

DETERMINANTS OF GROUP LOANS UPTAKE AT THE YOUTH ENTERPRISE DEVELOPMENT FUND

A SURVEY OF NAKURU WEST CONSTITUENCY, KENYA

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Abstract

The Government of Kenya has established the Youth Enterprise Development Fund and other Government Funds to help reduce unemployment rate among the youth. Despite this effort by the government, the uptake of these funds remains low. The study intended to find out the determinants of group loans uptake at the Youth Enterprises Fund in Nakuru West Constituency. The accessible population was drawn from the registered youth groups in Nakuru West Constituency which are 520 in number. Primary data was collected by use of structured questionnaires. Data was analyzed using both descriptive statistics and inferential statistics. SPSS was used to process and analyze the data. According to the findings, lending procedures and policy was found to have the most significant effect on the group loan uptake while financial literacy training had the least effect on loan uptake. It was recommended that the management

of the Youth Enterprise Development Fund should come up with appropriate means to reach and communicate to the youths; start up loan amount should be increased so should the loan repayment period; the management should also come up with suitable lending procedures and policy that are friendly to the youths and finally youths should be trained on financial literacy so as to increase group loans uptake at the Youth Enterprise Development Fund.

Keywords: Group Loans Uptake, Youth Enterprise Development Fund, Lending Procedures, Financial Literacy

INTRODUCTION

The youths face a complex situation of unemployment globally, despite most of them having high level of basic education (ILO, 2008). Many governments are supporting youth ministries, youth policies and youth programs, and there seems to be greater appreciation that young people are the future of their countries development (Yunus, 2008). Despite the commendable efforts of various governments in attempting to unlock the full potential of youth enterprises by helping them economically, youths have continued facing challenges related to accessing credit from both banks and even government funds (Odera *et al*, 2013).

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

The major factors that can influence demand for formal credit include; high interest rates, bureaucratic loan process, high transaction cost, collateral risk and asymmetric information (Adebajo 2010). Potential borrowers can be rationed out of the loan market due to a number of market imperfections. These imperfections include; monopoly power in credit market, interest rate ceiling, large transactional costs incurred by borrowers in applying for loans and moral hazard problems (Rahji *et al*, 2010).

According to (Sacerdoti, 2008), in sub-Sahara African, the reason why borrowers lack access to credit from banks are inability to provide accurate information on their financial status, lack of collaterals, cumbersome lending procedures, high cost of credit and long physical distance to the nearest financial services. (Fatoki & Asah, 2011) assert that business location is another important factor considered by lenders. Physical closeness between lenders and

borrowers produce an impressed environment scrutiny that aid SME's to access credit from lenders in South Africa.

A report by (Central Bank of Kenya, 2012) establishes that Small and medium enterprises have become an important contributor to the Kenyan economy. The sector contributes to the National objective of creating employment opportunities. Entrepreneurs in this sector are considered credit unworthy by most financial institution. Improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating growth. Bank customers in Kenya often cite the cost of credit as a stumbling block in getting access to formal credit and often look for cheaper sources of credit such as investment groups, shylocks among other which often land cost of credit to potential customers.

Wanjohi, (2011) points out that that lack of access to credit is almost universally indicated as a key problem for youth enterprises. This affects technology choices by limiting the number of alternatives that can be considered. Many youth enterprises may use an inappropriate technology because it is the only one that they can afford. In some cases even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavily immovable equipment that can serve as collateral for the loans. The stringent lending conditions prevent Kenyan SMEs run by the youths too from accessing credit.

Mwangi & Shem (2012) indicate that in Nakuru County, different channels have been used to disburse soft loans to the youths. These include disbursement through financial institutions and through government agencies. It has been evident that lending requirements by bank and other financial institutions are harsh and lock out the poor from accessing credit. The bureaucracies of lending create barriers for the youths thereby stopping them from accessing loans as they cannot meet them. (Wachira, 2012) points out that in Eldama Ravine, there is a negative relationship between interest rates and the uptake of the credit by the youths and that youths did not apply for credit because of the requirements of huge collaterals. (Birech, 2013) asserts that in Nakuru town, there is a significant correlation between financial literacy and uptake of credit by the youths.

The Youth Enterprise Development Fund 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. It is the Fund's intention to evolve and be able to meet the dynamic needs of the youth, who are its reason (Government of Kenya 2014, YEDF status report). It was on this background that this study was built so as to establish the determinants of loan uptake at Youth Enterprise Fund.

Statement of the Problem

The government of Kenya has created government funds such as the Youth Fund, Women Fund and the latest being the 6 Billion shillings Uwezo Fund created by the Jubilee Government. All these have been created with an aim of promoting SMEs hence reduce the unemployment rate among the youth and improve the economy (RoK 2014). Despite this effort by the government the uptake of these government funds by the youths still remains low.

If the issue of low uptake will not be addressed, it will lead to lower capital base which will limit growth of youth enterprises and the SMEs at Nakuru West Constituency. SMEs have been recognized as boosters of the economy in both developed and developing countries (Ngugi *et al*, 2012).

Slow growth of SMEs will mean a higher unemployment rate among the youths and a slow economic growth. There will also be other social vices that will come up due to unemployment of the youths such as involvement of crimes and use of drugs by the youth. Several studies carried out on factors affecting uptake of loans focus on the banks and MFIs. This study intended to find out the various factors that affects the uptake of group loans at the youth enterprise development fund.

Specific Objectives

- i) To establish whether access to information about the funding programme affects the uptake of group loans at the Youth Enterprise Development Fund.
- ii) To investigate if the loan amount and repayment period affects the uptake of group loans at the Youth Enterprise Development Fund.
- iii) To examine if the lending procedures and policy affects the uptake of group loans at the Youth Enterprise Development Fund.
- iv) To establish how financial literacy training influence the uptake of group loans at the Youth Enterprise Development Fund.

Justification of the Study

The study will be of important to various groups of people and for various reasons. First of all the research will be of help to the management of the Youth Enterprise Development Fund to formulate policies that will improve their service delivery hence help improve the uptake of the group loans by the youths. Secondly, the research will be of help to both the National government and the County governments put up the right mechanism and structures in place that will help efficiently run other government funds such as the Women Fund, Uwezo Fund and the various funds established by county governments targeting the youths and others groups.

Bureaucratic lending procedures has been postulated as a major constrain to access to credit by women and youth (Manson & Mat 2010) .Lastly the study will provide useful basis upon which academicians can do further research and studies in areas related to group loan uptake.

LITERATURE REVIEW

Theoretical Literature Review

Social Network Theory

According to this theory people form group ties in order to maximize their personal interest and desires. (Coleman, 1998) showed how two individuals with each operating out of self-interest form the basis of a social system such as a group. Individuals expect to deploy social ties and reap returns on their investment in form of opportunities from which they can profit. (Burt, 1997) says that the return of this investment accrues from the individual's ability to direct the flow of knowledge and information between those who are not directly connected. In this case an individual joins a group to fill a structural hole by providing social capital as well as benefiting from the same that is provided by other group members. This theory is relevant to the first objective of the study as it shows that being composed of individual and collective social networks, ties and structures help the individual get access to information and know how.

Consumer Theory

The consumer theory was developed by Lancaster in 1966. It asserts that a rational consumer is assumed to make a choice from various alternatives by considering the alternative giving him or her maximum utility. This theory postulates that preferences for goods are a function of attributes possessed. An important implication of this theory is that the overall utility of a good can be decomposed into separate utilities for its constituent characteristics. This translates into using the attributes of the goods on the argument of the function in terms of utility function. A good can thus be described by the attributes that generate the utility or disutility to the individual (Mudida, 2003). For credit access, this permits the analysis of borrower's performances in term of the utility they perceive to result from various credit attributes. This theory was relevant to the second objective. In this case will the loan amount satisfy their utility and will the repayment period be suitable to them?

Credit Market Theory

This theory asserts that if collateral and other pertinent restrictions remain given, then it is only the lending rate that determines the amount of credit to be dispensed by the banking sector. Increase in demand for credit and fixed supply of the same will make interest rate rise. It is thus

believed that the higher the failure risks of the borrower, the higher the interest premium (Ewert, 2000). The credit market theory argues that the risk free interest rate is determined by interplay of two forces, the demand for and supply of credit. Some of the financial institutions will require collaterals and other requirements thus locking out potential borrowers. Collaterals in lending contracts are based on moral hazard and adverse selection that leads to credit rationing (Stieglitz & Weiss 1981). From this theory collateral and maybe other lending requirements are seen to be hindering the ability of an entrepreneur to access funds thus resulting to credit rationing and poor uptake of loans. This theory was relevant to this study as it indicates how lending procedures and policy can affect the uptake of loans.

Empirical Studies

A number of studies on determinants of loan uptake have been conducted in different countries and by different researchers. They include the following; Xiong and Xiong (2010) carried out a study that investigated the impact of social capital on financial obstacles faced by entrepreneurs using a pooled data of 270 small companies in China and their findings were that membership in business associations and access to information increased the probability of having loans by 14.8%.

Levitt & March (1998) did a study in Asia to find if networking, sometimes called external relation of firms among industry, trade association and other forms of associations create learning by facilitating the sharing of knowledge. Descriptive statistics was used and the findings were that owners who use networking to obtain key information, learning opportunity and enhance understanding of source of finance and businesses with networks are more likely to have access to bank credit compared to those who do not have such network.

A study done by (Okoho & Orebiyi, 2011) investigated the determinants of loan acquisition using simple descriptive statistics and ordinary least square regression whose aim was to analyze the determinants of loan acquisition from financial institutions. The study revealed that the amount of loan secured in Chafia Local government areas is influenced by important social economic characteristics. It affirms that age, level of education, farming experience and firm size of the respondents are statistically significant as they affect the amount of loan acquired in the study area.

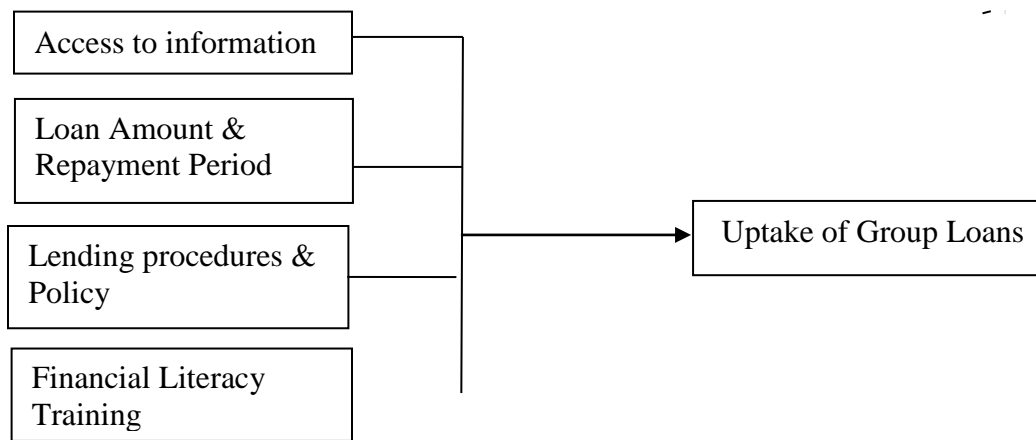
Monica & Jonathan Scott (2006) carried out a research in USA youth owned business and access to bank credit conducted a survey by use of logistic regression and found out that women owned businesses are significantly less likely to apply for bank loans compared with men owned businesses. They found out that gender was related to the application for banks loans as well as the size of the loan but on the frequency of turndown.

Muriungi (2012) did a study to find out the effectiveness of Women Enterprises Fund in enabling women setup enterprises in Matuga constituency. Frequencies and percentages were used to analyze the data. The variable studies include development of women enterprise, adequacy of loans and capacity buildings. Her findings were that women need to be given enough amounts of loans to enable fund their businesses, well besides being trained on entrepreneurship.

A study done in Ethiopia by (Sileshi *et al*, 2012) on factors affecting loan repayment performance of small holders farmers found out that small holders farmers within the study area source their credit from both formal and informal credit institutions. Multi stage sampling technique was used and a two limit habit regression model was employed to identify the factors that influenced loan repayment. The study found out that agro ecological zone, off farm activities and technical assistance positively influenced loan repayment and uptake.

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

Figure 1: Conceptual Framework



RESEARCH METHODOLOGY

Research Design

Kothari (2009) points out that a research design is a structure within which research is conducted. Donald & Pamela (2011) assert that research design constitutes a blue print for collection, measurement and analysis of data and that descriptive study is concerned with

finding out who, what, where, when and how much. It describes a phenomena associated with the subject population. The study adopted a descriptive research design. This is because descriptive research design enables adequate coverage of large amount of data from population. It is also time saving and a cheaper method.

Target Population

Black (2008) indicates that a target population comprises of institutions and entities that are object of investigation. All the youth groups in Nakuru West constituency were the target population of this study. There are a total of 520 registered youth groups in the six wards of Nakuru West constituency out of which 362 youth groups in the four identified wards in Nakuru West Constituency were chosen as the accessible population (Social Services Office, Nakuru County, 2014).

Sample Size

Sample size refers to the number of items to be selected for observation in order to obtain accurate information on the universe (Oso and Onen, 2008). Mugenda & Mugenda (2003) recommend a sample percentage of 30% of an entire population as an appropriate population representation. The populations of each of the four (4) wards in Nakuru West Constituency that represented clusters had a population size of 81, 105, 92, and 85 youth groups for Barut, Kaptembwo, London and Shabab wards respectively (Social Services Office Nakuru County, 2014). From each of the four (4) wards (Clusters), 30% was taken as a representative sample as shown in the table below.

Table 1: Sample Size

Wards(Clusters)	Number of Groups	Sample Size (30%)
Barut	81	24
Kaptembwo	105	31
London	92	27
Shabab	85	26
Total	363	108

Sampling Technique

Sampling is a technique where the researcher seeks knowledge or information about a whole population, object or events by observing a sample and extending the finding to the entire population (Orodho, 2005). A Multi-stage sampling technique was adopted in this study. Cluster sampling, random sampling and purposive sampling were used. Four (4) wards were

purposively selected out of the six (6) wards in Nakuru West Constituency. Clusters were then based on the wards. From each of the four (4) wards (Clusters), a population size of 30% in each ward was then randomly selected as a representative sample. Purposive sampling was used to identify the final respondents of the groups who were the heads of the groups.

Data Collection Instruments

The study used both the primary and secondary data. Primary data was collected through semi structured questionnaires that were self administered to the respondents who were the chairpersons of the youth groups. Kothari (2009) observes that questionnaire method has been extensively used in range of business and economic survey due to its unbiased nature and ability to capture large data. Secondary data was obtained from journals, published books and theses. The information gathered was both qualitative and quantitative.

Reliability of Instruments

Cronbach's Alpha was used to test reliability of instruments. Kombo & Tromp (2009) indicates that an alpha range of 0.6 to 0.7 is commonly accepted rule of thumb that indicates good reliability. All the research instruments returned alphas greater than 0.7 hence they were taken to be reliable.

Table 2: Pilot Test Results

Variable	Number of tests	Alpha Value
Access to information	10	0.784
Loan amount and repayment Period	10	0.75
Lending procedures and policy	10	0.823
Financial Literacy Training	10	0.811
Loan Uptake	10	0.763
Overall	50	0.786

Validity of Instruments

According to Kothari (2009), validity is the most critical criteria that indicate the degree to which an instrument measures what it is supposed to measure. The questionnaire were discussed and revised by the supervisors and the researcher to assess the relevance of the content of the instrument. In this case content validity was used as the supervisors were acting as expert in assessing the content of the questionnaires.

Data Processing and Analysis

Descriptive statistics was used to show measures of central tendencies and measures of dispersion while inferential statistics was used to show the relationship between the variables. Data was processed and analyzed using (SPSS, 20.0). Inferential statistic adopted the use of multiple regression models to test the relationship between the independent variables and the dependent variable. Frequency distributions tables, means and standard deviations and inferential statistical tables were used to show comparison and present the data.

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Statistics

Analysis of Mean and Standard Deviation for Access to Information

Statements concerning access to information were ranked on a 5 point likert scale ranging from “5- strongly agree” to “1-strongly disagree”. Table 4.8 presents these findings. The findings of table 3 shows that majority of the respondents (mean=2.54) disagreed that the information received was understandable. Respondents also disagreed (mean= 2.53) that the means used to pass information by YEDF was an appropriate one. Most of the respondents disagreed (mean 2.49) that they often visited the YEDF offices and interacted with their staff. Respondents held the opinion (mean 3.86) that easy accessibility of information about the YEDF would increase the uptake of group loans. The standard deviations were 1.158, 0.954, 1.079 and 0.807. These data were not far from zero therefore showing that the data were also very close to the mean of respective indicators.

Table 3: Analysis of Mean and Standard Deviation for Access to Information

		N	Minimum	Maximum	Mean	Std. Deviation
i.	To what extent did you understand the information about YEDF	80	1	5	2.54	1.158
ii.	Do you regard the means used as appropriate	80	1	5	2.53	.954
iii.	How often do you visit YEDF offices and interact with their staff	80	1	5	2.49	1.079
iv.	Easy access of information about the YEDF would increase uptake of group loans	80	2	5	3.86	.807

Analysis of the Means and Standard Deviations of Loan amount and Repayment Period

Statements about loan amount and repayment period were ranked on a 5 point likert scale ranging from “5- strongly agree” to “1-strongly disagree”. Table 4 presents these findings. It was not clear (mean =3) whether the 100,000 shillings start loan was suitable. A slight majority of the

respondents agreed (mean=3.48) that the repayment period was not suitable; Respondents disagreed (mean = 2.19) on the statement that savings determines the loan amount given at YEDF; respondents also disagreed (mean=2.95) that having guarantors determine the loan amount given. It was, nonetheless, agreed (mean =3.73) that collaterals determined the loan amount given. The standard deviations were 1.079, 0.887, 1.169, 1.168 and 0.981. These data were not far from zero hence showing that the data were also very close to the mean of respective indicators.

Table 4: Analysis of the Means & Standard Deviations of Loan Amount and Repayment Period

	N	Minimum	Maximum	Mean	Std. Deviation
i. Start loan amount too small that it discourages applying for loans	80	1	5	3.00	1.079
ii. savings determine the amount of loan given	80	1	4	2.19	.887
iii. collaterals determine the amount of loan given	80	1	5	3.73	1.169
iv. guarantors determine the amount of loan given	80	1	5	2.95	1.168
v. The repayment period too short that it discourages applying for loans	80	1	5	3.48	.981

Analysis of the Means and Standard Deviations of Lending Procedures and Policy

Statements about lending procedures and policy were ranked on a 5 point likert scale ranging from “5- strongly agree” to “1-strongly disagree”. Table 5 presents these findings. Respondents disagreed (mean =1.75) that the requirement of collaterals was suitable to them. Respondents also disagreed (mean = 2.70) that the one year repayment period was suitable. The 5% interest rate was found to be suitable by the respondents (mean = 4.25). It was unclear whether loan applications forms were complicated to fill (mean = 3.45). The standard deviations were 0.666, 0.906, 0.666 and 1.101. These data were not far from zero hence showing that the data were also very close to the mean of respective indicators.

Table 5: Mean and Standard Deviation of Lending Procedures and Policy

	N	Minimum	Maximum	Mean	Std. Deviation
i. I find the requirement of collaterals suitable	80	1	3	1.75	.666
ii. I find one year repayment period suitable	80	1	4	2.70	.906

iii. I find the 5% interest rate suitable	80	3	5	4.25	.666
iv. I find loan applications forms complicated to fill	80	1	5	3.45	1.101

Analysis of the Means and Standard Deviations of Financial Literacy Training

Statements concerning financial literacy were ranked on a 5 point likert scale ranging from “5-strongly agree” to “1-strongly disagree”. Table 6 presents these findings. Respondents agreed (mean = 4.15) that financial literacy training would give them confidence to apply for group loans. Respondents also agreed (mean = 4.06) that financial literacy training influences the management and repayment of debt. Yet, most respondents disagreed (mean = 2.66) that they were aware of the providers of financial literacy and that most group members did not have various financial skills (mean = 2.75). The standard deviations were 0.731, 0.663, 1.458 and 1.355. These data were not far from zero therefore showing that the data were also very close to the mean of respective indicators.

Table 6: Mean and Standard Deviation of Financial Literacy Training

		N	Minimum	Maximum	Mean	Std. Deviation
i.	Financial literacy training gives the group confidence to apply for group loans	80	2	5	4.15	.731
ii.	Financial literacy training influences the management and repayment of debt	80	3	5	4.06	.663
iii.	The group aware of the providers of the financial literacy training	80	1	5	2.66	1.458
iv.	The group members have various financial literacy skills	80	1	5	2.75	1.355

Correlation Analysis

Relationship between Access to Information and Uptake of Group Loans

In connection with the first objective, the study examined the relationship between access to information and uptake of group loans. Table 7 presents these findings. It was established that there exist a strong relationship between access to information and uptake of group loans. ($r = 0.797$; $p < 0.01$). This meant access to information influences the uptake of group loans.

Table 7: Relationship between Access to Information and Uptake of Group Loans

	Uptake of Group Loans	Access to Information
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Uptake of Group Loans	Pearson Correlation	1	.797**
	Sig. (2-tailed)		.000
	N	80	80

** . Correlation is significant at the 0.01 level (2-tailed)

Relationship between Loan Amount and Repayment Period and Uptake of Group Loans

In connection with the second objective, the study examined the relationship between loan amount and repayment period and uptake of group loans. Table 8 presents these findings. It was found out that there exist a strong relationship between loan amount and the repayment period and uptake of group loans. ($r = 0.624$; $p < 0.01$). This also meant that loan amount and repayment period did influence the uptake of group loans.

Table 8: Relationship between Loan Amount and Repayment Period
and Uptake of Group Loans

		Uptake of Group Loans	Loan Amount & Repayment Period
Uptake of Group Loans	Pearson Correlation	1	.624**
	Sig. (2-tailed)		.000
	N	80	80

** . Correlation is significant at the 0.01 level (2-tailed)

Relationship between Lending Procedures and Policy and Uptake of Group Loans

In connection with the third objective, the study examined the relationship between lending procedures and policy and uptake of group loans. Table 9 presents these findings. It was established that there exist a strong relationship between lending procedures and policy and uptake of group loans. ($r = 0.820$; $p < 0.01$). This meant access to lending procedures and policy influences the uptake of group loans.

Table 9: Relationship between Lending Procedures and Policy and Uptake of Group Loans

		Uptake of Group Loans	Lending Procedures & Policy
Uptake of Group Loans	Pearson Correlation	1	.820**
	Sig. (2-tailed)		.000
	N	80	80

** . Correlation is significant at the 0.01 level (2-tailed)

Relationship between Financial Literacy Training and Uptake of Group Loans

In connection with the last objective, the study examined the relationship between financial literacy training and uptake of group loans. Table 10 presents these findings. It was established that there exist a strong relationship between financial literacy training and uptake of group loans. ($r = 0.673$; $p < 0.01$). This meant training on financial literacy influences the uptake of group loans.

Table 10: Relationship between Financial Literacy Training and Uptake of Group Loans

		Uptake of Group Loans	Financial Literacy Training
Uptake of Group Loans	Pearson Correlation	1	.673**
	Sig. (2-tailed)		.000
	N	80	80

** . Correlation is significant at the 0.01 level (2-tailed)

CONCLUSION AND RECOMMENDATIONS

The Government has made a good effort to introduce the YEDF so as to reduce unemployment rate among the youth. However, this study has revealed that the uptake of these funds is influenced by access information, loan amount and repayment period, lending procedures and policy and financial literacy training. These factors have made a high population of the youths unable to access the funds.

Based on findings of the study, the study recommended the following measures on the objectives that were being investigated:

- i. It is recommended the YEDF management should come up with an appropriate means to pass information to the youths which will be understandable to them. The appropriate means will be use of mass media to pass information.
- ii. The YEDF management should also ensure that they have more staff and more offices at ground level for easy interaction with the youths and passing of relevant information hence increase in the uptake of funds by youths.
- iii. The study recommends that The YEDF should increase its start loan of 100,000 shillings to at least 200,000 shillings because the 100,000 shillings start loan is not enough for an entire group as suggested by most youths. Increasing of the loan amount will encourage youths to apply for the funds.
- iv. The study recommends that the YEDF should improve the time take to process the group loans from the two or three months to at least one month. A long processing time tends discourage potential youth applicants from applying these funds.

- v. The use of collaterals also prevent more youth accessing these fund. YEDF should abolish the use of these collaterals as securities and use social collaterals as groups provide social security to the lenders.
- vi. YEDF should ensure that more youths and youth groups are trained on financial skills. This will enable them have more knowledge on financial literacy and give them confidence to apply for these funds and hence increase in uptake of group loans.

SUGGESTIONS FOR FURTHER RESEARCH

The study recommends a further research on the following three areas related to this study;

- i. A research to determine the effectiveness the of entrepreneurship training given to the youth groups by the Youth Enterprise Development Fund.
- ii. A research on assessment of friendly lending policies that will increase the uptake of group loans at the Youth Enterprise Development Fund.

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