FACTORS INFLUENCING UPTAKE OF CREDIT BY KENYAN YOUTH IN NAIROBI COUNTY

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DECLARATION

This research project is my original work and has never been submitted for any other award/ degree in any other University. I also acknowledge that this work fully acknowledges opinions, ideas, and contributions from the work of others.

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This project has been submitted for examination with my approval as the University Supervisor.

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MR. MIRIE MWANGI

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DEDICATION

I dedicate this research project to my family: mum Grace Musha my wife Gertrude Mbaruku, sons Isaac and Enoch for their patience, love and moral support during my studies for Masters in Business Administration, University of Nairobi. I particularly thank my wife Gertrude Mbaruku for her perseverance and taking care of my family at my absence.

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ABBREVIATIONS

CDF	-	Constituency Development Fund
KKV	-	Kazi Kwa Vijana
MFIs	–	Microfinance Institutions
MoDP	-	Ministry of Devolution and Planning
MoYAS	-	Ministry of Youth Affairs and Sports
NCPD	-	National Council for Population and Development
SMEs	–	Small and Medium Enterprises
YAGPO	-	Youth Access to Government Procurement Opportunities

ABSTRACT

The study sought to investigate factors influencing uptake of credit by youths in Nairobi County. Specific objectives were; to establish the influence of credit terms on the uptake of credit by youth in Nairobi County, to determine the extent to which awareness of credit facilities influences uptake of credit by Nairobi youth and to find out the influence of entrepreneurial skills in credit uptake by youths in Nairobi County. The study targeted all the youth in Nairobi aged between 18 and 35 years numbering 1,462,803 out of which a sample size 381, was selected. Respondents were drawn from all the four administrative districts namely Nairobi West, Nairobi East, Nairobi North and West lands. Primary data was collected using structured questionnaires administered by the researcher. The study reviewed literature on the factors influencing uptake of credit. Data was analyzed by use of quantitative methods, which included the uses of descriptive statistics. The regression results of the study revealed that, holding other variables constant, the credit terms, the business and entrepreneurial skills and the awareness of the youths account for 82.3% of the variability in the amount of credits taken by the youths. Also, the regression model developed illustrates clearly that, the credit terms attached to the loans has an inverse relationship with the youth's credit uptake. The findings of this study will also create awareness to policy makers on the factors that need to be looked into to ensure youth are more effective in contributing to Gross domestic product of the country. Researchers will find the study useful as it will give highlights for further research and also contribute to new knowledge. The study will facilitate individual researchers to identify gaps in the current research work and carry out research in those areas.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Credit to youth has successfully enabled impoverished people to engage in self-employment projects that allow them to generate income, and in many cases begin to build wealth and to exit poverty. Credit to youth is increasingly gaining credibility in the mainstream finance industry and many traditional large finance organizations are contemplating it as a source of growth even though it had earlier been disguised as a source of future growth. Credit to youth symbolizes small loans extended for undertaking self-employed projects that would generate income and help them to provide for their families (Yunus, 2008).

Supply and demand for credit from youth changes with the recovery and growth of an economy. When the economy is growing rapidly, Youth will find many projects that would be more profitable than when the economy is growing slowly and shrinking. Changes in specific business sectors increase or decrease the supply and demand for credit from youth. Most economic and financial analysts view the market for business loans from youth in a traditional supply and demand framework that takes into consideration the alternate ways to finance a business and various ways for controlling capital to invest by financial institutions (Weiss, 2008).

The concern on the plight of youth has led to formulation of policies to ensure engagement, equity and full participation of youth in the society to enable gainful employment in all sectors of the economy. In Kenya, the youth sector is a major source of demand for credit because of high levels of unemployment. Availability of credit results to extension to individuals of small loans to be used for income generating activities that will improve the borrower's living standards. Among the potential efficiency benefits from low interest rate loans by the government to youth may arise from capital injection in the private sector that helps to accelerate economic growth (Zacharay, 2013).

All economic sectors (Consumers, youth, women, businesses and government) at times compete with each other to borrow for various purposes. Businesses borrowing are sensitive to interest rates, period of recovery, collateral and any other conditions attached to loans. The economic outlook is more important to long term borrowing because of its impact to project profitability. Government use financial intermediaries to lend to youth in order to inject capital for businesses which creates economic growth through its contribution to the Gross domestic product (Chaundry, 2008).

1.1.1 Uptake of Credit by Youth

Youth are considered riskier by most financial institutions hence most lenders allocate a very small proportion of loans to youth. Banks are reluctant to lend to youth because of lack of adequate collateral. This affects the supply of credit to youth. It is because of this that most youth do not qualify for conventional bank loans. Only a paltry 2% of the potential microfinance client's access credit in the developing countries, getting only 1.4% of their potential credit needs. 70% of the world youth is said to be completely excluded from the banking systems which render their uptake of credit less than desirable. When credit is not readily available to youth, they cannot venture in income generating projects hence they cannot contribute to the gross domestic product of the country (Ramachandar, 2009).

Limited access for credit for youth can be attributed to bureaucracy and high interest rate. This means that high interest rates constrain demand for credit by youth. Uptake of credit by youth is also constrained by lending conditions. Very strict regulations imposed on the youth affect their uptake of credit. Youth uptake for credit is enhanced by possession of business and entrepreneurial skills. Therefore, the biggest challenge to most youth has been the high cost of borrowing and lending in the banking system. Uptake of credit is important in increasing income activities, creates employment opportunities and also leads to better living standards of people. It assists many youth who are unable to get formal employment for white collar jobs (Salia, 2001).

The concern about availability of credit for youth suggests that they pay a higher rate or face more requirements to get a loan than an equally credit worthy larger business. As a result, they raise less money than larger businesses in the same locality and are unable to take advantages of economies of scale to raise capital .It is commonly held in the field of microfinance that youth are not too sensitive to the rates at which they borrow as they care mostly about access to credit. The effect of financial liberalization to uptake of credit shows that financial sector liberalization does not improve access of borrowing by youth. This is because financial liberalization leads to tightening of monetary controls (Gita, 2001).

1.1.2 Determinants of Credit Uptake by Youth

1.1.2.1 Credit Terms

The debate on whether high interest rate affects the demand for credit is inconclusive and may go on indefinitely. There are two main schools of thought. The first school of thought advocates that high interest rates negatively affect the demand for credit because only limited borrowers with high risk projects may have their demand satisfied. Prominent among this school was Stiglitz and Weiss (1981), Stiglitz (1989,) and Besley (1995) who argue that high interest rates on loans encourage adverse selection of loan seekers. Those who take high risks and get their loans approved are those with high rates. Those high risky enterprises may not include the poor youth because they cannot afford the high cost investments. In his analysis for demand for credit among youth in Sao Paulo, Brazil, Nehman (1973) observed that borrowing costs strongly affect the willingness of youth to take loans from formal lenders. Although Aryeetey *et al* (1994) did not make it explicit; they acknowledged implicitly that demand for credit at 30% interest rate was somehow weaker among medium sized firms.

1.1.2.2 Entrepreneurial Skills

According to Mfinanga (2008), entrepreneurial skills are important in running any business. In recent years, organizations have been buffeted by massive need for reaching social, technological and economic changes. This puts a lot of pressure on uptake of credit from all sectors. Entrepreneurial skills are good in assisting youth to solve issues that are directly relevant to the current, fast shifting business environment (Staines, 2008). Managing business today requires the full breadth of entrepreneurial skills and capabilities. In the tradition of world of work, management was to control and limit people, enforce rules and regulations, seek stability and efficiency, design top-down hierarchy and achieve bottom line results. To spur innovation and achieve high performance, youths need different skills to engage workers hearts and minds as well as take advantage of their physical labour (Besley, 1995).

1.1.2.3 Awareness

In the awareness of how the credit is managed, there is a strong campaign that public schools are required to teach youths how credit works and to provide tangible and real examples of what the financial, emotional and other implications are of irresponsible credit use. Educational programs for youth in schools are seen as an important cornerstone to the campaigns so as to sensitize the youths on the uptake of credit (Hoff, 1990).

1.1.3 Relationship between Factors and Credit Uptake by Youth

The key relationships of factors and credit uptake for youth are rooted in the theory of asymmetrical information. There is a positive correlation between the credit risks ascertained to different age groups and the amount of funds allocated for credit. Uptake of credit by youth is influenced by several factors including the fact that youth do not have collateral and have less business expertise and hence they cannot access credit. Uptake of credit for youth is also influenced by inadequate allocation of loans for youth. Non availability of credit for youth prevents them from engaging in productive enterprises or expanding their businesses (Nissanke, 1995).

A collective wisdom has emerged that youth’s loan repayment patterns are typically far inferior to those of other age groups. It has been generally realized that people aged 35 years and above have better repayment records and cooperativeness that those before 35 years of age. This explains why most microfinance institutions prefer to lend more to older people than youth (Cheston, 2002).

Youth's efforts in accessing credit are also influenced by various factors such as imperfect markets, stiff competition, inadequate loans and poor weather. Most youth cannot access credit because they conduct their businesses in bad environment and have low levels of education. Demographic composition, low economic status and occupation, negatively affect capability of youth to benefit fully from the existing opportunities emanating from the information and knowledge society (Kihombo, 1999).

1.1.4 Youth in Nairobi County

The youth in Nairobi constitute a large population of the youths in the country's population. Nairobi youths have remained at the periphery of the country's affairs for decades since independence and their needs and aspirations have not been accorded due recognition. The youth have not been adequately engaged in the designing, planning and implementation of programmers and policies that affect not only them but also the country at large, and as a result, their knowledge, skills and energy has been underutilized. Governments around the world are increasingly supporting youth ministries, youth policies and youth programs, and there seems to be greater appreciation that young people are the future of their country's development. Kenya like many other developing countries however, still has a long way to go in realizing this potential amongst its youth. It is crucial that the newly established devolved governments engage the youth in governance and in making their development decisions, as this will ensure that policies formulated and services provided respond not only to the needs of youth but also to the citizen's real concerns (Yunus, 2008).

The youth in Kenya are one of the major assets for the newly established county governments as they can contribute immensely towards enhancing governance not only at the county but also the national level. The challenge however is upon young people to mobilize and organize themselves in order to meaningfully participate in governance. Leaders at both the national and county level can on their part ensure youth engagement by creating an environment that allows for young people's participation. A positive development in the country has been the realization by the youth that they are significant agents in community, national and now county development and as a result, they have increasingly been engaging in development initiatives and re-shaping political processes in their constituencies and also at the national level, mainly through youth organizations. An aggressive youth discourse has emerged as a result of these concerted efforts re-configuring the social roles and responsibilities of young people in the country (Innocent, 2010).

1.2 Research Problem

Stiglitz (1989) argue that high interest rates on loans encourage adverse selection of loan seekers. Those who take high risks and get their loans approved are those with high rates. Those high risky enterprises may not include the poor youth because they cannot afford the high cost investments. In his analysis for demand for credit among youth in Sao Paulo, Brazil, Nehman (1973) observed that borrowing costs strongly affect the willingness of youth to take loans from formal lenders. Although Aryeetey *et al* (1994) did not make it explicit; they acknowledged implicitly that demand for credit at 30% interest rate was somehow weaker among medium sized firms.

Lack of information and awareness on the available business opportunities undermines uptake of credit by youth. The role of credit is to bridge the gap between business owner's financial assets and the required financial assets of a business enterprise. Availability of credit results to extension to individuals of small loans to be used for income generating activities that will improve the borrower's living standards. As part of efforts to minimize credit constraints, governments allocate funds to be advanced to youth (Dehejia and Morduch, 2008). According to (Mfinanga, 2008), entrepreneurial skills are important in running any business. Entrepreneurship can unleash the economic potential of young people. In recent years, organizations have been buffeted by massive need for reaching social, technological and economic changes. This puts a lot of pressure on uptake of credit from all sectors (Staines, 2008).

Empirical evidence indicates that young people get involved in enterprise to solve socio-economic problems such as lack of employment, income generation and contending with poverty (Chiguta, 2009). (Rahma, 2003) states that as traditional job-for-life career paths become rarer, youth skills is regarded as an additional way of integrating youth into the labour market and overcoming poverty. Supporting this shift in policy is the fact that in the last decade, most new formal employment has been created in small enterprises or as self-employment. Given global demographic trends, it is important that the social and economic contributions of young entrepreneurs be recognized. Much of the youth entrepreneurship in Africa may be attributed to necessity (Rogerson, 2001). Youth entrepreneurship reduces crime, poverty and income inequality. This indirectly induces an environment for national and regional economic growth and development. There has also been a debate that lack of business and entrepreneurial skills reduces demand for uptake of credit by youth (Mutezo, 2005).

Birech (2013) analyzed factors affecting loan utilization amongst youth in Nakuru. The study showed that uptake of credit for youth is influenced by entrepreneurial knowledge and investment site. Kamau (2013) carried out a study on the effect of interest rates on demand for credit by youth in Muranga. The findings showed that there is a relationship between demand for credit for youth, interest rate, annual profit and owner's equity. (Wachira, 2012) conducted a study on effects of interest rates on the uptake of youth credit at Eldama Ravine. The findings of the study showed a negative relationship between interest rates and the uptake of credit for youth. (Atieno, 2001) investigated the factors influencing credit uptake for youth in Kisumu. The study indicated that 15% had not applied for credit. Kimuyu and Omiti (2000) did a study on factors influencing demand for credit for youth at Mwatate. They found that a low level of credit uptake for youth is attributed to credit supply constraint.

Several studies on the factors influencing demand for credit by youth have arrived at inconsistent findings. Some studies have shown that despite increasing access to credit, some youth do not apply for credit hence availability of credit is not classified as a credit constraint. A paradigm central to the literature on the relationship between availability of cheap credit and demand for loans is that a positive relationship is predicted between increases in supply and demand for credit. Availability of credit to youth is important since it helps them to initiate income activities and also leads to better living standards. Therefore this study looked in to the factors influencing uptake of credit by youths in Nairobi and seek to answer the following questions; What is the influence of credit terms on the uptake of credit by youth in Nairobi county?; What is the extent to which awareness of credit facilities influences uptake of credit by Nairobi youth?; What is the influence of entrepreneurial skills in credit uptake by youths?

1.3 Research Objectives

The study sought to investigate factors influencing credit uptake by youth in Nairobi County.

1.3.1 Specific objectives of the study

i. To find out the extent to which credit terms influence uptake of credit amongst Nairobi Youth.

ii. To establish the extent to which awareness of credit facilities influences uptake of credit by Nairobi youth.

iii. To determine the extent to which business and entrepreneurial skills influences uptake of credit by Nairobi Youth.

1.4 Value of the Study

Currently, there is a demand for effective loan management among both public and private entities. The study seeks to investigate factors influencing uptake of credit by Kenyan youth. The study will benefit government and lending institutions in coming up with policies that will enable better performance of youth's income generating activities. The Study will provide valuable insight to lenders on how to best offer post lending services to youth.

The findings of this study will also create awareness to policy makers on the factors that need to be looked into to ensure youth are more effective in contributing to Gross domestic product of the country. Researchers will find the study useful as it will give highlights for further research and also contribute to new knowledge. The study will facilitate individual researchers to identify gaps in the current research work and carry out research in those areas.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the theoretical review and empirical literature review. The theoretical review covers four theories that help to explains factors influencing uptake of credit. Loanable funds theory shows effects of supply and demand of credit on the interest rates (Mutezo, 2005). Imperfect information emphasizes on the inability of lenders to determine satisfactory the extent of inherent risk in projects submitted for credit (Besley, 1995). The asymmetrical information theories show how adverse selection and moral hazards may make lenders allocate money to projects which are risky (Hoff, 1990). The classical theory of interest rates applies the classical theory of economics to determining interest rates. It explains the relationship between savings and investment and their effect on the interest rates (Gorder, 2008).

The empirical literature review describes past studies done on the factors influencing uptake of credit by youth. Previous studies are explained and their findings summarized. This helps to expound clearly on the subject in order to explain the various factors that influence uptake of credit. Differences in sample size, time periods and samples give an indication of further researcher that should be conducted.

2.2 Theoretical Review

In the study of economics and finance, there are several theories that attempt to explain factors influencing uptake of credit. These theories include amongst others; loanable funds theory, imperfect information and asymmetry of information and the classical theory of interest rates. Each of these theories makes assumption regarding the behavior of other aspects of the economy. These theories are relevant in addressing the objective of the current study.

2.2.1 Loanable Funds Theory

The theory explains the relationship between loanable funds and interest rates. It states that supply of loanable funds and demand for credit determines interest rates and that there is a positive relationship between increase in demand for loanable funds and interest rates. It also states that there is a positive relationship between increase in interest rates and the supply of loanable funds5. The supply of money available for borrowing and demand for money to be borrowed determines interest rates. Interest rate is determined by the magnitude of movement of the demand and supply of loanable funds. Demand for funds is originated by domestic businesses, consumers, governments and foreign borrowers. The supply is generated by domestic savings, dispersion of money balances, and money creation in the banking system and foreign lending (Mutezo, 2005).

An increase in demand for funds, for example, causes an increase in the interest rate, which in turn increases the available supply and vice verser. Therefore, according to the loanable funds theory, the rate of interest is the price that equates the demand for and supply of loanable funds. Thus, fluctuations in the rate of interest arise from variations either in the demand for loans or in the supply of loans or credit funds available for lending. This implies that interest is the price that equates the demand for loanable funds with the supply of loanable funds (Kimuyu, 2000).

Loanable funds market comprises of borrowers and loaners of funds. These forces determine long term interest rates while short term interest rates is determined by monetary and financial conditions in the economy (Gorder, 2008). Demand for loanable funds will balance with the supply of loanable funds at a specific interest rate. Interest rates normally vary with market conditions, so that demand for and supply of loanable funds will always remain equal. Changes in either the demand for funds or the supply of funds will result in a change in interest rate to restore equilibrium.

2.2.2 Imperfect Information

The modern approach to the problems of microfinance, especially those which serve youth is based on the theoretical position which emphasizes imperfect information and imperfect enforcement of loan contracts. The two propositions are based on screening, incentive and enforcement problems. The screen is based on the inability of lenders to determine satisfactory the extent of inherent risk in projects submitted for credit. The incentive problem is the cost which lenders would have to incur to make certain that borrowers take steps to repay loans. Enforcement problems occur due to legal barriers for enforcement of repayment of loans, for example, the selling of collaterals. Deposit taking institutions in the formal financial sector use clients' deposits of whilst lenders operating in the informal sector use mainly their own funds to advance money to borrowers. In either case, transactions lead to repayment of principal and interest. If this does not happen, borrowers benefit at the expense of lenders (Hoff, 1990).

High interest rates lead to adverse selection of borrowers and this ultimately affect loan repayment. It is widely known by researchers that repayment rate will not be 100% at a high interest rate. Assuming project return is low, borrowing at 0% interest rate will not make borrowers capable of repaying the loan. Thus, a positive rate increases cost of production, reduces returns from a productive activity and promotes loan default among borrowers (Besley, 1995).

2.2.3 Asymmetrical Information

This theory of credit market postulates asymmetry information as the cause of poor working of the financial market of developing economies. The asymmetrical information unleashes two outcomes, namely, adverse selection and moral hazards. The two main features of the model can be formulated as follows: lenders allocate money to projects which are risky and may not be bankable; and credit is given out at a cost which is equal to the opportunity cost of funds (Besley, 1995).

Adverse selection can be explained as follows: it is assumed that borrowers of money know better the level of risks associated with their projects. The individual with a high risk project may succeed in getting credit at a high rate of interest. At this high rate of interest, an individual with less risky project may be refused credit because it will not make the business viable and threaten his/her loan repayment potential. If the interest rate is raised and the borrower with a higher risk is favored and defaults, this will threaten the capital base of the lender. Lenders who want to minimize risk will give their funds at a lower rather than higher rate of interest. A realignment of the average quality of the lender’s loan portfolio may mean that interest rate mechanism will not bring about market rate equilibrium; rather, rationing of access to credit at a lower interest rate will follow. If lenders do not maintain different loan portfolios, interest rates will raise further (Hoff, 1990).

Moral hazard phenomenon is part of the problem of imperfect information concerning borrowers' actions. It is misapplication of borrowed funds that shifts the risk to the lender, especially if the project does not succeed. Borrowers may be tempted to divert borrowed funds to other projects with high risks, thereby reducing loan repayments possibility. Lenders may reduce to take action that will reduce loan repayments due to incentives and enforcement problems .If the moral hazards occur, solutions attributed by the model is credit rationing (Hoff and Stiglitz, 1990).

2.2.4 Classical Theory of Interest Rates

The classical theory of interest rates applies the classical theory of economics to determining interest rates. It defines the interest rate as the element that equates savings to investment. The theory compares the supply of savings with the demand for borrowing. Using supply and demand curves the equilibrium rate is calculated by determining the curves intersection point. Thus if savings are greater than investments the interest rate drops until they reach equilibrium and vice versa, if savings are less than investment the interest rate increases until the reward for savings encourages increased savings rates causing the market to again reach equilibrium (Gorder, 2008).

Other proponents of the classical theory of interest rates look at it differently. Marshal argues that interest rate is the price paid for the use of capital and that it is determined by the intersection of aggregate demand and supply of capital. According Keynes, interest rates definitely influences the marginal propensity to save. He concludes that the rate of interest should be at a point where the demand curve for capital at different rates intersects the savings curve at a fixed income level. However the classical theory of interest rates fails to account for factors besides supply and demand that may affect interest rates such as the creation of funds, the importance of income and wealth and changes in the primary borrowers in an economy.

2.4 Empirical Literature Review

In recent years there have been a number of empirical studies on factors influencing uptake of credit facilities providing a wealth of information. However, differences in samples, periods and research methods render some of their findings ambiguous. Nonetheless, with the ever-increasing number of studies certain patterns emerge that make generalizations possible.

Amonoo (2003*)* carried out a study of impact of interest rates on demand for credit by the youth and SMEs in Ghana. The goal was to find out the relationship between interest rates and the demand for credit as well as interest rates and loan repayment by the youth in a rural region in Ghana. 2 out of 12 districts were sampled. The findings showed a negative relationship between interest rates and the demand for credit. There was also evidence of a negative relationship between interest rate rates and loan repayments. It was noted that lowering interest rates would increase demand for credit and increase loan repayment at banks and non bank institutions.

Ramachandar and Pertti (2009) carried out a study in Sao Paulo, Brazil on the availability of microfinance services to youth. A sample of 18, 976 were taken from the targeted population of 876,245 youth. Results showed that only 2% of potential microfinance clients were accessing credit and only getting 1.4% of their potential credit needs while

70% of Brazil’s youth at Sao Paulo was said to be completely excluded from the banking system, not having any account hence cannot access any credit.

Cheston and Kuhn, (2002) carried out a study on the uptake of credit by youth. The study was conducted in the US at Bloomfield. Using a sample size of 65 out of the targeted population of 18, 345, they found out that although youth access to financial access had been increased, loans given to youth differ in size according residential location of either urban or rural areas. They also found out that although most youth have easy access to credit, majority do not apply for credit because of the interest charged.

Mpunda (2004) analyzed factors influencing demand for credit for youth in rural Uganda. He used a sample of 201 out of the targeted population of 2870. Findings were that although rural youth have the same opportunities for credit as youth living in urban areas, there loan application is smaller than those in urban areas with a percentage of only 44% of the total application.

Weiss (2008) carried out a study on factors affecting credit demand by SME’s and Youth. The study was done in the U.S. Using a sample size of 800 out of the targeted population of 8674, He found out that Youth pay higher interest rate than other age groups. He also found out that lending institutions charge a higher interest rate to youth because of inadequacy of enough collateral.

Birech (2013) did a study on the factors affecting loan utilization among youth in Nakuru County. The focused on the effect of investment site on loan utilization and the effect of investment knowledge on loan utilization. The study target population was 83,102 youth. He used a sample size of 314. The study findings showed that there is a significant correlation between entrepreneurial knowledge, investment site and uptake of credit by youth.

Wachira (2012) conducted a study on effects of interest rates on the uptake of youth credit at Eldama Ravine. The targeted population was 925,000 youth members with a sample size of 125 youth members. The findings of the study showed a negative relationship between interest rates and the uptake of credit for youth. The findings also showed that youth do not apply for credit because of the requirements for huge collateral requirements. However the study again concentrated in Eldama Ravine hence falls short of generalization for the whole republic.

In an investigated the factors influencing credit uptake in Kisumu (Atieno, 2001) selected a sample of 334 respondents which indicated that 15% had not applied for credit because they had no need for credit hence were classified as not credit constraint. 36% were credit constrained but had not also applied for credit. From his findings, major reasons for not seeking credit are lack of information about credit and lack of required security. Only 49% revealed their demand by applying for credit. Amongst this number, there were those whose loan applications were rationed and did not get total amount they applied for.

A study on factors influencing demand for credit for youth at Mwatate in Coast province, (Kimuyu and Omiti, 2000) used a sample of 159 out of the 91,800 targeted populations. It found that low levels of credit demand by enterprises in rural Kenya is attributed to credit supply constrain and an outcome of the spatial structure of the credit market. The study also indicated that youth were not aware of the credit facilities available in their locality.

A study on the effect of interest rates on demand for credit by youth in Muranga, (Kamau, 2013) showed that there is a negative relationship between demand for credit for youth, increase in interest rate, decline in annual profit and decrease in owner's equity. The research findings show that in addition to household characteristics, interest rate, land ownership and area of operation are also significant determinants of demand for credit.

2.5 Summary of Literature Review

The chapter discusses literature review of the study. Empirical review explains past studies previously undertaken on the factors influencing uptake of credit by Kenyan youth. The theoretical review explains the major activities that addressed the variables stated in the research objectives, this makes the study to explore widely on the past efforts that have been undertaken. The theoretical review states that high interest rates lead to adverse selection of borrowers and this ultimately affect loan repayment and qualification. Under imperfect information, it is stated that lenders are unable to determine satisfactory the extent of inherent risk in projects submitted for credit they may not charge interest rates appropriately. The literature review has shown some theoretical and empirical gaps that necessitates this study.

Some of the studies indicated that despite increasing access to credit, youth do not apply for credit hence availability of credit was not classified as a credit constraint. In addition, the direct link on how lending conditions, entrepreneurial skills and information awareness influences uptake of credit by youth did not come out clearly under the study reviewed. Therefore the study aims at addressing this gap by examining the factors influencing uptake of credit by Kenyan youth. The findings of this research will come in handy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology used in carrying out the study. It outlines the various stages and phases that were followed in carrying out the study. It is a blue print for the collection, analysis and interpretation of data. The chapter explain how research was conducted, how respondents were approached and the procedures and techniques that were applied in collection, processing, analysis and interpretation of data. It comprises of research design, target population and sampling procedures, instrumentation, data collection and analysis techniques. The objective of the study was to find out factors influencing uptake of credit facilities by Kenyan youth.

3.2 Research Design

Research design is the method used to carry out the research. The study used a descriptive research method. A descriptive research method was preferred because the researcher focused on describing independent variables. This scientific method of investigation involved collection and analysis of data in order to describe a phenomenon in its current condition. Descriptive research is a process of collecting data in order to test hypothesis or to answer questions concerning the current status of the subjects in the study (Mugenda and Mugenda, 1999). This is because it was easy, time saving and was possible for the researcher to obtain current factual information from the youth and youth representatives and it was a cheaper method of studying factors influencing uptake of credit facilities amongst Kenya Youth.

3.3 Target Population

Target population in statistics is the specific population about which, information is desired. According to Ngechu, (2004), a population is a well-defined or set of people, services, elements, events, group of things or household that is being investigated. The target population for the study was all the youth in Nairobi aged between 18 and 35 years. According to the 2009 Kenya population and Housing census report by KNBS, youth in Nairobi aged between 18 and 35 years total 1,462,803 representing 46.61% of the entire Nairobi population which is 3,138,369. Respondents were drawn from all the four administrative districts namely Nairobi West, Nairobi East, Nairobi North and West lands.

3.4 Sample and Sampling Procedures

Fischer's formula was applied in determination of the sample size.

n=Z2pq/d2

Where,

n= desired sample size

Z= standard normal deviation set at 1.96 (95% confidence level)

P= proportion of the targeted population that have the characteristic focusing in the study

q=1-p

d= degree of accuracy set at 5% degree proportion of error that should be accepted in the study (0.05) since the study is at 95% confidence level.

Respondents Sample Size

n=Z2pq/d2

Therefore, n = $\{1.96^2*(0.5*(1-0.5)\}/0.05^2$

Hence; n= (1.96*1.96)*(0.5*0.5)/ (0.05*0.05)

n= 385

Table 3.1 Sample size

CATEGORY	**POPULATION**	**SAMPLE SIZE**
Nairobi West	307,018	307,018/1,462,803*385=81
Nairobi East	553,099	553,099/1,462,803*385=145
Nairobi North	500,315	500,315/1,462,803*385=132
West lands	102,371	102,371/1,462,803*385=27
Total	1462803	385

3.5 Instrumentation

Data was collected using questionnaires with both open and closed ended questions. Questionnaires were preferred as they are reliable and simple in terms of administering. In the process, brief interviews were held where necessary to ensure that the respondents understood what was expected of them in filling the questionnaires. Data was obtained from the use of questionnaires. Structured questions were used in an effort to conserve time as well as facilitate in easer analysis.

The questionnaire was in four parts. Part A was about general information about the respondents. This captured the respondent's gender, age, Education level and county. Part B captured the respondent's views on how credit terms of lending institutions influences demand for credit facilities by Kenyan youth. Part C captured the respondent's views on how capacity of lending institutions influences demand for loans by Kenyan youth. Part D captured the respondent's views on whether political activities by the Kenyan Government influences demand for credit facilities by Kenyan youth.

3.6 Data Collection Procedure

Data collection was done in one week between 16th and 20th September 2014 by the researcher. Each questionnaire was coded according to the target administrative district. Coding helped to analyze questionnaires returned. Where appropriate, the researcher explained and clarified to respondents on the questions to ensure understanding.

3.7 Data Analysis

Questionnaires were subjected to careful scrutiny for completeness and accuracy. The data was then coded to enable responses to be grouped into various categories. Quantitative data was analyzed by SPSS and excel. Tables, graphs and pie charts were used to summarize responses for further analysis and comparison.

Descriptive statistics was done to explore the descriptive nature of each variable while the relationship between the dependent variable and independent variables was investigated by a inferential statistics. Further a multivariate analysis on demand for loans and all the independent variables was explored, with a Pearson Correlation analysis to determine with statistical significance the extent of influence of each of the independent variable on demand for loans for Kenyan youth. The researcher also undertook regression analysis as indicated:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + €$$

Where:

Y = uptake of credit (measured by the amount of loan granted to youth)

X_1 = credit terms (measured in a likert scale)

X_2 = entrepreneurial and business skills (measured in a likert scale)

X_3 = awareness (measured in a likert scale)

β_0 = Constant

β_1 = coefficient of credit terms

β_2 = coefficient of entrepreneurial and business skills

β_3 = coefficient of awareness

€ = standard error

The data was analyzed using multiple regressions and correlation analysis, the significant of each independent variable was tailed tested with a 2-tailed test at a confidence level of 95% confidence.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The chapter presents the analysis part of the study. The analysis is based on the research objectives which are tackled according to the analysis techniques designed in the methodology. Data collected was analyzed and the findings are as presented in this chapter inform of tables, figures and narration/ discussion of the results.

4.2 Response Rate

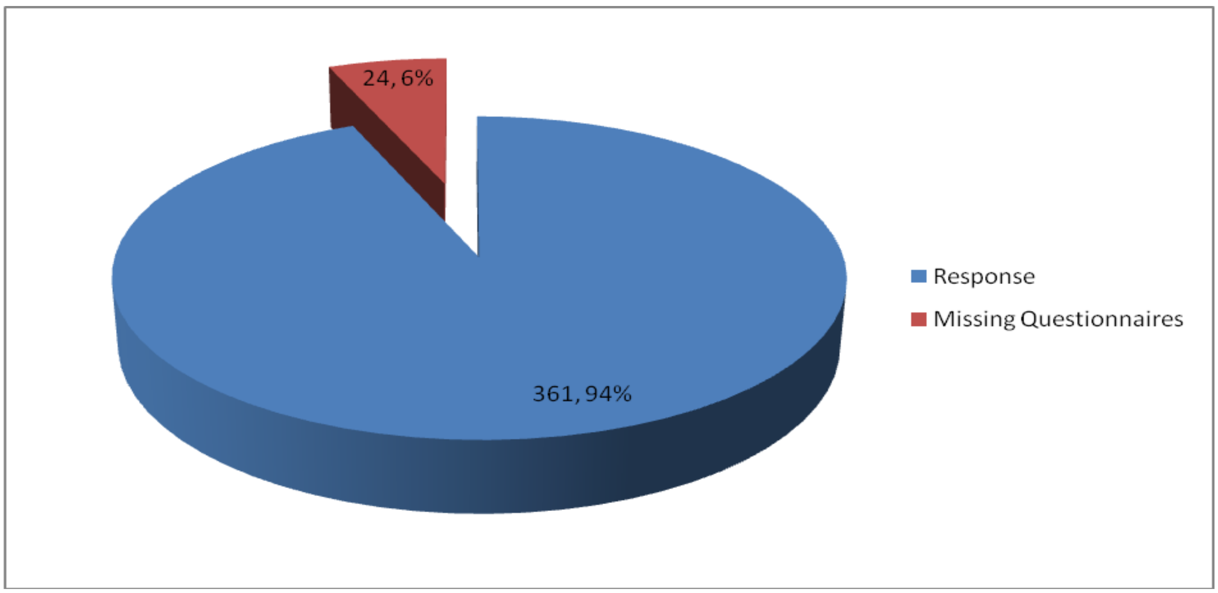

Figure 4.1 Response Rate

The figure gives the response rate obtained in the research. It shows that, out of the 385 questionnaires sent to the field, 361 were returned which were correctly field and relevant information provided. This represented 94% of the targeted respondents to the study. Thus, the study realized a response rate of 94% which is considerably a good response giving a good representation of the study population.

4.3 Data Validity

Validity is the extent to which a test measures what it claims to measure. A pre-test was carried out on a sample population similar to the target population in order to assess the validity and reliability of the data. Items which were not appropriate for measuring the variables were modified or discarded to improve the quality of the research instrument thus increasing its validity and consistency. The data collected from pilot study was used to compute the reliability of the instruments. Cronbach's coefficient alpha method was used to determine internal consistency of the items. Items were considered reliable if they yielded a reliability coefficient of 0.70 and above. This figure is considered desirable for consistency levels. Based on the findings presented in table 4.1 below, all the items were consistent and giving reliable data as all the Cronbach's alpha coefficients are greater than 0.70.

Table 4.1 Reliability Statistics

	Cronbach's Alpha	No. of Items
Credit Uptake	.711	7
Credit terms	.811	8
Business and entrepreneurial skills	.795	7
Awareness	.728	10

4.4 Descriptive Statistics

Descriptive statistics was used to explain the descriptive characteristics of the studied items (factors) measuring the variables. The findings are then presented in form of tables as given in the following subsections.

4.4.1 Background Information of the Respondents

This section presents the results on the background of the youths who responded to the study. It gives the gender, age and education level of the respondents. It also presents the sources of credits to the youths as well as the loans granted for the last five years to the respondents.

Table 4.2 Gender of the Respondents

	Frequency	Percent
Male	243	67.3
Female	118	32.7
Total	361	100.0

The study received most of the information from male youths. This is according to the findings presented in table 4.2 which shows that majority (67.3%, n=243) of the respondents were male while the female respondents were 118 representing 32.7% of the respondents. This illustrates that, mostly the male youths are active in investment activities which are financed through loans.

Table 4.3 Age of the respondents

	Frequency	Percent
18-22 years	131	36.3
23-26 years	142	39.3
27-31 years	71	19.7
32-35 years	17	4.7
Total	361	100.0

From the table, it is clear that, the youth age groups were all represented in the study where most of them were aged 23-26 years. This group had 142 respondents making 39.3% of the respondents. 131 (36.3%) respondents were aged 18-22 years, 71 (19.7%) were aged 27-31 years and the least were the respondents in the age group 32-35 years which had 17 respondents representing 4.7% of the total respondents.

Table 4.4 Education Level

	Frequency	Percent
University level	252	69.8
Middle level college	42	11.6
O/A level	48	13.3
Primary level	19	5.3
Total	361	100.0

According to the study results presented in the table 4.4 on the highest level of education achieved by the respondents, majority of the respondents were university graduates representing 69.8% (n= 252) of the total participants. The middle level college graduates were 42 (11.6%) in the participation and those with O/A level education were 48 representing 13.3% of the respondents while the least were the respondents who had primary education as their highest education level achieved representing 5.3% (n=19) of the respondents. This shows that a big majority of the respondent had acquired satisfactory education to be able to comprehend and fill the questionnaires appropriately.

Table 4.5 Primary Sources of Credit

Source	Frequency	Percentage
Banks	84	23.3
Cooperatives	90	24.9
Relatives and Friends	103	28.5
Government Institutions/Agencies	61	16.9
Employer	104	28.8
Micro finance institutions	46	12.7

The table gives the primary sources of credit to the youths for their business investments. From the table, 23.3% (n=84) of the respondents had access to banks where they were able to borrow funds for investments, 24.9% (n= 90) obtained their business capital and credits from cooperatives, 28.5% (n=103) sourced credits for their businesses' operations from relatives and friends. Those who were able to access credits from government institutions/agencies were 61 representing 16.9% of the respondents, employers were main source of credits to 104 (28.8%) of the respondents and 46 (12.7%) had access to credits from microfinance institutions. This therefore indicates that employers and friends and relatives are the main sources of credits to the youths for investments as these were given by more respondents that the other sources. The table also shows that youth receive less credit from microfinance institution followed closely by funding from government institutions and their agents.

Table 4.6 Loan Granted Over the Last Five Years

	Frequency	Percent
0-5000	116	32.1
5001-15000	23	6.4
15001-25000	48	13.3
25001-50000	13	3.6
50001-100000	25	6.9
100001-250000	60	16.6
250001-500000	44	12.2
500001-1000000	16	4.4
above 1000000	16	4.4
Total	361	100.0

The findings in the table indicate that, most of the respondents had been granted less than 10,000 shillings loan over the last five years. This is according to 116 (32.1%) of the respondents who reported that they had received 0-5000 loans. The distribution however was uniform to all categories though those received between 15001- 25000, 100001 - 250000 and 250001-500000 had a considerably high varied number of respondents than the other categories. These had 48 (13.3%), 60 (16.6%) and 44 (12.2%) respondents respectively. Also, from the table, about 64% of the respondents reported that they had received less than 1000000 shillings loan over the last five years.

4.4.2 Lending Terms of Credits Offered by Financial Institutions in Kenya

Table 4.6 presents the extent to which the lending terms of credits offered by the lending institutions affects the youth's ability to borrow. The findings are presented inform of means and standard deviations which were obtained based on the likert scale response obtained. The means are based on the scale 1.0-1.9 for strongly agree, 2.0-2.9 for agree, 3.0-3.9 for neutral, 4.0-4.9 for disagree and mean value above 4.9 for strongly disagree.

Table 4.7 Credit Terms

	Minimum	Maximum	Mean	Median	Std. Deviation
high collaterals	1.00	5.00	1.90	2.00	0.95
insufficient funds loaned	1.00	5.00	2.96	3.00	1.17
high interest rates	1.00	5.00	2.18	2.00	1.11
financial reports requirements	1.00	5.00	3.87	3.00	1.20
Group belongingness	1.00	5.00	2.69	2.00	1.25
short grace period	1.00	5.00	2.08	2.00	1.12
penalties in case of default	1.00	5.00	1.90	2.00	0.97
Short repayment period	1.00	4.00	2.04	2.00	1.00

The table illustrates that, the collateral requirements on credit issuance to the youth from the financial sources listed above are too high for them to meet. This is according to the mean response obtained (1.9) which falls in the interval 1.0-1.9 indicating that the respondents strongly agreed to this aspect. However, the respondents concurred that the funds loaned to them are neither sufficient nor insufficient in meeting their project budgets as the mean response indicated a value of 2.96 which is approximated as 3.0 indicating a neutral response. This is also supported by the median value of 3.0 for neutral.

The table also indicates that, the interest rates attached on the loans offered to the youths are too high. This had a mean response of 2.18 which is in the interval for agree. The respondents also concurred that the requirement to produce a financial statement reports neither affect nor doesn't affect their loan qualification as indicated by the mean response value of 3.87 in the interval 3.0-3.9 for a neutral response as well as given by the median value of 3.0.

The findings further indicate that, the youths should belong to a certain group in order for them to qualify for loans. This however affects their ability to secure a loan for individual investments which most of the youths desire to be independent on their businesses. The mean value in support of this was 2.69 and a median of 2.0, thus the respondents agreed to this aspect. The respondents also termed the grace period given on credit issuance as being too short. 2.08 was the mean value obtained for this aspect with a median of 2.0 indicating that respondents agreed that their ability to borrow is affected by the penalties attached to defaults on loans. Thus, they fear taking loans due to these penalties which they might not be able to meet once a default occurs. They also agreed that the repayment period for the borrowed funds is too short for them to get returns of their investments.

4.4.3 Business and Entrepreneurial Skills

Table 4.8 represents the response given on the rate to which the respondents were equipped with business and entrepreneurial skills which would influence their ability to secure loans for their business investments.

Table 4.8 Business and Entrepreneurial Skills

	Minimum	Maximum	Mean	Median	Std. Deviation
Skills in financial record keeping	1.00	5.00	3.3213	3.00	.91752
Skills in marketing	1.00	5.00	3.6320	4.00	.85711
Skills in group management	1.00	5.00	3.5365	3.00	.91610

The findings in the table indicates that, most of the respondents had fair skills in financial record keeping as given by the mean response of 3.32 with a median of 3.0. Also, from the table, it is clear that the youth’s skills in marketing was evaluated to be good as indicated by the mean value of 3.6 and a median of 4.0 indicating that the youth had good skills in marketing. The table also shows that, most of the respondents had fair skills in group management. This is with regard to the mean and median values of the response given which are 3.5 and 3.0 respectively both of which lie in the interval 3.0-3.9 indicating that the respondents termed their skills as fair in group management.

Table 4.9 Experience and skills in investment plans

	Minimum	Maximum	Mean	Median	Std. Deviation
Inexperienced in using loan investment	1.00	5.00	3.02	4.00	1.35
Not attendant seminars on loan use	1.00	5.00	2.75	2.00	1.37
assistance from financial experts	1.00	5.00	3.12	4.00	1.24
Lack of budgeting skills in running a business	1.00	5.00	1.99	2.00	1.11

From the table, the responses are based on scale values which are; 1.0-1.9 for strongly disagree, 2.0-2.9 for disagree, 3.0-3.9 for neutral, 4.0-4.9 for agree and mean response above 4.9 for strong extent of agreement. The study findings indicate that, the youths have no experience and skills in loan investments. This is according to the mean response obtained (3.02) and the median value of 4 indicating that the respondents agreed that they had absence of experience in loan investment use. The table also indicates that, majority of the respondents had attended classes and seminars on how to use a loan granted for investment purposes as the mean value in respect of this was 2.75 and a median of 2.0 for disagree. This reveals that the respondents disagreed that they had not attended seminars on loan use.

The respondents also due to their lack of skills and experience in loan investments seek for guidance and assistance from financial experts on how to invest. This is with reference to the mean value obtained (3.12) with a median of 4 for agree. Also, the respondents indicated that they were well equipped with budgeting skills in running a business as the mean response was obtained to be 1.99 with a median of 2.0 indicating that the respondents disagreed to this.

4.4.4 Youth Awareness of the Credits for Investment

To evaluate the awareness of the youths on the existence of the lending institutions and the availability of the credit for investment, the respondents were interviewed on the extent to which they would suggest some information transmission tools to be applied in disseminating the information. The results are therefore as presented in tables 4.10 and 4.11 below;

Table 4.10 Appropriate Channels for Information Dissemination

	Minimum	Maximum	Mean	Median	Std. Deviation
Newspapers	1.00	4.00	1.91	2.00	0.85
Television	1.00	4.00	1.81	2.00	0.91
Radio stations	1.00	3.00	1.54	1.00	0.71
Friends and relatives	1.00	5.00	2.44	2.00	1.24
social media	1.00	5.00	2.06	2.00	1.16
Church and other elected leaders	1.00	5.00	2.25	2.00	1.03

The means in the table are based on a scale 1.0-1.9 for strongly agree, 2.0-2.9 for agree, 3.0-3.9 for neutral, 4.0-4.9 for disagree and mean value above 4.9 for strongly disagree.

According to the results, newspapers would be of great importance in transmitting information on credit financial awareness and campaigns. This is with regard to the mean response of 1.91 and a median of 2.0 for which falls under agreement interval. The mean response for those who supported television as an appropriate tool to transmit the information is 1.81 with a median of 2.0. Thus based on the response given, television is an effective tool that can be used conveniently to inform the youths of the loan issues for business purposes. Also, the mean value (1.54) was obtained for the response supporting radio as an appropriate tool in transmission of information. This also had a median of 1.0 indicating that the respondent strongly agreed that through radio stations, they could get the information regarding loans. This therefore indicates that, through the use of the common radio stations for advertisements and public awareness campaign, the youth would be informed of the existence of credits for business investments and the terms attached to the loans for their decision.

Friends and relatives also play a great and significant role in creating awareness of the credits for business investments as the mean response obtained was 2.44 indicating that the respondents agreed and also recommended that the friends and relatives would be best advisors in terms of the loans to borrow and the repayment terms. Through social media the youths can be reached. Thus the findings indicate that, the social media can be appropriate channel for information transfer regarding the loans as the mean response of 2.06 was obtained in regard to this aspect. Also, majority of the respondents agreed that information can be suitably delivered to the youths through the church and other elected leaders.

Table 4.11 Youth awareness of the Loan Products

	Minimum	Maximum	Mean	Median	Std. Deviation
Unawareness of loan products offered	1.00	5.00	2.42	2.00	1.24
Unawareness of the lending institutions	1.00	5.00	2.13	2.00	1.01
Unawareness of the procedures to get credits	1.00	5.00	2.39	2.00	1.29
collaterals for loans	1.00	5.00	3.17	4.00	1.52

The table illustrates that, majority of the youths were aware of the loan products offered by different financial institutions and organizations. This is as given by the mean response of 2.42 and a median of 2.0 indicating that the respondents disagreed that they were unaware of these products. Also, the respondents were found to be aware of the lending institutions in their locality. This had a mean response of 2.13 and a median of 2.0 which are in the interval for disagree indicating that the respondents disagreed that they lacked information on the existence of the lending institutions within their locality. Based on the mean responses given, the youths were also informed on the procedures to get credits from the lending institutions. Although the youths had the relevant information regarding the loan products and the procedures to obtain the credits, the collaterals for loans affect their ability to borrow. These aspects had means 2.39 and 3.17 respectively and their corresponding median values of 2.0 and 4.0 respectively.

4.5 Correlation Analysis

The association between the dependent and the independent variables of the study was tested with the use of correlation analysis which was also tested for significance at 5% level with a 2-tailed test. The correlation results are presented in table 4.11 below;

Table 4.12 Correlation Analysis Results

	Uptake of Credit	Credit terms	Business and entrepreneurial skills	Awareness
Uptake of Credit	1			
Credit terms	-.760	1		
Business and entrepreneurial skills	.819	-.012	1	
Awareness	.855	.248	-.158	1

In this study, the Pearson *r* statistic is used to calculate bivariate correlations. Values between 0 and 0.3 indicate no correlation, 0.3 and 0.5 a weak linear association, Values between 0.5 and 0.7 indicate a moderate linear association and Values between 0.7 and 1.0 indicate a strong linear association. Based on this, the table indicates that the dependent variable is strongly associated with the independent variables where the uptake of credit by youths has a correlation of -0.760 with the terms of credit issuance. This indicates that the terms attached to the credit offered to the youths and the uptake of these credits is strongly and negatively correlated and therefore an increase in the credit terms is expected to have a negative consequence in the uptake to the youths. The table also indicates that, the uptake of credits and the youth's business and entrepreneurial skills have a positive and strong correlation of 0.819. The same is the case to the uptake and awareness of the youths which has a strong and positive correlation of 0.855. These therefore illustrates that, the business and entrepreneurial skills possession to the youths and their awareness of the credits and accessibility have a positive association with credit uptake which changes in the same direction due to the change of the dependent variables.

The association was also tested for statistical significance at 5% level which revealed that, all the variables had significant association with the dependent variable. This is as the table shows that all the associations tested had significance values less than 0.025 which is the critical value for a significance tested at a level 5% with a 2-tailed test. This therefore confirms the significance of the association.

4.6 Regression Analysis and Hypothesis Testing

To investigate the extent to which each of the independent variables (credit terms, business and entrepreneurial skills and awareness) affects the independent variable (uptake of credits) in the study, regression analysis was conducted which also answered the regression model proposed in the methodology. The relationship was also tested for significant through chi-square test analysis. The results are then as presented in tables below.

Table 4.13 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.850[a]	.823	.815	2.50337

a. Predictors: (Constant), credit terms, business and entrepreneurial skills, awareness

The model summary gives the coefficient of determination (R square) which is the measure of the extent to which the predictor variables influences the dependent variable. The R square value from the table is 0.823 which explains that, holding other variables constant, the credit terms, the business and entrepreneurial skills and the awareness of the youths account for 82.3% of the variability in the amount of credits taken by the youths. Thus other variables which were not considered in this study would account for 17.7% of the variability in the amount of the credits taken by the youths.

Also, the table gives the adjusted R square which is the measure of the reliability of the results. The value was obtained as 0.815 indicating that, the study results are 81.5% reliable since in a case where the study could have used the entire population rather than sample to give response, the study results would have been 18.5% different from the current results which are a considerably low variation of the findings. Thus, based on this, the model results are significant and reliable in explaining the influence of the predictor variables to the dependent variable.

Table 4.14 Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	291.951	12	97.317	15.529	.014[a]
	Residual	2086.862	349	6.267		
	Total	2378.813	361			

a. Predictors: (Constant), Credit terms, Business and entrepreneurial skills, Access

b. Dependent Variable: Credit Uptake

The significance of the model was tested at 5% level of significance with a 2-tailed test. The significance value obtained was .014 which is a value below the critical coefficient at 5% level (0.025), thus the model is statistically significant in predicting the youth uptake of credit. The calculated F in the model is 97.317 with 361 degrees of freedom. This indicates that the calculated F value is greater than the F critical at 5% level of significance which is 3.23 and therefore the overall model is statistically significant.

Table 4.15 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	435072.8	.628		1.943	.000
	Credit terms	-.920	.146	-.334	-1.283	.021
	Business and entrepreneurial skills	.342	.136	.131	0.524	.013
	Awareness	.540	.167	.174	1.229	.006

a. Dependent Variable: Credit Uptake

The regression coefficients in the table answer the regression model $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + €$

Where:

Y = uptake of credit

X1 = credit terms, X2 = entrepreneurial and business skills, X3 = awareness

β0 = Constant, β1 = coefficient of credit terms, β2 = coefficient of entrepreneurial and business skills, β3 = coefficient of awareness

€ = standard error

Based on the table results, the model therefore becomes;

Y = 435072.8 -0.920X1 + 0.342X2 + 0.540X3

From the model developed, it is clear that, holding the predictor variables constant at zero (0), the credit uptake by the youths could be 435,072.80 which is the level to which the youths would take the credits without the influence of the predictor variables. Also, from the model, given a unit increase in credit terms attached to the loans, the youth's credit uptake would have a negative result which would result to a 0.929 times decrease. A unit change in the youths' business and entrepreneurial skills would result to a 0.342 times changes in their credit uptakes which is according to the coefficient in the model. The model as well illustrates that, a unit change in the youth's awareness of the credit offers would result to a 0.54 times changes in the credit uptake in the same direction.

These coefficients are also statistically significant as indicated by their significant values in the table which are all less than 0.025 critical value at a 2-tailed test at 5% level of significance. This therefore confirms that there is a statistically significant relationship between the credit uptake by the youths and the credit terms, business and entrepreneurial skills and awareness of the credits offered by the lending institutions.

4.7 Discussion of the Findings

The findings illustrated that the dependent variable is strongly associated with the independent variables. This corresponds to (Ramachandar, 2009) who noted that Youth are considered riskier by most financial institutions hence most lenders allocate a very small proportion of loans to youth. This is because most youth lack adequate collateral for credit facilities. This therefore confirms that there is a statistically significant relationship between the credit uptake by the youths and the credit terms, business and entrepreneurial skills and awareness of the credits offered by the lending institutions.

Specifically, the uptake of credit by youths has a correlation of -0.760 with the terms of credit issuance. This is an indication of a strong negative correlation between credit terms and credit uptake by the youths. This corresponds to the studies by (Nehman, 1973) who observed that borrowing costs strongly affect the willingness of youth to take loans from formal lenders. (Salia, 2001) also noted that limited access for credit for youth can be attributed to bureaucracy and high interest rate.

The youth's business and entrepreneurial skills and the uptake of credits have a positive and strong correlation of 0.819. With regard to the correlation coefficient's strength, there is a strong positive association between the youth's business and entrepreneurial skills and the extent of credit uptake. The awareness of the youth on the credit also has a strong and positive association with their credit uptake. This has a strong and positive correlation of 0.855. This is agreement with (Staines, 2008) who notes that lack of information and awareness on the available business opportunities undermines uptake of credit by youth.

The proposed model was answered through a regression analysis which revealed that, holding other variables constant, the credit terms, the business and entrepreneurial skills and the awareness of the youths account for 82.3% of the variability in the amount of credits taken by the youths. Also, the model was found to be 81.5% reliable in explaining the relationship between the variables. These findings are in agreement with the findings of the study done by Omboi (2011) which revealed that, Micro and Small Enterprises' operators in Kenya can improve their participation in credit market by improving their business skills and knowledge plus maintaining proper accounting and book-keeping systems.

From the model developed, the findings indicated that, given a unit increase in credit terms attached to the loans, the youth's credit uptake would have a negative result which would result to a 0.929 times decrease. Also, a unit change in the youths' business and entrepreneurial skills would result to a 0.342 times changes in their credit uptakes which is according to the coefficient in the model. The model as well illustrates that, a unit change in the youth's awareness of the credit offers would result to a 0.54 times changes in the credit uptake in the same direction. These findings were also similar to the findings of the study conducted by Dabone, Osei & Petershie (2014) in Nigeria which evaluated the effect of access to credit for cash crop production. The findings revealed that, availability of information on credit sources as well as the farmers' skills in managing borrowed funds significantly influenced the extent to which farmers would access credits for their farming activities.

Olalwe and Akinwumi (2010) in their study on the determinants of access to credits by new SMEs illustrated that, accessibility is the key determinant of the SME's credit uptake. Aspects of distance, ability of the owners to meet requirements as well as the information access were the key factors cited in the study as affecting accessibility of credits. These findings as well are in line with the findings of the current study which found significant relationship between the credit terms, the business and entrepreneurial skills and the youth's awareness and credit uptake by the youth.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study findings, conclusions and the recommendations made based on the results. It also presents the areas for further research as pointed out during the study.

5.2 Summary of Findings

The study was undertaken with the aim of investigating the factors influencing credit uptake by youth in Nairobi County. The successful field research obtained a response rate of 94% with respect to the targeted sample. Majority of the respondents were male youths in the study. All the youth age groups were represented in the response where most of them were aged 23-26 years and the least were the aged 32-35 years. Of these, majority were university graduates followed by the middle level college graduates and the O/A level education holders while the least were the youths with primary education as their highest education level.

The study found out that the main sources of credits for the youths to invest are; employment, relatives and friends, cooperatives, banks, government institutions/ agencies and the microfinance institutions in decreasing order of the number of youths served. For the last five years, the study findings indicated that, most of the youths had been granted a loan amounting to less than 10,000 shillings.

Evaluating the effect of the credit terms on the youth's credit uptake, the findings indicated that, the collateral requirements on credit issuance to the youth from the financial sources are too high for them to meet. However, the funds loaned are neither sufficient nor insufficient in meeting the youths' intended project budgets. The interest rates attached on the loans offered to the youths are also too high thus affecting the number of the youths willing and able to obtain a loan.

The study findings as well indicated that the requirement to produce a financial statement reports does not affect the youth's loan qualification but for them to qualify should however belong to a certain group in order for them to benefit from the loans given. The grace period given on credit issuance according to the findings is too short for the youths to repay their loans whereas their ability to borrow is also affected by the penalties attached to defaults on loans; thus, they fear taking loans due to these penalties which they might not be able to meet once a default occurs.

The study findings further illustrated that most of the youths are fairly skilled and experienced on financial records keeping. Their knowledge and skills in marketing was also evaluated which was found to be good. Most of the youths had fair skills in group management. Also, the youths were not experienced in loan investments. However, majority of them had attended classes and seminars on how to use a loan granted for investment purposes.

The youths also due to their lack of skills and experience in loan investments seek for guidance and assistance from financial experts on how to invest. The study findings also show that the youths are well equipped with budgeting skills in running a business.

According to the results, newspapers, television, radios, friends and relatives as well as the social media play a great and significant role in creating awareness of the credits for business investments to the youth. Also, through the church and other elected leaders, youths can be able to access information regarding credits.

The relationship between the variables was established through regression and correlation analysis and the significance of the relationships tested through chi-square test analysis which revealed that, there is a statistically significant relationship between the credit terms, the business and entrepreneurial skills and the youth's awareness and credit uptake by the youth.

5.3 Conclusions

The study findings illustrate significant results obtained from the data collected. The researcher therefore based on these findings makes conclusions which are also in line with the objectives of the study as follows; the youth have not significantly employed the use of credit for their business investment. This is as most of the youth that have been able to access the loans for investment reported that they were only able to receive a sum amounting to less than 10,000 shillings which is considerably a low value with respect to business investment requirements.

On the effect of credit terms attached to the loans offered by the lending institutions, the study findings illustrated that these terms greatly influence the level to which the youths obtain the credits for their investments. This is due to the fact that the youths, being not familiar with loan investments have the fear of defaults in repayment and also fear of risk taking thus they tend to think that although they qualify for the loans, it would be more strain for them to pay back the loans. The youths are more accountable for their financial operations and budgeting in their businesses and also have the required marketing skills to run a business. However, they lack experience in loan investments and repayments which influence their ability to secure loans for investments from the lending institutions.

The availability of information regarding the accessibility of credits for investments from the lending institutions is vital in determining the extent to which the youths do their businesses since the information plays a great role in their decision making on where to source their capital for investments. The channel used to transmit the information as well as the effectiveness of the information send also determines the number of youths receiving the information and consequently the ease of credit access.

5.4 Recommendations

With regard to the findings and conclusions derived from these findings, the researcher makes policy recommendations that could be adopted to address the challenges as well as the obstacles that the youths undergo in their efforts towards successful business operations. The recommendations are therefore as follows: the credit terms attached to the loans issued have been evaluated as greatly affecting the level at which the youths apply for credits from the financial lenders.

This therefore should be regulated to ensure stability and favorable conditions for the youth so as to encourage them to obtain more loans for their businesses. This would then result to increased investment and revenue source for economic growth. Business workshops and seminars should be organized and oriented towards encouraging the youth on innovativeness and entrepreneurial skills so as to equip them with risk management skills and other vital business management skills which would encourage their investment through credits.

The youth should be informed accordingly about the existence of credits for business purposes. To do this, appropriate channels should be employed to convey the information regarding these credits which should also be convenient in transferring the information to meet more audience as possible. This will consequently enable them to have relevant information for them to be successful in business operations.

5.5 Limitations of the Study

The study was successfully conducted despite some limitations that were experienced in the entire course of executing the process. Some of these limitations included; conducting the study within Nairobi area which comprises of youths living in urban areas was a limitation to the study. This is due to the fact that the youth living in rural areas undergo different experiences in their efforts to become successful business personnel.

Some targeted respondents were not willing to participate in the study even after being assured that the data would be used for academic purposes only. This was because some claimed that their financial operations should not be disclosed to third parties for the purpose of their security. This therefore hindered the study's ability to meet its time plan and appropriate results.

The study period was short which necessitated the use of research assistants in the study. This limited the ability of the research to obtain fully reliable results as the presence of the research assistants would have led to different response from the respondent since they were not following the youths to seek for their detailed explanation of their answers.

5.6 Suggestion for Further Research

The study was successfully conducted which however was limited to the youths in Nairobi. Generalizing these results however would be a limitation regarding the situation and experiences of other youths in other regions of the country. Specifically, the youths living in the rural areas might be undergoing significantly different experienced from those within the urban areas.

This therefore calls for more studies to be conducted which shall involve youths from other regions especially rural areas to investigate their credit uptake and their social economic activities. Future research also should be conducted to find out other factors that influence the youth's ability to secure loans for their business investments as well as the motivators for their business growth.

Future researchers should as well consider planning their research and involve a bigger number of respondents whom they shall interview physically and review their answers by discussing with them on relevant information and allow them to give suggestions on what can be done to improve their business efficiency through loan investments. This will enable generalization of findings.

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APPENDICES

APPENDIX 1: INTRODUCTION LETTER

Timothy B. Musha

P.O Box48994, (00100)

Nairobi

Kenya.

Dear Respondent,

<u>RE: RESEARCH ON FACTORS INFLUENCING UPTAKE OF CREDIT BY KENYAN YOUTH IN NAIROBI COUNTY</u>

I am a post graduate student at the School of Business, University of Nairobi. I am conducting a research on the factors influencing uptake of credit by Kenyan youth in Nairobi County.

To undertake this study your feedback is required. I therefore, kindly request that you fill the questionnaire on the above subject. The information you give will be treated with utmost confidence and is needed purely for academic purposes.

A final copy of the report will be availed to you at your request. Your assistance is highly appreciated.

Yours faithfully,

Timothy Musha

APPENDIX I1: RESEARCH QUESTIONNAIRE

This questionnaire is intended to gather information that will help to provide answers to the research questions in the field of study which is “factors influencing uptake of credit by Kenyan youth in Nairobi County.

The respondent is encouraged to be precise and truthful when answering questions in a manner that will eliminate bias.

Confidentiality

The responses to the questions below are intended to be used for my academic research purposes and will be kept confidential.

PART A: GENERAL INFORMATION

Please fill or tick the applicable answer as appropriate.

1. Please tick your Gender? Male ☐ Female ☐
2. What is your age bracket?

   18-22 years ☐

   23-26 years ☐

   27-31 years ☐

   32-35 years ☐

3. What is your Educational Level?

   University level ☐

Middle level college ☐

O/A level ☐

Primary level ☐

None of the above ☐

3. What is your primary source of credit? (Tick whichever applicable).

Banks	
Cooperatives	
Relatives and Friends	
Government Institutions/Agencies	
Employer	
Micro finance institutions	
None of the above	

4. How much loan have you been granted over the last five years? (Tick whichever applicable).

LOAN AMOUNT(Kshs.)	Tick where appropriate
0 – 5,000	
5,001 – 15,000	
15,001 – 25,000	
25,001 – 50,000	
50,001 – 100,000	
100,001-250,000	
250,001-500,000	
500,001-1,000,000	
Above 1,000,000	

PART B: Credit Terms:

What is your satisfaction level on the lending terms of credits offered by financial institutions in Kenya?

	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
Collateral required is too high for me					
Amount loaned is not sufficient to meet my project needs					
Interest charged on loans is too high					
Requirement to produce financial reports affect my loan qualification					
I must belong to a group to qualify for a loan					
Grace Period for loan repayments is too short for me.					
I fear taking loans because of the penalty in case of default					
Repayment period is too short to qualify for the amount of loan I need.					

PART C: business and entrepreneurial skills

1. For each of the following, indicate your answer in the box provided. **1=Very poor, 2=poor, 3=fair, 4= good, 5=very good**

	Very poor	Poor	Fair	Good	Very good
How would you rate your skills in financial record keeping?					
How would you rate your skills in marketing?					
How would you rate your skills in group management?					

2. Please mark the number that best reflects your level of agreement in the following statements.

1=strongly disagree, 2=Disagree, 3=Neutral, 4= agree and 5=strongly agree.

	1	2	3	4	5
Am not experienced in using loan investment.					
I have never attended any class, seminar on how to use a loan granted					
I get assistance from financial experts on how to invest					
I do not have budgeting skills to enable running of a business					

PART D

Awareness

1. How best would you want to receive credit financing awareness campaigns?

THROUGH	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree
Newspapers					
Television					
Radio Stations					
Friends and relatives					
Social Media					
Church and Other elected leaders					

2. Use the scale to tick to indicate your response. **1=strongly disagree, 2=Disagree, 3=Neutral, 4= agree and 5=strongly agree.**

	1	2	3	4	5
Am not aware of loan products offered					
Am not aware of the lending institutions in our locality					
I am not aware of the procedures to get credits					
I do not have collateral for a loan					

THANK YOU FOR YOUR PARTICIPATION AND COOPERATION

APPENDIX III: NAIROBI AREA MAP (Showing areas where Data was Collected)

NAIROBI COUNTY DISTRICTS	POPULATION
Nairobi West	307,018
Nairobi East	553,099
Nairobi North	500,315
West lands	102,371
TOTAL	1462803