1years  1-3 years  above 3 year

14. To what extent does your group Business performance/turnover influence the repayment?

Very Great extent  Great extent  Moderate  Little Extent  Not at all

15. How do you rate the following factors as a hinderance to your Loan Repayment? Please Tick your opinion in the appropriate box in the scale of 1-5 where 1=Very High, 2=High, 3=Moderate 4=Low, 5=Very low.

<b>Scale/factors</b>	1	2	3	4	5
Nature of the business					
Age of the business					
Poor Proceed					
Competition					
Location of the business					
Size of the business					

Business experience					
Inadequate capital					

**SECTION D: GROUP DYNAMICS**

Please Tick your opinion in the appropriate box

16. How many members does your group comprise of?

- 5-10                       11-15                       16-20                       20 and above

17. What is your position in the group?

- Chairperson     Vice Chairperson     Secretary     Treasurer     Member

18. Gender Composition in your group

- Male             Female             Balanced gender

19. How far has your group repaid loan?

- Fully Repaid     Partly repaid      Not yet paid

20. How do you rate the following factors as your group faces as a challenge in repaying your loan?

Please Tick your opinion in the appropriate box in the scale of 1-5 where 1=Very High, 2=High,3=Moderate, 4=Low, 5=Very low.

Scale/factors	1	2	3	4	5
Peer pressure					
Group internal rules & regulations					
Homogeneity					
Group Formation					
Group size					
Group family composition					
Attitude of members & officials					
Lack of trust among members					

Thank you