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FINANCE

LENDER SPECIFIC FACTORS AND REPAYMENT OF INDIVIDUAL LOANS PROVIDED BY YOUTH ENTERPRISE DEVELOPMENT FUND IN EMBU COUNTY, KENYA

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ABSTRACT

Purpose of the Study: This study aims to investigate the impact of lender-specific factors on the repayment of individual loans provided by the Youth Enterprise Development Fund (YEDF) in Embu County, Kenya.

Statement of the Problem: Lender-specific factors significantly influence loan repayment behavior by individuals and organizations. Favorable lending terms and procedures encourage loan repayment, while unfavorable ones lead to defaults. The YEDF has experienced an increase in defaults on individual loans. While previous research on lender-specific factors and loan repayment presents mixed results, local studies reveal research gaps in this area within Embu County. Therefore, this study examines the effect of lender-specific factors on the repayment of individual loans provided by YEDF in Embu County, Kenya.

Methodology: Employing an explanatory research survey design and positivism research philosophy, the study targeted 705 individual loan youth beneficiaries from YEDF Embu County. A stratified random sample of 255 individuals participated. Primary data was collected using structured questionnaires and analyzed through descriptive and inferential statistics.

Logit regression analysis was used to investigate the relationship between the explanatory variables and the predicted variable (loan repayment).

Results: Descriptive analysis revealed that male beneficiaries outnumbered female beneficiaries. The majority of individual loan beneficiaries were within the 30-34 age bracket and were married. Most respondents reported having academic qualifications, while nearly all lacked business management training. Additionally, the study found a positive effect of lender-specific factors on loan repayment.

Conclusion: This study concludes that lender-specific factors have a statistically significant positive effect on the repayment of individual loans provided by YEDF in Embu County, Kenya.

Recommendation: The YEDF should prioritize streamlining and user-friendly application processes to facilitate loan acquisition for youth beneficiaries.

Keywords: *Lender, Repayment, Individual Loans, Youth, Enterprise Development Fund*

INTRODUCTION

Lender-specific factors in loan repayment are defined as the actions or inactions of the lender that influence borrowers' ability or inability to meet their debt obligations, causing loan default (Felix & Wachira, 2018). This study focuses on four key factors: loan approval process, lending institution technology, loan recovery process, and borrower monitoring. During the loan vetting process, lenders evaluate borrowers' financial positions and performance by analyzing past sales ratios, invested capital, and projected future business income to assess creditworthiness. Insufficient scrutiny can lead to issuing loans with a high risk of default (Angaine & Waari, 2014). Lenders should also conduct regular monitoring and evaluation to ensure loan funds are used according to the agreement. Failure to do so can result in borrowers diverting funds to other uses and defaulting on repayment (Njangiru, 2014). In 2020, the Youth Enterprise Development Fund (YEDF) reported disbursing loans totaling 473.3 million Kenyan shillings, of which it recovered only 247.2 million, representing a 52% repayment rate.

This statistic indicates potential sustainability concerns for the fund if factors contributing to low repayment are not addressed. Notably, the high default rate disproportionately affects youth groups compared to individual borrowers. Studies attribute this disparity to lengthy application and disbursement processes, which can cause borrowers to lose sight of their initial funding goals and divert funds to other uses (Cheruiyot, 2015). Previous research on YEDF loan repayment primarily focused on factors impacting C-YES group loans in various Kenyan regions (Muli, 2016; Vincent & Jagongo, 2018). Based on this analysis, limited research exists on the critical variables influencing individual loan product repayment from YEDF, which were launched in the 2012/2013 financial year. This gap motivates the present study, which aims to determine the effect of lender-specific factors on the repayment of individual loans provided by YEDF in Embu County, Kenya.

RESEARCH OBJECTIVE

The study sought to determine the effect of lender specific factors on repayment of individual loans provided by YEDF in Embu County, Kenya.

RESEARCH HYPOTHESIS

$H_{0:}$ Lenders' specific factors have no significant effect on repayment of individual loans provided by YEDF in Embu County, Kenya.

THEORETICAL REVIEW

This study draws upon loan pricing theory, which informs the independent variable of lender-specific factors. Friedman (1977) traces the theory's origins to Professor W.J.L. Ryan's 1958 work on price theory, later revised by D.W. Pearce in 1977. Loan pricing theory argues against maximizing profits through high interest rates, as this attracts risky borrowers with unprofitable projects, leading to moral hazards and adverse selection (Warue et al., 2018). As Chodechai (2004) notes, accurately predicting borrower types at the outset of the lending process is difficult, necessitating careful evaluation of adverse selection and moral hazards. Stiglitz & Weiss (1981) further emphasize this point, highlighting the issue of adverse borrower selection and moral hazards due to high credit information asymmetry in the credit market when setting high interest rates. Maonga (2016) argues that high interest rates set by lenders may not be proportionate to the borrower's risk profile. In this study, the theory holds particular significance. If lenders fail to properly vet loan applications to discern the borrower's true motives, only issuing loans to applicants willing to pay high interest rates, they risk experiencing adverse selection (Kwang'a, 2020). Notably, government microfinance institutions like YEDF utilize this theory in their loan processing, as their primary objective is not maximizing profit through high interest rates.

EMPIRICAL REVIEW

Erena and Yadeta (2019) surveyed Wasasa Microfinance clients and employees in Ethiopia to determine internal and external loan default causes. They found that poor loan appraisal, operational inefficiency, poor customer handling, and political instability were the main internal causes, with poor loan appraisal being the highest at 71.7%. However, their study lacked regression analysis and focused on a commercial microfinance institution, which differs from government-owned institutions like YEDF in terms of political influence and loan procedures. This study incorporates moderating effects of the regulatory framework and analyzes lenders' specific factors from the borrower's perspective.

Asfaw et al. (2016) investigated factors affecting non-performing loans in the Development Bank of Ethiopia. They found elongated loan approval processes, lax credit terms, aggressive lending, and compromised loan approval integrity to be significant factors. However, their study focused on a commercial bank with different lending procedures compared to government microcredit institutions like YEDF, which provide social capital for financial inclusion. Additionally, they investigated bank staff, while this study focuses on borrowers' perspectives through an explanatory research design. Mbugua and Kosimbei (2019) studied repayment of government financing in Kiambu, Kenya, focusing on group loans provided by the Biashara Fund. They found institutional factors like follow-up mechanisms, loan application processes, and repayment flexibility significantly impact loan repayment. However, their study differed from this study in several aspects: it focused on group loans instead of individual loans; it omitted the effects of technology on individual loan repayment; and it did not consider the moderating effect of the regulatory framework.

Mungai et al. (2020) examined the relationship between institutional loaning procedures and revolving fund sustainability in Murang'a. They found screening mechanisms, business plan requirements, and financial literacy to be significant factors. While their study incorporated the moderating effect of the regulatory framework, it analyzed group loans provided by government microcredit institutions, unlike this study, which focuses on individual loan products. Felix and Wachira (2018) investigated lender-specific determinants of default by SMEs in Kenya. They found interest rate structure and repayment mode to be significant factors. However, their study only considered two independent variables, while this study uses an explanatory research design to investigate more independent variables and incorporate the moderating effects of the regulatory framework.

CONCEPTUAL FRAMEWORK

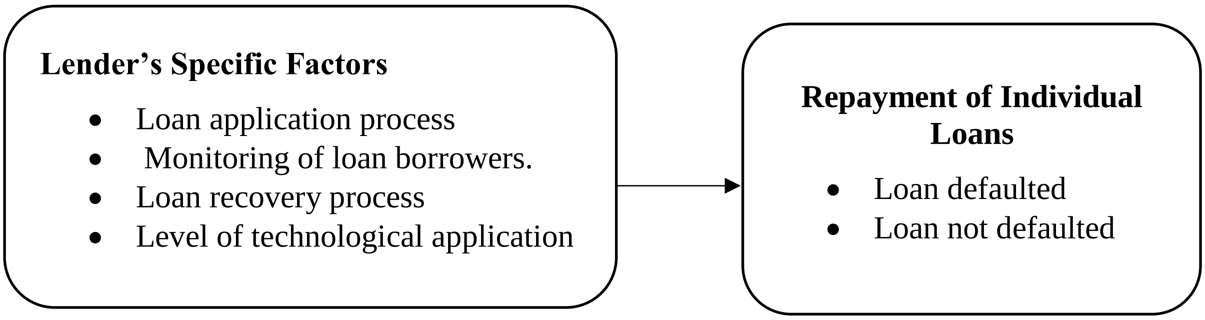

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

This study employed a survey research design to investigate the effects of lender-specific factors on the repayment of individual loans offered by YEDF in Embu County, Kenya. This design allows for identifying the connections between variables relevant to the research problem. Positivism research philosophy was chosen to facilitate the use of quantitative data analysis techniques. The target population was comprised of all individual loan youth beneficiaries from YEDF Embu County between 2012 and 2021, totaling 705 individuals. To ensure representativeness, the researcher employed proportionate stratified random sampling. The population was first categorized by sub-county, and then a representative sample was drawn from each sub-county for further analysis. This method allowed for generalizing the findings to the entire population. Primary data was collected through structured questionnaires designed to gather quantitative information. To ensure the validity of the instrument, a pilot test was conducted on a 10% sample. Face validity was addressed by distributing questionnaires to 10% of the sample to assess whether respondents interpreted the questions consistently. Construct validity was established through expert opinions from the study supervisor, YEDF county credit officers, and youth entrepreneurs involved in relevant businesses. Additionally, Cronbach's alpha coefficients were calculated to measure the internal consistency reliability of the independent and dependent variables.

FINDINGS AND DISCUSSIONS

YEDF Loan Application

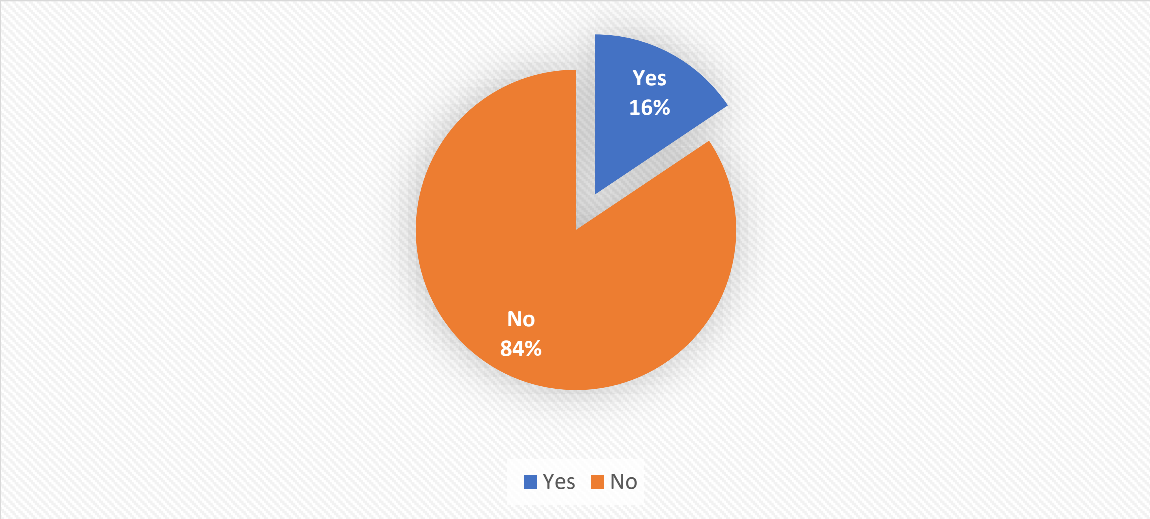

Figure 2: YEDF Loan Application

The response as shown in Figure 2 indicate that 84% of respondents felt like the Youth Enterprise Development Fund application process wasn't easy with only 16% indicating that the application process was easy. This imply that difficulty in the application process has to some extend affect the uptake of the loan thus; there is need for the YEDF to simplify the loan application in order to minimize on the frustration experience during the application process (Cheruiyot, 2015).

Loan Application Period

Table 1: Loan Application Period

Period for loan application	Frequency	Percentage
1-2 months	16	7.3
3-4 months	44	20.2
5-6 months	86	39.4
7 months -1 year	72	33.1
Total	**218**	**100**

The results from Table 1 indicate that the majority (39.4%) of the respondents had their loan application process taking between 5-6 months while those whose loan took a period of 7 months to 1 year accounted for 33.1%. However, only few (7.3%) had their loan application process taking between 1 to 2 months and 20.2% had their loan application process taking between 3 to 4 months. This imply that the application process of Youth Enterprise Development Fund takes between 5 months to 1 year. There is need for Youth Enterprise Development Fund to hasten the loan application process and simplify the process by embracing technology (Cheruiyot, 2015).

Times Visited by YEDF after Loan Disbursement

Table 2: Times Visited by YEDF after Loan Disbursement

Follow up times in a year	Frequency	Percentage
1-3 Times	37	17
4-5 Times	64	29.4
5-7 Times	106	48.6
Above 7 Times	0	0
Total	**218**	**100**

From Table 2, majority of participants (48.6%) indicated that within a year after their loans were disbursed, the Youth Enterprise Development Fund officials visited them 5-7 times. This was followed by 29.4% who indicated that the officials visited them 4-5 times. However, only 17% indicated that the Youth Enterprise Development Fund officials visited them between 1 to 2 times within a year after their loans were disbursed. This imply that Youth Enterprise Development Fund officials conducted sufficient follow ups after disbursing the loans to the applicants.

Delayed in Making Loan Installments

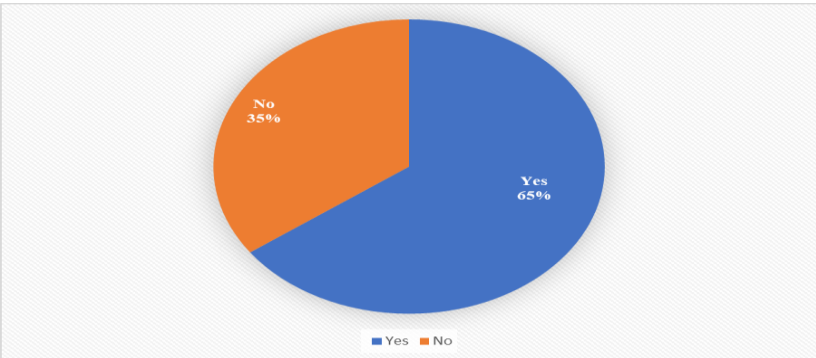

Figure 3: Delayed in Making Loan Installments

As shown in Figure 3, respondents were asked about their experience with delaying or missing monthly loan installment payments. The majority (65%) reported having missed an installment at least once, while 35% indicated perfect on-time payment history. These findings suggest potential underlying factors, such as lack of business management training, cash flow issues, or limited financial knowledge, that may hinder timely repayment. However, it is important to note that some late payments may be settled later, in smaller installments than agreed upon, or not at all (Vincent & Jagongo, 2018).

Followed by Loan Officer

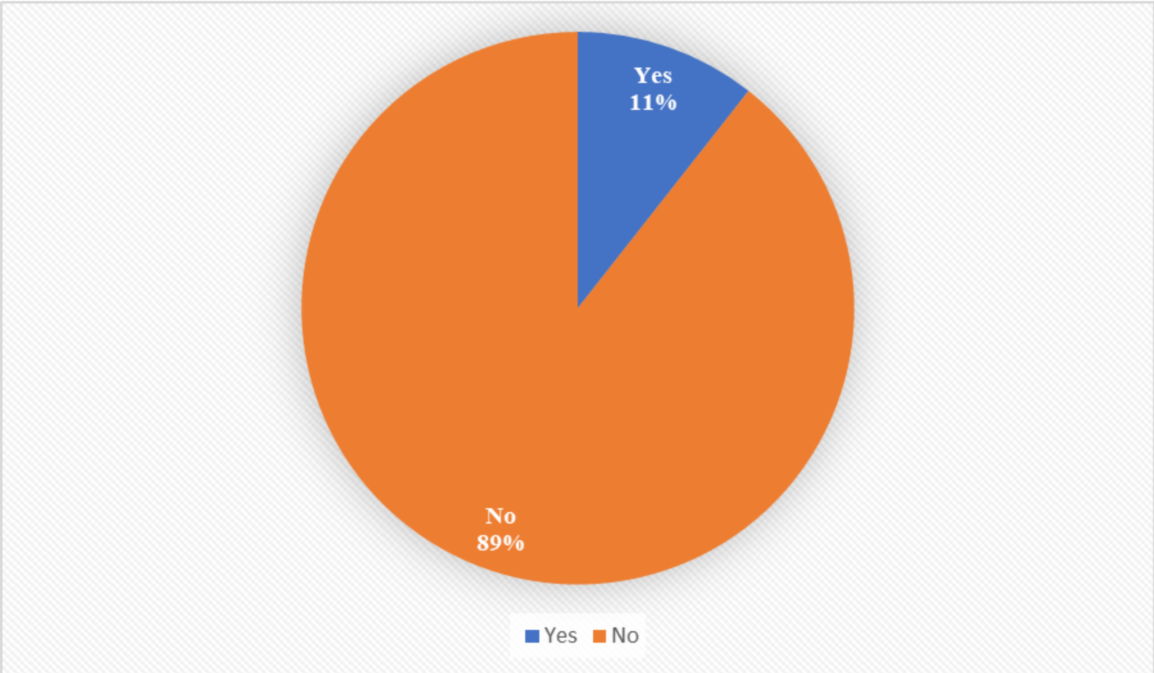

Figure 4: Followed by Loan Officer

The study findings in Figure 3 indicated that the Youth Enterprise Development Fund loan officer did not follow up the majority of the respondents (89.4%) despite having ever missed their monthly loan installments. However, the loan officer followed up only 10.6% after missing their monthly loan installments. Mbugua and Kosimbei (2019) noted that institutional factors which included follow up mechanism are key to loan repayment.

How Follow Up Was Done

Table 3: How Follow Up Was Done

Follow up process	Frequency	Percentage
Phone call reminder	13	86.7
SMS reminder	2	13.3
Demand Letter	0	0
Physical Visits reminder	0	0
Total	**14**	**100**

As shown in Table 3, the majority (86.7%) of borrowers followed up by the Youth Enterprise Development Fund loan officer were contacted by phone call. However, only 13.3% received follow-up reminders via SMS, and no respondents reported receiving demand letters or physical visits. This suggests a potential lack of consistent follow-up for delinquent loan payments by YEDF County credit officials, aligning with Norhaziah et al. (2010)'s findings.

YEDF Digital Loan Repayment Platform

On whether Youth Enterprise Development Fund have a digital platform for loan instalment deposit every month, all participants indicated that there is no digital platform to enable them make their monthly installments. This signifies that lack of a digital loan repayment platform by YEDF also contributes to missing of the respondents in making monthly installments due to lack of efficiency and convenient in loan repayment. Therefore, there is need for Youth Enterprise Development Fund to develop an online platform that can enable those who took loans make their monthly installments at their own convenience (Zedadra *et al.* 2019). This will increase the monthly repayment rate.

Access to Updated Loan Statement from YEDF

The researcher looked for an understand whether the youths have access to updated loan statement at their convenience. The results indicated that there is no access to updated loan statement at their convenience unless they visit the Youth Enterprise Development Fund offices where they are provided with hardcopies of their loan statement. This imply that there is need for Youth Enterprise Development Fund to develop an only platform such as SSD code, SMS or internet based including emails where users can have access to their updated loan statement at their own convenience (Njangiru, 2014).

CONCLUSIONS

The study looked at the relationship between lender-specific factors and the repayment of individual loans provided by YEDF in Embu County, Kenya. The findings reveal a statistically significant positive relationship between these factors and borrower repayment behavior. In other words, improved practices in loan application processes, post-disbursement visits, non-repayment follow-up procedures, and technology utilization are associated with increased loan repayment rates. However, the positive relationship also suggests that YEDF's current approach to managing these factors may not be fully optimized for maximizing repayment. The rejection of the null hypotheses further supports this conclusion, indicating that lender-specific factors do indeed have a significant impact on repayment. Therefore, based on these findings, it is recommended that YEDF implement strategies to strengthen its internal mechanisms for managing lender-specific factors. This could involve streamlining the loan application process, conducting more frequent post-disbursement visits, enhancing non-repayment follow-up efforts, and investing in more advanced technology solutions.

RECOMMENDATIONS

Lenders' specific factors having a positively significant relationship with repayment of individual loans, YEDF should ensure to speed-up and make its user friendly its application process. This will encourage more applicants and ensure the funds applied for by the beneficiaries have been utilized for the purpose for which they were applied for. This will ensure repayments have been done as and when they fall due. Lending institutions including YEDF should put in place monitoring mechanisms to ensure beneficiaries utilize the funds for the purpose for which they were meant for this will improve their repayment rate. Government microcredit institutions should develop robust all in one information management system which should contain all its loan processes. The system should be able to map out all its clientele at any given point. Such a system will be in a position to link data from the ministry of immigration where it will note those joining the youth age bracket and those exiting the youth age bracket. This will be important for the institution's decision making and planning including, sensitization and training youths on different business aspects.

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