Effect of Socio-economic Factors on Loan Repayment Performance of Youth Revolving Fund in Oromia Regional State, Ethiopia

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Available at: https://doi.org/10.38039/2214-4625.1020

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Effect of Socio-economic Factors on Loan Repayment Performance of Youth Revolving Fund in Oromia Regional State, Ethiopia

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Abstract

The Youth Revolving Fund (YRF) loan was established to help unemployed youths alleviate their economic and social difficulties. However, its loan repayment performance is not as expected. Thus, the objective of this study was to examine the effect of socio-economic factors on loan repayment performance of the YRF in the Oromia Regional State. Data was collected through a survey involving 328 respondents. Results showed peer pressure, loan diversion, time of maturity of investment and predominant economic shocks affected loan repayment at a 5% significance level. The paper provides recommendations for the government to create awareness about the YRF loan, as well as to reconsider training and guidance, and to develop an alternative fund utilization strategy.

Keywords: Youth revolving fund, Socio-economic factors, Loan repayment, Loan diversion

1. Introduction

Financial services provided to the poor in the form of the Youth Revolving Fund through microfinance are among the powerful tools to fight poverty. Access to a well-functioning financial system can allow individuals both economically and socially to integrate more successfully into the economy of countries and protect themselves against economic tremors (Rashid, 2015; Lopatta et al., 2017). Governments also set aside from the budget (Youth Revolving Fund) to provide access to finance and help specifically unemployed youth be involved in income-generating activities, which induce them to accumulate the capital needed for investment and improve their living standards, on top of the service given by microfinance institutions (World Bank, 2015; Nawai & Shariff, 2012; Mokhtar et al. 2012).

In developing countries like Ethiopia, in most cases, poor people have no credit access from banks because of a lack of collateral to use as security. Microfinance provides poor people with financial services such as loans, savings, and micro-insurance on an individual or group basis to help them fill their financial problems (Tadele, 2014). On the other hand, the rise in youth unemployment is not proportional to the economic growth to generate job opportunities for all youth at the same time. In several countries, youth unemployment remains a major issue, especially in light of the current global financial and economic crisis. Currently, the issue of unemployed youth has become a serious agenda for most developing countries, specifically in sub-Saharan Africa (ILO, 2017). The World Bank in “A 2015-baseline report of Solutions for Youth Employment (S4YE)” argued that today’s youth would not be able to escape poverty or address economic exclusion by 2030 if they do not have a means of employment (World Bank, 2015). A report by Ethiopia, “Voluntary National Review on Sustainable Development Goals (SDGs),” pointed out that a high unemployment rate needs special attention for increased and rigorous efforts to continuously build their capacities and systems that

In the struggle to enhance youth employability, eliminate poverty and accelerate development, many African countries (Botswana- National Youth Fund (NYF) in 2004, Mali- APEJ 2003, Tanzania - Tanzania Youth Development Fund (TYDF)in 1993/94, Kenya- National Enterprise Development Fund (NEDF) in 2006, South Africa- National Youth Development Agency (Usombuvu Youth Fund) in 2001, Namibia, and Tunisia- Youth Development Fund (YDF) in 2011, etc.) have established Youth Revolving Funds in addition to the former efforts they made to help unemployed youth to start their businesses through MFIs (ILO, 2017). Ethiopia has also established the Youth Revolving Fund package as an additional special package for unemployed youth in response to common developmental goals by the Proclamation No. 995/2017, which amounted was $456 million (10 billion (ten billion) Ethiopia Birr). The objective of this is to provide youth with financial and technical assistance in alleviating their economic and social difficulties by engaging in group-based income-generating activities.

To ensure this objective, it is necessary to follow up and manage the implementation of the funds carefully for the sustainability of the fund and the success of youth employment objectives. However, the findings of many studies in different countries, specifically in underdeveloped and developing counties, showed that MFIs are suffering from loan defaults, both regular credit, and YRF credit, because of many reasons which may or may not be common to all countries (Korankye, 2014; Kiliswa & Sayeed, 2014; Oringo et al., 2016). The practical implementation of the YRF loan needs continuous follow-up and monitoring to ensure the fund’s sustainability, as failure to manage the Youth Revolving Fund’s sustainability may result in many negative consequences of youth unemployment.

When young people are not fully participated in the labour force, it will be a burden and risk for the government in the form of the increased cost of social safety nets, lost productivity, and ever-mounting social costs. When youth unemployment goes extreme, the consequences may expand to a similar situation to the Arab Spring (QadirMushitaq & Afzal, 2017). The finding of the study at Ambo town in Oromia, Ethiopia, on ‘consequences of youth unemployment’ depicted an increase in migrants, physical and sexual abuse, mental and psychological depression or hopelessness, drug addiction, illegal gambling, social unrest; community insecurity, crime, and national fragility are some of the consequences of youth unemployment (Terefe et al., 2016). These will hamper the country’s national security and economic development, endanger the lives of unemployed youth, and the program’s sustainability will be elusive; as a result, youth employment will suffer, and the YRF’s goals would be missed. The objective of this study was to examine the effect of socio-economic factors on loan repayment performance of the Youth Revolving Fund in Oromia Regional State, Ethiopia by testing the following null hypotheses:

- **Ho1:** There is no relationship between peer pressure on loan repayment performances of YRF in the study area.
- **Ho2:** There is no relationship between belief in society about creating own job and loan repayment performances of YRF in the study area.
- **Ho3:** There is no relationship between incomes from the type of business financed by the loan on Youth Revolving Fund loan repayments.
- **Ho4:** There is no relationship between loan diversions on loan repayment performance of YRF in the study area.
- **Ho5:** There is no relationship between distances of burrowers’ residence from lending institutions and loan repayment performance of YRF in the study area.
- **Ho6:** There is no relationship between peer poor business performance and loan repayment performance of YRF in the study area.
- **Ho7:** There is no relationship between the predominant shocks in the economy and loan repayment performance of YRF in the study area.
- **Ho8:** There is no relationship between the time of maturity of investment and loan repayment performance of YRF in the study area.

2. Literature of the study

2.1. Theoretical review

2.1.1. Solidarity group theory

The solidarity group theory (group lending in theory) postulated by Karlan and Morduch (2009) focused on micro-credit loan borrowing and repayment of youth and women groups. The theory encouraged the peer group to consist of five or more members willing to borrow a loan in solidarity. The members are supposed to be chosen at their discretion based on their criteria and relationships, thus, if one of the group members defaults (fails to repay); the remaining members of the group are accountable and pay his or her share of the loan. This ensures that costs are shared between the borrowers and the loan managing organization (Morduch, 1999).

Another theory postulated by Wahid (1993) is applied to Microfinance institutions and stresses that
financial institutions have reached many people, such as the poor, who do not have collateral to secure loans by using joint liability. This theory support unconventional lending practised by the Grameen bank theory postulated by Mohamed Yunus in the late 1980s. However, the joint liability has the condemnation based on the fact that the repayment is the responsibility of the whole group. It may also encourage the borrower's own decision to default by assessing their peers' likelihood of defaulting status. The association of the individual or organization, appraisal (strength or weakness) with other individuals or organizations, according to Granovetter (1985), is an essential aspect associated with social capital. Of course, social capital is multidimensional, with the primary levels of social capital at the national and individual levels (Tatarko, 2013). Social capital at the country level is in the form of trust, which creates additional favourable settings for the successful development of entrepreneurial, which improves the nation's overall welfare (Kwon & Arenius, 2010). On the other hand, individual social capital is ‘the collection of resources owned by the group members' individual personal social network, which may become accessible to the individual because of the experience of these relationships” (Van, 2005).

Group lending in theory (solidarity group theory) is important to the study because YRF loan follows the group-based approach to providing access to finance for unemployed youth. Therefore, it is used as a fundamental theory in looking into the effect of socioeconomic factors on loan repayment performance and its sustainability.

2.1.2. Guiding principles of loan repayment

The guiding principles of loan repayment, developed by (Zena, 2009), state that banks and most financial institutions have used a credit policy to secure that their money is repaid, as stated in the loan operation agreements. According to these principles, the credit delivery system should create clear eligibility criteria that prioritize the most vulnerable households considering their repayment capacity. Borrowers' repayment capacity is the most important factor in determining their creditworthiness. To analyze the borrower's competence, lenders should look at the borrower's historical record (both personal and company profit), past success, and the borrower's reputation and attitude toward financial commitments. Lenders should constantly link credit to a borrower's positive personal characteristics, such as integrity, honesty, accountability, reliability, and sincerity (Zena, 2009).

In this study, there are certain guiding principles of loan repayment set by the government that are YRF loan specific for assuring the fund's repayment and sustainability. According to proclamation No. 995/2017, the beneficiaries of YRF loans in Ethiopia are expected to fulfill significant criteria such as certificate not employed and job seeker, being in the age range of 18–34 years of age, able to deposit (save) ten per cent (10%) of the amount required for the proposed project, the interest rate charged on loan was 8%, the maximum ceiling payback period of five years, the borrower should have a good personal character from the community they lived in, and the business types they engaged.

2.2. Empirical review

2.2.1. Peer pressure and loan repayment

Peer pressure has both positive and negative impacts on the performance of loan repayment. The study by Bukenya et al. (2019) depicted how peer pressure negatively affected repayment performance and the result showed that some youth convinced the group members and pressured them to share the money among themselves and do their business than doing the planned project. A study in Uganda by Bukenya et al. (2019) also revealed that some group leaders develop a small clique and exploit the money to benefit themselves against the majority of group members and planned investment stated in the application for the youth loan funding which exposed the loan-to-loan losses. Another study in Kenya by Wongnaa (2013), also revealed that peer pressure, meeting attendance index, and heterogeneity index have positively influenced loan repayment performances.

2.2.2. Loan diversion

The study on “loan default and performance of the Youth Enterprise Development Fund of Dagoretti” in Kenya found that loan diversion was among the factors that negatively influenced loan repayment performances and impaired sustainability (Aberi & Jagongo, 2018). The finding of a study in Malaysia by Murthy and Mariadas (2017), also revealed a negative relationship between diversion of funds and loan repayment in which many borrowers used the fund for unintended (non-investment) purposes, resulting in an increased probability of loan default. Gebeye (2019) also identified that variables like repayment schedule and loan diversion for celebrations of social ceremonies, other sources of income, and external economic shock significantly and adversely affected the loan repayment performance. The diversion of loans for social occasions, such as marriages, circumcision, and the funeral of a family member or close relative that require financial
resources above what the borrowers can afford and were obliged to redirect funds for social ceremony celebrations and forced to default the loan, was discovered in research by Gebeyehu et al. (2013) and Million et al. (2012) as among factors that increase loan defaults. The study by Abera and Asfaw (2019) also showed that variables including family size, the distance of the loaning institution from the borrower’s house, and revenue gained from projects financed by the loan have a substantial impact on borrowers’ loan repayment performance.

2.2.3. Nature of business financed by the loan

The nature of business operations financed by loans significantly impacts loan repayment performances. The study’s findings in Malaysia on determinants of microcredit loan repayment problems disclosed that borrowers who were interested in agricultural operations had difficulty repaying their loans on time. As per the finding, the main reason for loan default was the nature of their businesses’ irregular revenue caused by drought or flood, where there was no micro-insurance policy, especially weather insurance for borrowers (Murthy and Mariadas (2017); Mokhtar et al., 2012). The study in Kenya on “loan default and performance of the Youth Enterprise Development Fund” discovered that most defaulted groups were those whose businesses failed because of the wrong choice of the businesses financed by loans (Aberi & Jagongo, 2018). Another study in Kenya also showed that the manufacturing sector was the defaulted sector, followed by the service industry. Whereas; agriculture and trade sectors were ranked among the minor loan repayment defaulted sectors. According to the findings (Angaine & Waar, 2014; Odhiambo et al., 2013), poor business proceeds, investments that took a long time to mature (business life), and a lack of continuity in groups were all blamed for the low repayment. The study findings on “factors affecting loan repayment performance of smallholder farmers in East Hararghe”, Ethiopia, investigated that the average revenue earned by a borrower from crops and livestock during production directly affected the loan repayment performances. The finding showed that non-defaulters obtained more cash from crops, livestock, and additional income from off-farm activities than defaulters (Sileshi et al., 2012).

2.2.4. Distance of borrower’s residence from the lending institution

The result of the study by Jote (2018) using a binomial logistic regression model revealed a favourable relationship between the borrower’s residence and loan repayment MFIs. The findings concluded that as closer a borrower is to the institution, the better (becomes closer to the institution), and so does their ability to repay their loan. Abera and Asfaw (2019), using the ‘Tobit model’, also showed that the further distance between the lender’s office and the borrowers’ residence posed a substantial harmful effect on the borrowers’ ability to repay their loans. In contrast to this, borrowers who live near the lender’s office are more likely to repay their debts.

Studies in the above review depicted major socioeconomic factors that cause the loan to default; such as the effect of peer pressure, problems of loan diversion, the impact of loan payback schedule, the effect of the borrower’s family size, and the distance of the loaning institution, type of project financed by a loan, and businesses failed because of the wrong choice of business. However, they sought them from MFIs regular loan and didn’t see from the point of view of Youth Revolving Fund and didn’t include family pressure and enforcement, problems of inadequate loan size and its mismatch with the proposed project and lack of other sources of income for daily expenditure. The current study incorporated these variables from the perspectives of YRF loan repayment performance and its sustainability.

2.3. Conceptual framework

Considering the various socioeconomic factors related to variables that could affect loan repayment performances and the sustainability of YRF in Oromia/Ethiopia, the researcher developed the following conceptual framework. The conceptual model is used to assess overall factors related to loan repayment performance and sustainability of YRF, such as Youth perception/mindset, peer pressure, belief in society on creating own job, loan diversion, poor business performances, and predominant shocks in the economy as indicated in Fig. 1 below.

3. Material and methods

3.1. Descriptions of the study area

The research was conducted in Ethiopia’s Oromia Regional State, located in Africa’s horn. Ethiopia is organized into eleven regional states and administrative councils. Oromia (Oromiyaa) is the largest region in geographical area and population and the homeland Oromo people. It is situated in the heart of the country, surrounding Finfinne, also called Addis Ababa (the capital city of Oromia and Ethiopia), in all directions. Currently, the state has 21 administrative zones and over 300 districts, all of which have a pleasant climate for life and good fertile land for
investment and development. Oromia’s population was estimated to be about thirty-eight million in mid-2018, and its land area is about 535,690 square kilometres (CSA, 2020). Fig. 2 below shows the map of Oromia Regional State, Ethiopia in East Africa.

3.2. Research design, sampling techniques and procedures

The study employed a cross-sectional descriptive and explanatory research design with mixed techniques, which includes elements of both qualitative and quantitative approaches, to achieve the best results. Because in theory, the overall strength of a mixed-method of study is greater than either qualitative or quantitative research approach used separately (Morgan et al., 2019; Rahi, 2017; Creswell & Clark, 2007; Sauders et al. 2007). The total population of this study was 29,942 YRF loan beneficiary groups and loan officers in the region, from which a representative sample of 380 was selected using Kothari’s (2004) formula at a 95% level of confidence and a 5% confidence interval to enhance the reliability of the findings.

\[
n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2(N-1) + z^2 \cdot p \cdot q}
\]

(1)

Where;

- \(N\) = Total population of the study
- \(z\) = 1.96 (as per table of the area under the normal curve for the given confidence level of 95%).
- \(P\) = the proportion of participation or perception,
- \(q\) = the proportion that may not include and
- \(e\) = the error term

The representative sample size was determined using a multi-stage sampling method. Stage I, 20 Oromia zones, were divided into five clusters based...
on geography and business activities. In a sampling design stage II, sample respondents were proportionally allocated to the percentage of the total population of the nine (09) purposively selected zones. Finally, 380 respondents were selected from the selected cluster zones (353 sample beneficiary groups through simple random sampling techniques and 27 loan officers).

3.3. Methods data collection

The primary data for the current study were collected from sample respondents in nine zones of Oromia Regional State using structured questionnaires measured on a five-point Likert scale ranging from strongly disagree (1) to strongly agree(5) that was adapted from questionnaires developed by Moti (2012), Papias and Ganesan (2009), and Lehmann and Neuberger (2001). Semi-structured interviews and Focus Group Discussions (FGD) were used to collect qualitative data from the selected sample size. Both the questionnaire and interview guide were translated to the local language (Afan Oromo) to make things more clear and more convenient for respondents. Secondary information was gathered from regulations and Oromia Credit and Saving Share Company (OCSSCo) annual reports for 2016/2017-2020/2021.

3.4. Test of reliability and content validity

Pilot research was conducted using forty (40) Youth Revolving Fund beneficiaries and the results demonstrate that all of the instrument's components had a Cronbach's alpha value of more than 0.7, indicating that the instrument was trustworthy to use (Field, 2009; Kline, 1999). To assess content validity, the formula created by C. H. Lawshe (1975) employed which is one of the most extensively used ways of testing content validity.

\[
\text{CVR} = \frac{n_e - N/2}{N/2}
\]  

(2)

Where:

- CVR = a direct linear transformation from the percentage saying “essential”
- \(n_e\) = the number of panelists indicating “essential”
- \(N\) = the total number of SME panelists.

According to Lawshe, if the formula yields CVR which ranges from +1 to −1; positive values indicate that at least half of SMEs rated the item as essential. The result of CVR in the current study was + 0.75 which indicated that the CVR across items may be used as an indicator of overall test content validity (Lawshe, 1975).

3.5. Methods of data analysis

3.5.1. Ordinal logistics regression model

The ordinal logistic regression model was used for examining the effect of socioeconomic factors variables on loan repayment performances of YRF. Logistic regression models are more commonly used in the literature on the relationship between an ordinal dependent variable and more than two explanatory variables (McCullagh & Nelder, 1989; Agresti, 2010; Hosmer et al., 2013). As a result, the current study used the proportional odds model (also called the cumulative logit model) as it is the easiest model for applying or interpreting. It estimates the cumulative odds and the probability of an observation being at or below a specific outcome level, conditional on a collection of explanatory variables.

A set of \(j−1\) equations defines an ordered logit model for an ordinal response \(Y_i\) with \(j\) categories, and \(p\) be the number of independent variables (Draft of Grilli & Rampichini, 2021).

\[
\log[P(Y \leq i)] = \alpha_i - \beta X_i
\]

(3)

Where \(j = 1, \ldots, -1\) and \(i = 1, 2, \ldots, p\) or

\[
\log \left( \frac{P(Y \leq j)}{1-P(Y \leq j)} \right) = \text{Logit} = \alpha_j - \left( \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_p X_p \right) j = 1, 2, \ldots, j-1
\]

(4)

Where:

- \(\alpha_j\) = the cut points/thresholds, are in increasing order \((\alpha_1 < \alpha_2 < \ldots < \alpha_{j-1})\)
- \(\beta_1, \beta_2, \ldots, \beta_p\) = logit coefficients,
- \(P\) = the number of independent variables
- \(\text{Logit}\) = the natural logarithm of the ratio of the probabilities
- \(P(Y \leq j)\) = cumulative odds for \(j\) the dependent variable category.
- \(X_i\) = Dependent variables or predictors

From equation (1), the cumulative probability for category \(j\):

\[
P(Y \leq j) = \frac{e^{\alpha_j - (\beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_p X_p)}}{1 + e^{\alpha_j - (\beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_p X_p)}}
\]

\[
= \frac{1}{1 + e^{\alpha_j - (\beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_p X_p)}}
\]

(5)
The major expected independent variables of this study are: peer pressure (X1), belief in society/culture to be employed (X2), incomes from the type of business financed by the loan (X3), loan diversion (X4), distances of borrowers’ from lending institution (X5), poor business performance (X6), predominant shocks in the economy (X7) and time of maturity of investment (X8). Accordingly, the following model was applied in this study:

$$\text{Log} \left( \frac{P(Y \leq j_i)}{1-P(Y \leq j_i)} \right) = \alpha_i - (\beta_1X_1 + \beta_2X_2 + \ldots + \beta_8X_8)$$  \hspace{1cm} (6)

Where:

$$\frac{P(Y < j_i)}{1-P(Y < j_i)} = \text{the probability of the presence of the characteristics of interest,}$$

$$\alpha_i = \text{the cut points/thresholds}$$

$$\beta_1, \beta_2, \ldots, \beta_p = \text{logit coefficients,}$$

4. Results

4.1. Descriptive analysis

4.1.1. The response rate

A total of 380 sample respondents were used for this study by dividing them into two response categories (353 sample respondents were selected to respond to questionnaires, and 27 respondents were addressed through the interview). From 353 questionnaires distributed to respondents, 85% of questionnaires were correctly filled, collected, and used for this study analysis. All twenty-seven (27) respondents were selected for an interview well addressed, and their responses were included in this analysis. The overall response rate for this study was about 86% of the target sample respondents. According to Draugalis et al. (2008) and JoLaine et al. (2020), a 50%–60% or above response rate is ideal and sufficient for research. As a result, the response rate for this survey (86%) was excellent, as it was higher than the optimal standard.

4.1.2. Demographic characteristics

Under this section, demographic characteristics such as respondents' gender, position, marital status, level of education, experience, and the age brackets of group members were presented. The proposed ideal number of group members for better loan management was also presented. The detailed data regarding this is summarized in Table 1 below.

Table 1 revealed that 71% were male, whereas 29% were female respondents, which shows a high disparity between male and female beneficiaries of the youth revolving fund loan. The participation of female beneficiaries was even below 30% of the total borrowers. Regarding the respondents’ position in the group, 41% were chairman, 24% were cashiers, 11% were secretaries, 8% were accountants, and 16% were members, which indicates that the data was collected from respondents with different information sources that considered all positions in the group, including the group members. The single respondents account for the lion's share, which was more than half of the respondents, 54%, followed by married respondents, 42%, whereas the widowed and divorced respondents were 2% and 2%, respectively. This implies that most of the beneficiaries of YRF were single group members, which might risk the continuity of the group following the assumption that they are less committed to taking group responsibility, whereas the married group members are assumed to take more additional responsibility for most groups keeping other things constant.

The result (Table 1) shows that 26%, 14%, 18%, 20%, and 22% elementary schools, certificates, high schools, certificates, diplomas and degree level of education respectively. This implied that the level of education may affect the group dynamics on fund utilization and financial management keeping other variables remaining constant. Concerning respondents' experience, most of the respondents have experience of more than 1 year. Of the total of 301 respondents of this study 55% of them had experiences of 1–3 years followed by 23% with experience of 4–5 years. This implies that the group members have experiences in fund utilization and

Table 1. Demographic characteristics of the sampled respondents (N = 301).

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender (Sex)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>213</td>
<td>71</td>
</tr>
<tr>
<td>Female</td>
<td>88</td>
<td>29</td>
</tr>
<tr>
<td>Position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chairman</td>
<td>124</td>
<td>41</td>
</tr>
<tr>
<td>Cashier</td>
<td>72</td>
<td>24</td>
</tr>
<tr>
<td>Secretary</td>
<td>34</td>
<td>11</td>
</tr>
<tr>
<td>Accountant</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>Member</td>
<td>47</td>
<td>16</td>
</tr>
<tr>
<td>Marital Status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>163</td>
<td>54</td>
</tr>
<tr>
<td>Married</td>
<td>125</td>
<td>42</td>
</tr>
<tr>
<td>Widowed</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Divorced</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Level of Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary school</td>
<td>78</td>
<td>26</td>
</tr>
<tr>
<td>High School</td>
<td>42</td>
<td>14</td>
</tr>
<tr>
<td>Certificate</td>
<td>54</td>
<td>18</td>
</tr>
<tr>
<td>Diploma</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>Degree</td>
<td>66</td>
<td>22</td>
</tr>
<tr>
<td>Experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than one year</td>
<td>41</td>
<td>14</td>
</tr>
<tr>
<td>1–3 years</td>
<td>164</td>
<td>55</td>
</tr>
<tr>
<td>4–5 years</td>
<td>68</td>
<td>23</td>
</tr>
<tr>
<td>Above 5 years</td>
<td>28</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Survey Data (2021).
management to provide reliable and relevant information on loan repayment performance of youth revolving funds.

4.2. Test of reliability

Cronbach’s alpha is the best standard measure of internal consistency. The values of the alpha coefficients for items of current study show 0.78, 0.75, 0.77, 0.76, 0.76, 0.80, 0.78, and 0.76 respectively for items one to eight. This indicates that respondents who gave high scores for one item also gave high scores for the others; conversely, respondents who gave low scores for one item gave low scores for the other claims of loan repayment success and YRF’s sustainability (Table 2). All of the instrument’s components had an acceptable Cronbach’s alpha of greater than 0.7 and the overall test scale of 0.79 indicating that the instrument was trustworthy to use dependably (Field, 2009; Kline, 1999).

4.3. Effect socioeconomic factors on youth revolving fund loan repayment

The result (Table 3) below indicates that there is a significant relationship between socioeconomic factors and YRF loan repayment performances and its sustainability. Almost all of the sample respondents (95% and 94%) reported that peer pressure influenced the borrowers to use the fund to search for governments or non-governmental organizations (NGO) employment than facing hardship in creating their businesses (jobs), and prevailing shocks in the economy were the problems that cause YRF loan to default respectively. This implies that because of peer pressure fund was diverted to unplanned expenditure than used to finance the proposed project, which may affect YRF loan repayment performances.

The result (Table 3) showed that a large number of respondents (88%, 87%, and 80%) indicated that the

Table 2. Cronbach’s alpha overall loan repayment performance of youth revolving fund variables and their reliability test.

<table>
<thead>
<tr>
<th>SN</th>
<th>Variables</th>
<th>inter-rest correlation</th>
<th>Alpha Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Peer pressure to use the fund to search for government employment than creating own businesses (jobs).</td>
<td>0.3609</td>
<td>0.78</td>
</tr>
<tr>
<td>2.</td>
<td>The belief in society to be employed in other organizations than creating own job.</td>
<td>0.6339</td>
<td>0.75</td>
</tr>
<tr>
<td>3.</td>
<td>Income from the type of business financed by the loan. than creating own job.</td>
<td>0.4349</td>
<td>0.77</td>
</tr>
<tr>
<td>4.</td>
<td>Loan diversion to unplanned expenditure.</td>
<td>0.5189</td>
<td>0.76</td>
</tr>
<tr>
<td>5.</td>
<td>Distances of burrowers’ residence from the lending institution</td>
<td>0.5534</td>
<td>0.76</td>
</tr>
<tr>
<td>6.</td>
<td>Poor business performance</td>
<td>0.3078</td>
<td>0.80</td>
</tr>
<tr>
<td>7.</td>
<td>Predominant shocks in the economy</td>
<td>0.3725</td>
<td>0.78</td>
</tr>
<tr>
<td>8.</td>
<td>The time of maturity of investment (revenue cycle)</td>
<td>0.5733</td>
<td>0.76</td>
</tr>
</tbody>
</table>

Test Scale 0.79

Source: Researcher’s Survey Data (2021).

Table 3. Effect of socio-economic factors on loan repayment performances of YRF in Oromia, Ethiopia (N = 301).

<table>
<thead>
<tr>
<th>Assessment tools/Items</th>
<th>Likert scales</th>
<th>Mean</th>
<th>Std.dv</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer pressure to use the fund to search for government employment than facing hardship in creating own businesses (jobs).</td>
<td>D N A</td>
<td>7 (2)</td>
<td>8 (3)</td>
</tr>
<tr>
<td>The belief in society to be employed in other organizations than creating own job is the main cause for loan diversion.</td>
<td>- N A</td>
<td>36 (12)</td>
<td>265 (88)</td>
</tr>
<tr>
<td>Income from the type of business financed by the loan has a significant effect on Youth Revolving Fund loan repayments.</td>
<td>D N A</td>
<td>6 (2)</td>
<td>32 (11)</td>
</tr>
<tr>
<td>Loan diversion to unplanned expenditure is the main cause of loan default.</td>
<td>D N A</td>
<td>9 (3)</td>
<td>54 (18)</td>
</tr>
<tr>
<td>Distances of burrowers’ residence from the lending institution</td>
<td>D N A</td>
<td>23 (8)</td>
<td>31 (10)</td>
</tr>
<tr>
<td>Poor business performance is the cause of loan default.</td>
<td>D N A</td>
<td>20 (7)</td>
<td>40 (13)</td>
</tr>
<tr>
<td>Predominant shocks in the economy cause loan default.</td>
<td>- N A</td>
<td>19 (6)</td>
<td>282 (94)</td>
</tr>
<tr>
<td>The time of maturity of investment (revenue cycle) determines the loan repayment status of the groups</td>
<td>D N A</td>
<td>12 (4)</td>
<td>57 (19)</td>
</tr>
</tbody>
</table>

Source: Researcher’s Survey Data (2021).

Keys: D- Disagree; N- Neutral; A- Agree; Std.dv.-Standard Deviations.
belief in society to be employed in other organization than creating own job was the main cause for loan diversion, income from the type of business financed by the loan has a significant effect on YRF loan repayments and poor business performance was the main cause for loan default while others respectively. This shows that youths divert the loan to search for employment than creating their job because of the belief in society and the income from the business specifically when borrowers incur losses they make low repayment or ban the repayment has a significant effect on YRF loan repayment performance and its sustainability. The result (Table 3) indicated that there is a significant relationship between loan repayment performance and loan diversion. The majority of the respondents (79%) reported that the loan diversion for unplanned expenditures (marriage, funeral, and other social ceremonies) was the main cause of loan default. This shows that many economic problems enforce the borrower to diverse the fund to other expenditures negatively affecting the loan repayment.

Another economic factor that has a significant relationship with loan repayment performance is the distance of burrowers’ residence from the lending institution. The result (Table 3) showed that 82% and 77% of the sample respondents responded distances of burrowers’ residence from the lending institution and the time of maturity of investment (revenue cycle) determine the loan repayment status of the groups respectively. This shows that distances of burrowers’ residence from the lending institution influence loan repayment performances as it may be difficult to travel long distances for making payments and getting advice, On the other hand, the loan repayment performances of borrowers with a short revenue cycle will differ from those with a longer (seasonal) revenue cycle.

The result (Table 3) also showed that all the items have a mean score of greater than (M > 4.0), and the standard deviation for all items is in a range of $\text{Std.dv.} = 0.6141$ to $\text{Std.dv} = 0.9680$ indicating how socioeconomic factors such as peer pressure, belief in society about creating own job, income from the type of business financed by the loan, loan diversion, absence of other sources of income for daily expenditure, poor business performance, predominant shocks in the economy and time of maturity of investment have affected YRF loan repayment performances.

The feedback from interviews and focus group discussions also showed that the cause of low loan repayment performance of borrowers are linked with insufficient loan size for the intended purpose, excessive level of snowballing perception about YRF loans as grants, youth used the fund for consumption to sustain their lives, use of the fund to cover expenditures for circumstances at disposal compels, fear of the risk of business failure, low level of education and pressure from family to seek employment than creating own job and unsuitable repayment schedule that didn’t match with business revenue cycles. Graduate youths expected to get employment in their area of specialization, but the fund loan was given to engage in the group based income-generating activities which were completely different from their expectations. Once collected the fund loan they share the money and went to research for employment in different vicinity where the loan officers cannot easily find them or migrated to other countries which not only resulted in loan loss but also might lose their life. The borrowers were blaming the educational curriculum for not including practical entrepreneurial and business courses that might induce them the benefit of creating their jobs and help them adjust their expectations before they get to graduate, Some of those who started their job went to wrong business choice like contraband and left bare hands and some diverted the fund to other unplanned expenditure.

4.4. Ordinal logistic regression model output

The result in Table 4 illustrates that peer pressure has a positive and significant effect on the loan repayment performance of YRF. The finding revealed that the probability of not performing loan repayment due to peer pressure increases by 17% while other variables remain constant. The result showed that youth (specifically graduates of higher institutions) used to enforce their peers to use the fund loan to search for government employment than facing hardship in creating jobs due to their orientation in college and universities. This result is in agreement with (Bukenya et al., 2019; Muthee, 2010; Wongnaa, 2013). However, the current result contradicts the findings of Sikenyi, 2017; Gebremedhin, 2008), which argued that the perception of youth revolving credit funds as mere aid that will not require any repayment in the future has many effects on loan repayment performance.

The finding shows that the belief in society/culture to be employed in other organizations than creating own job has a positive and statistically significant effect on YRF loan repayment performance and its sustainability at a 1% level of significance in the selected area keeping other variables constant. The results indicate that 60% of borrowers are more likely not to perform their loan repayment due to the belief in society that graduates are expected to be
Table 4. Ordinal logistic regression model result (Listcoef, help).

<table>
<thead>
<tr>
<th>YRF repayment &amp; sustainability</th>
<th>Coef.</th>
<th>S.e.</th>
<th>Z</th>
<th>OR/Exp(β)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer pressure to use the fund to search for employment than creating own jobs.</td>
<td>0.605</td>
<td>0.2125</td>
<td>2.85</td>
<td>1.8313**</td>
</tr>
<tr>
<td>The belief in society/culture to be employed in other organizations than creating own job.</td>
<td>1.863</td>
<td>0.2323</td>
<td>8.02</td>
<td>5.3817***</td>
</tr>
<tr>
<td>Income from the type of business financed by the loan.</td>
<td>1.323</td>
<td>0.2178</td>
<td>6.07</td>
<td>3.7547***</td>
</tr>
<tr>
<td>Loan diversion to unplanned expenditure.</td>
<td>0.796</td>
<td>0.1779</td>
<td>4.47</td>
<td>2.2167***</td>
</tr>
<tr>
<td>Distances of borrowers’ residence from the lending institution</td>
<td>−0.230</td>
<td>0.2040</td>
<td>−1.13</td>
<td>0.7945</td>
</tr>
<tr>
<td>Poor business performance</td>
<td>0.194</td>
<td>0.1431</td>
<td>1.35</td>
<td>1.2141</td>
</tr>
<tr>
<td>Predominant shocks in the economy</td>
<td>0.890</td>
<td>0.2124</td>
<td>4.19</td>
<td>2.4351***</td>
</tr>
<tr>
<td>The time of maturity of investment (revenue cycle)</td>
<td>0.751</td>
<td>0.1960</td>
<td>2.60</td>
<td>2.1194***</td>
</tr>
<tr>
<td>Gender of borrowers</td>
<td>0.415</td>
<td>0.2587</td>
<td>1.60</td>
<td>1.5144</td>
</tr>
<tr>
<td>Marital Status of borrower’s</td>
<td>−0.077</td>
<td>0.1891</td>
<td>−0.41</td>
<td>0.9259</td>
</tr>
<tr>
<td>Experience of borrowers in business</td>
<td>−0.215</td>
<td>0.1127</td>
<td>−1.91</td>
<td>0.8065</td>
</tr>
</tbody>
</table>

S.e = Standard error
LR chi2(11) = 305.42
Log-likelihood = −312.68812
Prob > chi2 = 0.0000
Number of Obsns = 301
Pseudo R2 = 0.3281

Source: Survey Data (2021).

employed in the area of their specialization in other organizations than creating their job from the scratch. The result of the current study is consistence with the findings of (Firafis, 2015; Garomsa, 2017; Kasseg & Endris, 2021). However, the result contradicted the findings of (Seyedmehrdad et al., 2016; Florence & Daniel, 2014), which link the problems to institutional problems of not creating public awareness, weak selection criteria and monitoring the fund utilization after disbursement and also to the educational curriculum for not including business concepts in each level of education.

The result (Table 4) showed that income from the type of business financed by the loan has a statistically significant effect on the loan repayment performance of YRF in selected areas at a 5% level of significance. The result implies that the income from the type of business financed by the loan is 24% more likely not to perform the Youth Revolving Fund loan repayment keeping other variables constant. This may be due to choices of wrong business activities borrowers’ engaged financing by the loan and resulted in the underperformed outcome. The current result is consistence with the findings (Melese & Asfaw, 2020; Sileshi et al., 2020; Gebye, 2019; Aberi & Jagongo, 2018; Balamurugan, 2017; Abebe, 2012; Samuel, 2011). However, it contradicted the findings by (Nawai & Shariff, 2012; Onyeagocha et al., 2012; Reta, 2011), which argued that the income from businesses financed by a loan is not the only cause of low loan repayment but the lack of adequate training, guidance and follow up made by the lending institutions.

The findings revealed that the loan diversion to unplanned expenditure has a positive significant effect on the YRF loan repayment performance and its sustainability at a 1% level of significance where other variables remain constant. The result demonstrates that youth borrowers show a 78% of probability being not repaid their loan due to loan diversion to unplanned expenditure than financing the planned investment stated in the application for the Youth Revolving Fund loan. This is supported by the findings of (Melese & Asfaw, 2020; Abera & Asfaw, 2019; Gebye, 2019; Aberi & Jagongo, 2018; Jote, 2018; Murthy & Mariadas, 2017; Balamurugan, 2017; Mokhtar et al., 2012). However, the current finding contradicts the result of Bukunya et al. (2019) regarding the sign of effects on YRF loan repayment performance. Thus, the current study shows socio-economic factors have a positive significant effect while the finding of Bukunya shows a negatively significant effect.

The results (Table 4) indicated that the predominant shocks in the economy have positive and statistically significant influences on YRF loan repayment performance and its sustainability in the selected area. The finding revealed that the probability of not performing loan repayment due to predominant shocks in the economy increases by 56% while other variables remain constant. The current result is consistence with the finding of the study by Njeru (2011), and Waweru and Kalani (2009), which revealed that a rising scope of loan default is associated with adverse macroeconomic shocks/economic downturn contributes to reduced credit economic power to pay debts. However, it contradicted the finding of Constantinou & Ashta (2011), who argued that microfinance is primarily informal and directed at non-global entrepreneurial ventures and that the impact of global economic events would not be significant. The results revealed that the time of maturity of investment (revenue cycle) has a positive and statistically significant effect on the YRF loan repayment performance at a 5% level of significance where other variables keep constant. The result shows that youth
borrowers are 88% more likely to not make their loan repayment because of the time of maturity of investment (revenue cycle). This implies that borrowers with a longer revenue cycle were committed the difficulty to perform repayment for a short repayment schedule as compared to a business with shorter revenue cycles. The current study result is in line with those (Jote 0.2018; Murthy & Mariadas, 2017; Mokhtar et al., 2012). However, the current finding is contradicted by Muthoni and Lewa (2017), who claimed that loan repayment duration was shown to be relevant in MFI loan repayment regardless of the business revenue cycle.

4.5. Summary of hypothesis testing and findings

Based on the results (Table 4) of the coefficient of the variables, standard error, Z-score, OR/Exp(β), and significance level (P-value) of the output of the ordinal logistic regression model the hypotheses set for this study were tested. The results indicated that such peer pressure (Ho1), belief in society (Ho2), income from the type of business financed by the loan (Ho3), loan diversion (Ho4), Predominant shocks in the economy (Ho5) and time of maturity of investment (Ho8) had significant level (P-value) of < 0.05 each. Accordingly to these results, the null hypotheses of Ho1, Ho2, Ho3, Ho4, Ho7, and Ho8 were rejected as their respective P-value is less than 0.05. This means that the alternative hypotheses for each show that they have a relationship with loan repayment performance of YRF and can have both positive and negative significant effects. However, the sixth hypothesis - distances of borrowers’ residence from lending institution (Ho5), poor business performance (Ho6), gender of borrowers, the experience of borrowers in business, and marital status of borrower’s have a P-Value >0.05. Thus, were failed to be rejected (accepted) implying that there was no relationship between the distances of borrowers’ residence from the lending institution, poor business performance, gender of borrowers, experience of borrowers in business, and marital status of borrower's and loan repayment performances of YRF.

5. Conclusion and recommendations

5.1. Conclusions

This study examined the effect of socioeconomic factors such as peer pressure, the belief in society (culture) for employment, loan diversion to unplanned expenditure, distances of borrowers’ residence from the lending institutions, income from the type of business financed by the loan, poor business performance, predominant shocks in the economy, time of maturity of the investment, gender of borrowers, marital Status of borrower's and experience of borrowers in business that result to loan defaulting and undermine the performance of YRF from the government objective of providing financial and technical assistance to unemployed youths in alleviating their economic and social difficulties, thereby reducing unemployment, poverty and contribute to the economic development of the country at large. From the study, it can be concluded that there is a significant relationship between socioeconomic factors and the loan repayment performance of the Youth Revolving Fund.

Socio-economic factors namely; peer pressure, belief in society (culture) for employment, loan diversion to unplanned expenditure, income from the type of business financed by the loan, predominant shocks in the economy and time of maturity of investment had either a positive or negative effects YRF on loan repayment. The problem of peer pressure to search for jobs with the fund emanated from the mismatch of the expectation/orientation (what they studied in college and universities) and the actual situation they were organized for the fund (unrelated to their field of specializations). Mismatch of loan repayment schedule with the time of maturity of the investment, lack of awareness, absence/inadequate guidance by lending institution made the borrowers get into wrong business activities and ended in losses of business and lives of productive youths. Moreover, the loan diversion to unplanned expenditure such as holding the fund fearing the risk of business failure, daily expenditure to sustain their lives, to cover expenditures for circumstances at disposal compels because of an excessive level of snowballing perception that fund loan as grants had negatively affected the YRF loan repayment performance.

5.2. Recommendations

Based on the above findings, the current study makes recommendations to concerned bodies involved in the Youth Revolving Fund loan management to enhance repayment performance and sustainability.

Government should reconsider the inclusion of entrepreneurship and business courses in the educational curriculum just similar to civic and ethical education to induce business concepts and benefits of creating own jobs in different levels of education than teaching to upload merely academic knowledge and create public awareness about the
benefit of creating own jobs. Oromia Credit and Saving Share Company should work to help borrowers on choosing the right business and provide continuous guidance to enhance borrowers’ business performances and also facilitate micro-insurance policies to help them safeguard from unexpected business losses. Moreover, pre-fund release training should be given to qualified candidates as per regulation for not less than a month than providing very general three days of training and release the fund for beneficiaries. Another better alternative to solve socio-economic problems is that the government should redesign the utilization of the fund by establishing businesses with the fund itself, employing the unemployed youths in the established business granting shares for each and operating the business giving a majority of the management to youth with strict control on the performance and status of the businesses. Then, the government should gradually turn the key to the youth groups and withdraw totally after assuring proper management and smooth operation of the business and make continuous remote supervision on its performance as this strategy will solve the problem of loan diversion and motivate the youths for better results.

5.3. Areas for further studies

The current study has some limitations that were not covered in this study but can be an opportunity for future research. Accordingly, the following is the area of recommendation for further studies:

- There is a need to do a comparative study on loan performance and the sustainability of YRF urban and rural beneficiaries.
- Other factors other than socio-economic factors like, operation procedures, management, borrower’s characteristics, etc. need to be studied.

5.4. Limitation of study

Similar to any other studies, the current study is not free of limitations. Had this study also included other factors that might affect YRF loan repayments and all regions of Ethiopia the benefit would have been doubled. However, it’s limited to socio-economic factors owing to time finance and risk of COVID-19, and Oromia Regional State because it’s the largest state in terms of population and land size. The resistance to fill questionnaire by some respondents because of fear problems of COVID-19 and difficulty to get respondents in sample zones as they hide from the sight of government officials and OCSSCo employees or changed their living places to escape from loan repayments were among the major limitation of this study. Therefore, despite the constraints mentioned above, the research quality was not affected.

Conflict of interest

The authors have no financial and non-financial conflict regarding this manuscript.

Acknowledgements

The first author is grateful to the Ministry of Education and to Oromia State University (Ethiopia) for sponsoring him through the fellowship program, as well as to Guru Jambheshwar University of Science and Technology (India) for hosting his PhD studies.

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