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FINANCE

BORROWERS' CHARACTERISTICS AND REPAYMENT OF INDIVIDUAL LOANS PROVIDED BY YOUTH ENTERPRISE DEVELOPMENT FUND IN EMBU COUNTY, KENYA

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ABSTRACT

Purpose of the Study: To investigate the effect of borrower characteristics on the repayment of individual loans provided by the Youth Enterprise Development Fund (YEDF) in Embu County, Kenya.

Statement of the Problem: Individual loan repayment has been slow with an increased number of loan defaults among individuals borrowing from YEDF in Embu County. Borrower characteristics play a key role in loan repayment among individuals. Studies have shown mixed results regarding the effect of borrower characteristics, with local studies showing research gaps.

Methodology: The study adopted an explanatory research survey design and positivism research philosophy. The target population was 705 individual loan youth beneficiaries from YEDF Embu County, with a sample of 255 individuals selected through stratified random sampling. The study collected primary data through structured questionnaires, and descriptive and inferential statistics were used for analysis. Logit regression analysis was used to investigate the relationship between the explanatory variables and the predicted variable.

Findings: Through descriptive analysis, the study found that there were more male beneficiaries than female beneficiaries. The majority of individual loan beneficiaries were within the age bracket of 30-34 years. The study also found that most of the respondents were married. On academic qualification, the majority of loan beneficiaries had agreed to have an academic qualification. The study further indicated that almost all of the respondents had no business management training. Additionally, borrower characteristics had a positive effect on loan repayment.

Conclusion: Borrower characteristics have no significant effect on the repayment of individual loans provided by YEDF in Embu County, Kenya.

Recommendation: YEDF should endeavor to sensitize and train all Kenyan citizens who have attained the age of youth, both male and female, married and single, educated and not educated, on its loan product and the importance of repaying the amount borrowed on time.

Keywords: *Borrowers' Characteristics, Repayment, Individual Loans, Youth Enterprise, Development Fund*

INTRODUCTION

Borrower characteristics are a critical variable affecting individual loan repayment. They are defined as the demographic features possessed by the individual applying for the loan and running the business enterprise, which may influence their ability to honor the loan repayment agreement (Muthoni et al., 2017). This study will analyze the following borrower characteristics: education level, marital status, borrower's age, gender, and business management training possessed by the individual borrower (Thayaparan & Sivatharshika, 2019). Borrower characteristics are also the attributes that borrowers should possess to benefit from microcredit services. The accessibility of loans will be largely determined by the seriousness the MFI places on these characteristics. Ssekiziyivu, Bananuka, Nabeta, & Tumwebaze (2017) further state that MFIs should invest in information gathering on borrower characteristics of their clients to lower default probability and reduce delays in repayments.

Since its inception, the Youth Enterprise Fund has disbursed a total of Ksh 4.5 billion as a revolving fund to youth enterprises across the country. Of this amount, Ksh 2.27 billion had been recovered as of the Financial Year 2020-2021. This indicates that 50% of the loaned amount is at risk of being defaulted. The report shows that out of the total disbursement from YEDF, Ksh 67.74 million was disbursed to Embu County under the individual loan products from FY 2012-2013 to 2020-2021. From this amount, Ksh 32.72 million has not been paid up, which is 48.3% of the total loaned amount in Embu County (YEDF, 2020). Therefore, the research question is: What is the effect of borrower characteristics on repayments of individual loans provided by YEDF in Embu County, Kenya?

RESEARCH OBJECTIVE

To establish the effect of borrowers' characteristics on repayments of individual loans provided by YEDF in Embu County, Kenya.

RESEARCH HYPOTHESIS

H_{01}: Borrowers' characteristics have no significant effect on repayment of individual loans provided by YEDF in Embu County, Kenya.

LITERATURE REVIEW

The section presents the theoretical review, empirical review and the conceptual framework.

THEORETICAL REVIEW

This research was anchored in two prominent theoretical frameworks: Credit Default Theory and Credit Scorecard Theory.

Credit Default Theory

Credit default theory, pioneered by Wilson N. Sy in 2007, establishes a direct link between the causes of macroeconomic fluctuations in the financial environment and the associated microeconomic consequences on individual and corporate financial situations, potentially leading to default (Wilson, 2014). Understanding and estimating credit default risk is essential for systematically assessing and managing lending risk over time, contributing to the stability of financial systems. The theory plays a crucial role in financial lending by allowing the estimation of expected financial losses through analysis of the factors that cause credit default (Maseke & Swartz, 2021). Default theory is particularly relevant to this research because credit default presents the key challenge in repaying individual loans provided by the Youth Enterprise Development Fund. This study analyzes the business characteristics identified in this theory that affect the repayment of individual loans provided by YEDF in Embu County.

Credit Scorecard Theory

Credit scorecard theory was founded by Ronald. A. Fisher in 1936 (The World Bank Group, 2019). The theory assumes a quantitative measure of the likelihood that customers will exhibit a defined behavior with respect to their current or proposed credit position with the lender. The credit scoring theory is normally utilized to find out the probability new clients will default using same characteristics including: age, gender, income, level of education, credit history, and marital status as postulated by (Altman, 1968). Despite the dominance use of this theory across the financial lending market, the theory has been criticized to have some limitation in that it can unintentionally discriminates against some borrowers who might have the potential to repay the loan as per the loan treaty while the theory shows that the borrowers are potential defaulters. In addition, the theory might not be standard across the financial markets since the approaches to credit scorecard varies from credit officer's human judgment in some markets and to others who have advanced to artificial intelligence and machine learning credit scoring (The World Bank Group, 2019).

This theory is therefore relevant to the study in that borrowers' characteristics influences repayment of individual loan provided by YEDF in Embu County which will be analyzed in this study. Credit scorecard theory estimates the risk of giving out loans to borrowers by forecasting their future repayment trends through borrowers' characteristics (Eddy *et al.*, 2019). It is based on this background that this study is underpinned on credit scorecard theory and informed the independent variable (Borrowers' characteristics).

EMPIRICAL REVIEW

Adamou et al. (2020) examined the effects of borrowers' socioeconomic characteristics on microcredit repayment behavior in MFI clients in Cameroon. They found that education level, collateral availability, income stability, personal wealth, and location awareness significantly influenced repayment behavior. Marital status, age, gender, and business duration were not statistically significant. However, their study did not consider the moderating effect of the regulatory framework and focused on a commercial MFI, unlike our government-funded study in Kenya.

Ssekiziyivu et al. (2018) investigated borrowers' characteristics and credit terms on loan repayment performance in rural Ugandan MFIs. They found no statistically significant impact of borrower characteristics like age, education, gender, marital status, experience, and training on loan repayment. Their study targeted diverse loan types (individual, group, all age groups) from 51 profit-making MFIs, differing from our focus on individual youth loans from a government-sponsored microcredit institution in Kenya. Additionally, they did not consider the moderating effect of the regulatory framework, which we will address.

Aberi & Jagongo (2018) studied the effects of borrowers' characteristics on YEDF group loan repayment in Nairobi, Kenya. They found that factors like spouse influence, informal borrowing, and education level significantly influenced repayment. They concluded a positive association between borrowers' characteristics and YEDF performance. While their research focused on YEDF and the youth age bracket, it addressed group loans, unlike our study on individual loan products.

CONCEPTUAL FRAMEWORK

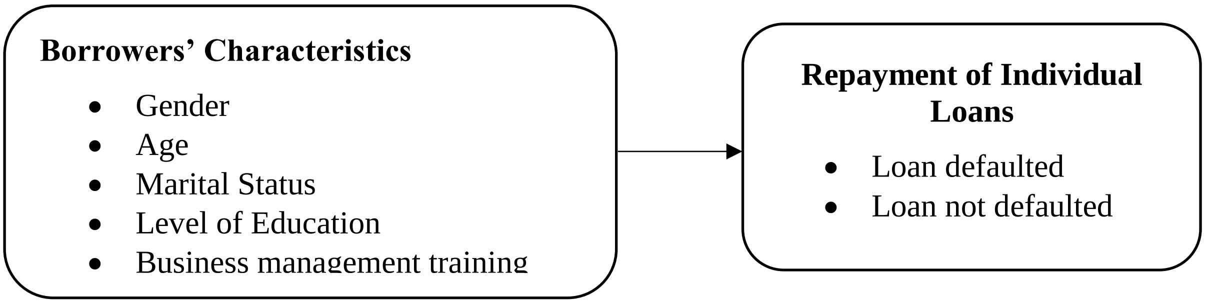

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The study employed an explanatory research survey design to investigate the effects of critical variables on repayment of individual loans offered by the Youth Enterprise Development Fund (YEDF). Positivism research philosophy was chosen to identify how borrower characteristics influence loan repayment. The research targeted beneficiaries across Embu County, including 216 individuals in Manyatta, 194 in Runyenjes, 150 in Mbeere North, and 145 in Mbeere South. Using the Yamane formula, a stratified sampling technique yielded a sample size of 255 beneficiaries. Primary data was collected through questionnaires and analyzed using descriptive and regression statistics. The findings are presented in charts and tables for clear visualization.

FINDINGS AND DISCUSSIONS

Gender of Respondents

Figure 2: Gender of Respondents

The results in Figure 2 on the gender of the respondents showed that majority of the respondents were male accounting for 60% compared to their female counterparts who accounted for only 40%. This indicate that there still exists gender disparity in the uptake of loans provided by YEDF where most males are the ones taking up loans. The results differed with a study done by (Njangiru, 2014) which showed that majority of respondent were female at 52.1% and 41% for male respondent where the study was done in self-help group set ups. Bob *et al.*, (2018) attributes the low beneficiaries of loan by female borrowers to lack of collateral for the amount borrowed. There is therefore a need for YEDF to innovate new ways of securing the amount borrowed including use of credit scoring to encourage the female gender to participate.

Age of Respondents

Table 1: Age of Respondents

Age bracket in years	Frequency	Percentage
18-21	12	5.5
22-25	23	10.6
26-29	46	21.1
30-34	82	37.6
Above 35	55	25.2
Total	**218**	**100.0**

The outcomes in Table 1 on age of respondents indicate that, majority of the respondents were within the age bracket of 30-34 accounting for 37.7% of the respondents. The results corroborates with those of Cheruiyot (2015) where majority of respondent were between the age of 30-34 years. This was closely followed by those aged above 35 years who accounted for 25.2% of the respondents accounting beneficiaries of YEDF who borrowed as youths but continues to repay the amount borrowed. While those aged 18-21 were the least accounting for only 5.5% of the respondents, followed by those aged 22-25, 26-29 accounting for 10.6% and 21.1% respectively. This implies that the older youth are more willing to take up loans to start or expand their businesses as compared to their younger counterparts. This could be that those aged above 30 years and above are the ones aware of loans provided by YEDF and have collateral that can be used to secure loans to boost their businesses. However, those aged between 18-29 years have low uptake of loans due to lack of collaterals, business and less awareness about YEDF. There is therefore need for YEDF to create more awareness on its loan products especially to the young generation entering the youth age bracket (Ogutu *et al.* 2011).

Marital Status

Table 2: Marital Status of Respondents

Status	Frequency	Percentage
Married	178	81.7
Divorced	19	8.7
Single	21	9.6
Total	**218**	**100.0**

From the results in Table 2 on the marital status of respondents, most them were married accounting for 81.7% of the respondents. However, only 8.7% were divorced while 9.6% were single. The findings imply that those married have collaterals to secure for the amount borrowed. Ssekiziyivu *et al.* (2018) attributed the high Percentage of the married taking up loans to them having more responsibilities and wanting to participate in economic activities to expand their source of income. There is therefore need for YEDF to create awareness among those single and even those divorced to take up more loans and engage in economic activities even when they are single.

Academic Qualification

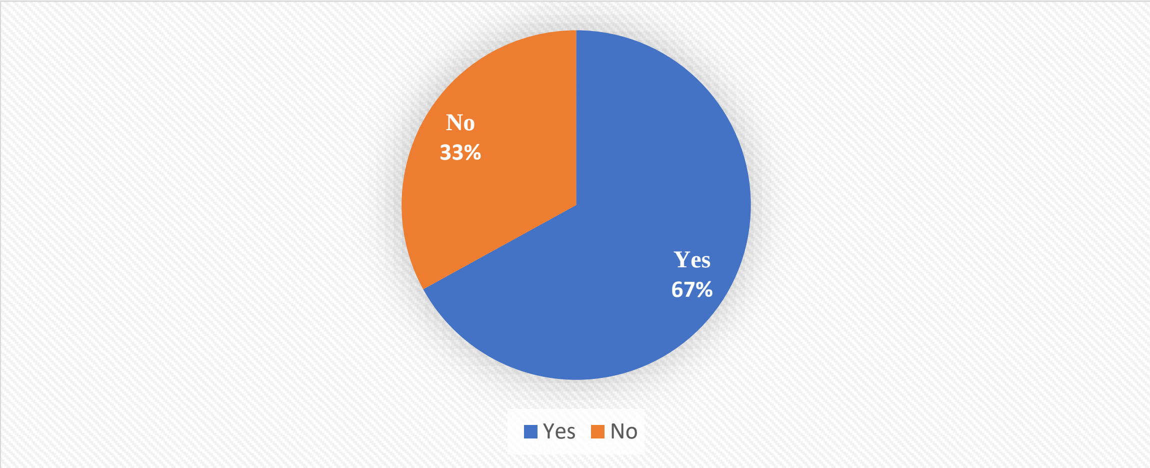

Figure 3: Academic Qualification

The respondents were required to either indicate Yes or No if they have attained any academic qualification. From Figure 3, majority of the respondents (67%) agreed that they had academic qualification while only 33% had no academic qualification. These findings agreed with those of Njangiru (2014) where majority of government microcredit beneficiaries had academic qualifications at 67%. This imply that most of those who take up YEDF loan are literate thus aware of importance of loans and existence of YEDF. However, there is need to create more awareness among those without academic qualification to take up loans since academic qualification isn't among the requirements for taking up loans.

Highest Level of Education

Table 3: Highest Level of Education

Education Level	Frequency	Percentage
Primary School Certificate	32	21.9
Secondary School Certificate	54	37.0
Certificate/Diploma	45	30.8
Bachelor's degree	12	8.2
Post graduate	3	2.1
Total	**146**	**100.0**

From the findings on the highest level of academic qualification, out of 146 respondents who had academic qualification, the majority who accounted for 37% had a secondary school certificate as their highest level of education. Those with certificate/Diploma accounted for 30.8%. However, those with postgraduate, Bachelor's degree and Primary school certificate were the least accounting for 2.1%, 8.2% and 21.9% respectively. The outcomes indicated that respondents who took a loan from the YEDF had basic education qualification thus have the basic knowhow of business operation and also how to access and use the YEDF loan. The results corresponds with the findings of Nyaga *et al.*(2020) where most of the respondents had secondary, certificate and Diploma education. This is highly recommended especially when using questionnaire as a tool for data collection as most respondent are in a position to read and answer the questions accurately with minimum error (Australian Bureau of Statistics, 2016).

Years of Business Operation

Table 4: Years in Business Operation

Years of operation	Frequency	Percentage
1-4	47	21.6
5-8	122	56.0
9-12	30	13.8
Above 13 years	19	8.7
Total	**218**	**100**

In Table 4 respondents' responses on the period, they had been in operation indicated that majority who accounted for 56.0% had operated the business for 5-8 years. This was followed by 21.6% who had operated the business for 1-4 years while only 8.7% had operated the business for over 13 years. Those who had operated the business for 9-12 years were 13.8%. This implies that respondents had been in business for 1-8 years thus have adequate knowledge on day-to-day business operation and repayment of the loan provided by YEDF. The outcome agrees with those of Makori (2017) where more years of running the business were more desirable in utilizing the amount borrowed.

Business Management Training

Figure 4: Business Management Training

The response as presented in Figure 4 indicated that almost all the respondents (96%) had no any business management training with only 4% having undergone business management training. This imply that most of the respondents have no technical skills in business management thus their business has a high risk of collapsing which may lead to defaulting of loans. There is need for vigorous training of business start-ups to equip them with adequate knowledge on business management before are offered loans (Muthoni, 2016).

Business Management Training Course

Figure 5: Business Management Training Course

Figure 5 shows that the majority of respondents (63%) who had business management training underwent the training for a duration of 2-3 months, while only 37% had gone through the training for a duration of 1 day-1 month. This suggests that those who had business management training received sufficient training to develop the necessary skills to operate or manage a business. The regression analysis indicates that an increase in borrower characteristics leads to an increase in loan repayment. This is shown by the regression coefficient of 0.720 (p=0.000). This indicates that borrower characteristics have a positive effect on loan repayment. However, the correlation analysis shows a weak positive relationship between borrower characteristics and loan repayment, with a coefficient of 0.441 (p=0.000). These findings are similar to those of Aberi and Jagongo (2018), who found a significantly positive association between borrowers' characteristics and loan repayment.

The null hypothesis (H0) was formulated as follows: Borrowers' characteristics have no significant effect on the repayment of individual loans provided by YEDF in Embu County, Kenya. The results indicate that the t-statistic has a p-value less than 0.05, therefore, the null hypothesis is rejected. This means that borrower characteristics have a significant positive effect on the repayment of individual loans provided by YEDF in Embu County, Kenya. These results are consistent with those of Phyllis (2016) and Yeboah, Oduro, and Njangiru (2017), who found that borrower characteristics have a positively significant relationship with loan default. However, they differ from the findings of Adamou et al. (2020), who found that borrower characteristics were not statistically significant on repayment behavior. Similar results were obtained by Ssekiziyivu et al. (2018), who found that borrower characteristics were not statistically significant to loan repayment performance.

CONCLUSION

The study concluded that borrower characteristics have a statistically significant positive relationship with the repayment of individual loans provided by YEDF in Embu County, Kenya. This finding is supported by the rejection of the null hypothesis, which stated that borrowers' characteristics have no significant effect on loan repayment. This implies that the low repayment rates among individual youth beneficiaries might be attributed to insufficient sensitization and training on YEDF's loan products. Effective outreach programs targeting all youth demographics, regardless of marital status, age, gender, or educational background, could potentially improve repayment behavior and ensure the program's sustainability. The current high default rates hinder YEDF from fulfilling its mission and limit opportunities for other young people to benefit from the program.

RECOMMENDATIONS

The study found a statistically significant positive relationship between borrower characteristics and repayment of individual loans provided by YEDF in Embu County, Kenya. This suggests that YEDF's current approach to reaching potential beneficiaries may have limitations, contributing to repayment challenges. Therefore, the study recommends that YEDF expand its outreach efforts to sensitize and train all Kenyan youth, regardless of marital status, gender, or educational background, on its loan products and the importance of timely repayment. Additionally, youth should actively seek information and utilize credit facilities offered by YEDF and other institutions for business ventures. Consistent repayment by beneficiaries will not only ensure future generations benefit from these programs but also prevent negative credit ratings that could hinder future borrowing opportunities.

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