International Journal of Economics, Commerce and Management
United Kingdom Vol. IV, Issue 4, April 2016
http://ijecm.co.uk/ ISSN 2348 0386

DETERMINANTS OF REPAYMENT OF YOUTH ENTERPRISE DEVELOPMENT FUND LOANS IN OL KALOU CONSTITUENCY, KENYA

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Abstract

The Youth Enterprise Development Fund (YEDF) was established in year 2006 with the sole purpose of reducing unemployment among the youth.. In Ol Kalou Constituency, it is estimated that 27% of youths are unemployed and only 9% are in wage employment the remainder work in the informal sector. This study was a descriptive research whose target population was 75 group leaders and three DDOs, and three DYOs in the Constituency. A sample of 63 respondents was drawn using simple random sampling. Data was collected through self administered questionnaires and analyzed by descriptive analysis using SPSS 22. The study found that the disbursed loan amount is sufficient to improve the youth welfare, the grace period given is sufficient, loan repayment duration has been sufficient. They also agreed that the loan amount lend leads to slow repayment of loan and that the avenues of payment are efficient. The amount of loans disbursed is adequate. A significant proportion of the groups had not received training prior to being given loan. The study concludes that government's introduction of an entrepreneurship development fund with a view of encouraging the youth to venture into self-employment, is very generous move. Training should be given to groups before any government funding. Adequate resources in terms of additional personnel and funds should be provided to enable smooth monitoring of all funded youth groups.

Keywords: Loan Repayment, Youth Enterprise Development Fund, Terms of Repayment, Loan Characteristics, Financial Literacy Training, Group Characteristics

INTRODUCTION

Youth Enterprise development fund is a global initiative that has been undertaken in various parts of the world. Youth who constitute a large segment of the society, is the future of any economy and key drivers of employment growth and economic activities through ownership of SMEs (UNDP 2009). The Royal Bank of Scotland Group support Prince Trust Enterprise programme by providing young people with access to funding, mentoring and networking assistance to enable them to startup businesses and explore their entrepreneurial ideas (Hulme & Mosley 1996). However the challenge has been failure to meet the demand due to lack of loanable funds. To solve this problem, New Enterprise allowance was initiated in 2011 to help people become self-employed. This scheme is an improved version of Enterprise Allowance Scheme started in 1981 in Great Britain which had greatly impact on unemployment.

In Canada, Canadian Youth Business Foundation was started in 1996 to run specialized Youth Business Loan Programmes designed to help young women and men who are unemployed and underemployed. The youth are required to be committed and sign an agreement to mandatory mentorship programme, get appropriate training and write a valid business plan without providing any collateral to access the loan (Karlan & Morduch, 2009). Littlepage & Silbiger (1992) however noted that lack of management skills among small Canadian youth firms are among the factors contributing to their failure of enterprises. Therefore this affects the repayment of loans by the youth.

In Africa, during the eighties saw an intensification of interest in improving youth access to funds and a consequent expansion of policy into the youth oriented programmes mainly the micro-enterprises, following the discovery of widespread entrepreneurial activity among the youths in both developed and developing countries (Sebstad & Monique, 2001). In Sub-Saharan Africa, access to funds by the youth is not guaranteed and therefore there have been reports of most youth-based small businesses failing in their first year due to lack of finance to sustain their development (Kashuliza, 1993).

The South African government alleviates poverty and unemployment through new enterprise programme, Umsobomvu Youth Fund. Though the fund enjoys nationwide presence as a result of good Partnership strategy, monitoring and evaluation of its activities has been a challenge (Million, Nyikal & Wania, 2012). In Uganda according to Million, *et. al.,* (2012), micro credit institutions place more emphasis on the number of loans made and less on the actual change effects experienced by the borrowing enterprises. Kashuliza (1993), also noted in Tanzania that among the constraints faced by credit schemes include management, client's perception on credit policy and design and low repayment of loans. This therefore show that one of the constraints facing and affecting implementation of government credit schemes are issues related with management of the fund, limited capacity building, and lack of entrepreneurship skills among the youth to ensure success of the fund and management of youth groups to ensure that they repay the loan consistently in order to sustain the youth funds.

In Kenya YEDF was established in year 2006 with the sole purpose of reducing unemployment among the youth who account for over 61% of the unemployed in the country. The target of the fund is the youth within the age bracket of 18 to 35 years who are approximately population of 13 million (Kenya Census Report, 2009, KNBS). The YEDF disburses loans directly through various loan products (both individual and group loan models) and through regulated partnerships with financial intermediaries (Banks and Micro Finance institutions) who then lend to the youth. The intervention also provides sector specific financing, direct funding, franchise financing, credit guarantee scheme, accesses markets on behalf of the youth, builds partnerships with communities, and opens regional offices for better access. While lending is the core mandate of YEDF, there are other mandates such as training on entrepreneurship and facilitating youth to access markets as well as provision of commercial infrastructure for youth to trade from (YEDF, 2012).

The Fund provides loans to youth enterprises through two channels; first through Constituency committees where community committees at Constituency level are formed, which assess applications forwarded by youth groups. To borrow as an individual at this level one has to be a member of a group that has repaid its loan. Secondly, through Financial Intermediaries the Fund has partnered with 36 financial intermediaries which include, Non-Governmental Organizations (NGOs), Savings and Credit Cooperatives (SACCOs), and Micro Finance Institutions (MFIs), from which the Youth access funds to start or expand viable businesses (YEDF, 2006 Service Charter). Inadequate disbursement and repayment infrastructures in some parts of the country particularly remote areas pose a major challenge to disbursement and loan repayment. Lack of financial intermediaries and loan repayment avenues in some areas disadvantages the youth in those areas (YEDF, 2010).

Loan repayment is a necessary ingredient for sustaining the youth revolving fund. A number of studies have found that determinants of loan repayments are varied, therefore there is need to focus more on this area of study to enhance the effectiveness in the provision of credit and other financial services to the youths by the government, (Abraham, 2002). The study focused mainly on those factors that influence the repayment of youth fund loans by youth groups who have benefitted from the youth fund initiative and therefore determine whether they significantly affect the repayment rates by various youth group beneficiaries in Ol Kalou constituency, Nyandarua County. The findings of the study will help in developing appropriate policy framework to promote a viable and sustainable system of youth enterprise funds.

STATEMENT OF THE PROBLEM

Kenya aspires to become a globally competitive and prosperous nation by 2030 therefore Youth Enterprise Development Fund was established in December, 2006 in order to create economic engagements for the youth most of whom are unemployed. The fund focuses on enterprise development as a key strategy that will increase economic opportunities for and participation by Kenyan youth in nation building. The failure of youth enterprise to generate enough employment opportunities for the youth despite its existence for the last eight years and its huge default rates raise questions on effectiveness on management of the fund. Despite the fact that YEDF could be a preferred source of funding among the youths in Ol kalou constituency, projects funded by the youth fund has not been managed properly and hence low repayment rates. On average the national repayment rate stands at 32.2% while Ol Kalou constituency repayment rate stands at 44.17 % hence default rate of 56.83% compared to other constituencies such as Tharaka Nithi and Keiyo South constituencies which had the highest repayment rate of over 80% (YEDF 2013). This study therefore sought to investigate the factors that influence repayment of Youth Enterprise Development Fund loans by youth groups in Ol Kalou constituency and provide appropriate suggestions to improve the repayment rate.

OBJECTIVES OF THE STUDY

The purpose of the study was to assess the determinants of repayment of youth enterprise development fund loans in Ol Kalou Constituency, Kenya. The specific objectives were:

i. To determine the influence of terms of repayment on repayment of youth enterprise development fund loans by the youth groups in Ol kalou constituency.
ii. To establish the influence of loan characteristics on repayment of youth enterprise development fund loans by the youth groups in Ol kalou constituency.
iii. To determine the influence of financial literacy training on repayment of youth enterprise development fund loans by the youth groups in Ol kalou constituency.
iv. To establish the influence of the group characteristics on repayment of youth enterprise development fund loans by the youth groups in Ol kalou constituency.

REVIEW OF LITERATURE

Theoretical Review

This study was based on the four theories which illustrated how the formation of a group led to both positive and negative effects of repayment compared to individual loans. They include The Grameen Bank Theory by Mohamed Yunus, Financial Literacy Theory, Theory of Frequent Repayments and Repayment Game Theory.

The Grameen Bank Theory by Mohamed Yunus

The aspect of group lending was introduced in the 1980s by the Grameen Bank in Bangladesh (World Bank, 2009). Joint lending, also known as group liability refers to the terms of the actual credit contract, whereby individuals are both borrowers and simultaneously guarantors of other clients' loans in the same credit group (Armendariz & Morduch, 2005). Proponents of group lending argue that the model improves on repayment rates by providing incentives for peers to screen, monitor and enforce each other's loans (Hermes, et al 2005). The contract is aimed at reducing monitoring and enforcement costs and thus allowing lower interest rates among borrowers. These lower rates should reduce the repayment burden and result in less credit rationing (Hermes, et al 2005). Improvement payments foster group ability to borrow with the ultimate goal of improving groups' liquidity and consequently enhancing the MSEs' growth (Wheelan, 2009). The reduced borrowing interest rates improve on the profits of the MSEs and ultimately aid in the financial growth of the same.

The joint liability has been argued to be better than conventional banks because members of a close knit community may have more information about one another (Hermes et al, 2005). The group members have been noted to impose powerful non-financial sanctions at low cost (Reavley & Lituchy, 2008). The emergence of joint liability lending models has achieved the perceptible miracle of enabling previously un-bankable or marginalized borrowers as the youth lift themselves up by their bootstraps and create 'social collateral' to replace the missing physical collateral that excluded them from access to more traditional forms of financial services (Hermes et al, 2005). Thus, the emergence of innovative joint liability models in financial intermediation has created new hopes for the poor and marginalized MSEs, which are otherwise un-bankable in the perception of formal financial institutions (Laffont & Rey, 2000).

On the part of entrepreneurs, group lending approach enhance access to new ideas, information and resources for business performance (Tata & Prasad, 2008) through social interactions and linkages both within and outside the group. This is a vital source of social capital has been known to positively affect MSEs' development (Wilson *et. al*., 2007; Reavley & Lituchy, 2008). Ghatak (2000) noted that the borrowers' use of information about each other's projects can lead to self-selection of group members which is observed to enhance choice of group projects based on member's agreement.

Opponents to the group lending approach however argue that joint liability may lead to tension amongst the group members and final dropouts and worse cause harm to social capital among members. This has been noted to have adverse effects to SMEs development (World Bank, 2009). Similarly, heterogeneity in loan sizes can result in tension within the group as clients with smaller loans are reluctant to serve as a guarantor for those with larger loans

(Laffont & Rey, 2000). It has been argued that, as groups mature, members typically diverge in their demand for credit and may thus be disillusioned by the group lending structure which observes a graduated growth (Hermes, *et. al*., 2005). Such challenges have greatly contributed to the decimal performance by the YEDF (World Bank, 2010).

The YEDF encourages group members to know each other well before coming together to form group's failure to which the good and more responsible members of the group will eventually shoulder the responsibilities and obligations of the less responsible members (YEDF, 2010). This requirement has been a tall order for many youth groups intending to benefit from the YEDF given the varied nature of individual differences and competing interests. This approach is heavily relied on by the YEDF. All loans given by the YEDF are anchored on joint liability model by the members of the beneficiary groups (YEDF, 2012).

Financial Literacy Theory

The theory argues that the behaviour of people with a high level of financial literacy might depend on the prevalence of the two thinking styles according to dual-process theories: intuition and cognition. Dual-process theories (Evans, 2008) embrace the idea that decisions can be driven by both intuitive and cognitive process. Intuition is the ability to acquire knowledge without inference or the use of reason. Intuition provides views, understandings, judgments, or beliefs that we cannot in every case empirically verify or rationally justify. Cognition on the other hand is the process by which the sensory input is transformed, reduced, elaborated, stored, recovered, and used (Baron, 2004).

Financial literacy remains an interesting issue in both developed and developing economies, and has elicited much interest in the recent past with the rapid change in the finance landscape. Brehanu and Fufa, (2008) define financial literacy as the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and take other effective actions to improve their financial status.

Financial literacy helps in empowering and educating investors so that they are knowledgeable about finance in a way that is relevant to their business and enables them to use this knowledge to evaluate products and make informed decisions (Wilson *et. al*., 2007). It is widely expected that greater financial knowledge would help overcome recent difficulties in advanced credit markets. Financial literacy prepares investors for tough financial times, through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance (Baron, 2004)

Financial literacy facilitates the decision making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. It also provides greater control of one's financial future, more effective use of financial products and services, and reduced vulnerability to overzealous retailers or fraudulent schemes (Karlan & Morduch, 2009). Individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions (Armendariz & Morduch, 2005). Proper application of that knowledge helps investors to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility (Miller *et. al*, 2009).

In Kenya, it would be advisable that every bank opens a Financial Literacy and Credit Counseling Centre (FLCCCs) in where it has the lead responsibility. Financial counseling through face-to-face interaction with interested individuals would be offered at these centres. Financial education imparted includes importance of responsible borrowing, financial planning and information about various financial products and services (World Bank, 2008). Financial knowledge is important to the youth groups in order to enable them to efficiently manage their businesses, thus enhancing their revenues. This will improve their loan repayment in the long run.

Theory of Frequent Repayments

Microfinance organizations often use high frequency repayments. The theory was advance by Prof. Mohammed Yunus in 1990s during formation of Gremeek Bank. Borrowers are typically required to repay their loans in regular installments, beginning soon after the loan is given out. This aspect of the repayment schedule is usually explained as inducing ‘fiscal discipline’ among borrowers. Jain and Mansuri (2003) argued that an alternative rationale for this loan repayment structure lies in the difficulty of monitoring borrowers’ actions. The potential for moral hazard leads MFIs to use innovative mechanisms, such as regularly scheduled repayments, which indirectly co-opt the better-informed informal lenders (Yunus, 2003).

Conversely, this installment repayment structure allows informal lenders to survive. Further, they show that this linkage can not only expand the volume of informal lending, but may also raise the interest rate in the informal sector. Ghatak (2000) proposed an alternative theory based on present-biased, quasi-hyperbolic preferences in order to capture the belief of many microfinance practitioners that clients benefit from the fiscal discipline required by a frequent repayment schedule. Their work is motivated by a pervasive sense among practitioners that frequent repayment is critical to achieving high repayment rates.

This belief is captured well in the following observation by Muhammad Yunus: “It is hard to take a huge wad of bills out of one’s pocket and pay the lender. There is enormous temptation from one’s family to use that money to meet immediate consumption needs. Borrowers find this incremental process easier than having to accumulate money to pay a lump sum because their lives are always under strain, always difficult” (Yunus, 2003). Intuitively, when borrowers are present-biased, the immediate gain to defaulting on any large repayment is subject to significant temptation. When these payments are spread out, the instantaneous repayment burden at any time is smaller and thus less subject to temptation. Frequent repayment also means that at the time of the first payment, the rewards (typically access to future credit) are further away from the repayment decision and thus more heavily discounted.

On the other hand, so, too, is some of the repayment burden. On balance, frequent repayment relaxes the incentive compatibility constraint for present biased borrowers. But these benefits do not come without costs (Yunus, 2003). Frequent repayment imposes an opportunity cost of meeting attendance on borrowers and direct costs on the lender. It might also distort the investment incentives of borrowers toward projects that generate consistent, if meagre, returns. The optimal frequency balances these costs against the positive incentive effects. Basu (2008), for example, looks directly at the effect of time-inconsistent preferences on the demand for commitment savings products and their welfare implications. The objective of the youth fund was to provide loans for on-lending to youth enterprises and facilitate investment in micro, small and medium enterprises, oriented commercial infrastructure that will be beneficial to youth. The theory of frequent repayments is important to the study as it advocates for the ways that loan defaulting by group members can minimized through frequent repayments rather than lump sum repayment.

Repayment Game Theory

Repayment Game theory for group lending illustrates how the formation of a group led to both positive and negative effects of repayment compared to individual loans. Of all the theoretical models, this formulation most captures the opposing forces of group loan repayment and demonstrates the potential instability of group lending (Mead & Liedholm, 1998). In its simplest version, the repayment game includes two homogeneous borrowers who attain a return on their project, depending on a random probability distribution. The individuals each borrow one unit of capital and must pay back the unit plus interest at the end of the period.

The individuals can encourage each other to repay by inflicting social sanctions against one another in the case of arrears. Finally, the bank can charge penalties for arrears by confiscating property or by harassing recalcitrant borrowers. This gives an illustration of the possible outcomes and payoffs of playing the repayment game (Mead & Liedholm, 1998). 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 repayment. Secondly, the domino effect can occur when an individual who independently would repay the loan decides to default based on the default of the other member (Laffont & Rey, 2000). The theory is important to the study because YEDF employs the concept of Joint Liability which is one of the main factors that help the group to repay. It is one of guarantees that allow members to acquire basis incitements of the social guarantee and to benefit from it in order to manage the risk of non-repayment.

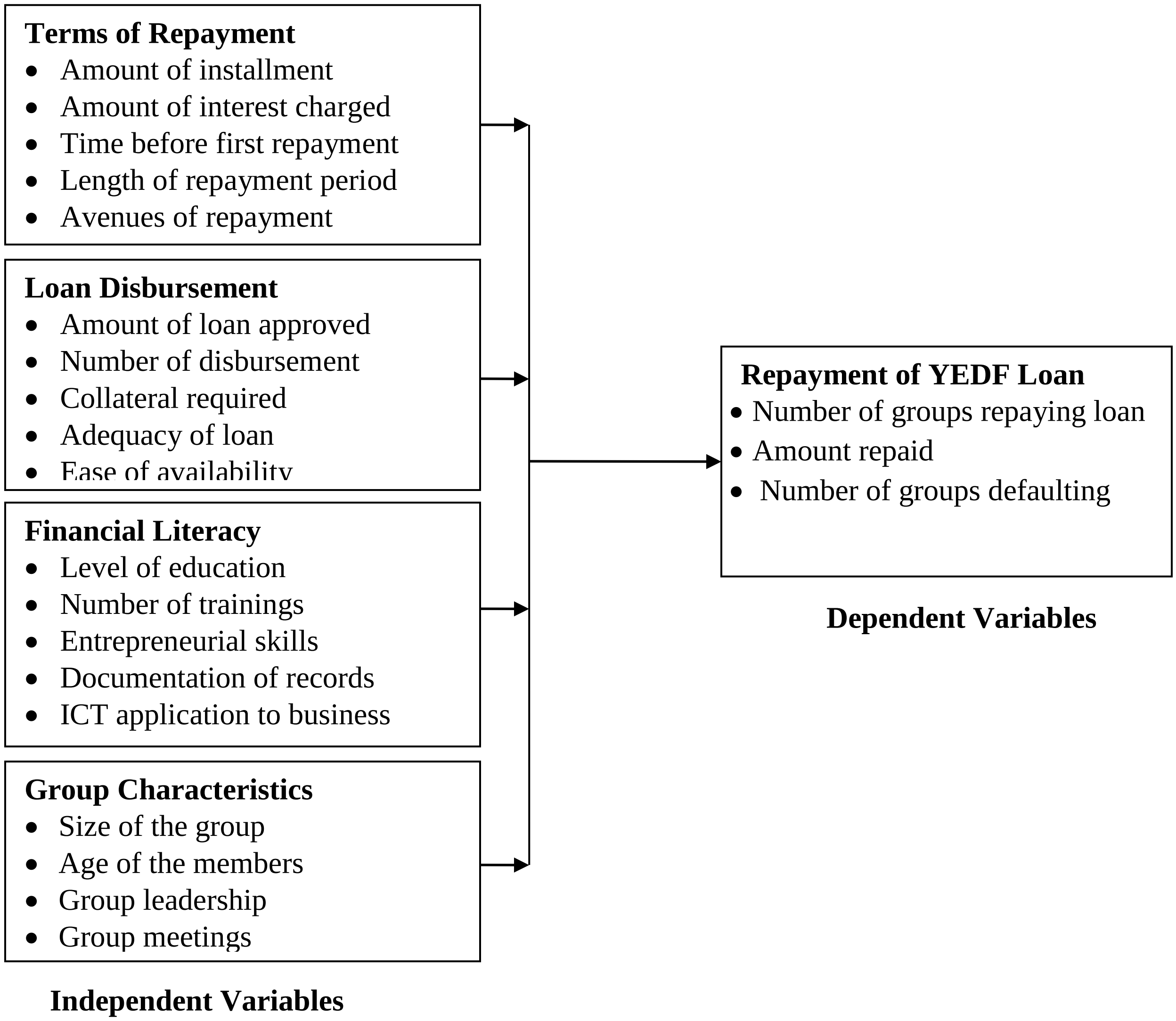
Conceptual Framework

Group lending mechanism employs various parameters. Such features include: use of informal groups lending approach, joint/group liability, character based credit appraisal, group monitoring, step/progressive lending, structured weekly repayments and compulsory savings policy. All these features are aimed at creating an enabling environment for both the institutions and the enterprise to lend and borrow finances respectively. The MFIs employ this mechanism with an aim of enhancing enterprise growth and development.

According to this study the independent factors influencing the repayment of youth enterprise development fund loans by the youth groups in Ol Kalou constituency, Nyandarua County include: terms of repayment, amount of loan disbursed, financial literacy training and group characteristics.

The factors were studied in order to identify their significance in the achievement of successful repayment of the Youth Enterprise Development Fund. In this study the conceptual framework to be used is presented in figure 1.

Figure 1. Conceptual Framework



Empirical Review

Terms of Repayment Influence on the Loan Repayment

The government of Kenya awareness of the need for credit by youth enterprises has facilitated several credit programs to assist youth enterprises in accessing credit, (YEDF, 2010). Yet the terms of payment stipulated by the microfinance institution has also been found to be a crucial factor that affects the acquisition of credits by the small scale business enterprises. These programmes change the commercial rate of interest to cover costs and to ensure suitability. The high cost of credit in terms of high interest rates, loan processing fees, transaction costs, legal fees and insurance charges combined make loans expensive for less established young entrepreneurs.

Cost of finance has been rallied as one of the constraints to MSE growth. Various empirical studies done all over the world attests to this. Million *et. al.,* (2012) in a study on access to credit and growth of MSEs in Ho Municipality of Ghana concluded that one barrier to MSEs growth is high borrowing cost and rigidities in interest rates. Brehanu & Fufa, (2008) in a study found that the cost of finance was rated by over 35% of MSEs as a major growth constraint in a sample of 71, most developing countries. An increase in interest rates means that companies often have to devote more resources paying interests on their existing debts, which lowers the amount available for investment.

Lending rate has a significant effect on economic growth. This is according to the study done in Nigeria by Onyeagocha & Chidebelu (2012). The study recommended that investment friendly interest rate policies necessary for promoting economic growth needs to be formulated and properly implemented. Roslan & Mohd (2009) in a study tested the hypothesis that the real interest rate has negative impact on Jordanian economy. The results were found to support the hypothesis. Natukunda (2010), in a group survey of MSEs in a Pacific Island country found that their growth is constrained by banks' interest rates, fees and charges and collateral requirements. Kashuliza (1993), in s survey in Tanzania also came to the conclusion that higher interest rates in public microfinance are affecting the growth of MSEs.

A study of two Grameen replications in the Philippines found that most clients found it difficult to repay their loans (Amendariz, 2005). In a survey of clients in repayment arrears and clients who had exited the program (Faulu, a local Lender) found that 74% of their clients had diverted their last loan and therefore failed to repay. If credit meant for business development is diverted to consumption needs, the borrowers still have to repay the loans. Consequently the business does not expand and it cannot therefore service subsequently higher loans. Loan repayments may require the borrower to forego the gratification of basic needs or to default. It is important however to find out why loans are diverted leading to non-payment.

Stiglitz (1990) suggested that two main strategies to improve the ability of the loan repayment program. The first strategy was to design a staggered loan repayment programme. Secondly, hidden subsidy should be reduced with charging a positively interest rates but it could be together with reasonable repayment. Thirdly, a strong strategy should be designed in order to face with the repayment problem and the inefficient credit collection company should be terminated if they cannot do their job effectively.

Loan Characteristics Influence on Loan Repayment

In a study titled 'Sustainable Youth Employment Programmes in Kenya: The Case of YEDF' Gudda & Ngoze (2009) sought to establish the impact of YEDF and evaluate the current status of its outcome three years since inception. The study found that YEDF board has made tremendous progress in implementation of its mandate. The research indicated that various interventions have been established by YEDF such as disbursement of funds through C-Yes, Youth Enterprise Scheme, through intermediaries, entrepreneurship training or Business Development Services, youth employment scheme abroad, markets and market linkages support and commercial infrastructure. The study however recommends that there is need for better mechanisms for monitoring these interventions by implementers and other parties in order to have a wide impact on enterprise creation and sustainable employment for the youth throughout the country.

Natukunda (2010) described micro finance credit lending terms and repayment performance and stated the loan sizes in most cases affect the nature of business and type of investment for the borrowers. The small loan size is often advanced by the micro finance institutions as a way of minimizing risks. However, when the clients are not given adequate funds to cater for their business needs, they tend to resort to multiple borrowing. This in turn affects their repayment and increases the risks of the loan. This is in line with the findings by George (2008) who indicated that sometimes the loans issued by MFIs are too small to make an impact on women's businesses. This also concurs with Woolcock (2008), who argued that a long loan period may make the client to be extravagant and end up failing to pay back the loan. Clients taking small loans should not be given very long repayment period. From the research findings since the majority of the clients were dealing in small businesses and taking small loans, they need a short loan period for regular recapitalization.

Onyeagocha and Chidebelu (2012) carried a study on determinant of loan repayment performance in Southeast State of Nigeria. They hypothesized that loan size to have a negative relationship with repayment rate. In other words, the higher the loan size given by the institution, the lower was the repayment rate of the clients. Their regression result strongly disagreed with this hypothesis. It stipulated that the higher the size of the loan to clients, the higher the repayment rate. This situation appears to be most unlikely because the amount to be repaid was relatively larger and if the loan was from development oriented institution with subsidized interest rate and little chance of repeat loans, the pressure or inclination of such clients would be to delay repayment.

Efficient loan sizes fit borrowers' repayment capacity and stimulate enterprise (Von Pischke, 1991). If the amount of loan released is enough for the purposes intended, it will have a positive impact on the borrower's capacity to repay. On the other hand, in case of over and under finance, the expected sign is negative. If the amount of loan exceeds what the borrower needs and can handle, it will be more of a burden than help and extra funds may go toward personal use (Norell, 2001), thereby undermining repayment performance. In his study Abafita (2003) found that loan size is negatively related to loan repayment to him if the loan is too small it may encourage borrowers to divert the loan to other purposes which my lead to loan default. Loan size variable is also incorporated in the current study to determine the effect it has on group loan repayment performance.

A study made by Roslan and Mohd (2009) on the determinants of microcredit repayment in Malaysia the case of Agro bank by taking a sample of 630 and employing probit and logit models indicated that the factors that influence loan repayment are gender of the borrower, type of business activity, amount of loan and training. According to their result the probability of loan default is higher for males, if the borrower is engaged in the production activity, if the amount of loan is higher and if the borrower did not take any training.

Financial literacy and influence on Loan Repayment

Entrepreneurship training and provisions of appropriate Business Development Services are key to the Fund's achievement of its mandate. Besides ensuring that the youth have adequate skills, it also assists them in identifying and tapping into business opportunities, while embracing modern business techniques (YEDF, 2012). Kanyari & Namusonge (2013) in a study in Gatundu South District, Kenya, aimed to determine the various interventions that influence youth entrepreneurs towards YEDF and their role towards attracting the youth toward YEDF. The study concluded that provision of entrepreneurship training to sensitize and inculcate the youth is crucial in identifying emerging business talents. The study also concluded that provision of continuous and relevant Business Development Services to youth entrepreneurs is key to the success of enterprise development initiatives in creating long term employment. They recommended that the Fund should invest in more public sensitization and education on its operations and progress since its inception.

The number of years of formal schooling is an indicator of human capital, which affects positively efficiency (George, 2008). In addition to this, educated youths are expected to adopt new production technologies that increase returns from the enterprises (Njoku, 1997). For these reasons, education would be an indicator of creditworthiness, and would increase repayment capacity of the borrowers. In addition, young entrepreneurs, especially those in poor countries, are concentrated in low value local markets. Such youth also lack access to information on product and input markets. Thus, promoting the viability of such enterprises will require facilitating the access of youth to information on product and input markets and linking them to global value chains (George, 2008).

A study conducted by Million, et al (2012) on the factors affecting loan repayment performance. They found that education is an important determinant of loan repayment. An educated client is able to use modern technologies, perform farming activities based on cropping calendar, and manage resources properly. All these factors boost production, which improves loan repayment. According to a study conducted by Karlan (2009), on impact of Business training on Microfinance Clients and Institutions, using a randomized control trial, they measured the marginal impact of adding business training to a Peruvian group lending program for female micro entrepreneurs. Treatment groups received thirty to sixty minute entrepreneurship training sessions during their normal weekly or monthly banking meeting over a period of one to two years. Control groups remained as they were before, meeting at the same frequency but solely for making loan and savings payments. They found that the treatment group led to improved business knowledge, practices and revenues. The program also improved repayment and client retention rates for the microfinance institution.

The provision of non-financial services such as training, basic literacy and health services has a positive impact on repayment performance (Godquin, 2004). Roslan & Mohd Zaini (2009) found that borrowers that did not have any training in relation to their business have a higher probability to default. Education is one of the factors that impact positively on growth of businesses where these entrepreneurship courses are thought in colleges and universities and also in tertiary colleges. According to (Kashuliza, 1993), he used a linear regression model to analyze determinants of loan repayment in smallholder agriculture in the southern highlands of Tanzania. His study showed that education, attitude towards repayment, farm income and off-farm income positively affect loan repayment with farm income being significant, while age, household expenditure and household size have negative influence on loan repayment performance with household expenditure being significant.

Sogwe, Gicharu & Mahea (2011), in a study titled 'A study on youth and women entrepreneurs preparedness in Kenya: a case of YEDF and Kenya Women Enterprise Fund' found that majority of the entrepreneurs indicated that they need both advice and money. 61% of women entrepreneurs and 48 % of the youth surveyed had less than 50 % likelihood of business success. This explains why one in every three new businesses fails within the first six months. On market and technology; respondents were assessed on technology orientation, market status, market prospects and customer orientation. Majority (98 %) scored 0 – 25 % on market and technology, an indication that entrepreneurs are not well prepared in market and technology and yet they operate in a business environment that is technologically advanced. The study concluded that entrepreneurial preparedness is low among the entrepreneurs who benefitted from both youth and women Fund. They recommended that it is crucial for enterprise funders need to assess the entrepreneurs on business readiness gaps.

YEDF has been organizing training of youth on entrepreneurship, national trade fairs and supporting the youth to attend international Trade Fairs as well as lobbying for the youth to get 30% procurement jobs for youth enterprise entities. Entrepreneurial training is defined as a continuous process leading to the development of knowledge required for starting and managing a firm (Wilson et al 2007). By the year 2011 approximately 150000 youth have been trained on entrepreneurship and over 300 youth trained on public procurement process while 100 youth have participated in trade fairs (YEDF, 2012). Ministries such as Foreign Affairs, Immigration and Labour, YEDF has facilitated 2000 youths to secure jobs abroad YEDF (MOYAs Report, 2013). However, the youths benefiting from these schemes are from urban areas leaving the youth from rural areas not sensitized on the available opportunities.

Group Characteristics and Loan Repayment

A group is made up of a number of people or things gathered, placed or working together or naturally associated (YEDF, 2011). Group's model basic philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by collective responsibility and security afforded by the formation of a group of such individuals. The collective coming together of individual members is used for a number of purposes e.g. educating, awareness building and bargaining power (Olson, 1965).

A vast body of literature supports the view that borrower characteristics are highly influential determinants of repayment. There is also strong evidence that institutional characteristics are equally important and that both factors need to be taken into account if loan default is to be minimized (Wheelan, 2009). Group leadership therefore plays a key role in loan repayment among the c-yes funded youth groups. Youth groups which experience Persistent wrangles will not invest their loans properly therefore delay in repayment/ non-repayment.

The study in Siaya County, Kenya, focusing on the activities of the Ministry of Culture and Social Services in registration of youth groups, YEDF officers and Financial Institutions (FIs) in the management and disbursement of the Fund to the youth entrepreneurs was done by Oduol, et al. (2013). The study found out that the youth need to be sensitized on youth group formation and registration in order to benefit from the Fund. The number of successful applicants remained at 50 % which indicated that accessing YEDF loan was still a challenge to young people. The study recommended that, to improve on the viability of the youth enterprises, there is need for the government to market the youth products, engage youth in entrepreneurship training before and after accessing the loan.

Group size is a fundamental attribute of groups that influences various group processes. (Hare, 1981) argues that group size is inversely related to group members' feelings of identity and commitment to group values, and positively related to the aggregation of skills and resources in groups. When group size is small, for example, groups tend to be more effective at facilitating collective action because of the visibility of other group members' actions (Million *et. al.,* 2012). To explicate the advantage of a smaller group size, researchers show that small groups have more coherent perceptions of tasks and social cohesion are more likely to share high-quality knowledge because of a heightened sense of accountability among members (Voelpel, Eckhoff & Forster, 2008), and have higher cooperation rates for tasks that require simultaneous coordination. Also, in small groups higher proportion of people are likely to participate- there is potentially more time for each, and the smaller number of people involved means that speaking may not be as anxiety- making as in large groups (Baron, 2004).

On the other hand, group size can be positively related to the aggregation of important resource such as expertise and skills. Larger groups, for instance, tend to be better at accumulating expertise to execute tasks more effectively (Littlepage & Silbiger, 1992). The benefits of a larger group likely depend on the objective of the team and its operational environment (Kozlowski and Klein, 2000). Therefore, for groups whose functioning relies on the possession of resources such as time, energy, money and expertise; a greater team size is more beneficial. Regardless of groups' objective and external environment, these studies generally imply that group size has an indirect effect on group outcomes as it influences group processes in different ways.

Groups with 3-8 members were significantly productive and developmentally advanced than groups with 7-10 members (Wheelan, 2009). The groups with members between 3 and 4 were, however, significantly more productive and more developmentally advanced on a number of measures than groups with 5-6 members. The study concluded that the work group size is a crucial factor in increasing or decreasing both group development and productivity. The optimal group size will vary with respect to socioeconomic and agro ecological conditions of the participating communities and with program characteristics.

RESEARCH METHODOLOGY

Research Design

Data was collected from respondents using descriptive survey which Saunders *et. al.,* (2003) defines as one which looks at intense accuracy at the phenomena of the moment and describes precisely what the researcher sees. According to Mugenda and Mugenda (2003), survey research design could be descriptive, exploratory or involving advanced statistical analysis.

Schindler and Coopers, (2003) says that descriptive studies are structured with clearly stated investigative questions. It is the collection of information from a group through interviews or the application of questions to a represent sample of that group. Descriptive research design was used because the study aimed at identifying the factors which affect the repayment of the Youth Enterprise Development Fund loan in Ol Kalou constituency and it describes the state of affairs of the problem under investigation and the relationship between the variables.

Population of the Study

The study targeted all the 75 youth groups registered by the Department of Gender, culture and social services in Nyandarua central Sub County and funded through the Youth Enterprise Development Fund in Ol kalou constituency. From these youth groups, the researcher targeted 75 group leaders and three District Development Officers, and three District Youth Officers in Ol Kalou Constituency.

Sample Size and Sampling Techniques

The study used probability sampling design which is based on the concept of random selection. It gives each possible sample combination an equal probability of being picked up and each item in the entire population to have an equal chance of being included in the sample (Kothari, 2004). The study employed simple random sampling. The target population was grouped into three different categories that is youth group leaders, DDOs and DYOs. Simple random sampling was suitable on the first category of the population. The aim of simple random sampling is to achieve an even representation of the population (Mugenda and Mugenda, 2003). Simple random sampling ensured proper representation of different youth groups to enhance representation of variables related to them. The second and the third category of the population the researcher used the whole population without sampling. Using Krejcie and Morgan sample size determination table, the researcher used a sample size of 63 respondents at 95% confidence level.

Data Collection

The primary data for this study were collected through questionnaires. It was structured to accommodate both open-ended and closed-ended questions. The structured questionnaire were selected because it is simple to administer and relatively less expensive to analyze (Kothari, 2004). The researcher used this method because questionnaires are free from the bias of the interviewer, respondents had an adequate time to give well thought out answers, respondents who could not be easily approachable could be reached conveniently, and large samples made use of and thus the results will be made more dependable and reliable. The researcher delivered the questionnaires to the respondents and picked them later after the respondent had responded.

The respondents' contacts were obtained from the records at the Department of Youth Affairs Ol Kalou constituency where follow ups were done using phone calls to try and increase the rate of response. Prior to the actual study, the researcher carried out a pilot study to test for reliability and validity of the research instrument. Pre-testing was done to identify and change ambiguous questions as well as research techniques. Cronbach's Alpha test was used to increase accuracy as the inter-correlations among test items, and for internal consistency estimate in collecting data. The study established an alpha value of 0.7 which is the recommended Cronbach Alpha coefficient of 0.7 or 70% and above used to test the reliability of the questionnaire. The content validity was used for ensuring validity in this study.

Data Analysis and Presentation

The data collected was analyzed by use of both quantitative and the qualitative analysis process. The primary data collected was sorted, edited, coded and analyzed. This data quality check was done in order to eliminate errors or point of contradiction in data. The purpose of coding was to classify the answer to a question into meaningful categories so as to bring out their essential pattern. The researcher tabulated the quantitative data for each research question. This was done using SPSS version 22.0. This is because SPSS helps to spot data-entry errors or unusual data points and has a full set of statistical tests.

The researcher also analyzed the data to get statistical measures such as correlations among different variables, mean and standard deviations for easy interpretations of the study. Relationships and predictions among variables were best determined using multiple regression technique. Multiple regressions was suitable for the study because it attempts to determine whether a group of variables together predict a given dependent variable (Mugenda and Mugenda, 1999). These analyses helped the researcher make valid inferences about the topic under study.

Regression model:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$$

Where:

Y = loan repayment status, α = a constant, X1 = terms of repayment, X2 = loan characteristics, X3 = financial literacy and training, X4 = group characteristics, e = the error term and β1, β2, β3, B4 are coefficients.

FINDINGS AND DISCUSSIONS

Majority of the groups were formed to take advantage of the government funding as less groups were formed after the youth funds had been released. The youths are likely to register youth groups when the government announces any funds to assist them. Such groups are likely to collapse at storming and norming stage before reaching performing stage and hence hindering the achievement of group objectives. The youth groups received youth fund loan in the recent years ranging from year 2012 to year 2014.

The process between application and receipt of the youth fund took between 2 months to 3 months, 27.9% of them reported that it took 1 month - 2 months, while only 9.8% of the respondents indicated that the length of time taken from application to receive the youth fund loan was 4 months and above. The long duration of time taken to receive funds is likely to adversely affect majority of youth groups intending to apply for the loan for the first time hence demoralizing the youth groups who end up changing their initial business.

The youth groups were awarded between KShs. 40,001.00 and KShs. 50,000.00 by YED Fund to enable Youth Groups Engage in Business, 19.7% of them indicated that they received between KShs. 30,001.00 and KShs. 40,000.00 from the YED Fund to enable Youth Groups Engage in Business, 19.7% of the respondents indicated that they were lend more than KShs. 50,000.00, while 11.5% of the respondents reiterated that their youth groups were awarded between KShs. 20,001 and KShs. 30,000.00 from the YED Fund to enable them engage in business. This indicates that the amount given to the youth groups is little bearing in mind that a group is a collection of many youth who have an interest in the funds.

The youth groups recorded an income of between KShs. 3,001.00 and KShs. 4,000.00 on a weekly basis, 23.0% of them indicated that groups' weekly income was between KShs. 2,001.00 and KShs. 3,000.00, 19.7% of the respondents indicated that their groups earned less than KShs. 1,000.00 in a period of one week, while 13.1% of the respondents reiterated that their groups' weekly income was more than KShs. 4,000.00. This puts the group in a difficult situation of repaying the borrowed funds from business proceeds since member's contributions may not be adequate to service the loan. Majority of the youth groups contained between 21-30 members, 44.3% of them were members of groups consisting of between 13-20 members, 4.9% of the respondents indicated their groups had 31-50 members, while 3.3% of the respondents indicated that they were in groups whose membership was between 1 and 12.

Majority of the respondents agreed that the disbursed loan amount is sufficient to improve the youth welfare as shown by mean scores of 3.64, the grace period given is sufficient as shown by mean scores of 3.54 and the loan repayment duration has been sufficient as shown by mean scores of 3.54, while they also agreed that the loan amount lend leads to slow repayment of loan as shown by mean scores of 3.48 and that the avenues of payment are efficient as shown by mean scores of 3.48. Repayment infrastructure and follow-up in place largely influence repayment of the YEDF loan. This is clearly shown in the sense that there are no clear procedures and guidelines on follow up hence no government policy on recovery of the funds.

From the study, majority of the respondents indicated agreement that the amount of loans disbursed are adequate as shown by mean scores of 3.51, while they remained neutral on that repayment terms are fair, the number of disbursement are adequate and collateral required is easily accessibly as shown by mean scores of 3.48, 3.44 and 3.25 respectively. Various loan characteristics greatly influence the repayment of YEDF loan. The important factors that contribute to loan repayment performance are the design features of the loan which are the access methods, screening methods and incentive to repay.

Majority of the respondents agreed that group size has resulted into slow repayment of loan as shown by a mean score of 3.59, while they agreed that the group composition hampered loan repayment as shown by a mean score of 3.48, the frequency of group meetings determines the repayment as shown by a mean score of 3.44 and that efficient group management has led to efficient loan repayment as shown by a mean score of 3.39. They also agreed on that political interference influence loan repayment as shown by a mean score of 3.39, group lending has been the best approach as shown by a mean score of 3.21, harsh climatic Conditions affected your group loan repayment as shown by a mean score of 3.16 and poverty among the youth affect loan repayment as shown by a mean score of 3.10. Majority of the key informants indicated that they have attended training on micro credit with all indicating that they have attended more than three times. This implies that the employees are well equipped with the necessary skills specific to their job roles but what is lacking is relevant and sufficient training regarding lending and follow up. They had benefited from the content of the training in terms of improvement in their performance and that's why repayment had improved of late.

On how government policies and regulatory framework affects repayment of YEDF loans, all the respondents reported that poor government policies on recovery of funds from defaulters and inadequate training before funds are given out. This implies that there should be a clear government policy on recovery and specific penalty for defaulters. The other key factors which were cited include lack of good political goodwill, lack of entrepreneurial skills and project diversification by youth groups. The respondents reported that the government also has a role to play in creating favourable economic environment that can enhance growth of business to make repayment easier. There are government policy programmes geared towards the support and funding of small enterprises through a variety of funding agencies and institutions, one of them being YEDF.

CONCLUSIONS AND RECOMMENDATIONS

The study concludes that YEDF loan is faced with a number of challenges in its attempt to empower the youth. Some of the challenges include inadequate training to the youth groups. YEDF employees were trained effectively and therefore have relevant skills as far as micro-credit was concerned. Clear legal recovery procedure and legislation that punishes defaulters is lacking. These structures need to be put in place by the fund management if successful loan recovery is to be achieved. Majority of the youths felt that the amount of loan given is very little leading to poor capital formation. In addition, most groups experienced problems in borrowing money including long duration taken between application and receiving of funds, small amount of loans awarded, group formation problems, a lot of documentation required, lack of training on loan usage, processing speed of the loan was too low as well as long access procedures.

The government's introduction of YEDF with a view to encouraging the youth to venture into self-employment, is very generous move which deserves all the support from various stakeholders. Long term measure like continuous entrepreneurship training should be put in place to improve chances of success. The study indicated that most of those who succeed in entrepreneurship are either trained on the kind of businesses they venture into or continue business training as they progress. Therefore, for the repayment of YEDF to succeed, both short and long term measures must be embraced.

The study recommends that the policy makers should redesign state sponsored youth fund programs for funds to be given out at ward level to reduce the long channel of accessing the funds and also enable the implementers to domesticate the product to suit the area of operation and hence enhancing effectiveness and efficiency of the fund. Legal framework has to be put in place at the constituency level to enhance loan recovery and stem cases of default among the youth groups.

Training should be done to groups before any government funding is given out. Youth need to be sensitized on entrepreneurship skills, business plan writing, financial management skills and record keeping for the groups to able to track the process. They should also be made aware of the need to repay the loan on time and failure to repay the loan impacts heavily on self-reliance and sustainability of the fund. Table banking can be used by the fund to promote repayment of the fund. In realization that money is only one of the resources that apply to a project, it is inevitable that entrepreneurship culture and expertise be first inculcated to the youth and the perspective entrepreneurs of this country. This means that skills in entrepreneurship, business planning and financial management must elaborately be imparted before any funds are disbursed by the board.

The study also recommends that adequate resources in terms of additional personnel and funds should be provided in order to enable smooth monitoring of all funded youth groups. In addition, the YEDF Board to set up a clear policy on repayment and recovery of loans from the defaulters. There should be a thorough credit appraisal of the youth groups before any loan is awarded so that only viable businesses are funded to ensure sustainability of YEDF loan.

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