# INFLUENCE OF FINANCIAL LITERACY ON CREDIT UPTAKE BY YOUTH ENTERPRISES IN MACHAKOS TOWN KENYA

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**A Research Project Submitted to the Graduate School in Partial Fulfilment of the Requirements for the Master of Business Administration of Egerton University**

**EGERTON UNIVERSITY**

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## DECLARATION AND RECOMMENDATION

### Declaration

This project is my original work and has not been presented in this university or any other for the award of a degree.

Signature  Date: 16-08-2023

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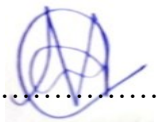
CM11/0437/08

### Recommendation

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

Signature  Date: …23rd August 2023…

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## DEDICATION

I dedicate this piece of work to my family. Particularly, to my dear wife Mary Mumbe, daughters Marvel Mulahi and Mercy Munyali and son Melchi Mulunji, my mother Mrs. Clementine Achitsa Muhati and Father Mr. Reuben Muhati Wituka.

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## ABSTRACT

Credit to youth undertaking small-scale businesses enables them to engage in self-employment projects with the main goal of generating income. However, credit uptake by youth depends on and is enhanced by the possession of business and entrepreneurial skills which are critical components of financial literacy. The biggest challenge to most youth is financial illiteracy which makes them lack the ability to integrate what they know with what they can do to earn a living. This study sought to examine how financial literacy influences credit uptake by youth enterprises in Machakos Town, Kenya. Specific objectives were evaluating the influence of bookkeeping skills, budgeting skills, debt management skills, and financial knowledge on credit uptake by youth entrepreneurs in Machakos Town, Kenya. The study employed a descriptive research design. From a target population of 1704 youth enterprises, a sample of 314 were selected randomly to participate as respondents. A structured questionnaire was used to collect data. Simple and Multiple regressions were used to find parametric estimators whose t and f statistics tested the hypotheses. The regression results revealed an $R^2$ of 0.728. This meant that holding other variables constant, financial literacy variables accounted for 72.8% of the variability in credit uptake by the sampled youth entrepreneurs. Coefficient of bookkeeping skills (0.53) had a $p = 0.001$ this meant that bookkeeping skills positively and significantly influenced the dependent variable. Coefficient of budgeting skills (0.449) had a $p = 0.012$ this meant that budgeting skills positively and significantly influenced the dependent variable. Coefficient of debt management skills (-0.158) had a $p = 0.212$ this meant that debt management skills negatively and insignificantly influenced the dependent variable. Coefficient of financial knowledge (0.823) had a $p = 0.000$ this meant that financial knowledge positively and significantly influenced the dependent variable. From the study findings, three of the financial literacy measures were found to positively influence credit uptake by the sampled youth enterprises. Hence, the study recommends the government to initiate training and mentorship programs for youth entrepreneurs in financial literacy to enable them to have the skills to finance and grow their businesses. The financial institutions should incorporate programs on financial literacy to enable the borrowers equip themselves with the relevant skills that will help increase credit uptake.

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## LIST OF ABBREVIATIONS AND ACRONYMS

**CBD:** Central Business District

**DFEP:** Department of Finance and Economic Planning

**FSD**: Finance Sector Deepening

**ILO:** International Labour Organization

**INFE**: International Network on Financial Education

**KCB**: Kenya Commercial Bank

**KNBS:** Kenya National Bureau of Statistics

**KREP:** Kenya Rural Enterprise Program

**KWFT**: Kenya Women Finance Trust

**MAR**: Marsh Arrow Romer

**MFI**: Microfinance Institution

**NACOSTI:** National Commission for Science, Technology and Innovation

**OECD:** Organisation for Economic Co-operation Development

**PRC:** Peoples Republic of China

**S&P**: Standard & Poor's

**SD**: Standard Deviation

**SMEP**: Small and Micro-Enterprise Program

**SMEs**: Small and Medium Enterprises

**SPSS:** Statistical Package for Social Science

**US:** United States

**VIF:** Variance Inflation Factor

**YEDF:** Youth Enterprise Development Fund

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

World Bank (2020) report indicated that youths were perceived by financial institutions to be more risky clients. The youth tend to lack business experience, credit histories, financial literacy, savings, and other assets to offer as collateral. They may also lack access to business networks. As a result, youth are more likely to depend on family savings, informal lenders, or other similarly suboptimal means of financing businesses. These sources ultimately yield limited funds and/or are exploitative.

The increased level of unemployment in Kenya has exposed Kenyan youths to a lot of challenges (Kinyanjui, 2010). Yunus (2014) noted that many governments are supporting youth ministries, youth policies, and youth programs, and there seems to be a greater appreciation that young people are the future of their countries development. Odera et al. (2013) reveal that youths have continued facing challenges related to accessing credit from both banks and even Government funds. This is happening despite the commendable efforts of various Governments in attempting to unlock the full potential of youth enterprises by helping them economically. Consequently, Odera et al. (2013) opine that youth enterprises have continued to face challenges related to accessing credit from banks and even Government funds.

### 1.1.1 Financial literacy

Education has been enlisted as a priority by the World Bank, in its poverty-fighting mission being one of the largest external financiers of education in the developing world (World Bank, 2014). Financial literacy is one of the factors that enhances the growth and profitability of many successful firms. Frisancho (2019) noted that whereas the bridging has been done for the supply-side access barriers, the demand-side factors become stringent deterrents. These include limited financial literacy or a lack of trust which bar the take-up and use of formal financial products and services. Financial literacy has received attention as a contributor to youth's access to credit across the world. In this regard, OECD (2014) indicated that at the highest global level, governments in the arena of financial education, have identified youths as one of the priority targets. Fernando and Pergelova (2015) also noted that increasing the levels of financial literacy among young consumers

is a social necessity. Further, they say, it's a pressing challenge for policymakers and industry alike in many countries. They noted that financial literacy and financial education have become a growing area of interest because of several factors. These include the downturn in the economy, the low personal savings rate, and what many consider to be an excessive reliance upon credit by consumers.

The Standard & Poor's Rating Services found out that financial literacy among adults around the world stands at 33 percent (Global FinLit Survey, 2014). This means that approximately 3.5 billion adults in the world, most of them in developing economies lacked basic financial understanding.

For an individual to function well in the money economy the requisite knowledge and skill can be attained with financial literacy. The latter also entails making informed judgments concerning their own and their family circumstances. Hilgert et al. (2003) posit that the need for financial literacy among business owners and entrepreneurs has hitherto become a subject of interest in both developing and developed economies. Though it's unlikely an absolute state, financial literacy fosters individuals' ability to respond effectively to the ever-changing personal, social, and economic circumstances. The firm's success or failure is hypothetically determined by financial literacy to a large extent. It is for this reason, many countries have created task forces to study and evaluate the level of financial literacy of their citizens (Alessie et al., 2011).

In 2010, the US president observed that the next major crisis was lurking in the lack of financial literacy among American youth. This, he said, would plague the US economy in the future if action is not taken (Bartley, 2011). This concern was attributed to findings that youthful Americans in the ages group between 18 and 29 years were financially undereducated. This age group tended to have the lowest levels of financial literacy of all other age groups (National Financial Capability Study, 2009).

In China, Chen and Jin (2017) noted that the formal credit markets have not kept pace with economic growth and have remained largely underdeveloped. Formal credit is mainly directed toward large state-owned enterprises and rarely targets the credit needs of individuals (Chen & Jin, 2017). Majority of Chinese households continue to be limited in usage and access to formal credit, especially in poor urban and rural areas. Many strongly depend on informal credit from alternative sources, such as close friends and family members, to meet their borrowing needs (Fungacova &

Weill, 2015). Based on this situation, the government of the People's Republic of China (PRC) has realized that financial literacy interventions are a key policy tool (Yuan & Jin, 2017). This policy tool is being applied among the most economically vulnerable populations to bring them into the financial mainstream (Asian Development Bank, 2017; The World Bank, 2018).

According to Demirguc-Kunt and Klapper (2012) the adults in Sub-Saharan Africa and in North Africa were 40 percent and 16 percent respectively reported to have saved or set aside money in the past year. Additionally, from the results, there are those respondents who saved their finances in formal financial institutions in the previous year (14 percent of the adults representing 35 percent of savers in Sub-Saharan Africa, and 4 percent of the adults, representing 27 percent of the savers in North Africa). Southern Africa and Eastern Africa have the highest percentage of adults with bank accounts standing at 51 and 28 percent respectively. Central Africa and North Africa has the lowest percentage among the percentage of adults with bank account standing at 23 and 15 percent respectively. This could be attributed to the lack of enough money to use an account and the cost to acquire an account (Demirguc-Kunt & Klapper, 2012)

In South Africa Cole et al. (2014) indicated that although a financial literacy program improved budgeting knowledge, reduced loan applications and increased self-reported savings. They additionally reported that there was no significant increase in other types of financial knowledge or practices. According to ILO (2016) South Africa's population ranks high in terms of indebtedness. Based on the report, between 2013 and 2014, 86% of South Africans borrowed money making them more indebted than any other population globally. However, even with this higher borrowing level, South Africans stand out in terms of poor loan repayment. This is because the national credit regulator reported in its 2014 annual report that 44.2% of all active credit consumers had impaired records. As such, in South Africa like many other parts of the world, financial literacy skills are important yet underdeveloped among a large share of the population.

In Tanzania, the Tanzania Development Vision 2025 categorically highlights that financial illiteracy hinders access to financial services, impeding the country's economic competitiveness in the global market (Lotto, 2020). According to Mbugua (2015) due to the challenges faced by youths such as lack of employment opportunities, lack of knowledge and skills, and poverty, they are enticed to engage in illicit activities just for subsistence.

In Kenya despite great strides made in financial innovations, access to financial services has remained low in the informal sector where the majority have been sidelined from formal financial services, especially the least educated (Shibia & Kieya, 2016). Owen (2020) shows financial access by strands across different years in Kenya for studies done by Financial Access, Kenya. By 2006, the proportion of the population who used formal financial services were 18.9 percent, 35.2 percent used informal, and those excluded were 38 percent. The respective figures for 2016 are 42, 7, and 17 percent, respectively. This reveals that although many people had moved from informal to formal financial access, a large number are still excluded. Further, Owen (2020) revealed that 33 percent of Kenyans used formal financial strands, 34 percent used other formal, eight percent informal, and 25 percent were excluded in 2013. Furthermore, in 2016, 42 percent of Kenyans accessed formal financial strands, 33 accessed other formal, 7.2 informal, and 17 percent are excluded. This indicates a consistent rise in the number of people using formal services and a decline in those using informal strands and the excluded ones.

Compared to 2006, financial inclusion has more than doubled while financial exclusion has more than halved. Owen (2020) combined the financial access by strands for the years 2006, 2009, 2013, and 2016 (FSD, 2016) in one graph. The study revealed a steady rise in formal financial access for those with tertiary education. Those with secondary education had a somewhat flat line or mild increase in formal financial access. Those with primary education had a steady decrease in financial access. Those without any Education only attracted 5% financial access. This indicates clearly that less educated people are less likely to access formal financial strands and most likely to access informal ones or be excluded.

Every serious entrepreneur must be able to maintain proper records of his or her business transactions. Proper bookkeeping is important to sustaining and expanding a business. Without it, the entrepreneur runs the risk of hitting cash flow crunches, wasting money, and missing out on opportunities to expand his business. When you keep proper records of your business transactions, you would be properly positioned to carry out proper business evaluation and see how your business is fairing. The purpose of bookkeeping is to help you manage the business and to enable tax agencies to evaluate the business activity (Chepkemoi, 2013).

Budgeting assists to improve the management of an enterprise helping to achieve optimize profits and minimize losses. Siekei et al. (2013) determined a positive relationship between

budgeting skills acquired through financial literacy training and improved performance of MSEs in terms of increased sales and business profitability providing a basis for establishing performance targets. However Fatoki (2014) established that a majority of micro-enterprises are survivalist, having some form of budgeting and financial planning and control but on an informal basis. This view that is corroborated by Abanis et al. (2013) who found that a majority of small businesses don't engage in formal financial planning, financial control and budgeting.

Studies have shown that persons with mild financial literacy were likely to face greater challenges appertaining to debt management, savings, and credit, and were less likely to plan. Conversely, those individuals with higher financial literacy were better able to manage their money, took part in the stock market and performed better on their portfolio choice and were more likely to choose mutual funds with lower fees (Lusardi & Mitchell, 2011). Moreover, those who have greater financial knowledge were more likely to accumulate higher amounts of wealth, had better debt management skills, and evaded high-interest payments (Lusardi & Mitchell, 2011; Wachira & Kihiu, 2012).

OECD (2020) states that financial knowledge is a very critical component of financial literacy for individuals as it enables them compare financial products and services with an aim of making appropriate, well-versed financial decisions. Financial knowledge and the ability to apply numerical skills financially enables consumers to navigate with greater confidence financial matters. It also inculcates the ability to react to news and events that may have implications for their financial well-being (OECD, 2020). The study adopted bookkeeping skills, budgeting skills, debt management skills and financial knowledge as independent variables which were measures of financial literacy.

### 1.1.2 Credit uptake

According to Remund (2010) a loan provided in a commercial or corporate finance environment is classified as "credit uptake" if it includes revolving credit, term loans, committed facilities, letters of credit, and the majority of retail credit accounts. Yunus (2014) pines that credit to youth is gaining credibility on a rising scale in the mainstream finance industry. He adds that many traditional large finance institutions are contemplating credit to youth as a source of growth even though it had earlier been disguised as a source of future growth. Financial services have an important contribution in development by facilitating economic growth, and enterprise creation,

reducing income inequality and poverty levels, and employment creation. Poor people and marginalized groups including women, young people, and people with impairments are given more opportunities to participate in the financial system. They are empowered to save, borrow, build their assets, invest in education, venture into entrepreneurial activities, and improve their livelihoods (World Bank, 2012). Loans to young people running youth entrepreneurs have been difficult for banks and other financial institutions to advance. The primary causes include the absence of collaterals that financial institutions require, improperly assembled financial documents, and a lack of technical and managerial skills among young people (Wanjohi, 2008). If borrowers offered security, a guarantor, or if they used the credit for business-related purposes, lenders would be more ready to extend credit (Pham & Lensink, 2007).

Credit to youth has successfully allowed underprivileged people to start their own businesses and produce income, and in many cases, start building wealth and escaping from poverty (Spence et al., 2010). According to Wanjohi (2011) the lack of credit availability is virtually always cited as a major issue for young businesses. This has an impact on technology decisions since it reduces the range of options that may be considered. Because it is the only technology they can afford, many young businesses may adopt improper technology. Even in situations where finance is accessible, the entrepreneur may not always have a choice because of the lending requirements, which may compel them to buy expensive, immovable equipment that can be used as collateral for loans. Youth-run SMEs in Kenya are unable to acquire loans due to the strict lending requirements. According to Gita (2013) the effect of financial liberalization on credit uptake demonstrates that young borrowing access is not improved by financial sector liberalization. This is so because monetary regulations are tightened as a result of financial liberalization.

Rajendar (2012) conducted a study in Ghana to determine how much the regulatory environment affects young people's access to youth enterprise development funds. The results showed a significant correlation between regulatory procedures and access to youth enterprise funds. The survey also showed that the expenditures associated with licensing and registration for young businesses were significant. Conditions for lending have an impact on how much credit young people can take out. The youth's access to credit is impacted by the extremely severe constraints imposed on them. The ability to run a firm and be entrepreneurial is helpful for young

people taking out loans. The high cost of borrowing and lending in the banking sector has thus been the main obstacle for many young people. The use of credit is crucial for boosting economic activity, generating job opportunities, and raising people's standards of life. Many young people who are unable to obtain formal employment in white-collar jobs benefit from it (Salia, 2001).

In Nakuru East Constituency, Nakuru County performed research on financial factors determining micro-loan uptake by women enterprise groups (Oluoch, 2019). The dependent variable for the study was envisioned as the uptake of microloans. While the explanatory independent variables were financial characteristics, lending practices, financial literacy, and loan repayment procedures. The amount borrowed and frequency of borrowing were used to conceptualize the dependent variable. The findings showed a moderately positive link between financial literacy and the use of microloans at the Nakuru East Constituency Women Enterprise Scheme.

### 1.1.3 Financial literacy and credit uptake

Possessing a general degree of financial literacy in addition to a sufficient comprehension of fundamental financial concepts would be a benefit of getting financial services and improving financial inclusion. Small businesses constitute the backbone of many economies at the macroeconomic level, and when entrepreneurs lack the financial literacy skills necessary to run profitable businesses, the entire economy is at danger (Dahmen et al., 2014). In this regard, various research (Atkinson & Messy, 2013; Finscope, 2013; OECD, 2009, 2013; Xu & Zia, 2012) have investigated the effect of financial literacy on financial inclusion. The capability, conduct, awareness, and attitude necessary to achieve financial well-being through sane financial decisions have been agreed upon as being related to financial literacy (OECD/INFE, 2012).

According to Musha (2014) 82.3% of the variation in the number of loans accepted by the adolescents may be attributed to the credit terms, the business and entrepreneurial abilities, and the knowledge of the youngsters. The Kenyan government has struggled with financial inclusion and loan availability, and it has tried a variety of approaches to assist most of the population. Most Kenyans lack bank accounts. According to the Kenya National Bureau of Statistics (KNBS), youth make up 32% of Kenya's population, or 11.8 million people. Kenyan adolescents struggle to obtain loans because they have nothing in the way of pledge able assets. The Kenyan government

established dedicated funding institutions to assist these credit-insecure adolescents. The Youth Enterprise Development Fund (YEDF) and the Uwezo Fund are a couple of these funds.

Additionally, financial institutions that provide credit include SACCOs, commercial banks like Barclays, Diamond Trust, Cooperative, Standard Chartered, Kenya Commercial Bank (K.C.B), National Bank of Kenya, and Equity Bank, as well as microfinance lending organizations like Faulu, KWFT, and SMEP (Small and Micro-Enterprise Program).

### 1.1.4 Youth in Machakos town

Governments across the world are sponsoring youth ministries, youth policies, and youth programs more frequently, and there seems to be a growing understanding that children and teenagers are the foundation of a nation's future growth. Kenya, like many other developing nations, has a long way to go before recognizing this potential in its young people. To ensure that policies are created, and services are delivered in a way that addresses both the needs of youth and the actual concerns of citizens, devolved governments must involve youth in governance and in their development decisions (Yunus, 2008).

Machakos County just like the rest of the world is experiencing youth bulges. Youth bulges, which happen when youth make up more than 20% of a country's population, have become a worldwide phenomenon. As per the 2019 Kenya Population and Housing Census, 35% of Machakos county population are youth aged 18 to 35. This brings the youth of Machakos Town to 0.35*170,606 = 59,713 by 2019. This was estimated to grow to 40% by the year 2022. Thus, making the youth bulge a very big issue in the county that must be seriously addressed. The youth bulge also ascertains the truth that the youth are our biggest asset now and in the foreseeable future (County Government of Machakos, 2020). In the Youth Empowerment Policy (2020) the County Government of Machakos admits that youth are facing many challenges. The challenges range from drug abuse, early pregnancies, unemployment, inadequate entrepreneurship skills, inadequate funds, lack of education, and lack of mentorship among others. All these issues need to be regularly addressed in hope of empowering the youth to have a brighter future.

Youth enterprises in this area consist of small traders with shop or retail services, Mpesa Services, wines and spirit retail, kiosks, and light, or temporary establishment. These are enterprises that are controlled and licensed by the county government of Machakos. Youths are mostly found in small start-up enterprises and are likely to therefore be the majority in small

enterprises comprising between 1 to 50 employees (SME Act, 2015). From the licensing department in Machakos County, this class of enterprises pays between Ksh. 3,000 and Ksh. 40,000 in licenses.

### 1.2 Statement of the problem

Youth participation in small business ventures has a substantial impact on job creation and the nation's economic progress. Therefore, giving young people access to loans would greatly facilitate their ability to engage in entrepreneurial operations as a means of employment. According to the Kenya Youth Development Policy (GOK, 2019), some working adolescents are underemployed, or employed part-time, or are simply inactive, underutilizing their skills. The strategy also refers to the anticipated 27.8% underemployment rate among youngsters between the ages of 15 and 34 in 2015/16. Compared to a population-wide underemployment rate of 26.6% for those aged 15 to 64, youth aged 15 to 19 were found to have the highest rates of labor underutilization, estimated to be as high as 55.4%. According to the policy statement, this condition puts idle youngsters at risk of acting defiantly and posing other societal problems. Giving the young people the necessary financial abilities to enable them to profitably participate in small businesses as a type of employment was one of the suggested solutions to the problem. They would be able to make wiser financial and business decisions for their businesses as a result. Youth-led businesses may boost economies and produce jobs with the correct knowledge, skills, mentorship, funding, and supportive legislation (African Development Bank, 2022). The need for financial literacy among entrepreneurs and business owners that include the youth has henceforth become a subject of interest in both developed and developing economies (Hilgert et al., 2003).

Financial literacy enables individuals to be able to respond effectively to ever-changing personal, social, and economic circumstances. Again, it has been hypothesized that financial literacy is a key determinant of a business's success or failure. It is for this reason that many countries have created task forces to study and evaluate the level of financial literacy of their citizens (Alessie et al., 2011). This notwithstanding, a conceptual gap exists in that there are limited documented research findings on the influence of financial literacy on credit uptake by youth enterprises in Machakos County. The foregoing precipitated the current study focusing on financial literacy as a predictor of credit uptake by youth entrepreneurs in Machakos Town. The study

sought to establish how bookkeeping skills, budgeting skills, debt management skills, and financial knowledge influence credit uptake by a sample of youth enterprises in Machakos Town, Kenya.

## 1.3 Objectives of the Study

### 1.3.1 General objective of the study

The study aims at establishing the influence of financial literacy on credit uptake by youth enterprises in Machakos Town Kenya.

### 1.3.2 Specific objectives of the study

i. To establish the influence of bookkeeping skills on credit uptake by youth enterprises in Machakos Town, Kenya.

ii. To determine the influence of budgeting skills on credit uptake by youth enterprises in Machakos Town, Kenya.

iii. To analyse the influence of debt management skills on credit uptake by youth enterprises in Machakos Town, Kenya.

iv. To evaluate the influence of financial knowledge on credit uptake by youth enterprises in Machakos Town, Kenya.

## 1.4 Hypotheses of the Study

i. **$H_{O1}$:** Bookkeeping skills do not influence credit uptake by youth enterprises in Machakos Town, Kenya.

ii. **$H_{O2}$:** Budgeting skills do not influence credit uptake by youth enterprises in Machakos Town, Kenya.

iii. **$H_{O3}$**: Debt management skills do not influence credit uptake by youth enterprises in Machakos Town, Kenya.

iv. **$H_{O4}$:** Financial knowledge does not influence credit uptake by youth enterprises in Machakos Town, Kenya.

## 1.5 Significance of the Study

These study findings are important to various stakeholders. To begin with, the study would bring to light areas where youths had a shortcoming in financial literacy. This would enable curriculum developers in institutions of learning to tailor the curriculum to cover these areas. Secondly, the study sought to inform credit providers/financial institutions about the challenges regarding financial literacy faced by the youths in access to credit for their enterprises. This would enable financial institutions to model their credit products to counter these challenges among the youth. Thirdly, the youths would be enlightened on the areas they need to improve regarding financial literacy to enhance their ability to access credit facilities. Additionally, the policymakers who sit at the national or county government panels would find guidance on policy formulation and implementation of credit administration for youth in urban areas. Lastly, the study sought to contribute to the existing literature on financial literacy and youth credit uptake. This would provide an additional source of reference for future scholars in this area of research.

## 1.6 Scope of the Study

The study focused on the influence of financial literacy on credit uptake among the youth enterprises in Machakos Town in Kenya. Machakos Town was chosen as the place of interest due to its proximity to the capital Nairobi and as such has a chance of many youths who may not thrive in the capital ending up in the town. Additionally, Machakos Town has seen tremendous growth since the advent of devolution and as such, it is a good financial environment sufficient for the researcher to gather the necessary data for the study. The study was delimited in terms of the scope by considering businesses run by an individual between the age of 18-35 years. The study consumed a budget estimate of around Ksh. 400,000 which would be funded by the researcher himself. On the other hand, the study was undertaken between October and November 2022. This period was critical because the researcher had been cleared by the Egerton University and NACOSTI earlier in the month of October to carry out data collection. Secondly, the study needed to be accomplished within one year of determining the population (Appendix C). This would avert any changes in the composition of the target population (exits and new entrants) that could influence the effectiveness of the study sample. The study limited itself to primary data gathered directly from the respondents based on the specific objectives. The study was limited to a sample size of 314 and a population size of 1704 enterprises.

## 1.7 Assumptions of the Study

The researcher assumed that the regression error would be an insignificant impact on the validity of the results of estimators. The study assumed that the research instrument would give accurate data and that the biasness would not set in during the data handling (data collection and analysis). It's assumed that the respondents would be trustworthy in their responses to the questionnaires. Additionally, they would keep their responses as objective as possible and would be effective in responding to the questionnaires. Further, the study assumed that there wouldn't be any serious alterations in the target population's composition during the study period to influence the effectiveness of the sample.

## 1.8 Limitations of the Study

The targeted respondents' hesitation to provide information because they feared it might be used to intimidate them or be used maliciously against their enterprises was the limiting factor. To establish that the respondents' comments were strictly to be utilized for academic reasons, the researcher submitted an introduction letter from Egerton University and a letter from the National Commission for Science, Technology, and Innovation (NACOSTI).

## 1.9 Operational Definition of Terms

**Bookkeeping skills:** The ability to document every financial transaction logically and consistently is known as bookkeeping abilities. Sales, profits from purchases, and payments made by an individual or entity are all considered transactions. All business transactions are documented by bookkeeping, which also assigns income and expenses to distinct accounts in separate account records.

**Budgeting skills:** The capacity to create a master financial record that details the projected contribution from an organization's activities in terms of anticipated cash inflows or revenues and outlays over a specific time.

| | |
|---|---|
| **Credit Access:** | Refers to the capability of individuals or enterprises to approach or get close to financial services. Just like opening a bank account. |
| **Credit Uptake:** | refers to the use of credit or loan obtained in the context of business or corporate finance, including letters of credit, revolving credit, term loans, committed facilities, and most retail credit accounts. |
| **Debt management skills:** | Refers to the ability to make straightforward financial judgments about loans, credit cards, interest rates, and fees using basic mathematical knowledge of interest compounding. |
| **Financial Literacy:** | Individuals can make informed judgments and take effective decisions in managing their finances. |
| **Financial Knowledge:** | It's understanding various ideas, such as investment possibilities for households, savings programs, and the compounding of interest for corporate borrowing, helpful in helping people make strategic or operational decisions. |
| **Youth:** | This study adopts the Kenyan Constitution's definition of youth. That is individuals in the republic who have attained the age of 18 years but have not attained the age of 35. |
| **Youth Enterprise:** | These are businesses run and owned by youth. The enterprise can be owned individually, in a partnership, or corporately. |

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter displayed the work of other scholars on the influence of financial literacy on credit uptake among youth enterprises. The chapter consists of theories underlying the study, empirical review of variables, research gaps that the study intended to fill and conceptual framework.

## 2.2 Theories Underlying the Study

This study was anchored on Dual Process Theory, Gorith's Business Refinancing Theory, and Marsh-Arrow-Romer (MAR) Knowledge Spillover Theory. These theories were discussed below on how they support the current study.

### 2.2.1 Dual process theory

The Dual Process hypothesis, which Richard E. Petty and John Cacioppo first proposed in 1986, challenges the idea that the actions of a group with a high level of financial literacy may be influenced by the coexistence of the two philosophical systems of intuition (system 1) and cognition (system 2) (Glaser & Walther, 2013). The capacity for awareness without implications, or intuition, results in judgements, opinions, or impressions that cannot be verified logically. According to Taylor (1981) people make rational decisions based on their intuition since their emotions have a significant influence on them. According to Glaser and Walther (2013) the high prevalence of intuition moderates the impact of financial education on wise investment choices. Therefore, using intuition more often leads to less wise financial choices.

Making decisions systematically involves the contribution being modified, summarized, detailed, stored up, recovered, and utilized. Cognition is the psychological function that consists of comprehending, planning, interpreting, analyzing, and administering, according to Chan and Park (2013). They observed that people with high cognition had good eyesight, were analytical, and exercised critical thought while making decisions. Based on the dual theory's axioms, it is implied that using intuition (system 1) results in a decision-making shortcut and may, therefore, more frequently lead to unfavorable outcomes. Conversely, when cognitive (system 2) is used, judgments are made after a comprehensive investigation of the facts and are generally supported

by reliable data. The youth need sufficient information about financial literacy, what it implies, and how it might help them better their standard of living before they commit to credits, according to the dual theory applied to the current study. This demonstrates that youth who possess sufficient financial literacy skills can make pertinent judgments that, in the long term, will result in high credit uptake.

### 2.2.2 Gorith's business refinancing theory

The theory was postulated by Gorith in 1978. It states that credit absorption directly correlates to the rate of business investment, such that with high levels of investment, refinancing is required to fill the gap of more need for funds. The theory also holds that, whenever a business does not attain the much-anticipated growth, less need for fresh capital is experienced, hence uptake of credit gets low. The theory has one major strength, that is, the need for more funds is driven by the rate of business growth and this obeys the laws of trade cycles in which investment is done during periods of business recovery so that funds are not made idle in dead stocks. However, the growth of a business or business recovery must be preceded by some economic activities undertaken in the business environment and this means that business operations must continue, yet some business entrepreneurs seek to wait for recovery to invest. Realities of trade cycles notwithstanding the craving for more funds for business investment generally rise with business growth. The use of this theory to support this study cannot be farfetched. The theory reveals that refinancing avails fresh funds, boosting the demand for more business inputs and its smooth running. Otieno (2018) recommends that small business owners and their advisers should regularly review existing debt finance arrangements. This, he pines, ensures that the finance facility and structure fit the current needs of the business.

### 2.2.3 Marsh-Arrow-Romer (MAR) knowledge spillover theory

According to Jose Scheinkman and Edward Glaeser (1992) MAR According to the knowledge, spillover theory of entrepreneurship, one's motivation to start a firm can be influenced by the environment in which those decisions are made. According to it, as fresh knowledge builds up, there is a chance for technological advancement (Adebimpe et al., 2008).

This theory is applicable to the study because entrepreneurs choose to capitalize on possibilities by starting new businesses because of their recognition of emerging opportunities based on the level of new knowledge they have learned through time and the skills they have

developed (Siekei et al., 2013). Expected income from uncommercialized knowledge was enhanced by the magnitude of the new knowledge exploitation. Parker (2004) implies that there is a compelling assortment of financial, institutional, and individual challenges to entrepreneurship. Therefore, for SMEs to grow and be successful they need to acquire skills in the market dynamics and be proactive by understanding the trends of the same through training (Lusardi, 2009). This theory is applicable to the study in that the current diversified economy makes it necessary for SMEs to continuously acquire new knowledge, which aids in their ability to remain relevant and competitive.

## 2.3 Empirical Review of Variables

### 2.3.1 Bookkeeping skills on credit uptake by youth enterprises

Chelimo and Sopia (2012) carried out a study on the effects of bookkeeping on the growth of small and medium enterprises in Kabarnet Town, Baringo County, Kenya. The study was based on a descriptive survey design and targeted all SME operators in Kabarnet town. A sample of 72 respondents was selected through stratified random sampling techniques. The data were analyzed using descriptive statistics and analyzed using percentages. The study findings show that many SME operators in Kabarnet town maintain sales record books using the double entry system. The study also shows that bookkeeping positively enhanced SMEs' growth as measured by profitability and increased business expansion in Kabarnet town. Based on the conclusions, the study recommended that documents of original entry such as invoices should be properly kept as they are important elements of the financial system.

In Ogbomosho, Oyo State, Nigeria, Hassan and Olaniran (2011) conducted an examination of the effect of accounting records keeping on the performance of small-scale firms. Descriptive and cross-sectional research designs were combined in this study. A descriptive methodology, including in-person interviews and questionnaires, was used as the main methods for gathering primary data on the 113-person sample. Results showed that most of the respondents kept business accounting records. Cash was used to keep all the records. Receipts, invoices, payment vouchers, sales and purchases, creditors, and debtors-all of these were employed as record-keeping tools to save operating expenses and boost productivity. Since accounting records are crucial for decision-making, it was determined that record keeping is crucial for decision-making and business adjustment.

In their study on the relevance of accounting records in small business performance in Nigeria, out that MSEs that kept proper books of account were able to measure accurately the performance of their businesses (Ezejiofor et al., 2014). They also asserted that business decisions regarding expansion, maintaining a competitive edge, prevention of business failure, and filing tax returns need to be supported by quality financial information which needs to be relevant, user-friendly, and available promptly. They cautioned that accounting systems that generate the information should be simple in order not to impose unnecessary operative burdens.

In Ruiru Town, Kenya, Otieno (2016) conducted research on influence of financial literacy on the performance of small and medium enterprises. The study's target population consisted of 334 SMEs. Licensed by the municipal government of Ruiru. 100 SMEs were determined using Yamane's algorithm. 100 SMEs were chosen as the sample using stratified random sampling for the study. The study discovered that the financial performance of the SMEs it looked at was positively and significantly impacted by bookkeeping abilities. The findings also demonstrated that effective bookkeeping had given business owners the knowledge they needed to determine whether they had made a profit or suffered a loss. Furthermore, it was discovered that the majority of respondents concurred that bookkeeping had given business owners the forecasting abilities they needed to create their company's goals.

Negou (2018) did a study on the role of bookkeeping in the survival of very small businesses in the Kumba Municipality. In his study, a sample size of 150 respondents was selected through stratified and random sampling. Data were collected using questionnaires. Descriptive and inferential (Chi-square) statistics were used for data analysis. Findings from the study revealed that very small businesses in Kumba Municipality have an account clerk and therefore they record their transactions manually following a single-entry system. The study also indicated that when adequately kept, bookkeeping significantly influences the survival of very small businesses in the Kumba Municipality as it enables them to trace their problems and provide appropriate solutions. It also helps businesses keep records, enables them to take corrective actions, and improves the performance of the organization by better-controlling costs.

In her study, Linda (2019) did a research study on financial literacy and the growth of small and medium enterprises in Nyeri County, Kenya. The target population of the study was 841 SMEs. Stratified random sampling was used to select a sample of 168 SMEs. The study found that

bookkeeping skills have a positive and significant effect on the growth of SMEs studied. Additionally, the results show that good bookkeeping assists SMEs to efficiently manage stock and satisfy debt commitments on time. The study also revealed that SMEs' bookkeeping expertise was insufficient for them to submit tax returns without hiring a consultant, and they received below-average ratings for their ability to reconcile cashbooks with bank statements. According to the study's findings, bookkeeping would help SMEs to create financial statements that would allow them to assess the company's financial performance and, in turn, make wise decisions.

### 2.3.2 Budgeting skills on credit uptake by youth enterprises

Budgeting is a key management tool for planning and controlling departments within an organization. Warue and Wanjira (2013) studied factors affecting the budgeting processes among SMEs in the hospitality industry in Nairobi's Central Business District (CBD). The target population comprised 98,608 of all the registered small enterprises located within the CBD of Nairobi city. Stratified random sampling was employed in selecting the sample. The population strata were based on the nature of the business conducted by the SME in the Hospitality industry. The sample of 104 was shared proportionately among the 526 SMEs in the Hospitality industry in the CBD. The data was analyzed using panel data analysis. The researcher found that budgeting, participation of workers, firm size, ownership, skills and manpower, and computerized accounting contribute significantly to the budgeting process and the general performance of SMEs. Birech (2013) studied the factors affecting loan utilization among youth in Nakuru. The results of the study showed the uptake of credit for youth is influenced by entrepreneurial knowledge and investment site.

Kibui (2013) examined "Financial Literacy and Financial Management of the Youth Enterprise Development Fund in Konoin Constituency Kenya". The study applied a cross-sectional descriptive survey technique. The study used a sample of 250 youth selected through random sampling. Data was collected using a semi-structured questionnaire. The research design was descriptive statistics and regression analysis was employed. Data were analyzed and presented using mean, correlation, standard deviation, and percentages. The findings indicate that financial literacy had a positive correlation with financial management by the youth. The youth was found to be financially illiterate which was attributed to less financial knowledge, less exposure to managing finances, and their education levels. It was also found that parents and peers played a

crucial role in transferring knowledge to the youth. This study elaborates on financial literacy and how it affects financial management among the youth but not their ability to access credit. This, therefore, limits its application in the current setting.

Obago (2014) did a study on the effect of financial literacy on the management of personal finances among employees of commercial banks in Kenya. Purposive sampling was used to select the major banks in Nairobi while a simple random sampling technique was used to select 100 respondents from five commercial banks in Nairobi. The data were analyzed using the Statistical Packages for Social Sciences. The student's t-test was used to examine the data to determine whether there is a significant relationship between financial literacy and personal financial management practices. the findings show that most respondents participants had financial literacy acquired through training or work experience and that it affects personal financial management among the commercial banks in Kenya.

Lusimbo (2016) did a study on the relationship between financial literacy and the growth of micro and small enterprises in Kenya: A case of Kakamega central Sub-County. She established the effect of budgeting skills on the growth of SMEs. The study targeted 1300 MSEs registered under a single business permit in Kakamega Central Sub County as of 2015 and adopted a descriptive cross-sectional survey design. In order to choose respondents, a stratified proportionate sampling method was utilized, and 306 MSEs were chosen using Yamane's formula. Findings showed that most MSE owners had poor levels of budgeting since they do not formally plan for, budget for, and oversee their finances or prepare financial statements, which would enhance their capacity for information and perhaps limit their access to financing. However, enhancing the MSE owners' budgeting abilities can help the MSE grow in terms of the asset value.

In a case study involving micro and small enterprises in Kenya's Elgeyo Marakwet county, Kiptum (2019) investigated the effect of financial skills on loan repayment. The study focused on the 520 MSEs functioning in the county, and from this population, a sample of 84 MSEs was selected using the Nassim algorithm. Using a random stratified sampling technique, sampling components were selected. To get primary data from the respondents for the study, standardized questionnaires were used. According to the study's findings, MSE loan repayments and budgeting proficiency are significantly correlated. It demonstrated a beneficial relationship between sound

financial management and loan payback. describing how loan repayment for small- and medium-sized business owners improved when they developed budgeting skills.

### 2.3.3 Debt management skills on credit uptake by youth enterprises

Simeyo et al. (2011) conducted research on how young microenterprises participating in the Kenya Rural Enterprise Program (KREP) in Kisii County responded to the availability of microfinance. A sample of 86 youth micro-enterprises was employed in the study. Using a simple random sampling technique, 86 young micro-enterprises were chosen at random from a population of 110 such businesses. Structured questionnaires were employed to collect primary quantitative data, which was then analyzed using descriptive statistics, multiple regression analysis, and Pearson correlation coefficient. About business risk management the findings indicated that respondents were only slightly pleased with how well they were able to manage business risks. The inference is that young microentrepreneurs were underprepared in terms of knowledge and abilities for managing business risks. As a result, they are unable to deal with these risks effectively, and their microenterprises suffer as a result. According to studies, those who lack financial literacy have more trouble managing their debt, saving money, and using credit, and they are also less likely to make plans. Higher financial literacy improves one's ability to handle finances, participate in the stock market, perform better when choosing a portfolio, and increases one's likelihood of selecting mutual funds with lower fees (Lusardi & Mitchell, 2011). According to Wachira and Kihiu (2012) and Lusardi and Mitchell (2011), persons with more financial understanding are also more likely to amass larger quantities of money, have better abilities for managing their debt, and steer clear of high-interest payments.

Contrarily, those who lack financial literacy frequently borrow excessive amounts of money and generally use more expensive sources of financing, which can have a negative effect on the performance of their businesses. They are also more likely to report having an excessive debt load or to be unable to calculate their debt load (Mastercard, 2011). Those who lack financial literacy are more susceptible to scams in managing their debt, savings, and credit, and they are unable to manage their resources effectively, such as choosing a portfolio that performs well when investing in the stock market or money market. As a result, they plan poorly, whereas people with high financial literacy can pick a feasible portfolio with a lower finance cost (Lusardi & Mitchell, 2011).

In developing countries, access to finance is crucial for medium-sized businesses to achieve greater productivity, competitiveness, job creation, and poverty reduction. The conditions imposed by financial institutions, who view MSEs as dangerous due to inadequate guarantees and a lack of knowledge on their capacity to repay loans, are, however, rarely met by small firms, particularly those in Africa (Siekei et al., 2013). Most MSEs rely more heavily on informal sources of funding due to these limitations, such as borrowing from family and friends or unscrupulous moneylenders, which restricts their growth. Larger firms finance a larger portion of their investments through formal sources of external financing. Although self-financing and money lenders are alternatives, self-financing is limited by the poor capacity for saving of the majority of MSEs, and money lenders charge high interest rates because they believe that MSEs have a significant risk of default (G20 Seoul Summit, 2010).

Obago (2014) found that higher numeracy skills are positively correlated with higher levels of household wealth and wise financial decisions, while lower numeracy skills were associated with unnecessary expenses in a study that examined the impact of financial literacy on personal financial management practices among Kenyan commercial bank employees. Those with stronger numeracy and financial literacy are also more likely to participate in financial markets and invest in stocks.

Financial literacy enables investors to acquire relevant knowledge and skills in financial management. Financial knowledge aids in overcoming most challenges in advanced credit markets. Financial literacy enables investors to face difficult financial times, through strategies that reduce risk such as saving, increasing assets, and buying insurance. Financial literacy plays a crucial role in enhancing decision-making processes, such as paying bills on time, and appropriate debt management, which enhances the creditworthiness of potential borrowers to support income, economic growth, sound financial systems, and poverty reduction. Financial literacy increases one's ability to use financial products and services more effectively, gives them more control over their financial future, and makes them less susceptible to aggressive salespeople (Mmbaka, 2016).

Otieno (2018) carried out a study on the critical factors and credit uptake in youth enterprise development fund in Suna East constituency, Migori County, Kenya. The study population was 892 youth entrepreneurs registered in Suna East Constituency engaged in different businesses. On the target population, a proportionate sample technique was utilized, and a stratified sampling

technique was used to choose the respondents. There were 100 young entrepreneurs in the sample. Inferential statistics involved the use of multiple regression and correlation analysis. The study established that credit management, lending conditions, entrepreneurial skills, and financial literacy had a positive and significant effect on the level of credit uptake in youth enterprise development fund (YEDF). The study concludes that through credit management YEDF should incorporate activities aimed at ensuring that invoices are paid within the defined payment terms and conditions. Effective credit management serves to prevent late payments or non-payment. YEDF requires that the youth entrepreneurs when seeking loans, provide certain relevant information regarding their financial capability to qualify for the loans. YEDF needs to enhance youth entrepreneurial skills by polishing their business skills, improving their strategic thinking, and incorporating networking into small business activities. Youth entrepreneurs benefit from acquiring the knowledge and skills necessary to make wise financial decisions by developing their financial literacy.

### 2.3.4 Financial knowledge on credit uptake by youth enterprises

Numerous studies have shown the influence of financial literacy on financial awareness and use of financial products and services. According to research (Agarwalla et al., 2013; Nicolini et al., 2013) experience obtained using financial goods is directly related to financial understanding. According to Cole et al. (2011) many emerging economies have a sizable informal sector that is integrated into the formal economy and helps to build the financial sector. They also point out that the low demand for financial services may be caused by their high fixed costs; in fact, most emerging markets exhibit informal insurance, credit, and savings systems.

Nunoo and Andoh (2012) discovered that while there are a few financial products available in Ghana's financial markets, there is little financial usage overall. The study assessed the degree of financial literacy among SMEs in the nation, determined the variables that affect it, and investigated the relationship between the use of financial products and financial literacy. Results showed that small and medium-sized business owners in Ghana had a low degree of financial literacy, and that more financially literate business owners were more likely to use financial services. The study concluded that understanding how to use financial services requires financial literacy. The goal of Gupta and Kaur's (2014) study was to gauge how well-aware and often used financial institutions are by micro-entrepreneurs. The findings revealed that while most

respondents knew about financial institutions and had bank savings accounts, they were unaware of the various financial products. In their 2011 study conducted in India and Indonesia, Cole et al. (2021) looked at households' financial literacy and service demand. Although there was no correlation between financial literacy and the likelihood of opening bank accounts, a field experiment found that financial literacy had an impact on consumer demand for financial products.

Birech (2013) did a study on the factors affecting loan utilization among youth in Nakuru County. he focused on the effect of investment sites on loan utilization and the effect of investment knowledge on loan utilization. The study's 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 the uptake of credit by youth.

Lubanga (2016) carried out a study on the relationship between financial literacy and access to credit among Youth in rural areas: A case of the Kimilili constituency by Lubanga (2016). The study had a target population of 41,181 youth in the Kimilili Constituency out of which a sample of 384 was selected. Primary data was used for data collection using questionnaires matching the research objective and analyzed through a regression model, mean, standard deviations, and analysis of variances. The variables in the model were financial knowledge and financial access as independent variables which had a positive and significant effect on credit access.

Mashizha and Sibanda (2017) undertook a study in Zimbabwe, on the link between financial knowledge, financial product awareness, and utilization. It was a case study of small and medium enterprises in Zimbabwe. The study was carried out because of the understanding that a sizable portion of SMEs were financially excluded despite efforts to cater products to their needs by the financial services sector. A self-administered questionnaire was utilized in a quantitative research method to gather information from 400 SMEs in the Zimbabwean capital city of Harare. The results showed that SMEs rarely used most financial products since they were not well-known to them. Financial product usage and financial understanding have no link, although there is a correlation between financial product awareness and financial knowledge. The study concluded that while SMEs are financially literate, there is no correlation between this and their involvement in the main financial stream. As a result, the study's recommendations included the need to promote

financial market involvement while also raising knowledge to lessen the vulnerability brought on by financial exclusion (Mashizha & Sibanda, 2017).

Financial literacy, according to the OECD (2017), is essential for carrying out tasks including monitoring news about the economy and financial landscape, evaluating financial products and services, and coming to suitable, well-informed financial decisions. According to OECD (2017), people may act independently to manage their financial affairs and respond to news and events that might have an impact on their financial well-being if they have a basic understanding of financial concepts and the capacity to apply their numeracy abilities in a financial context. The evidence indicates that, indeed, higher levels of financial knowledge are associated with positive outcomes such as stock market participation and planning for retirement, as well as a reduction in negative outcomes such as debt accumulation (Hastings et al., 2013).

In her study on financial literacy and the growth of small and medium enterprises in Nyeri County, Kenya, Mwaniki (2019) determined the effect of banking knowledge on the growth of SMEs. The research design used was descriptive. 841 SMEs comprised the study's target population. 168 SMEs made up the sample that was chosen using stratified random sampling. The survey found that understanding banking services is essential since it enables SMEs to comprehend how banks function and avoid surcharges and penalties for not adhering to terms and conditions related to services offered. Mwaniki, who examined all age groups, neglects to say whether financial literacy has any impact on young people's use of credit.

### 2.3.5 Credit uptake literacy by youth enterprises

Accepting credit is crucial for boosting income-generating activities, opening job prospects, and raising people's standards of living (Salia, 2011). It helps a lot of young people who can't find formal employment in white-collar jobs. Issues concerning young people's access to credit imply that they pay a higher rate or must meet additional requirements to obtain a loan than a larger company with similar creditworthiness. As a result, they are unable to benefit from economies of scale when raising capital and raise less money than bigger enterprises in the same area. According to Gita (2013) the effect of financial liberalization on credit uptake demonstrates that young borrowing access is not improved by financial sector liberalization. This is because tighter monetary regulations result from financial liberalization.

A study was carried out by Musha (2015) on the factors influencing the uptake of credit by Kenyan youths in Nairobi County. 1,462,803 youth in Nairobi between the ages of 18 and 35 were the study's target population, and 381 were chosen as a sample. Respondents were from Nairobi West, Nairobi East, Nairobi North, and West lands, which are the city's four administrative districts. The researcher conducted structured questionnaires to gather primary data. The study conducted a literature evaluation on the variables affecting credit uptake. Descriptive statistics were used in the quantitative methods to analyze the data. According to the study's regression analysis, the credit terms, the young people's entrepreneurial and business abilities, and their level of awareness account for 82.3% of the variation in the total amount of credits they accept. Additionally, the created regression model shows an inverse association between the youths' uptake of credit and the loan's credit terms.

According to the study, there was a positive correlation between financial literacy and credit accessibility (Lubanga, 2016). According to the data analysis, the majority of the sampled respondents paid their bills on time, could assess financial products offered by various financial institutions, saved money, and were generally financially literate, which allowed them to acquire credit. The study also showed that although the lack of collateral restricted the youngsters' ability to acquire credit from financial institutions, whenever they did so, their financial situation improved (Lubanga, 2016).

In the Tambach ward of the Keiyo North Constituency of Elgeyo Marakwet County in Kenya, Tuitoek (2016) conducted research on the variables impacting the acceptance of loans from the youth enterprise development fund. A descriptive survey design was employed for the investigation. The young in both groups that have and have not benefited from the YEDF were the target population. The results show that the young had insufficient training in entrepreneurship, which is required for the use of funds, but they were unaware of the youth fund. The readiness of young people to start a firm and their favorable attitude toward entrepreneurship are signs that they will be able to repay loans in the future. The youth funds' uptake was influenced by the lending framework. According to the report, the success of enterprise development programs in fostering sustainability depends on offering youngsters ongoing and pertinent business development services. According to the study, Youth Enterprise Development Fund should encourage young people to apply for loans by simplifying the processes they must go through to do so and giving

them the entrepreneurial and managerial skills, they need to choose a venture that will be profitable for their communities. There needs to be more sensitization to encourage youth to join groups and form their groups.

## 2.4 Research Gap

The research gap was displayed as shown in table 2.1 below. Each research topic's findings were scrutinized to show the type of gap and the focus of the current study.

**Table 2.1: Research gap**

| Research Topic | Findings | Knowledge Gap | The focus of the current study |
|---|---|---|---|
| Financial Literacy and Growth of Small and Medium Enterprises in Nyeri County, Kenya | The study discovered that banking knowledge literacy and the expansion of SMEs in Nyeri County had a positive and statistically insignificant relationship, with $B_4$=0.114 at the p-value of 0.698, which is greater than 0.05. | This study focused on the Growth of SMEs | Uptake of credit by SMEs |
| Critical Factors and Credit Uptake in Youth Enterprise Development Fund in Suna East Constituency, Migori County | The findings show a straightforward correlation of 0.887a in the R column. This suggests that loan uptake, credit management, lending terms, entrepreneurial skills, and financial literacy are all significantly correlated. With an R-square of 0.787, 78.7% of | The study limits its dependent variable to YEDF whereas sources of credit are more than reliance on YEDF credit.<br>According to the study by Otieno G., more financial institutions in Kenya as well as other elements | The study specifically covered the financial literacy variables that are outside his model i.e., budgeting skills and bookkeeping skills |

| | | | |
|---|---|---|---|
| | the variation in credit uptake can be explained by the critical factor parameters, and explain 78.7% of the variability of credit uptake though their correlation is quite significant at $p<0.05$. | that were not examined should conduct comparable studies. | |
| The effects of financial literacy on personal financial decisions among the employees of Egerton University | Based on the summary regression model, the results indicate a negligible fluctuation (38%) in the dependent variable being explained by the changes in the independent variables. | The effect of financial literacy on financial decision | The study sought the influence of financial literacy on the Uptake of credit by youth SMEs. |
| The Relationship between Financial Literacy and Access to Credit among Youth in Rural Areas | The findings of the model summary indicate that the value of R is 0.6325, and the R square is 0.40. Indicating that only 40% of changes in the dependent variable are explained by financial literacy and financial access. | Only 40% of the changes in the dependent variable were explained by the independent variables in the model. The remaining 60% was not explained. | The study sought to interrogate youth in an urban setting in different study locations. |

| | | | |
|---|---|---|---|
| Factors influencing Uptake of Credit by Kenyan Youths in Nairobi County. | The model summary gives the coefficient of determination, R square value 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 number of credits taken by the youths. | The study looked at credit terms, entrepreneurial and business skills, and awareness to explain the fluctuations in the uptake of credit. | The study looked at debt management skills, bookkeeping skills, budgeting skills, and financial knowledge to explain the changes in the uptake of credit in Machakos Town. |
| An Assessment of the role of financial literacy on the Performance of Small and Micro Enterprises | Established that there is a positive relationship between budgeting skills acquired through financial literacy training and improved performance of MSEs in terms of increased sales and business profitability as it provides a basis for establishing performance targets. | The study looked at the change in the performance of Small and Micro Enterprises due to financial literacy. | The study looked at the change in the uptake of credit due to financial literacy. |

| | | | |
|---|---|---|---|
| Financial literacy and growth of micro and small enterprises | Most MSE owners have a low level of budgeting and bookkeeping literacy since they do not engage in formal financial planning. | The study used chi-square to test independence between financial literacy and the growth of MSEs. | The study used multiple regression analysis to test independence financial literacy and credit uptake. |
| Factors affecting financial inclusion among small and medium enterprises owners in Nairobi County, Kenya | Financial literacy and demographic characteristics had a positive significant effect on financial inclusion while information asymmetry had a negative significant effect on financial inclusion. | The study surveyed all the SMEs operating in Nairobi. The study focused on demographic characteristics and information asymmetry factors that affect financial inclusion among SME owners. | The study sought to interrogate youth enterprise owners in Machakos Town on financial literacy and their uptake of credit |
| The effects of financial literacy training on Business Profitability in Coastal Region: A case of Kwale County SMEs | It was established that financial literacy training Positively influenced the performance of SMEs and hence profitability. | The study was a case study of SMEs that benefitted from the training offered by the World Bank in the coastal region and the results might not be implicated to other SMEs that did not benefit from the training. | The study sought to interrogate youth enterprise owners in Machakos Town on financial literacy and their uptake of credit. |

| | | | |
|---|---|---|---|
| Financial factors determining micro-loan uptake by women enterprise groups in Nakuru East Constituency, Nakuru County | All the independent variables i.e., the financial characteristics, the lending procedures, the financial literacy, and the loan repayment policies, had a positive and significant effect on Micro loans uptake at the Nakuru East. | The study focused on micro-loan uptake by women groups. | The study sought to interrogate individual youth enterprise owners in Machakos Town |
| Effect of Financial Literacy on Financial Access and Savings in Kenya | An increase in financial literacy and an increase in income were found to increase the probability of savings. | The first objective was answered using multinomial logit while the second was answered using a probit model. The study used cross-sectional data from the FinAcess survey in 2013 and 2016. | This study aimed to use multiple regression to analyze data. This study used primary data to conclude. |

## 2.5 Conceptual Framework

A conceptual framework is a model that makes use of illustrations or diagrams to describe how various variables are related to one another (Orodho, 2009). As seen in the diagram below, the study conceived a framework with independent and dependent variables. Financial behavior, financial attitude, financial skills, financial knowledge, financial access, bookkeeping abilities, budgeting skills, and debt management skills were among the independent variables that were chosen from a list. For the sake of this study bookkeeping skills, budgeting skills, debt management skills, and financial knowledge were selected.

Bookkeeping skills involve checking the readiness of a business to make financial statements, file tax returns, and maintain cash book knowledge. Budgeting skills studied the ability to set financial goals, make short-term budgets, and evaluate budgetary estimates against real performance. Debt management delves into the knowledge of credit service, the cost of the credit, and the consequence of defaulting on such debt. Financial Knowledge analyzed items like knowledge of compounding interest rates, repayment period negotiation, making informed decisions, and knowledge of inflation rates.

The dependent variable was credit uptake by youth enterprises. This was analyzed by looking into the number of loans taken up, the borrowing frequency over time, and the different products consumed or utilized. This analysis of independent and dependent variables in this model was done objectively to assist in making an informed and scientific conclusion. The intervening variables were operationalized in terms of government policy and political stability and were assumed constant in this study. The variables were conceptualized to relate as shown in figure 2.1 below.

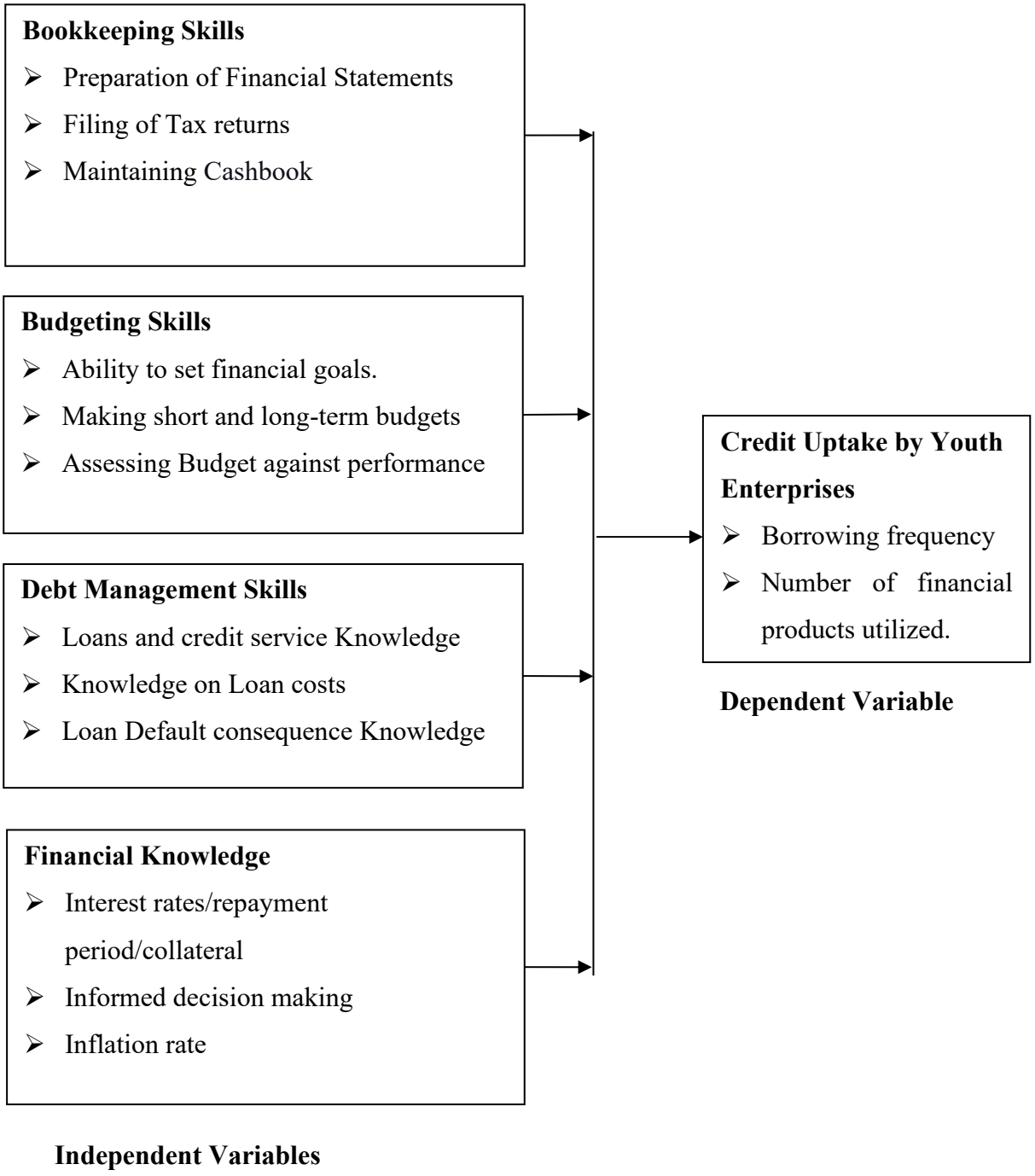


**Figure 2. 1: Conceptual framework**

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter outlines the line of thought that the research traced to the completion of the study. It provided a summary based on the gathering, measuring, and analysis of data. The researcher described the methods and processes that were employed in this chapter for data collection, processing, and analysis. The sections on research design, target population, sampling methods, sample size, data collection tools, pilot test, and data collection procedures were all covered.

## 3.2 Research Design

The plan for carrying out the complete investigation is called the research design. The chosen study design was a descriptive survey. A descriptive survey, as claimed by Goundar (2012) enables the researcher to address the "what" issue, which is applicable to this study. The survey had the feature that it would be carried out at a certain time and that the respondents would be drawn from various categories.

The primary goal of descriptive research is to describe the situation as it is right now. Ex post facto research is a term frequently used in social science and business research to refer to descriptive studies (Kothari, 2004). The main feature of this methodology is that the researcher can only describe what has already occurred or is currently occurring; he has no control over the variables. The majority of ex post facto research projects are descriptive studies in which the researcher aims to quantify things like, for instance, shopping frequency, personal preferences, or similar data. Researchers that do ex post facto studies also try to identify explanations even when they are unable to control the variables. According to Kothari (2004) survey methods of various kinds, including comparative and correlational methods, are used in descriptive research.

The study sought to establish the influence of financial literacy on credit uptake by youth enterprises in Machakos Town. The descriptive design was selected for the explanatory ability of the “what” question besides measuring the preferences of people on the influence of financial literacy on credit uptake.

### 3.3 Target Population

The target group for this study was Machakos town's young people running small businesses. Kenyan town of Machakos is located 64 kilometers southeast of Nairobi. It serves as the county seat for Kenya's eastern Machakos County. Due of its proximity to Nairobi, Machakos Town is considered a satellite town. The population is 170,606 as of 2019 and is increasing quickly. According to the 2019 Kenya Population and Housing Census, there are 59,713 young people living in the town. Machakos Town offered tremendous opportunity for young businesses because of its quick expansion and proximity to Nairobi. The growth and development of youth enterprises are likely to be influenced by the uptake of credit from the financial institutions in the area.

The population to which the study's findings would be extrapolated is known as the target population (Kabir, 2016). The current study did not consider the whole youth population in the town. It was limited to youth-owned enterprises in Machakos Town Kenya. From the register, there were 1704 small enterprises, owned by youth spread across Machakos town (DFEP, Machakos County, 2021). The document containing the number of businesses owned by youth was attached in appendix (III) of this document. The study was targeting the proprietors of these enterprises in Machakos town. Table 3.1 below shows an excerpt drawn from the appendix (III). A map showing the location of the target population was placed in appendix B below.

**Table 3.1: Youth enterprises in Machakos town**

| **Business Category** | **Population** |
|---|---|
| Small Trader, Shop or Retail Service | 1,609 |
| Mpesa Services | 34 |
| Wines & Spirits Retail | 29 |
| Kiosks Light or Temporary establishment | 32 |
| **Total** | **1704** |

Source: Department of Finance and Economic Planning, Machakos County Government (2021)

### 3.4 Sampling Technique and Sample Size

The sample for the study was designed to represent the proprietors of small enterprises in Machakos Town Kenya who were youth. Youth-owned small businesses accounted for 1704 of the town's businesses, according to the Department of Finance and Economic Planning (DFEP), Machakos County, (2021). A sample was taken from this group, which represented the study's reachable population. The small companies chosen to take part in the study were chosen using a stratified sample technique. By dividing the study samples into homogeneous strata, Kothari (2004) claims that stratified sampling involves choosing a sampling percentage from each stratum.

SMEs within Machakos Town were grouped into various groups based on the listing provided in table 3.1 above. Small Trader, Shop, or Retail Service was the first category of the youth enterprises in Machakos. These business owners were traders in general merchandise (selling goods on a retail basis). Mpesa Services was the second category of business owners who specifically offer Mpesa services to their customers. Wines & Spirits Retail was the third category of business where the owners were specifically dealing in liquor commodities. Kiosks Light or Temporary establishment was the last category of businesses that were not housed in permanent shelters but temporary establishments selling varied merchandise to their customers. From each stratum, a sampling fraction was selected. The sample size for the study, 314, was calculated by using Sharma's (1983) formula from a population of 1704. This sample was 18.42% of the total population. The sample was good enough based on Kothari's (2004) recommendation for sample size. Kothari indicated that 10%-20% of the accessible population was good enough for a sample size.

To arrive at the sample per stratum, the researcher applied simple random sampling to pick out the respondents from the target population category. Sample size per stratum was calculated at 18.42% of each corresponding population stratum as depicted in table 3.2 below. For example, Small Trader, Shop, or Retail Service category sample size would be (1,609*18.42)/100 = 297. The sample elements in each category were randomly selected during the data collection process. Stratified random sampling was appropriate since it ensured that none of the willing participants in each category would be denied an opportunity to be a respondent in the study.

**Table 3.2: Sample Size Determination**

| Business Category | Population | Sample Percentage | Sample |
|---|---|---|---|
| Small Trader, Shop or Retail Service | 1,609 | 18.42% | 297 |
| Mpesa Services | 34 | 18.42% | 6 |
| Wines & Spirits Retail | 29 | 18.42% | 5 |
| Kiosks Light or Temporary establishment | 32 | 18.42% | 6 |
| **Total** | **1704** | **18.42%** | **314** |

The sample size was be determined by:

$$n = \frac{Z^2 pqN}{e^2(N-1) + Z^2 pq}$$

Where n – sample size; N – Population (= 1704); p – 0.5 proportion of elements of interest in population; q – 0.5(1-p); Z – 1.96 critical value at 95% confidence level and e – 0.05 error level accepted.

Sharma, 1983

$$n = \frac{1.96^2 * 0.5 * 0.5 * 1704}{0.05^2(1704-1) + 1.96^2 * 0.5 * 0.5}$$

$$= 313.636$$

$$\cong 314$$

### 3.5 Data Collection Instrument

Mugenda and Mugenda (2012) assert that questionnaires are ideal for survey research. In support of this claim, data from the respondents was gathered using a structured questionnaire. The survey collected information on the respondents' backgrounds. The fact that it recorded information on both the independent and dependent variables is most significant. As a result, there were only two sections to the questionnaire: one addressed the respondents' backgrounds, and the other covered both the independent and dependent variables. The section on background information sought responses regarding respondents' gender, age of respondent, age of business,

level of education of respondent, type of business ownership, source of business finance, and how much the last amount of loan was granted. Seven (7) items in all were used in this section.

The second section of the questionnaire (Appendix A) contained close-ended statements. The questions were constructed on Likert scale items eliciting responses in line with every study variable. The 5-point Likert scale was adopted. The scale ranged from 5-Strongly agree, 4-Agree, 3-undecided, 2-Disagree, and 1-strongly disagree. According to Joshi, Kale, Chandel, and Pal (2015), the Likert scale gives participants the freedom to select any response in a fair and symmetrical manner in either direction. Thirty-six (36) of the items in this section generated answers from respondents. Bookkeeping skills, budgeting skills, debt management skills, and financial knowledge variables had, eight (8), seven (7), six (6), and eight (8) items respectively while credit uptake had seven (7) items.

### 3.6 Pilot Test

Prior to the main study, a pilot test was conducted. Pilot testing is intended to identify any potential research instrument vulnerabilities. The latter was accomplished by assessing the validity and reliability of the study instrument (Mugenda, 2008). A pilot test with thirty-two (32) randomly chosen respondents was conducted to ensure the validity and reliability of the instruments. According to Mugenda and Mugenda (2003) a pilot study should use a sample that is 10% of the suggested sample size. The pilot study was carried out in Kitengela town among selected youth enterprises. Kitengela Town has characteristics like the target population. The pilot area which has a population of 154,436 has recently been granted municipality status (Githaiga, 2022). It's 42 km away from the target population.

Conducting the pilot study in the neighboring town enabled the study to avoid repeat responses in the collection of data. The pilot study made sure the questions were focused on the objectives and helped the researcher make the required adjustments to the instruments. Pretesting assured the accuracy and consistency of the questionnaire. It pinpointed any problems respondents were to encounter while filling it that were initially unforeseen by the researcher.

#### 3.6.1 Validity of the research instrument

According to Mugenda (2008) the correctness and significance of inferences drawn from research results constitute validity. According to him, the data collection tool would be regarded

as legitimate if the content chosen and included was pertinent to the established need or gap. According to Brains and Manheim (2011) a notion, conclusion, or measurement's validity refers to how well-founded it is and how closely it matches the real world. In other words, it was said that the degree to which a measurement tool, like a questionnaire, measured what it purported to measure, was a measure of its validity. Expert judgment enhances an instrument's validity, according to Borg and Gall (1989). To assess the questionnaire's content validity, the researcher requested the university supervisor's expert judgment. Her input and recommendations helped the researcher make the necessary adjustments to the questionnaire so that it was organized in a targeted, precise, and consistent manner. Further, the researcher ensured that the instrument construction was based on reviewed literature to capture the required information in the study. .Additionally, through piloting, where the answers to the questions were compared to the research objectives, the content validity of the instrument was established.

### 3.6.2 Reliability of the research instrument

The degree to which a measurement yields consistent results is referred to as reliability. According to Tavakol and Dennick (2011) dependability is the capacity of a test to consistently produce the same results when the same parameter is measured repeatedly under the same circumstances. To determine the viability of the study, trial testing of the measuring tools should be conducted using a small number of people with traits like those in the sample (Blumberg et al., 2011). When a research tool's reliability is upheld, it should gather comparable results when used on various sampled populations that have similar traits. The Cronbach alpha (α) coefficient was used in the study to evaluate the dependability of the research instrument. It would be regarded reliable if the questionnaire's Cronbach's coefficient was higher than 0.70.

## 3.7 Data Collection Procedure

Prior to gathering the data, the researcher obtained approval from Egerton University administration (Appendix D), followed by the National Commission for Science, Technology, and Innovation (NACOSTI) (Appendix E), and finally, the Machakos County Director of Education (Appendix G) and the Machakos County Commissioner (Appendix F). The respondents were given questionnaires at random during the actual investigation. The drop-and-pick method of administering questionnaires was used. Within two days of the questionnaires' release, the set of

completed forms was gathered. To guarantee accuracy in the final collection activity, careful consideration was taken in addressing concerns that emerged from the data collection process.

### 3.8 Operationalization of Variables

The operationalization of variables was as shown in table 3.3 below. Each variable was scrutinized to show the type of variable whether it's an independent variable or dependent variable, and the indicators to reveal items that were considered when evaluating it. The scale of measurement of the variable, tools of analysis, and the type of analysis.

**Table 3.3: Operationalization of variables**

| Objective(s) | Variable | Indicators | Scale | Tools of Analysis | Type of analysis |
|---|---|---|---|---|---|
| To establish the influence of bookkeeping skills on credit uptake by youth enterprises in Machakos Town, Kenya | Bookkeeping skills (independent variable) | ➢ Knowledge on Preparation of Financial Statements<br>➢ Tax returns filing Knowledge.<br>➢ Cashbook maintenance Knowledge | Nominal<br>Ordinal | Frequency distribution tables & percentages | Descriptive<br>Simple Regression |
| To determine the influence of budgeting skills on credit uptake | Budgeting skills (independent variable) | ➢ Ability to set financial goals.<br>➢ Short and long-term budgets | Nominal<br>Ordinal | Frequency distribution tables & percentages | Descriptive<br>Simple Regression |

| | | | | | |
|---|---|---|---|---|---|
| by youth enterprises in Machakos Town, Kenya | | ➢ Budget assessment against performance | | | |
| To analyse the influence of debt management skills on credit uptake by youth enterprises in Machakos Town, Kenya | debt management skills (independent variable) | ➢ Loans and credit service Knowledge<br>➢ Knowledge on Loan costs<br>➢ Loan Default consequence Knowledge | Nominal<br>Ordinal | Frequency distribution tables & percentages | Descriptive<br>Simple Regression |
| To evaluate the influence of financial knowledge on credit uptake by youth enterprises in Machakos Town, Kenya | Financial knowledge (independent variable) | ➢ Interest rates/repayment period/collateral<br>➢ Informed decision making<br>➢ Inflation rate | Nominal<br>Ordinal | Frequency distribution tables & percentages | Descriptive<br>Simple Regression |
| | Credit uptake (dependent variable) | ➢ Loan uptake<br>➢ Borrowing frequency<br>➢ Number of financial products utilized | Nominal<br>Ordinal | Frequency distribution tables & percentages | Descriptive<br>Multiple Regression |

### 3.9 Data Analysis and Presentation

The accuracy and completeness of the questionnaires were checked. To make data easier to identify, they were sorted, cleaned, coded, numbered, and classed under different variables. Following this, they were summarized on summary sheets.

Statistical Package for Social Sciences (SPSS) version 26 was used to do both descriptive and inferential statistical analysis on the acquired data. Frequency and percentage data for the respondents' demographics were used in the descriptive analysis. Also included are tables, graphs, and charts that display the means and standard deviation numbers.

Inferential statistics were used to estimate the extent to which sample estimators predicted the population parameters to a given level of significance ($\alpha = 0.05$). To comprehend how one independent variable predicts the dependent variable, simple linear regression was performed. The level of the independent variable's ability to explain the dependent variable was represented by the coefficient of determination ($R^2$). By measuring the strength and the direction of the link between each independent variable and the dependent variable, correlation analysis (Pearson correlation coefficient (r)) was used. This relationship was either positive or negative. The value was validated by the p-value of the calculated statistic. If the p-value was less than or equal to the level of significance, then the calculated value of the sample estimator was valid and vice versa.

Multiple regression analysis was employed to test the strength and significance of the relationship between the dependent variable and the group of independent variables. Multiple regression analysis can be used, according to Cooper and Schindler (2003), to determine whether a combined set of independent factors predicts a certain dependent variable. When a researcher has one dependent variable that is thought to be a function of two or more independent variables, multiple regression analysis is used, according to Kothari (2004). In this technique, the dependent variable will be predicted based on its covariance with all relevant independent variables, Kothari continues.

The statistical tests in the study were run with a 95% level of confidence or 5% level of significance ($\alpha = 0.05$). Every item in the questionnaire that measures a particular variable was used to get the aggregate mean score for that variable.

For the purpose of evaluating the influence of each independent variable on the dependent variable, the basic regression models listed below were used. The models are as shown below: The

simple regression models were adopted to assess the influence of each of the independent variables on the dependent variable.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon} \quad \text{.....3.1}$$

$$\mathbf{Y = \beta_0 + \beta_2 X_2 + \varepsilon} \quad \text{.....3.2}$$

$$\mathbf{Y = \beta_0 + \beta_3 X_3 + \varepsilon} \quad \text{.....3.3}$$

$$\mathbf{Y = \beta_0 + \beta_4 X_4 + \varepsilon} \quad \text{.....3.4}$$

Where Y = Credit Uptake by youth enterprises, $\beta_0$ is the Constant term, $\beta_1$ = beta coefficient of bookkeeping skills ($X_1$), $\beta_2$ = beta coefficient of Budgeting Skills ($X_2$), $\beta_3$ = beta coefficient of Debt management skills ($X_3$), $\beta_4$ = beta coefficient of Literacy in Financial Knowledge ($X_4$) and $\varepsilon$ = Error Term.

The following multiple regression model was adopted to assess the influence of independent variables on the dependent variable.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon} \quad \text{.....3.5}$$

Where Y = Credit Uptake by youth enterprises, $\beta_0$ is the Constant term, $\beta_1$ = beta coefficient of bookkeeping skills ($X_1$), $\beta_2$ = beta coefficient of Budgeting Skills ($X_2$), $\beta_3$ = beta coefficient of Debt management skills ($X_3$), $\beta_4$ = beta coefficient of Literacy in Financial Knowledge ($X_4$) and $\varepsilon$ = Error Term.

### 3.10 Diagnostic tests

The following diagnostic tests were carried out on pilot data to ensure the study data gathered afterward would be accurate and good for analysis. These findings would qualify the study to carried out on all the sample elements. These diagnostic tests were to validate the linear regression assumptions:

#### 3.10.1 Multicollinearity tests

Data with minimal to no multi-collinearity are what is assumed by linear regression. When independent variables have too high of a correlation with one another, multi-collinearity occurs. In order to determine the degree of multicollinearity in the regression model, a test was run and the Variance Inflation Factor (VIF) or Tolerance Value was examined (Baguley, 2012). When the VIF value is less than 10 and a tolerance of more than 0.1 is observed, according to Hair et al. (2010), there is no multicollinearity.

### 3.10.2 Normality tests

Second, all variables must be multivariate normal to do a linear regression analysis. A histogram or a goodness of fit test, such as the Kolmogorov-Smirnov test, are used to verify this regression assumption. This test was to be applied to all the study's variables.

### 3.10.3 Autocorrelation test

There must be little to no autocorrelation in the data for linear regression to work. When the residuals are not independent of one another, autocorrelation happens. It follows that the value of y(x+1) depends on the value of y(x). The Durbin-Watson test was used to evaluate this circumstance. The hypothesis that the residuals are not linearly auto-correlated is tested using Durbin-Watson's d. The test statistical values between 1.5 and 2.5 are indicative of no autocorrelation in the data, according to the rule of decision.

## 3.11 Ethical Considerations

Prior to granting permission for the researcher to collect data from the respondents, they provided informed consent. To obtain approval from people with adequate subject understanding, the precise aims were clearly communicated. According to Kombo and Tromp (2006) informed consent enables respondents to choose whether to participate. According to Bryman (2007) it is the researcher's duty to carefully evaluate the risk of harm to research participants, as well as the degree to which it is feasible; the possibility of harm should be minimized. Because it addressed the essential operations of the youth enterprises, such as budgeting and credit uptake, the researcher was aware that the subject matter of the study is sensitive. Therefore, it would have been important to safeguard the respondents' identities. The questionnaire did not include the names of the respondents or any other identifying information.

# CHAPTER FOUR

# RESULTS AND DISCUSSIONS

## 4.1 Introduction

This chapter concentrated on the data analysis, results interpretation, and findings presenting. The major goal of this study was to determine how financial literacy affected youth enterprises uptake of credit in Machakos Town, Kenya. The study sought to establish whether bookkeeping skills, debt management skills, budgeting skills and financial knowledge had an influence on credit uptake among youth enterprises. The researcher made use of frequency tables, pie charts, bar graphs, mean and standard deviation and percentages, to present data.

## 4.2 Response Rate

This study postulated that a sample of 314 respondents would have effectively enabled the realization of the research objectives. 295 questionnaires were returned of which 6 questionnaires were discarded for being incomplete. The researcher ended up with 289 usable questionnaires, which represented a response rate of 92%. This response rate is above the recommendation of Mugenda and Mugenda (2003) who stipulated that a response rate of 70% - 80% is referred to a very good. Table 4.1. shows the response rate for the study.

**Table 4.1: Response rate**

| Strata | Administered | Responded | Percentage |
|---|---|---|---|
| Small Trader, Shop or Retail Service | 297 | 275 | 92.59 |
| Mpesa Services | 6 | 4 | 66.67 |
| Wines & Spirits Retail | 5 | 5 | 100 |
| Kiosks Light or Temporary establishment | 6 | 5 | 83.33 |
| **Total** | **314** | **289** | **92** |

### 4.3 Reliability and Validity

Table 4.2 below shows reliability analysis was carried out on SPSS version 26 resulting in a Cronbach Alpha Coefficient (α) of 0.891. This value exceeds the (α = 0.7) threshold for reliable research instrument predictor items. The instrument met the least requirements and therefore validated the inclusion of all the variables in the study.

**Table 4.2: Reliability analysis for the study**

| Variable | No. of items | Cronbach Alpha Coefficient (α) |
|---|---|---|
| Profile of Respondents | 7 | -0.370 |
| Bookkeeping skills | 8 | 0.829 |
| Budgeting skills | 7 | 0.770 |
| Debt Management | 6 | 0.816 |
| Financial Knowledge | 8 | 0.819 |
| Credit Uptake | 7 | 0.644 |
| **All questionnaire items** | **43** | **0.891** |

The validity of the research instrument was assessed by the Egerton University assessors and the supervisor before the study was carried out.

### 4.4 Descriptive Statistics

All the variables in the study were subjected to a prior analysis in terms of summaries (frequencies, percentages), measures of central tendency (means) and measures of dispersion (standard deviations).

#### 4.4.1 Background information of respondents

Table 4.3 below shows the background information of the respondents. The table reveals that out of the 289 respondents that participated in the study, 62.6 % were male as compared to 37.4 % who were female. This means that men tend to be more risk takers than women in businesses enterprising in Machakos County.

**Table 4.3: Responses on the background of the respondents**

| Variable | Descriptor | Frequency | Percent |
|---|---|---|---|
| Gender of Respondent | Male | 181 | 62.6 |
| | Female | 108 | 37.4 |
| | Total | 289 | 100.0 |
| Age of business enterprise | <5 years | 135 | 46.7 |
| | 5-10 years | 83 | 28.7 |
| | 10-15 years | 30 | 10.4 |
| | >15 years | 41 | 14.2 |
| | Total | 289 | 100.0 |
| Age of Respondent | 18-21 years | 9 | 3.1 |
| | 22-26 years | 24 | 8.3 |
| | 27-30 years | 72 | 24.9 |
| | 31-35 years | 184 | 63.7 |
| | Total | 289 | 100.0 |
| Highest Education Attained | University Degree | 156 | 54.0 |
| | Higher Diploma | 42 | 14.5 |
| | Ordinary Diploma/Craft | 67 | 23.2 |
| | KCSE Certificate | 21 | 7.3 |
| | KCPE Certificate | 3 | 1.0 |
| | Total | 289 | 100.0 |
| Business Ownership | Sole Proprietor | 212 | 73.4 |
| | Partnership | 42 | 14.5 |
| | Limited Company | 35 | 12.1 |
| | Total | 289 | 100.0 |
| Credit Source | Banks | 90 | 31.1 |
| | Cooperatives | 45 | 15.6 |
| | Government Institutions/Agency | 5 | 1.7 |
| | Employer | 39 | 13.5 |

| | | | |
|---|---|---|---|
| | Microfinance | 23 | 8.0 |
| | Friends and Relatives | 69 | 23.9 |
| | None of the above | 18 | 6.2 |
| | Total | 289 | 100.0 |
| Loan Amount Taken | Ksh 0-5,000 | 48 | 16.6 |
| | Ksh 5,001-20,000 | 39 | 13.5 |
| | Ksh 20,001-50,000 | 53 | 18.3 |
| | Ksh 50,001-150,000 | 54 | 18.7 |
| | Ksh 150,001-500,000 | 54 | 18.7 |
| | Ksh 500,001-1,000,000 | 21 | 7.3 |
| | Above Ksh 1,000,000 | 20 | 6.9 |
| | Total | 289 | 100.0 |

These findings corroborated those of Pernilla and Eskil (2008) who claimed that because males take risks more frequently than women do, they engage in self-employment at a higher rate than women do. According to Lusardi and Mitchel (2013) and Wachira and Kihiu (2012) who contend that males tend to develop financial literacy earlier in life than women, men-owned businesses expand quicker than women-owned businesses.

Figure 4.1 below reveals that most businesses are below the age of five (5) years since inception at 46.71 % of the sampled businesses. The study found most youth enterprises had existed for five (5) years and were prime for financial literacy since they lie in the category of businesses start-ups that fail. The bar graph further shows businesses 5-10 years to be at 28.72% of the sample. Further, businesses that are 11-15 years and those above 15 years enterprises took up 10.38% and 14.19% respectively.

New start-ups require a sound financial background which will create a healthy base for a successful business hence the growth of the enterprise. In a study of the reasons why SMEs fail, Fatoki (2014) discovered that lack of financial literacy has a negative impact on SMEs, particularly new start-ups.

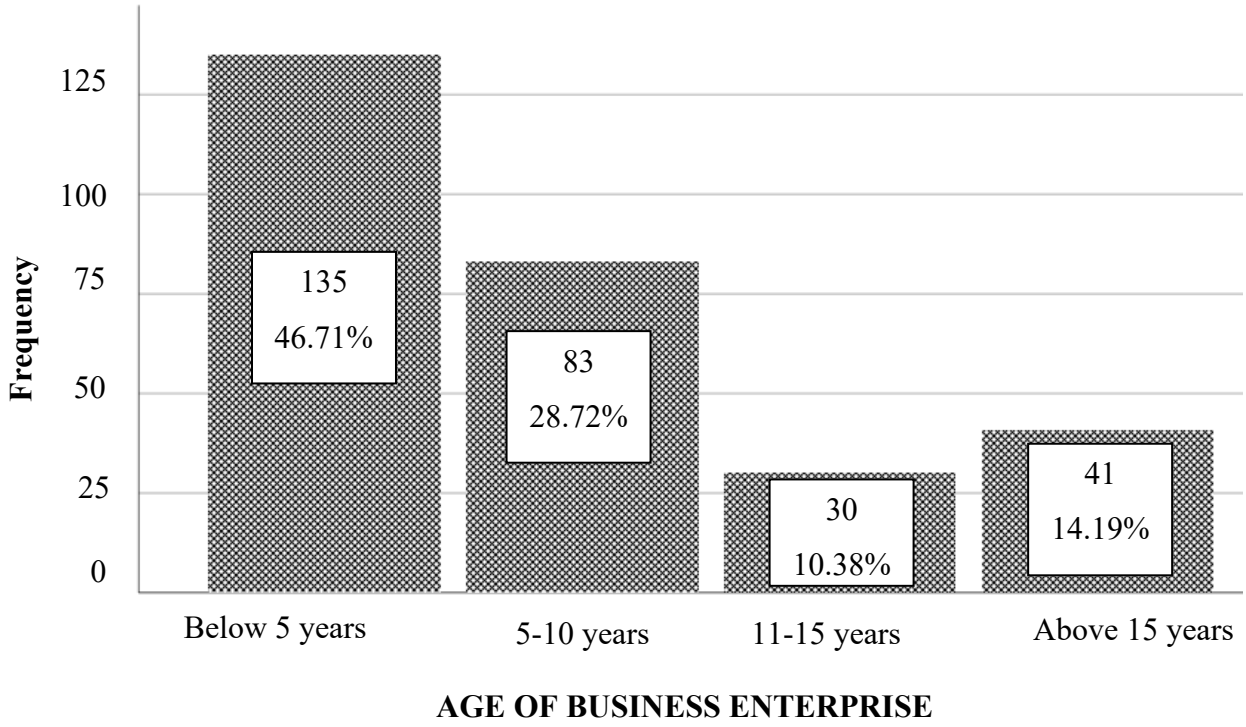


**Figure 4.1: Bar graph of age of business enterprise**

The histogram in figure 4.2 shows the age of respondents that participated in the study. It's clear from the figure, read together with table 4.3 above that 256 respondents have ages between 27-35 years. This constitutes 88.6% of those who took part in the study have this age and thus revealing that most business enterprises are owned by mature individuals with enough experience to take up credit and utilize it well. The histogram also has a normal curve embedded in it. The long tail of the distribution extends to the left and thus a few of the observations are extremely young (18-21 years). Therefore, the distribution is negatively skewed (skewed to the left).


**Figure 4.2: Histogram of age of respondent**

The study by Kiplimo et al. (2015) concentrated on small-scale farmers' access to credit in Kenya's Eastern region. According to the findings, important variables include gender, marital status, age, education level, family size, primary occupation, proximity to loan source, total area of land, total income, and availability of extension services.

Youth in Machakos County are very learned. From the sample statistics, a pie chart in figure 4.3 below reveals that 156 respondents have a university degree. This constitutes 53.98% of the respondents that took part in the study. Being business owners and graduates means that the youth are well endowed with information or can easily access financial literacy that can lead them to take up credit. The figure further reveals that 42 and 67 respondents have the highest qualifications as higher diploma and ordinary diploma/craft certificate holders. This provides a cumulative of 91.69% of respondents who have attained a post-secondary education.

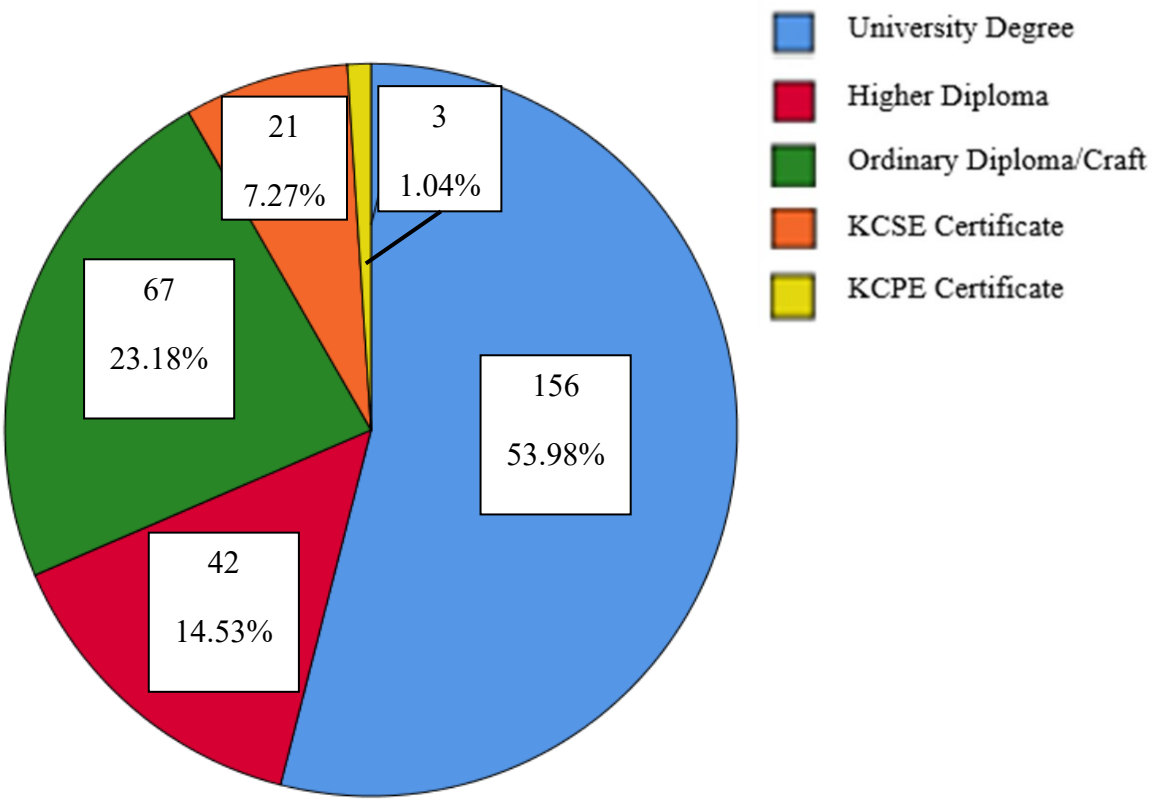


**Figure 4.3: Pie chart education level of respondent**

Owen (2020) combined the financial access by strands for the years 2006, 2009, 2013, and 2016 (FSD, 2006, 2009, 2013, 2016) in one graph. The study revealed a steady rise in formal financial access for those with tertiary education. This trend of access to funds reduced with each level of education till the uneducated group had very little access. This made it very evident that those with less education are more likely to access informal financial systems than formal ones and are less likely to be excluded.

The form of business ownership was a variable of interest for this study. The pie chart is shown in figure 4.4 shows 212 respondents as sole proprietors 73.36% of the total sample size. The remaining forms of business ownership had 35 (12.11%) for a limited company and 42 (14.53%) for a partnership. This means that most youths lean more toward running self-owned enterprises than partnerships and corporations. This could be due to the risk-averse tendency to engage in the partnership or corporate business and the ease of running a sole proprietor type of business in comparison with the others.

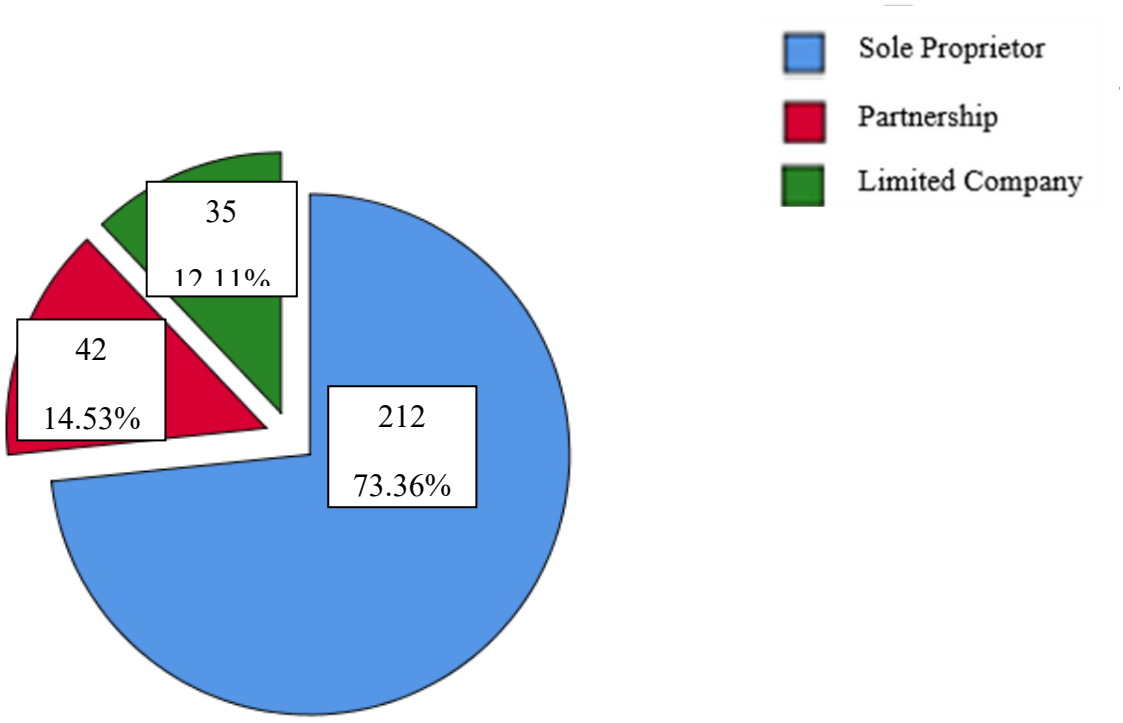


**Figure 4.4: Pie chart of business ownership**

The objective of the YEDF, according to House et al. (2011) was all types of youth-owned businesses, including sole proprietorships, corporations, youth partnerships, cooperatives, and/or any other kinds of business ownership. The source of business finance in this study was critical since the researcher was interested in the uptake of credit for youth enterprises in the study location. The sample statistics revealed the prevalence of banks 90 (31.14%) were the major source of business finance followed by friends and relatives 69 (23.88%), cooperatives, employers, microfinance institutions, and government agencies in that order.

The following figure 4.5 shows a bar graph that details the credit source preference of youth in descending order. The striking finding was that 18 (6.23%) respondents had none of the above responses as their source of business finance. This meant that the youth enterprise owners used their savings as a source of money or sources outside the model to fund their businesses. Another reason could be the unawareness of the respondents of the availability of credit. Tuitoek (2016) did a study on factors influencing the uptake of youth enterprise development fund loans in Tambach ward Keiyo North Constituency, Elgeyo Marakwet County Kenya. The study findings

indicated that the youth were not aware of youth funds, but they had inadequate training in entrepreneurship which is necessary for the utilization funds.

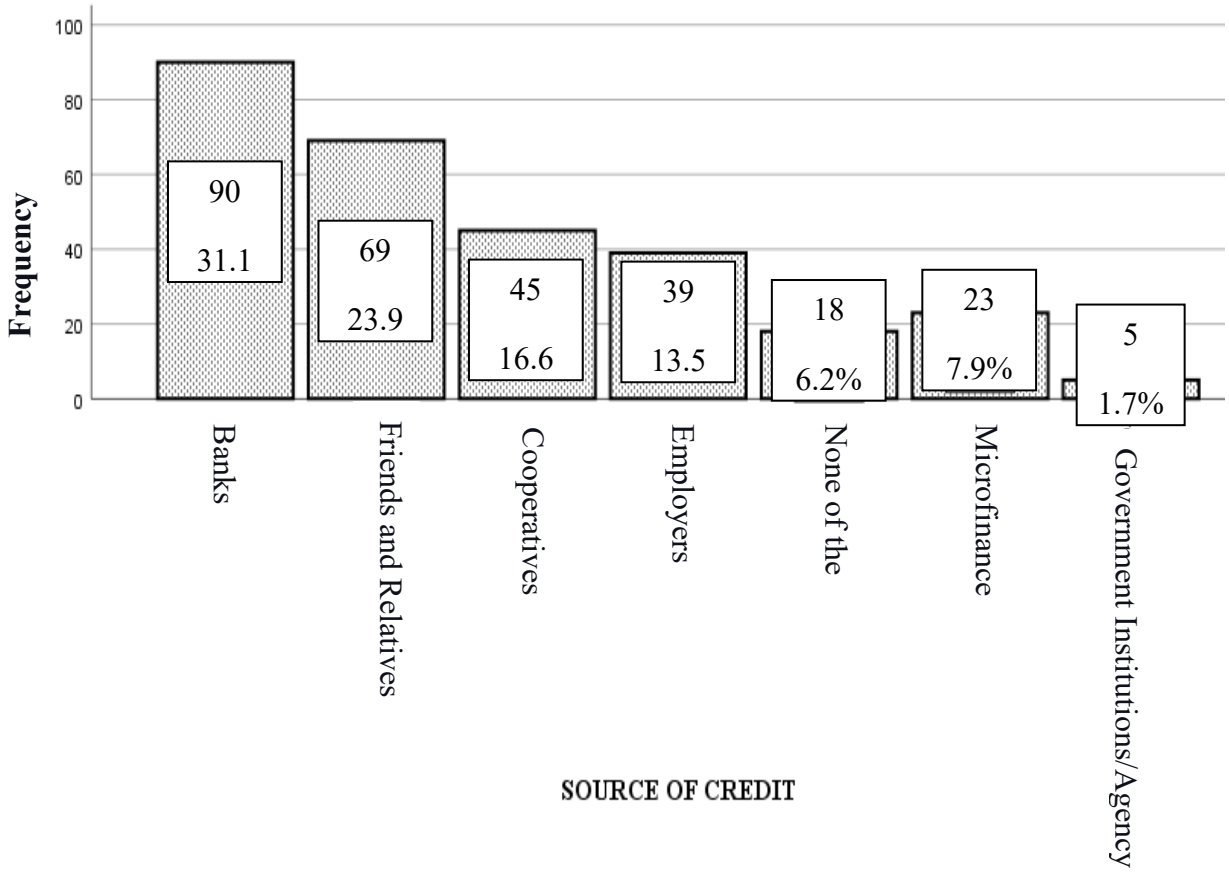


**Figure 4.5: Bar chart on source of credit**

Figure 4.6 shows a bar graph with categories of loan amounts that the respondents attracted during the business endeavors 48 and 39 respondents have attracted amounts between Ksh 0 – Ksh. 20,000. This totals up to a maximum of Ksh. 1 million. The figure further reveals that 161 respondents making a total of 55.72% of the sample took up loan facilities ranging from Ksh. 20,000 – Ksh. 500,000. This value gives a total of over Ksh. 38 million in the custody of business entrepreneurs who are young people. Lastly, the reveals a total of 14.19% of respondents have attracted above 500,000 shillings loan amount. This amount cumulatively accounts for Ksh. 41 million in the hands of young people who are meaningfully engaged in

business. The bar graph reveals a total of Ksh. 80 million in the market among the youth who took part in this study. Extrapolated to all the population of the study we have Ksh. 480,000 entrusted among youth enterprises to do business therewith.

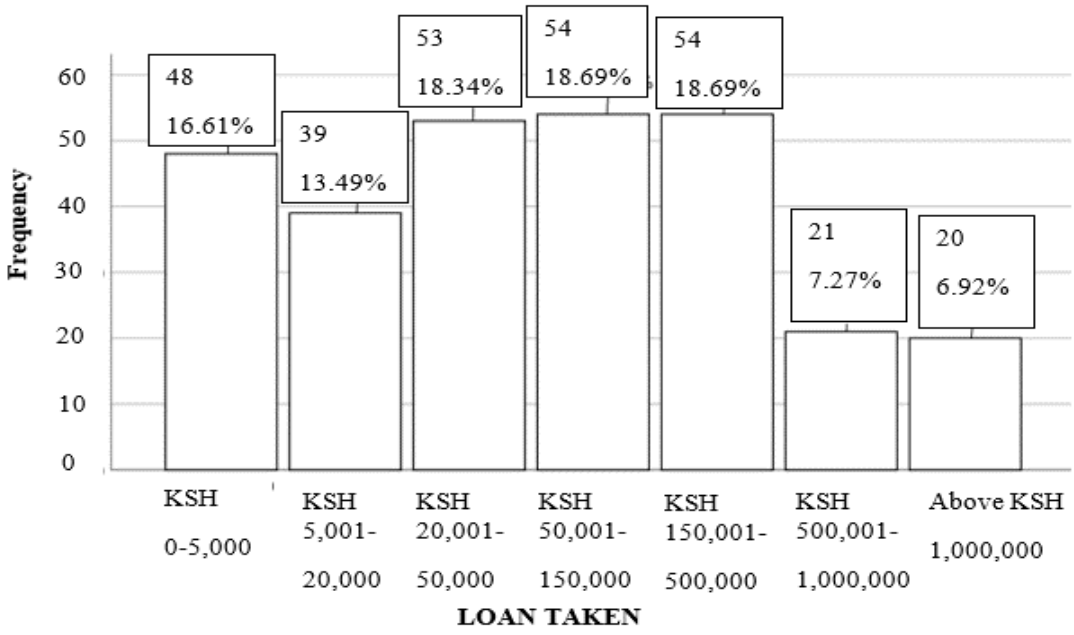


**Figure 4.6: Bar graph on loan taken**

### 4.4.2 Bookkeeping skills

The respondents were instructed to reply to the prepared statements regarding their bookkeeping skills. The essential information was gathered, measured, and rated on a Likert scale, with 1 denoting "strongly disagree," 2 "disagree," 3 "undecided," 4 "agree," and 5 denoting "strongly agree." The results of the descriptive statistics were interpreted using the Likert scale in the following ways: A mean score of less than 3.0 indicates that the respondents struggle to use their accountancy skills. On the other hand, mean scores above 3.0 suggest that respondents have good bookkeeping skills. Table 4.4 shows the descriptive statistics on this variable.

**Table 4.4: Responses on bookkeeping skills**

| Statement | N | Minimum | Maximum | Mean | Std. Dev. |
|---|---|---|---|---|---|
| I have a good rating for my level of knowledge of bookkeeping. | 289 | 2.00 | 5.00 | 4.557 | 0.705 |
| I have utilized accounting records to compare the results of my business over several periods | 289 | 2.00 | 5.00 | 4.630 | 0.633 |
| Proper bookkeeping knowledge has made it easier to prepare financial statements for my business | 289 | 2.00 | 5.00 | 3.433 | 0.801 |
| I have managed to file the tax return through proper bookkeeping | 289 | 1.00 | 5.00 | 4.100 | 1.074 |
| It's been easy to tell the financial position of my business from my financial records | 289 | 2.00 | 5.00 | 3.412 | 0.812 |
| It's been easy to effectively carry out stock management of the business from my financial records | 289 | 1.00 | 5.00 | 4.578 | 0.658 |
| Proper record-keeping has facilitated efficient, proper timely decision-making and enhanced the survival of my business | 289 | 2.00 | 5.00 | 4.526 | 0.722 |
| Bookkeeping has helped me to calculate the profits and losses of my business | 289 | 1.00 | 5.00 | 4.940 | 0.678 |
| **Overall mean score** | | | | **4.272** | **0.76** |

The mean scores show that the business owners have literacy in bookkeeping matters such as "I have a good rating of my level of knowledge on bookkeeping" (M = 4.557, SD=0.705), "I have utilized accounting records to compare results of my business over several periods" (M = 4.63, SD=0.633)," Proper bookkeeping knowledge has made it easier to prepare financial

statements for my business" (M = 3.433, SD=0.801), "I have managed to file the tax return through proper bookkeeping" (M = 4.1, SD=1.074)," It's been easy to tell the financial position of my business from my financial records" (M = 3.412, SD=0.812)," It's been easy to effectively carry out stock management of the business from my financial records" (M = 4.578, SD=0.628)," Proper record keeping has facilitated efficient, proper timely decision making and enhanced survival of my business" (M = 4.526, SD=0.722)," Bookkeeping has helped me to calculate the profits and losses of my business" (M = 4.94, SD=0.678)

The overall mean of 4.272 indicates that in general the youth entrepreneurs strongly agree with the statements on bookkeeping skills. The higher the index scores the higher the ability of the business entrepreneur to use bookkeeping skills in improving their chances of taking up credit. Specifically, the findings indicate that the level of bookkeeping skills was found to be higher on using accounting records in comparing business progress from one period to another. Additionally, proper bookkeeping led to effective stock management. Bookkeeping had helped entrepreneurs to prepare financial statements for their businesses besides helping them to meet debt obligations in time.

### 4.4.3 Budgeting skills

The respondents had to give organized answers to questions about their budgeting knowledge. The essential information was gathered, measured, and rated using the Likert scale, with 1 denoting "strongly disagree," 2 "disagree," 3 "undecided," 4 "agree," and 5 denoting "strongly agree." The descriptive statistics' results were interpreted in accordance with the Likert scale as follows: Mean scores below 3.0 indicate that respondents may not be adept at using their budgeting skills. On the other hand, mean scores above 3.0 suggest that respondents had good budgeting skills. Table 4.5 shows the descriptive statistics on this variable.

**Table 4.5: Responses on budgeting skills**

| Statement | N | Minimum | Maximum | Mean | Std. Dev. |
|---|---|---|---|---|---|
| I use budgets to measure and monitor business performance and for future planning | 289 | 2.00 | 5.00 | 3.481 | 0.646 |
| I use budgeting skills to clarify my financial objectives | 289 | 1.00 | 5.00 | 4.201 | 0.859 |
| The smooth running of my business has been ensured by my budgeting skills | 289 | 2.00 | 5.00 | 4.374 | 0.749 |
| I have effectively implemented the set budget | 289 | 1.00 | 5.00 | 4.042 | 0.931 |
| Budgeting has ensured that I have sufficient cash to sustain my business' daily operations | 289 | 1.00 | 5.00 | 4.384 | 0.755 |
| Budgeting has assisted me in making cash flow projections and ensuring budgetary control, so I'm restrained from spending anyhow | 289 | 1.00 | 5.00 | 3.460 | 0.763 |
| I have been able to tell whether the business has enough cash to meet its short-term cash requirements through budgeting | 289 | 1.00 | 5.00 | 4.484 | 0.736 |
| **Overall mean score** | | | | **4.061** | **0.777** |

The mean scores show that the business owners have Budgeting Skills matters such as "I use budgets to measure and monitor business performance and for future planning" (M = 3.481, SD=0.646), "I use budgeting skills to clarify my financial objectives" (M = 4.2, SD=0.859), "The smooth running of my business has been ensured by my budgeting skills" (M = 4.374, SD=0.749), "I have effectively implemented the set budget" (M = 4.042, SD=0.931), "Budgeting has ensured that I have sufficient cash to sustain my business' daily operations" (M = 4.384, SD=0.755), "Budgeting has assisted me in making cash flow projections and ensuring budgetary control, so

I’m restrained from spending anyhow.” (M = 3.46, SD=0.763), “I have been able to tell whether the business has enough cash to meet its short-term cash requirements through budgeting” (M = 4.484, SD=0.736).

The overall mean of 4.061 indicates that in general the youth entrepreneurs strongly agree with the statements on budgeting skills. The higher the index scores the higher the ability of the business entrepreneur to use budgeting skills in improving their chances of taking up credit and utilizing the same for the specified work. Specifically, the findings indicate that budgeting ensured that they have sufficient cash to sustain their daily business operations. Budgeting had helped entrepreneurs to monitor, measure business performance and plan for their future. However, the level of budgeting skills was lowly rated on making cash flow projections and ensuring budgetary control, so they restrained impulse expenditures. This implied that the majority of entrepreneurs purchased by impulse and could not operate under the set budgets.

### 4.4.4 Debt management skills

The respondents had to react to the structured statements in order to demonstrate their knowledge of debt management. The essential information was gathered, measured, and rated using the Likert scale, with 1 denoting "strongly disagree," 2 "disagree," 3 "undecided," 4 "agree," and 5 denoting "strongly agree." The descriptive statistics' results were interpreted in accordance with the Likert scale as follows: The respondents' poor debt management skills are indicated by mean scores below 3.0. On the other hand, mean scores above 3.0 suggest that respondents had good debt management skills. Table 4.6 shows the descriptive statistics on this variable.

**Table 4.6: Responses on debt management skills**

| Statement | N | Minimum | Maximum | Mean | Std. Dev. |
|---|---|---|---|---|---|
| I have good skills in debt management which help me in ensuring that my customers do timely payments of their dues. | 289 | 1.00 | 5.00 | 3.962 | 0.991 |
| I have debt management skills which helps me to save enough during the grace period of the loan | 289 | 1.00 | 5.00 | 3.959 | 0.964 |
| Am able be to calculate my loan interest monthly | 289 | 1.00 | 5.00 | 4.125 | 0.946 |
| Through debt management skills I understand loan default consequence on myself and business enterprise | 289 | 1.00 | 5.00 | 4.260 | 0.912 |
| Effective debt management serves to prevent late payment of the loan | 289 | 2.00 | 5.00 | 4.398 | 0.784 |
| I can manage my money and administer my resources competitively | 289 | 1.00 | 5.00 | 4.211 | 0.866 |
| **Overall mean score** | | | | **4.153** | **0.911** |

The mean scores show that the business owners have Debt management skills matters such as “I have good skills in debt management which help me in ensuring that my customers do timely payment of their dues.” (M =3.962, SD=0.991), “I have debt management skills which helps me to save enough during the grace period of the loan” (M =3.959, SD=0.964), “Am able be to to calculate my loan interest monthly” (M =4.125, SD=0.946), “ Through debt management skills I understand loan default consequence on myself and business enterprise” (M =4.26, SD=0.912), “Effective debt management serves to prevent late payment of the loan” (M =4.398, SD=0.784), “I can manage my money and administer my resources competitively” (M =4.211, SD=0.866).

The overall mean of 4.153 indicates that in general the youth entrepreneurs strongly agree with the statements on debt management skills. The higher the index scores the higher the ability

of the business entrepreneur to use debt management skills in improving their chances of taking up credit and repaying the same at the right time. Specifically, the findings indicate that the level of debt management skills was found to be higher in how debt management skills helped them understand loan default consequences on themselves and business enterprises. Additionally, debt management skills ensured that they manage their money and administer resources competitively. Debt management helped the entrepreneurs to save enough during the grace period of the loan.

### 4.4.5 Financial knowledge

The respondents had to react to the structured statements in order to demonstrate their financial knowledge. The essential information was gathered, measured, and rated using the Likert scale, with 1 denoting "strongly disagree," 2 "disagree," 3 "undecided," 4 "agree," and 5 denoting "strongly agree." The descriptive statistics' results were interpreted in accordance with the Likert scale as follows: The respondents' financial knowledge was indicated by mean scores below 3.0. On the other hand, mean scores above 3.0 suggest that respondents were knowledgeable in financial matters. Table 4.7 shows the descriptive statistics on this variable.

**Table 4.7: Responses on financial knowledge**

| Statement | N | Minimum | Maximum | Mean | Std. Dev. |
|---|---|---|---|---|---|
| I understand time value of money | 289 | 1.00 | 5.00 | 4.415 | 0.741 |
| I make investment decisions based on the Payback Period of each alternative | 289 | 1.00 | 5.00 | 4.187 | 0.968 |
| I understand and use simple and compound interest calculations in decision making. | 289 | 2.00 | 5.00 | 3.993 | 0.986 |
| I use depreciation/appreciation knowledge to make valuation for collateral. | 289 | 1.00 | 5.00 | 4.004 | 1.062 |
| I understand risk and return in investment and use it to compare different options | 289 | 2.00 | 5.00 | 4.118 | 0.890 |
| I understand the definition of inflation | 289 | 2.00 | 5.00 | 4.415 | 0.821 |
| Through risk diversification, I spread out my investment to different products and services | 289 | 1.00 | 5.00 | 4.031 | 1.001 |
| I understand break even analysis | 289 | 1.00 | 5.00 | 3.997 | 1.009 |
| **Overall mean score** | | | | **4.145** | **0.935** |

The mean scores show that the business owners had financial knowledge as shown by "I understand the time value of money" (M =4.415, SD=0.741), "I make investment decisions based on Payback Period of each alternative" (M =4.187, SD=0.968), "I understand and use simple and compound interest calculations in decision making." (M =3.993, SD=0.986), "I use depreciation/appreciation knowledge to make valuation for the collateral." (M =4.004, SD=1.062), "I understand risk and return in investment and use it to compare different options" (M =4.118, SD=0.89), "I understand the definition of inflation" (M =4.415, SD=0.821), "Through risk

diversification, I spread out my investment to different products and services" (M =4.031, SD=1.001), "I understand to break even analysis" (M =3.997, SD=1.009).

The overall mean of 4.145 indicates that in general the youth entrepreneurs strongly agree with the statements on financial knowledge. The higher the index scores the higher the ability of the business entrepreneur to use financial knowledge in improving their chances of taking up credit and handling the same during the business. Specifically, the findings indicate that the level of financial knowledge was found to be higher on how they agreed to understand the time value of money. Additionally, respondents agreed that through risk diversification knowledge they spread out their investments to different products and services. Financial knowledge of breakeven analysis helped them in their evaluation of investment.

The results on financial knowledge to the questions that "I use depreciation/appreciation knowledge to make valuation for the collateral." (M =4.004, SD=1.062), "I Understand risk and return in investment and use it to compare different options" (M =4.118, SD=0.89), "I Understand the definition of inflation" (M =4.415, SD=0.821) differ with the findings by Lusardi and Mitchell (2014) and Atkinson and Messy (2014) who pine that the majority of adults don't comprehend inflation, interest rates, or the terms and conditions of mortgages and consumer loans, which could have a severe impact on their financial decisions and, ultimately, the success of their businesses when deciding how much money to borrow when and from whom. The findings, however, support Lusimbo (2016) assertion that financial literacy training has a favorable impact on firm survival and that greater education increases financial awareness.

### 4.4.6 Credit uptake by youth enterprises

The respondents were asked to provide their thoughts on the following statements on young businesses' use of credit. The essential information was gathered, measured, and rated using the Likert scale, with 1 denoting "strongly disagree," 2 "disagree," 3 "undecided," 4 "agree," and 5 denoting "strongly agree." The descriptive statistics' results were interpreted in accordance with the Likert scale as follows: A mean score of less than 3.0 indicates that the respondents are not skilled at accepting credit. On the other hand, mean scores above 3.0 suggest that respondents are good at credit uptake. Table 4.8 shows the descriptive statistics on this variable.

**Table 4.8: Responses on credit uptake by youth enterprises**

| Statement | N | Minimum | Maximum | Mean | Std. Dev. |
|---|---|---|---|---|---|
| Low interest rates on loans have led to an increase on credit uptake | 289 | 1.00 | 5.00 | 3.959 | 1.095 |
| I have several options for borrowing money whenever I need | 289 | 1.00 | 5.00 | 3.734 | 1.179 |
| I have formally registered my enterprise which makes it easy for me to access the funds | 289 | 1.00 | 5.00 | 3.716 | 1.150 |
| My credit history is assessed before being awarded credit | 289 | 1.00 | 5.00 | 4.163 | 0.930 |
| Previous loan(s) received have increased my economic status | 289 | 1.00 | 5.00 | 4.017 | 0.977 |
| I have always met the requirements needed to access a loan | 289 | 2.00 | 5.00 | 4.132 | 0.930 |
| Proper bookkeeping and budgeting documentation have made it easy for me to be given credit by financial institutions | 289 | 1.00 | 5.00 | 4.270 | 0.970 |
| **Overall mean score** | | | | **3.999** | **1.033** |

The mean scores show that the business owners were taking up credit as shown by "Low-interest rates on loans have led to increasing on credit uptake" (M =3.959, SD=1.095), "I have several options for borrowing money whenever I need" (M =3.734, SD=1.179), "I have formally registered my enterprise which makes it easy for me to access the funds" (M =3.716, SD=1.15), "My credit history is assessed before am awarded credit" (M =4.163, SD=0.93), "Previous loan(s) received has increased my economic status." (M =4.017, SD=0.977), "I have always met the

requirements needed to access a loan" (M =4.132, SD=0.93), "Proper bookkeeping and budgeting documentation has made it easy for me to be given credit by financial institutions" (M =4.27, SD=0.97)

The overall mean of 3.999 indicates that in general, the youth entrepreneurs agreed with the statements on credit uptake. The higher the index scores the higher the ability of the business entrepreneur to take up credit. Specifically, the findings indicate that the respondent's economic status had greatly improved because of the previous loans taken up. The respondents had good bookkeeping and budgeting documentation that fostered their credit uptake. Additionally, respondents agreed that better credit history placed them in a better position to access loans. However, few respondents agreed to have formally registered their businesses to catapult them to easily access credit.

Responses on question two on whether the respondents had several options for borrowing money whenever they needed it. This result is supported by the assertion made by Wachira and Kihiu (2012) and Siekei et al. (2013) who argue that failure to compare options, ask questions and negotiate effectively with financial providers depicts a low level of financial skills.

### 4.4.7 Financial literacy mean

Concerning the level of financial literacy among business entrepreneurs, based on the components of financial literacy (bookkeeping skills, budgeting skills, debt management skills, financial knowledge). Table 4.9 below gives the overall mean. These findings indicate that the level of financial literacy among youthful business entrepreneurs was found to be generally above average at 4.158 on a 1 to 5 rating.

**Table 4.9: Financial literacy mean**

| Financial Literacy | Mean | Std. Dev. |
|---|---|---|
| Bookkeeping skills | 4.272 | 0.760 |
| Budgeting skills | 4.061 | 0.777 |
| Debt management skills | 4.153 | 0.911 |
| Financial Knowledge | 4.145 | 0.935 |
| **Overall mean score** | **4.158** | **0.846** |

### 4.5 Diagnostic Tests

The following diagnostic tests were done to ensure the study data was accurate and good for analysis.

#### 4.5.1 Multicollinearity tests

The data must have little to no multi-collinearity, according to the assumption of linear regression. When the independent variables have an excessive amount of correlation with one another, multi-collinearity develops. A test was run and the Variance Inflation Factor (VIF) or Tolerance Value was examined to determine the degree of multicollinearity in the regression model (Baguley, 2012). Hair et al. (2010) asserted that if the VIF value would be less than 10 and a tolerance of greater than 0.1 recorded, there would be no multicollinearity. Table 4.10 shows the VIF values of all the independent variables they all lie below 5.0 and thus proving that there was no multicollinearity among the variables.

**Table 4.10: Multicollinearity test**

| | Collinearity Statistics | |
|---|---|---|
| | Tolerance | VIF |
| Bookkeeping skills | 0.472 | 2.119 |
| Budgeting skills | 0.255 | 3.923 |
| Debt management skills | 0.322 | 3.104 |
| Financial Knowledge | 0.468 | 2.139 |

#### 4.5.2 Normality tests

Second, for the linear regression analysis, all variables must have multivariate normal distributions. A histogram was used to verify the regression assumption used in this investigation. Figure 4.7 below shows the methodology's outcomes.

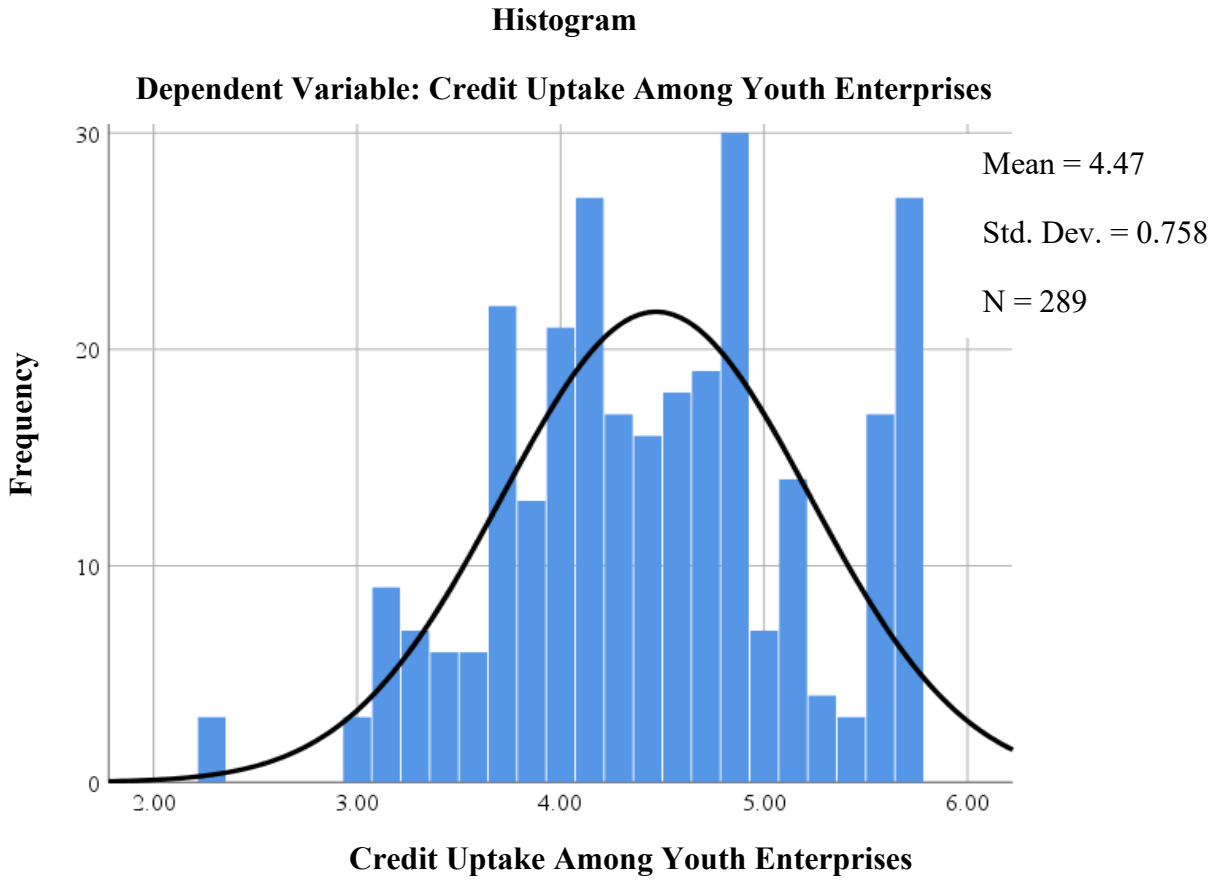


**Figure 4.7: Histogram on credit uptake among youth enterprises**

From figure 4.7 the graph indicates that the responses for the dependent variable (credit uptake among youth enterprises) were normally distributed about the mean. Bookkeeping Skills was subjected to the normality test and the results were displayed in the figure 4.8 below.

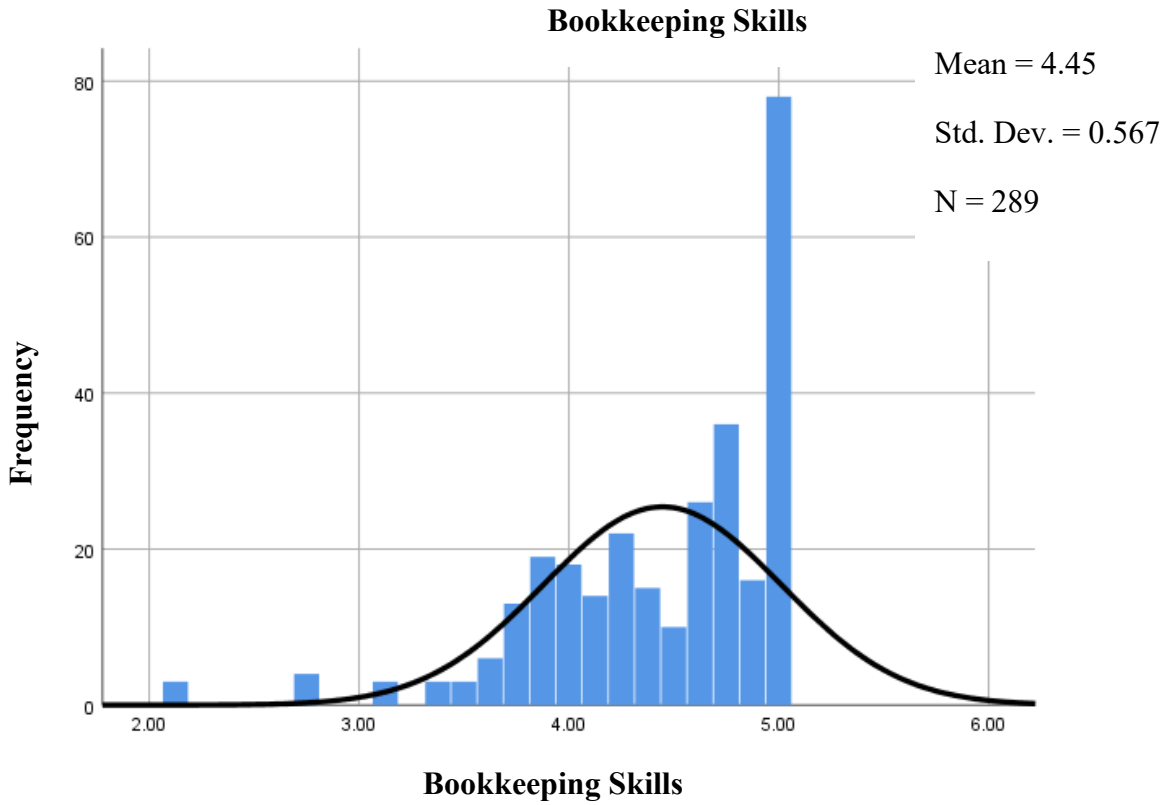


**Figure 4.8: Histogram on bookkeeping skills**

From figure 4.8 the graph indicates that the responses for the dependent variable (credit uptake among youth enterprises) were normally distributed about the mean. Budgeting Skills was subjected to the normality test and the results were displayed in the figure 4.9 below.

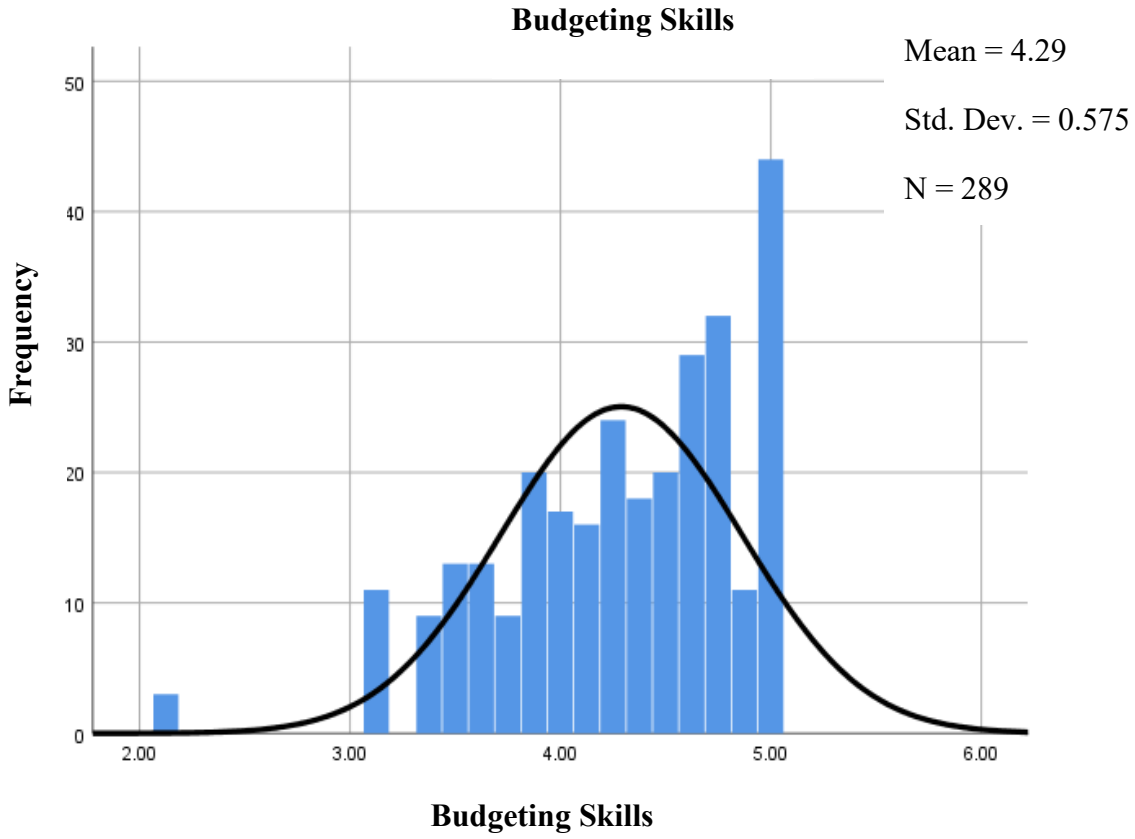


**Figure 4.9: Histogram on budgeting skills**

From figure 4.9 the graph indicates that the responses for the independent variable (budgeting skills) were normally distributed about the mean. Debt Management Skills was subjected to the normality test and the results were displayed in the figure 4.10 below.

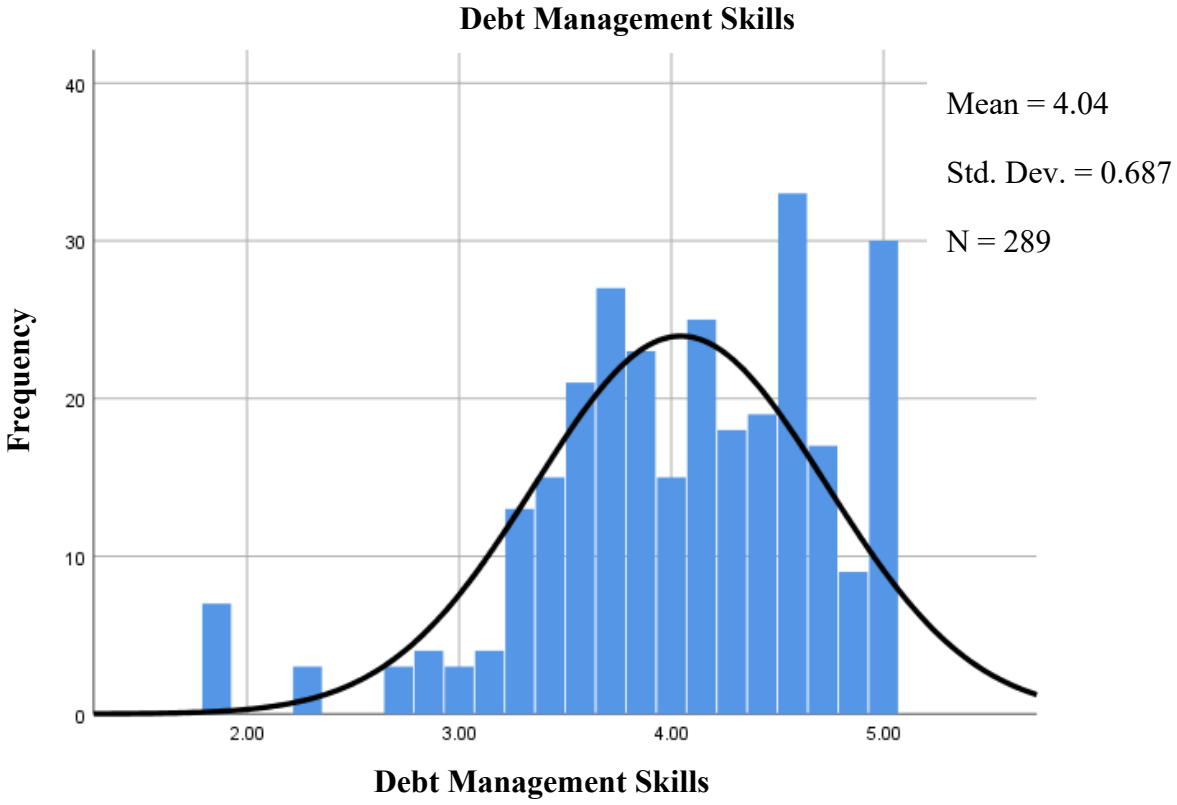


**Figure 4.10: Histogram on debt management skills**

From figure 4.10 the graph indicates that the responses for the independent variable (debt management skills) were normally distributed about the mean. Financial Knowledge was subjected to the normality test and the results were displayed in the figure 4.11 below. From the figure, the graph indicates that the responses for the independent variable (financial knowledge) were normally distributed about the mean.

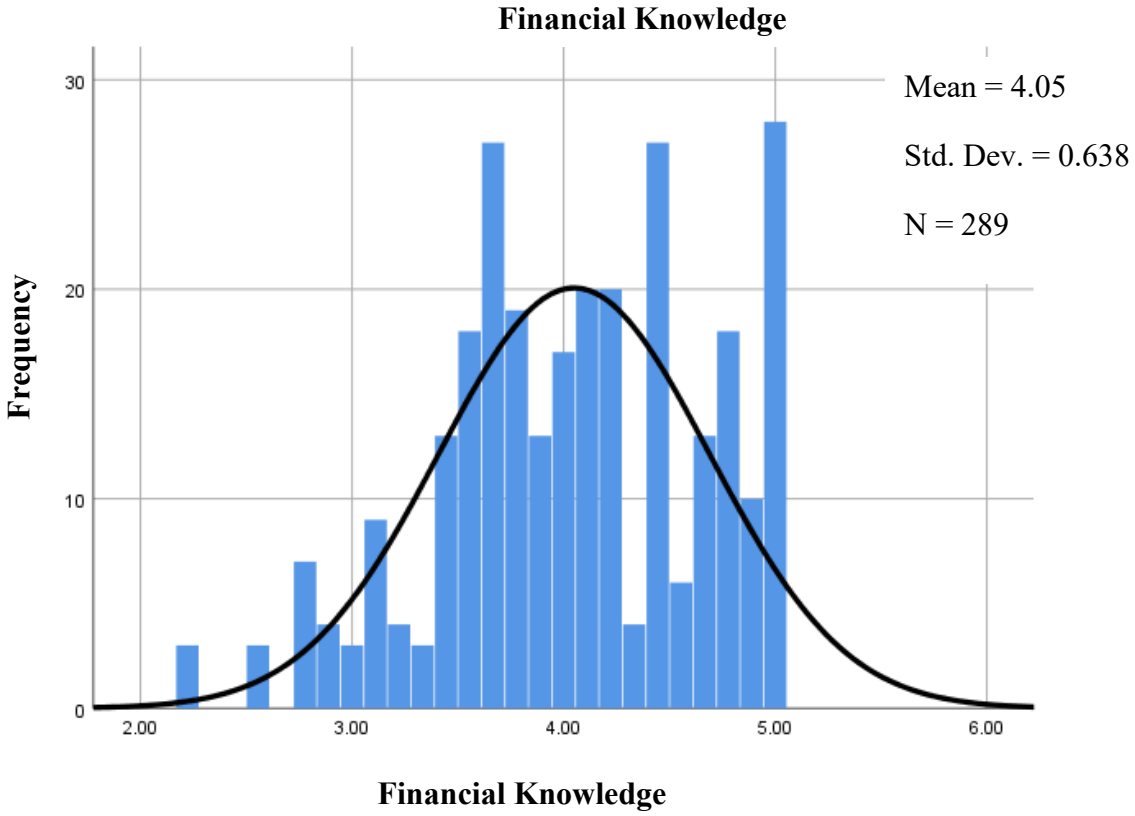


**Figure 4.11: Histogram on financial knowledge**

### 4.5.3 Autocorrelation test

Little to no autocorrelation in the data is necessary for linear regression. If the residuals are not unrelated to one another, autocorrelation will occur. The value of y(x+1) depends on the value of y(x) in some way. The Durbin-Watson test was applied to this circumstance. The residuals' non-linear autocorrelation is tested using Durbin-Watson's d. According to the decision criteria, test statistical results between 1.5 and 2.5 indicate that there is no autocorrelation in the data.

While retrieving the regression model summary, the researcher checked the Durbin-Watson test and found results in table 4.11 below. Durbin-Watson's d value was d = 1.995. This value of d lay around 2.0 which meant there was no autocorrelation in the data.

**Table 4. 11: Autocorrelation test**

| Model | Durbin – Watson |
|---|---|
| 1 | 1.995 |

1. Predictors: (constant), Financial Knowledge, Bookkeeping skills, Debt management skills, Budgeting Skills
2. Dependent variable: Credit Uptake Among Youth Enterprises

## 4.6 Correlation Analysis

### 4.6.1 Relationship between financial literacy and credit uptake

To establish the correlation between the predictors of financial literacy and credit uptake, correlation analysis was done. The correlation coefficient shows the strength of the association between two variables. In 1904 Spearman adopted Pearson's correlation coefficient as a measure of the strength of the relationship between two variables that cannot be measured quantitatively (Hauke & Kossowski, 2011). Correlation analysis was not the main statistical tool for hypothesis testing but was utilized to tell the relational strength between the variables. In this regard, the relationship between predictors of financial literacy and credit uptake was done and results were presented in table 4.12 below.

**Table 4.12: Correlation matrix of the variables**

| | | Credit uptake | Financial Knowledge | Debt management skills | Budgeting skills | Book keeping skills |
|---|---|---|---|---|---|---|
| Credit uptake | Pearson correlation | 1 | | | | |
| | Sig.(2tailed) | | | | | |
| | N | 289 | | | | |
| Financial Knowledge | Pearson correlation | 0.829** | 1 | | | |
| | Sig.(2tailed) | 0.00 | | | | |
| | N | 289 | 289 | | | |
| Debt management skills | Pearson correlation | 0.746** | 0.589 | 1 | | |
| | Sig.(2tailed) | 0.000 | 0.200 | | | |
| | N | 289 | 289 | 289 | | |
| Budgeting skills | Pearson correlation | 0.729** | 0.098 | 0.171* | 1 | |
| | Sig.(2tailed) | 0.000 | 0.600 | 0.031 | | |
| | N | 289 | 289 | 289 | 289 | |
| Book keeping skills | Pearson correlation | 0.901** | 0.347 | -0.343** | 0.289* | 1 |
| | Sig.(2tailed) | 0.000 | 0.099 | 0.000 | 0.013 | |
| | N | 289 | 289 | 289 | 289 | 289 |

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

*.Correlation is significant at the 0.05 level (2-tailed).

According to the correlation results in Table 4.6.1 above, credit uptake was found to be positively and significantly related to bookkeeping skills (r = 0.901); budgeting skills (r = 0.729);

debt management skills (r = 0.746) and financial knowledge (r = 0.829). The significance value of 0.000 which is less than 0.05 indicates that the relationship is statistically significant. It, therefore, qualifies the explanation that as credit uptake increases all the variables that predict financial literacy also increase. The results also depict the fact that there was a weak or no autocorrelation between the independent variables in the model.

This result of a positive correlation between credit uptake and financial knowledge corresponds with Mwathi (2017) who established a positive correlation between financial knowledge and personal financial decisions and (Staines, 2008) who notes that a lack of information and awareness on the available business opportunities undermines uptake of credit by youth.

## 4.7 Hypothesis Testing

The study further assessed the influence of financial literacy predictors on credit uptake by youth enterprises using multiple regression analysis. Kothari (2004) pines that multiple regression analysis is used to establish causal relationships between variables and explain the power of each of the independent variables in accounting for variations in the dependent variable. Simple regression analysis was carried out of credit uptake on each of the predictors of financial literacy (bookkeeping skills, budgeting skills debt management skills, and financial knowledge). Multiple regression analysis was carried out of credit uptake on all the predictors of financial literacy (bookkeeping skills, budgeting skills debt management skills, and financial knowledge) combined. The results are discussed below.

### 4.7.1 Influence of bookkeeping skills on credit uptake

The first objective of the study was to establish the influence of bookkeeping skills on credit uptake among youth enterprises. The hypothesis to be tested was bookkeeping skills do not influence credit uptake by youth enterprises in Machakos Town, Kenya. According to table 4.13 below, the results indicate the significance (p) values for bookkeeping skills as 0.000. If $p<0.05$, then the conclusion is that the independent variable is a predictor of the dependent variable. In testing the influence of bookkeeping skills on credit uptake by youth enterprises in Machakos Town, Kenya, the significance value of $p = 0.000$ which is less than 0.05 shows that bookkeeping skills are statistically significant to credit uptake, thus the null hypothesis is rejected.

**Table 4.13: Coefficients of simple regression analysis for bookkeeping skills**

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | t | Sig. |
| (Constant) | 1.782 | 0.315 | | 5.657 | 0.000 |
| Bookkeeping skills | 0.911 | 0.070 | 0.901 | 13.014 | 0.000 |

Dependent variable: Credit Uptake Among Youth Enterprises

$$\mathbf{Y = 1.782 + 0.911X_1 + \varepsilon}$$

Where: Y = Credit Uptake by youth enterprises, $\mathbf{X_1}$ = Bookkeeping skills, and $\boldsymbol{\varepsilon}$ = Error Term

These findings agree with those of Omboi (2011) who revealed that Micro and Small Enterprises operators in Kenya can improve their participation in the credit market by improving their business skills and knowledge plus maintaining proper accounting and book-keeping systems.

The summary of the regression model is shown in Table 4.14 below. Based on the summary regression model, the results show a coefficient of determination of 0.363 ($R^2$=0.363) the percentage variation in the dependent variable being explained by the changes in the independent variables. This suggests that 36.3 percent of the total variation in credit uptake by youth enterprises is explained by bookkeeping skills, while the remaining 63.7 percent is explained by other factors, such as business experience, financial literacy, and market awareness.

**Table 4.14: Model summary for simple regression analysis for bookkeeping skills**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
| 1 | 0.602[1] | 0.363 | 0.350 | 0.67698 |

1. Predictors: (constant), Bookkeeping skills
2. Dependent variable: Credit Uptake Among Youth Enterprises

The Mean Square Regression (60.081) divided by the Mean Square Residual (0.366) results in the F-value, which is 163.783. This F value has an extremely low p-value of 0.000. The following table 4.15 lists these values. The values were used to answer the question as to whether the

bookkeeping skills influenced the credit uptake. The p-value was compared to the alpha level (0.05) and, was found to be lesser. The conclusion was that the bookkeeping skills reliably influenced credit uptake.

**Table 4.15: ANOVA table for simple regression analysis for bookkeeping skills**

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Squares | F | Sig. |
| 1 | Regression | 60.081 | 1 | 60.081 | 163.783 | 0.000[b] |
| | Residual | 105.281 | 287 | 0.366 | | |
| | Total | 165.362 | 288 | | | |

1. Predictors: (constant), Bookkeeping skills
2. Dependent variable: Credit Uptake Among Youth Enterprises

### 4.7.2 Influence of budgeting skills on credit uptake

The second objective of the study was to determine the influence of budgeting skills on credit uptake among youth enterprises. The hypothesis to be tested was budgeting skills do not influence credit uptake by youth enterprises in Machakos Town, Kenya. According to Table 4.16 below, the results indicate the significance (p) values for budgeting skills as 0.000, If $p<0.05$, the conclusion is that the independent variable is a predictor of the dependent variable. In testing the influence of budgeting skills on credit uptake by youth enterprises in Machakos Town, Kenya, the significance value of (p) of 0.000 which is less than 0.05 shows that budgeting skills are statistically significant to credit uptake; thus, the null hypothesis is rejected.

**Table 4.16: Coefficients of simple regression analysis for budgeting skills**

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | t | Sig. |
| (Constant) | 2.201 | 0.304 | | 7.240 | 0.000 |
| Budgeting skills | 0.749 | 0.070 | 0.729 | 10.700 | 0.000 |

Dependent variable: Credit Uptake Among Youth Enterprises

$$\mathbf{Y = 2.201 + 0.749X_2 + \varepsilon}$$

Where: Y = Credit Uptake by youth enterprises; $\mathbf{X_2}$ = Budgeting Skills and $\boldsymbol{\varepsilon}$ = Error Term

The results agree with the findings of Fatoki (2014) who established that most micro-enterprises are survivalist they might have some form of budgeting and financial planning and control but on an informal basis a view that is corroborated by Abanis et al. (2013) who found that most small businesses do not engage in formal financial planning and control and budgeting.

Table 4.17 following provides a summary of the regression model. The percentage of variation in the dependent variable that can be explained by changes in the independent variables is shown to have a coefficient of determination of 0.307 ($R^2$=0.307) based on the findings of the summary regression model. According to this, budgeting skills account for 30.7% of the overall difference in the amount of credit that young businesses use. Other, per the model unaccounted-for components account for the remaining 69.3 percent of the explanation. The modified $R^2$ shows that it is closer to the $R^2$ and that there is therefore little variance between the two, demonstrating the coefficient of determination.

**Table 4.17: Model summary for simple regression analysis for budgeting skills**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
| 1 | 0.554[1] | 0.307 | 0.289 | 0.68459 |

1. Predictors: (constant), budgeting skills
2. Dependent variable: Credit Uptake Among Youth Enterprises

Mean Square Regression (60.899) divided by Mean Square Residual (0.398) results in the F-value, which is 127622. This F value has a very low (0.000) p-value. Table 4.18 below displays these numbers. The values were used to answer the question as to whether the budgeting skills influenced the credit uptake. The p-value was compared to the alpha level (0.05) and, was found to be lesser. The conclusion was that the budgeting skills reliably influenced credit uptake.

**Table 4.18: ANOVA table for simple regression analysis for budgeting skills**

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Squares | F | Sig. |
| 1 | Regression | 50.899 | 1 | 50.899 | 127.622 | 0.000[b] |
| | Residual | 114.462 | 287 | 0.398 | | |
| | Total | 165.362 | 288 | | | |

1. Predictors: (constant), Bookkeeping skills
2. Dependent variable: Credit Uptake Among Youth Enterprises

### 4.7.3 Influence of debt management skills on credit uptake

The third objective of the study was to analyse the influence of debt management skills on credit uptake among youth enterprises. The hypothesis to be tested was debt management skills does not influence credit uptake by youth enterprises in Machakos Town, Kenya. According to Table 4.19 below, the results indicate the significance (p) values for debt management skills as 0.000, If $p<0.05$, the conclusion was that the independent variable was a predictor of the dependent variable. In testing the influence of debt management skills on credit uptake by youth enterprises in Machakos Town, Kenya, a significance value of (p) of 0.000 which was less than 0.05 showed that debt management skills were statistically significant to credit uptake, thus the null hypothesis was rejected.

**Table 4.19: Coefficients of simple regression analysis for debt management skills**

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | t | Sig. |
| (Constant) | 2.785 | 0.236 | | 11.800 | 0.000 |
| Debt management skills | 0.712 | 0.057 | 0.693 | 12.491 | 0.000 |

Dependent variable: Credit Uptake Among Youth Enterprises

$$\mathbf{Y = 2.785 + 0.712X_3 + \varepsilon}$$

Where: Y = Credit Uptake by youth enterprises; $\mathbf{X_3}$ = Debt management skills and $\boldsymbol{\varepsilon}$ = Error Term

These results agree with the findings of Lusimbo (2016) which revealed that knowledge of debt management has a positive influence on the growth in the value of assets of MSEs. The study concluded that timely loan repayments improve the ability of the owner-manager to access development finance for business expansion.

Table 4.20 following provides a summary of the regression model. According to the results of the summary regression model, the percentage of variation in the dependent variable that can be explained by changes in the independent variables has a coefficient of determination of 0.199 ($R^2$=0.199). This suggests that the debt management skills accounts for 19.9% of the overall difference in the use of credit by young businesses. Other factors, not included in the model, account for the remaining 80.1 percent of the explanation. The modified $R^2$ shows that it is closer to the $R^2$ and that there is therefore little variance between the two, demonstrating the coefficient of determination.

**Table 4.20: Model summary for simple regression analysis for debt management skills**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
| 1 | 0.529[1] | 0.199 | 0.196 | 0.67928 |

1. Predictors: (constant), debt management literacy

2. Dependent variable: Credit Uptake Among Youth Enterprises

The F-value is the Mean Square Regression (32.934) divided by the Mean Square Residual (0.461), yielding F=71.376. The p-value associated with this F value is very small (0.000). These values are shown in table 4.21 below. The values were used to answer the question as to whether the debt management skills influenced the credit uptake. The p-value was compared to the alpha level (0.05) and, was found to be lesser. The conclusion was that the debt management skills reliably influenced credit uptake.

**Table 4.21: ANOVA table for simple regression analysis for debt management skills**

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Squares | F | Sig. |
| 1 | Regression | 32.934 | 1 | 32.934 | 71.376 | 0.000[b] |
| | Residual | 132.427 | 287 | 0.461 | | |
| | Total | 165.362 | 288 | | | |

1. Predictors: (constant), debt management literacy
2. Dependent variable: Credit Uptake Among Youth Enterprises

### 4.7.4 Influence of financial knowledge on credit uptake

The fourth objective of the study was to evaluate the influence of financial knowledge on credit uptake by youth enterprises. The hypothesis to be tested was financial knowledge does not influence credit uptake by youth enterprises in Machakos Town, Kenya. The results are shown in Table 4.22 below, and they show that financial knowledge has a significance (p) value of 0.000. If $p<0.05$, it is concluded that the independent variable is a predictor of the dependent variable. The significance value of (p) of 0.000, which is less than 0.05, indicates that financial knowledge is statistically significant to credit uptake in examining the effect of financial knowledge on credit uptake by youth enterprises in Machakos Town, Kenya. As a result, the null hypothesis is rejected.

**Table 4.22: Coefficients of simple regression analysis for financial knowledge**

| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 2.144 | 0.245 | | 8.751 | 0.000 |
| Financial Knowledge | 0.773 | 0.059 | 0.775 | 13.102 | 0.000 |

Dependent variable: Credit Uptake Among Youth Enterprises

$$\mathbf{Y = 2.144 + 0.773X_4 + \varepsilon}$$

Where: Y = Credit Uptake by youth enterprises; $\mathbf{X_4}$ = financial knowledge and $\boldsymbol{\varepsilon}$ =Error Term

The result agrees with the findings of Lubanga (2016) who proved that credit accessibility among youth in the Kimilili Constituency would be positively predicted by financial knowledge. She argues that a unit increase in financial knowledge holding other variables constant would improve credit accessibility by 0.017 points.

Table 4.23 below provides a summary of the regression model. The percentage of variation in the dependent variable that can be explained by changes in the independent variables is shown by the results of the summary regression model to be 0.545 ($R^2$=0.545). Accordingly, financial knowledge is thought to account for 54.5 percent of the overall difference in the use of loans by young businesses. Other factors, not included by the model, account for the remaining 45.6 percent of the explanation. The modified $R^2$ shows that it is closer to the $R^2$ and that there is therefore little variance between the two, demonstrating the coefficient of determination.

**Table 4.23: Model summary for simple regression analysis for financial knowledge**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
| 1 | 0.738[1] | 0.545 | 0.501 | 0.64398 |

1. Predictors: (constant), financial knowledge
2. Dependent variable: Credit Uptake Among Youth Enterprises

The F-value is the Mean Square Regression (90.123) divided by the Mean Square Residual (0.262), yielding F=343.980. The p-value associated with this F value is very small (0.000). These values are shown in table 4.24 below. The values were used to answer the question as to whether the financial knowledge influenced the credit uptake. The p-value was compared to the alpha level (0.05) and, was found to be lesser. The conclusion was that the financial knowledge reliably influenced credit uptake.

**Table 4.24: ANOVA table for simple regression analysis for financial knowledge**

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Squares | F | Sig. |
| 1 | Regression | 90.123 | 1 | 90.123 | 343.980 | 0.000[b] |
| | Residual | 75.239 | 287 | 0.262 | | |
| | Total | 165.362 | 288 | | | |

1. Predictors: (constant), financial knowledge
2. Dependent variable: Credit Uptake Among Youth Enterprises

### 4.7.5 Influence of financial literacy and credit uptake

Results of multiple regression analyses of financial literacy and credit uptake are shown in table 4.25 below.

**Table 4.25: Coefficients of multiple regression analysis of financial literacy and credit uptake**

| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 1.233 | 0.314 | | 3.927 | 0.000 |
| Bookkeeping skills | 0.530 | 0.095 | 0.447 | 5.578 | 0.001 |
| Budgeting skills | 0.449 | 0.127 | 0.109 | 3.535 | 0.012 |
| Debt management skills | -0.158 | 0.095 | -0.099 | 1.596 | 0.212 |
| Financial Knowledge | 0.823 | 0.085 | 0.397 | 9.682 | 0.000 |

Dependent variable: Credit Uptake Among Youth Enterprises

The following multiple regression model was adopted to assess the influence of independent variables on the dependent variable. The models are as shown below:

$$\mathbf{Y = 1.233 + 0.53X_1 + .449X_2 - 0.158X_3 + 0.823X_4 + \varepsilon}$$

Where: Y = Credit Uptake by youth enterprises; $\mathbf{X_1}$ = Bookkeeping skills; $\mathbf{X_2}$ = Budgeting Skills; $\mathbf{X_3}$ = Debt management skills; $\mathbf{X_4}$ = Financial knowledge and $\boldsymbol{\varepsilon}$ = Error Term.

According to the regression equation established, taking all factors constant credit uptake by youth enterprises will be 1.233. Table 4.25 above shows the parameter estimates, standard error, standardized coefficients, and the columns with the t-value and p-value about testing whether the coefficients are significant. For bookkeeping skills, the coefficient (parameter estimate) is 0.53 So, for every unit increase in Bookkeeping skills, a 0.53 unit increase in credit uptake among youth enterprises is predicted, holding all other variables constant. This is significantly different from 0 because the p-value (0.001) is less than 0.05. For every unit increase in budgeting skills, there is a 0.449 unit increase in the predicted Credit uptake among youth enterprises, holding all other variables constant. The variable budgeting skills are statistically significantly different from zero(0) because the p-value (0.012) is less than 0.05. For debt management skills, the coefficient (parameter estimate) is -0.158. This means that for a 1-unit increase in debt management, an approximately -0.158-unit decrease in the Credit uptake among youth enterprises is predicted. This is not statistically significant because the p-value (0. 212) is greater than 0.05; in other words, -0.158 is not different from 0. Lastly for financial knowledge, the coefficient is 0.823. Hence, for every unit increase in financial knowledge, a 0.823-point increase in the Credit uptake among youth enterprises is predicted. This is statistically significant because the p-value (0.000) is less than 0.05. Consequently, the null hypothesis that financial literacy has no effect on credit uptake by youth enterprises was thus rejected.

These results contradicted Mwaniki (2019) who reported her findings implied that an increase in debt management skills led to an improvement in the growth of SMEs. Additionally, the results in the model summary contained R-Square and adjusted R-Square. The R-Square shows how much the variation in a dependent variable is explained by the variations of the independent variable. When a small sample is involved, R-Square tends to be rather optimistic about the true value of a population. Kothari (2008) posits that adjusted R-Square corrects this and provides a better estimation of the true population value.

The summary of the regression model is shown in Table 4.26 below. According to the results of the summary regression model, the percentage of variation in the dependent variable that can be explained by changes in the independent variables has a coefficient of determination of 0.728 ($R^2$=0.728). This suggested that financial literacy accounted for 72.8 percent of the entire variation in the use of loans by youth enterprises. Other, by-passed by the model, factors accounted for the remaining 27.2 percent of the explanation. The modified $R^2$ implies that there is less variation between the two because it is closer to the $R^2$, supporting the coefficient of determination.

**Table 4.26: Model summary for multiple regression analysis of financial literacy and credit uptake**

| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.868 | 0.754 | 0.728 | 0.64129 |

1. Predictors: (constant), Financial Knowledge, Bookkeeping skills, Debt management skills, Budgeting Skills
2. Dependent variable: Credit Uptake Among Youth Enterprises

The Mean Square Regression (31.921) divided by the Mean Square Residual (0.143) results in the F-value, which is 223.22. This F value has an extremely low p-value of 0.000. The values are displayed in the following table 4.27. To determine if the independent variables can accurately predict the dependent variable, the values were employed. The p-value was reduced as compared to the alpha level (0.05), which was discovered. The conclusion was that the independent variables reliably predicted the dependent variable. The variables bookkeeping skills, budgeting skills, debt management skills, and financial knowledge (the independent variables) reliably predicted credit uptake by youth enterprises (the dependent variable).

**Table 4.27: ANOVA table for multiple regression analysis of financial literacy and credit uptake**

| Model | | Sum of Squares | Df | Mean Squares | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 124.682 | 4 | 31.921 | 223.220 | 0.000 |
| | Residual | 40.68 | 284 | 0.143 | | |
| | Total | 165.362 | 288 | | | |

1. Predictors: (constant), Financial Knowledge, Bookkeeping skills, Debt management skills, Budgeting Skills
2. Dependent variable: Credit Uptake Among Youth Enterprises

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter provided a summary of the findings, the corresponding discussions, conclusions and finally the recommendations of the study based on the objectives of the study. The chapter also presents the suggestions for further studies and research.

## 5.2 Summary of the findings

This research set out to investigate the influence of financial literacy on credit uptake among youth enterprises in Machakos Town Kenya, based on four specific objectives. The specific objectives of the study were to establish the influence of bookkeeping skills, budgeting skills, debt management skills, and financial knowledge on literacy on credit uptake among youth enterprises in Machakos Town Kenya. Overall, the findings of the study revealed that all four variables considered in the study had a positive effect on the uptake of credit. However, credit uptake among youth enterprises in Machakos Town Kenya was greatly influenced by financial knowledge, bookkeeping skills, budgeting skills and debt management skills in that decreasing order.

### 5.2.1 Influence of bookkeeping skills on credit uptake

The first objective of the study was to establish the influence of bookkeeping skills on credit uptake among youth enterprises in Machakos Town. Descriptive analysis revealed that most of the respondents strongly agreed that proper bookkeeping had led to effective stock management besides helping them to meet debt obligations in time. The findings further indicated that the level of bookkeeping skills was found to be higher on using accounting records in comparing business progress from one period to another. However proper bookkeeping has made it easier to prepare financial statements for my business was lowly rated implying that most entrepreneurs were barely able to make financial statements from their records. Additionally, it's been easy to tell the financial position of my business from my financial records was lowly rated implying that most business owners were unable to interpret their financial statements. Inferential analysis, conducted at 5% significance revealed that bookkeeping had a positive bivariate correlation with the dependent variable. These results indicate that increasing the bookkeeping skills among youth entrepreneurs has a positive significant influence on their credit uptake.

### 5.2.2 Influence of budgeting skills on credit uptake

The second objective of the study was to establish the influence of budgeting skills on credit uptake among youth enterprises in Machakos Town. Results for objective two revealed that the majority of the respondents had practical budgeting skills as tested. The findings indicate that the ability to tell whether the business has enough cash to meet its short-term cash requirements through budgeting was highly rated. Additionally, budgeting ensured that they have sufficient cash to sustain their daily business operations. However, budgeting skills had barely helped entrepreneurs to monitor, measure business performance and plan for their future. Similarly, the level of budgeting skills was lowly rated on making cash flow projections and ensuring budgetary control, so they had restrained impulse expenditures. This implied that most entrepreneurs purchased by impulse and could not operate under the set budgets. Budgeting had a positive bivariate correlation with credit uptake. Besides, budgeting skills had a statistically significant positive influence on credit uptake among youth enterprises both in simple and multiple regression analysis. These results indicate that increasing budgeting skills among youth entrepreneurs have a positive influence on their credit uptake.

### 5.2.3 Influence of debt management skills on credit uptake

Results on objective three revealed that most of the respondents had commendable credit management skills as tested. The findings indicate that the level of debt management skills helped them understand loan default consequences on themselves and business enterprises. Debt management skills ensured that they manage their money and administer resources competitively. Entrepreneurs were able to save enough during the grace period of the loan. Debt management had a positive bivariate correlation with the dependent variable. Besides, it had a statistically significant positive influence on credit uptake among youth enterprises in simple regression analysis. Multiple regression analysis on the whole model gave a negative insignificant influence on the dependent variable for debt management skills.

### 5.2.4 Influence of financial knowledge on credit uptake

According to the results of the fourth objective, the majority of respondents had superior financial knowledge. The results show that people who agreed to grasp the time value of money had a higher level of financial awareness. Additionally, respondents concurred that they diversify their investments across a variety of goods and services thanks to their knowledge of risk

diversification. They used breakeven analysis and financial understanding to evaluate their investment. The dependent variable and financial knowledge had a favorable bivariate connection. These findings suggest that improving young entrepreneurs' financial literacy has a beneficial impact on their use of credit.

### 5.2.5 Influence of financial literacy on credit uptake

Results on overall model revealed that most of the independent variables had a positive influence on the dependent variable (credit uptake by youth enterprises). For bookkeeping skills, the coefficient (parameter estimate) was a decimal positive meaning that for every unit increase in bookkeeping skills, there was a less than unit increase in credit uptake among youth enterprises is predicted, holding all other variables constant. This result was statically significantly since the corresponding calculated p value was less than alpha level. For budgeting skills, the coefficient (parameter estimate) was a decimal positive meaning that for every unit increase in budgeting skills, there was a less than unit increase in credit uptake among youth enterprises is predicted, holding all other variables constant. This result was statically significantly since the corresponding calculated p value was less than alpha level.

For financial knowledge, the coefficient (parameter estimate) was a decimal positive meaning that for every unit increase in financial knowledge, there was a less than unit increase in credit uptake among youth enterprises is predicted, holding all other variables constant. This result was statically significantly since the corresponding calculated p value was less than alpha level. For debt management skills, the coefficient (parameter estimate) was a decimal negative meaning that for every unit increase in financial knowledge, there was a less than unit decrease in credit uptake among youth enterprises is predicted, holding all other variables constant. This result was statically insignificantly since the corresponding calculated p value was more than alpha level. Consequently, the null hypothesis that financial literacy has no effect on credit uptake by youth enterprises was thus rejected.

The summary of the multiple regression model showed that the variations in the independent variables accounted for the majority of the variations in the dependent variable. This suggested that financial literacy variables accounted for the majority of the overall difference in credit uptake by young businesses.

The p-value that corresponded to the computed F-value was extremely tiny. To determine if the independent variables correctly predicted the dependent variable, the values were employed. When the p-value and alpha level were compared, the p-value was determined to be lower.

### 5.3 Conclusions

This study concludes that the uptake of credit by youth enterprises is highly dependent on bookkeeping skills. Most youth enterprises have proper bookkeeping had led to effective stock management besides helping them to meet debt obligations in time. Additionally, the study concludes that youth entrepreneurs have moderate skills on how to prepare financial statements for their businesses effectively. Similarly, youthful business owners have a challenge with determining the financial position of their businesses from the records.

The study concludes that budgeting skills have a strong influence on credit uptake among youth enterprises in Machakos Town. Additionally, a conclusion is made on the youth entrepreneurs' ability to ensure that they have sufficient cash to sustain their daily business operations. However, entrepreneurs need to sharpen their budgeting skills help them to monitor, and measure business performance and plan for their future. This would also empower them to make accurate cash flow projections and ensure budgetary control, so they may restrain impulse expenditures.

The study concludes that the uptake of credit by youth enterprises is sparsely influenced by the level of debt management skills. These skills are had fostered an understanding of loan default consequences on entrepreneurs and business enterprises besides ensuring they manage their money and administer resources competitively. The study concludes that entrepreneurs save enough during the grace period of the loan. Debt management skills had surprised a statistically significant positive influence on credit uptake among youth enterprises in simple regression analysis and a gave a negative insignificant influence on multiple regression analysis. The study therefore concluded using the simple regression result as it was statistically significant opting to despise rather the insignificant multiple regression result.

Another conclusion made by the study is that financial knowledge is necessary as it significantly influenced credit uptake by youth enterprises in Machakos Town. Moreover, the study concludes that entrepreneurs can utilize risk diversification knowledge to spread out their investments to different products and services.

The overall conclusion was that the independent variables reliably predicted the dependent variable. The variables financial knowledge, bookkeeping skills, budgeting skills, debt management skills (the independent variables) reliably predicted credit uptake by youth enterprises (the dependent variable).

### 5.4 Recommendations

From the study findings, all four financial literacy measures were found to positively influence credit uptake by the sampled youth enterprises. Hence, the study recommends the following:

i. The government to initiate training and mentorship programs for youth entrepreneurs in financial literacy to enable them to have the skills to finance and grow their businesses. Most of the sampled enterprises were found to be start-ups below 5 years since inception. With financial literacy, youth entrepreneurs will be empowered to take up credit and grow their enterprises.

ii. The education curriculum in Kenya should incorporate programs on financial literacy to enable the learners who are youth to equip themselves with the relevant skills that prepare them for business start-ups and growth in case they opt to be self-employed.

iii. Financial lenders need to conduct frequent financial training for their clients to explain the process of preparing financial statements. The pieces of training should also assist the entrepreneurs to correctly use these statements in telling their financial position. In such a way they will improve the uptake of credit facilities.

iv. The study recommends that lenders consider funding youth enterprises to lean more toward those above 26 years. Most of the youth who own businesses in Machakos town is between 27-35 years. This age group is prime because they have the requisite experience to handle credit.

### 5.5 Suggestions for future research

The researcher suggests more studies to be conducted in rural areas to establish the determinants of credit uptake by youth. Future researchers to use different, research designs, sampling methods, and different data collection instruments. The study further suggests investigation of financial literacy among the ages above 35 years and whether that influences credit uptake.

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## APPENDICES

### Appendix A: Research Questionnaire

### Section A: Background Information

**(In the following section, indicate your response by ticking √ in the box provided after your preferred answer)**

1. Gender

Male ☐ Female ☐

2. How long have you been into business.

Below 5 years ☐ 5 – 10 Years ☐ 11 – 15 Years ☐

Above 15 Years ☐

3. Kindly select your age bracket.

18-21 years ☐ 22 – 26 Years ☐ 27 – 30 Years ☐

31-35 Years ☐

4. Kindly indicate your highest level of education.

University Degree ☐ Higher Diploma ☐ Ordinary Diploma/Craft ☐

KCSE Certificate ☐ KCPE Certificate ☐ Others ☐

5. How is your business enterprise owned?

Sole Proprietor ☐ Partnership ☐ Company ☐

6. Kindly indicate your business credit source. (Tick whichever applies to you)

Banks ☐ Cooperatives ☐ Government Institutions/Agency ☐

Employer ☐ Microfinance ☐ Friends and relatives ☐

None of the above ☐

7. How much loan were you granted in the last three years (Tick as apprropriate)

KSH 0-5,000 ☐ KSH 5,001-20,000 ☐ KSH 20,001-50,000 ☐

KSH 50,001-150,000 ☐ KSH 150,001-500,000 ☐ KSH 500,001-1,000,000 ☐

Above KSH 1,000,000 ☐

**Section B: In the following section, please indicate your level of agreement with the statements therein using the following scale. Place a tick √ in your preferred box.**

1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (U), 4-Agree (A) and 5-Strongly Agree (SA).

**8. Bookkeeping skills**

| S/n | | SD | D | U | A | SA |
|---|---|---|---|---|---|---|
| 8a | I have a good rating of my level of knowledge on bookkeeping | | | | | |
| 8b | I have utilized accounting records to compare the results of my business over several periods | | | | | |
| 8c | Proper bookkeeping knowledge has made it easier to prepare financial statements for my business | | | | | |
| 8d | I have managed to file the tax return through proper bookkeeping | | | | | |
| 8e | It's been easy to tell the financial position of my business from my financial records | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 8f | It's been easy to effectively carry out stock management of the business from my financial records | | | | | |
| 8g | Proper record-keeping has facilitated efficient, proper timely decision-making and enhanced the survival of my business | | | | | |
| 8h | Bookkeeping has helped me to calculate the profits and losses of my business | | | | | |

**9. Budgeting skills**

**Please indicate your level of agreement with the statements therein using the following scale. Place a tick √ in your preferred box.**

1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (U), 4-Agree (A) and 5-Strongly Agree (SA).

| **S/n** | | **SD** | **D** | **U** | **A** | **SA** |
|---|---|---|---|---|---|---|
| 9a | I use budgets to measure and monitor business performance and for future planning | | | | | |
| 9b | I use budgeting skills to clarify my financial objectives | | | | | |
| 9c | The smooth running of my business has been ensured by my budgeting skills | | | | | |
| 9d | I have effectively implemented the set budget | | | | | |
| 9e | Budgeting has ensured that I have sufficient cash to sustain my business' daily operations | | | | | |
| 9f | Budgeting has assisted me in making cash flow projections and ensuring budgetary control, so I'm restrained from spending anyhow. | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 9g | I have been able tell whether the business has enough cash to meet its short-term cash requirements through budgeting. | | | | | |

10. **Debt management skills**

**Please indicate your level of agreement with the statements therein using the following scale. Place a tick √ in your preferred box.**

1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (U), 4-Agree (A) and 5-Strongly Agree (SA).

| **S/n** | | **SD** | **D** | **U** | **A** | **SA** |
|---|---|---|---|---|---|---|
| 10a | I have good skills in debt management which helps me in ensuring that my customers do timely payment of their dues. | | | | | |
| 10b | I have debt management skills which help me to save enough during the grace period of the loan | | | | | |
| 10c | Am able be to calculate my loan interest monthly | | | | | |
| 10d | Through debt management knowledge I understand loan default consequence on myself and business enterprise | | | | | |
| 10e | Effective debt management serves to prevent late payment of the loan | | | | | |
| 10f | I can manage my money and administer my resources competitively | | | | | |

**11. Financial Knowledge**

**Please indicate your level of agreement with the statements therein using the following scale. Place a tick √ in your preferred box.**

1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (U), 4-Agree (A) and 5-Strongly Agree (SA).

| S/n | | SD | D | U | A | SA |
|---|---|---|---|---|---|---|
| 11a | I understand time value of money | | | | | |
| 11b | I make investment decisions based on Payback Period of each alternative | | | | | |
| 11c | I understand and use simple and compound interest calculations in decision making. | | | | | |
| 11d | I use depreciation/appreciation knowledge to make valuation for collateral. | | | | | |
| 11e | I understand risk and return as appertains investment and use it to compare different options | | | | | |
| 11f | I understand the definition of inflation | | | | | |
| 11g | Through risk diversification I spread out my investment to different products and services | | | | | |
| 11h | I understand break even analysis | | | | | |

**12. Credit Update**

**Please indicate your level of agreement with the statements therein using the following scale. Place a tick √ in your preferred box.**

1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (U), 4-Agree (A) and 5-Strongly Agree (SA).

| S/n | | SD | D | U | A | SA |
|---|---|---|---|---|---|---|
| 12a | Low interest rates on loans have led to increase on credit uptake | | | | | |
| 12b | I have several options for borrowing money whenever I need | | | | | |
| 12c | I have formally registered my enterprise which makes it easy for me to access the funds | | | | | |
| 12.d | My credit history is assessed before am awarded credit | | | | | |
| 12e | Previous loan(s) received has increased my economic status. | | | | | |
| 12f | I have always met the requirements needed to access a loan | | | | | |
| 12g | Proper bookkeeping and budgeting documentation has made it easy for me to be given credit by financial institutions | | | | | |

**The End**

**Thank you for your participation.**

**Appendix B: Location map for Machakos Town**


Source Google Maps, 2022

**Appendix C: Population Size**

REPUBLIC OF KENYA

THE COUNTY GOVERNMENT OF MACHAKOS
DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

Telephone: +254-44-20246
: +254-20-2004086
Email:info@machakosgovernment.com

Machakos Highway
P.O. Box 1996-90100
Machakos Kenya
26th October, 2021.

To: Mark Mukhutsi Muhati

Njoro Campus, PF Number 2019029677

Njoro.

Dear Sir,

RE: NUMBER OF BUSINESSES OWNED BY YOUTH IN MACHAKOS CBD.

The subject matter refers.

Below are the businesses owned by youth in Machakos CBD.

| | No. of Businesses |
|---|---|
| 1. Small trader, shop or retail service | 1,609 |
| 2. Mpesa Services | 34 |
| 3. Wines & Spirits retail | 29 |
| 4. Kiosks light or Temporary establishments | 32 |
| Total | 1,704 |

Regards,

Mike Senga
Director Revenue

COUNTY GOVERNMENT OF MACHAKOS
P.O. BOX 1996-90100 MACHAKOS

GOVERNMENT OF MACHAKOS COUNTY
THE COUNTY TREASURY
26 OCT 2021
P. O. Box 1996 - 90100
MACHAKOS

**Appendix D: Graduate School Approval**

EGERTON
Tel: Pilot: 254-51-2217620
254-51-2217877
254-51-2217631
Dir.line/Fax: 254-51-2217847
Cell Phone

UNIVERSITY
P.O. Box 536 - 20115
Egerton, Njoro, Kenya
Email: bpgs@egerton.ac.ke
www.egerton.ac.ke

OFFICE OF THE DIRECTOR GRADUATE SCHOOL

**Ref:** CM11/00437/08 **Date:** 12th October, 2022

The Director General
National Commission for Science Technology and Innovation,
P. O. Box 30623-00100
**NAIROBI.**

Dear Sir,

**RE: REQUEST FOR RESEARCH PERMIT – MR. MARK MUKHUTSI MUHATI REG. NO. CM11/00437/08**

This is to introduce and confirm to you that the above named student is in the Department of Accounting, Finance and Management Science, Faculty of Commerce, Egerton University.

He is a bona-fide registered MBA student in this University. His research topic is **"Influence of Financial Literacy on Credit Uptake by Youth Enterprises in Machakos Town Kenya."**

He is at the stage of collecting field data. Please issue him with a research permit to enable him undertake the studies.

Your kind assistance to him will be highly appreciated.

Yours faithfully,

DIRECTOR, BOARD OF POST GRADUATE STUDIES
12 OCT 2022
EGERTON UNIVERSITY P.O. Box 536-20115 EGERTON

**Prof. George M. Ogeedi, PhD**
**DIRECTOR, BOARD OF POST GRADUATE STUDIES**

GMO/en

*"Transforming Lives Through Quality Education"*

## Appendix E: NACOSTI Research Authorization letter

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 256141

Date of Issue: 28/October/2022

**RESEARCH LICENSE**

**This is to Certify that Mr.. Mark Mukhutsi Muhati of Egerton University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Machakos on the topic: INFLUENCE OF FINANCIAL LITERACY ON CREDIT UPTAKE BY YOUTH ENTERPRISES IN MACHAKOS TOWN KENYA for the period ending : 28/October/2023.**

License No: NACOSTI/P/22/21311

256141

Applicant Identification Number

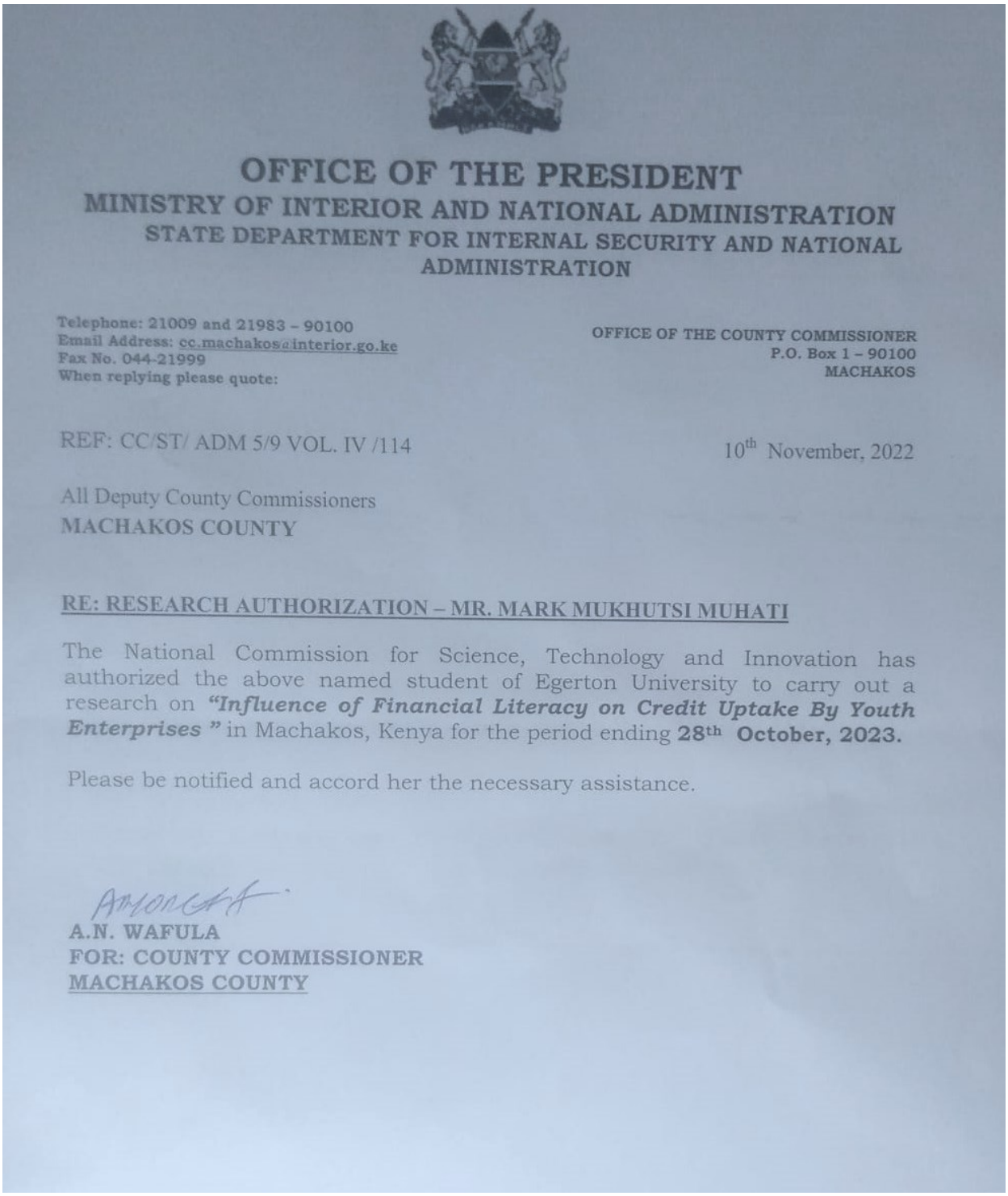
Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

**See overleaf for conditions**

**Appendix F: County Commissioner Research Authorization**



OFFICE OF THE PRESIDENT
MINISTRY OF INTERIOR AND NATIONAL ADMINISTRATION
STATE DEPARTMENT FOR INTERNAL SECURITY AND NATIONAL ADMINISTRATION

Telephone: 21009 and 21983 – 90100
Email Address: cc.machakos@interior.go.ke
Fax No. 044-21999
When replying please quote:

OFFICE OF THE COUNTY COMMISSIONER
P.O. Box 1 – 90100
MACHAKOS

REF: CC/ST/ ADM 5/9 VOL. IV /114

10th November, 2022

All Deputy County Commissioners
MACHAKOS COUNTY

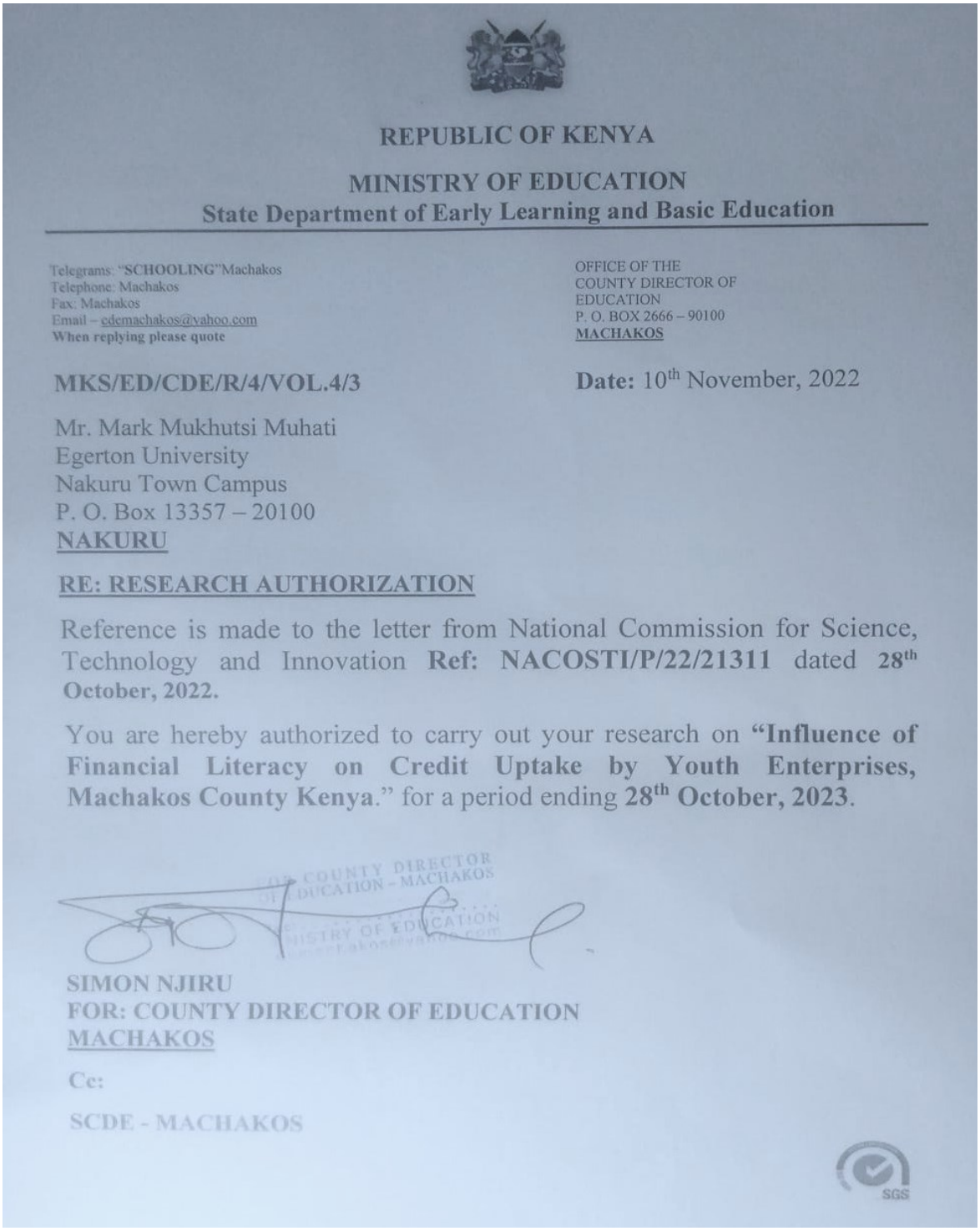
RE: RESEARCH AUTHORIZATION – MR. MARK MUKHUTSI MUHATI

The National Commission for Science, Technology and Innovation has authorized the above named student of Egerton University to carry out a research on ***"Influence of Financial Literacy on Credit Uptake By Youth Enterprises "*** in Machakos, Kenya for the period ending **28th October, 2023.**

Please be notified and accord her the necessary assistance.

A.N. WAFULA
FOR: COUNTY COMMISSIONER
MACHAKOS COUNTY

**Appendix G: County Director of Education Research Authorization**



REPUBLIC OF KENYA

MINISTRY OF EDUCATION
State Department of Early Learning and Basic Education

Telegrams: "SCHOOLING"Machakos
Telephone: Machakos
Fax: Machakos
Email – edcmachakos@yahoo.com
When replying please quote

OFFICE OF THE
COUNTY DIRECTOR OF
EDUCATION
P. O. BOX 2666 – 90100
MACHAKOS

MKS/ED/CDE/R/4/VOL.4/3

Date: 10th November, 2022

Mr. Mark Mukhutsi Muhati
Egerton University
Nakuru Town Campus
P. O. Box 13357 – 20100
NAKURU

RE: RESEARCH AUTHORIZATION

Reference is made to the letter from National Commission for Science, Technology and Innovation **Ref: NACOSTI/P/22/21311** dated **28th October, 2022.**

You are hereby authorized to carry out your research on **"Influence of Financial Literacy on Credit Uptake by Youth Enterprises, Machakos County Kenya**." for a period ending **28th October, 2023**.

COUNTY DIRECTOR OF EDUCATION – MACHAKOS
MINISTRY OF EDUCATION

SIMON NJIRU
FOR: COUNTY DIRECTOR OF EDUCATION
MACHAKOS

Cc:

SCDE - MACHAKOS

SGS

## Appendix H: Publication abstract page

**International Journal of Economics, Business and Management Research**

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# Influence of Financial Literacy on Credit Uptake by Youth Enterprises in Machakos Town, Kenya

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**Abstract**

Credit to youth undertaking small-scale businesses enables them to engage in self-employment projects with the main goal of generating income. However, credit uptake by youth is believed to be depended on and enhanced by the possession of business and entrepreneurial skills which are critical components of financial literacy. The biggest challenge to most youth is financial illiteracy which makes them lack the ability to integrate what they know with what they can do to earn a living. This study sought to examine how financial literacy influences credit uptake by youth enterprises in Machakos Town, Kenya. Specifically, the study focused on establishing the influence of bookkeeping skills, budgeting skills, debt management skills, and financial knowledge on credit uptake by youth entrepreneurs in Machakos Town, Kenya. The study employed a descriptive research design. From a target population of 1704 youth enterprises, a sample of 314 were selected randomly to participate as respondents. A structured questionnaire was used to collect data. Simple and Multiple regressions were used to test hypotheses. The regression results revealed an R2 of 0.754. This meant that holding other variables constant, financial literacy variables account for 75.4% of the variability in credit uptake by the sampled youth entrepreneurs. Generally, all the measures of financial literacy had a positive significant influence on the dependent variable. Specifically, the coefficients of bookkeeping skills, budgeting skills, debt management skills, and financial knowledge all had a p = 0.000. The findings of this study provide a guide on the policy that targets financial literacy as a critical component in enhancing self-employment by youth in Kenya.

**Keywords:** Credit Uptake, Youth Enterprises, Budgeting Skills, Bookkeeping Skills, Financial Knowledge, Debt Management Skills.

## 1. Background

World Bank (2018) report indicated that financial institutions perceive youth as riskier clients. The youth tend to lack business experience, credit histories, financial literacy, savings, and other assets to offer as collateral. They may also lack access to business networks. As a result, youth are more likely to depend on family savings, informal lenders, or other correspondingly

## Appendix I: Key data analysis outputs

Table 8 Results of multiple regression analysis of financial literacy and credit uptake

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.868[1] | 0.754 | 0.728 | 0.64129 |

1. Predictors: (constant), Financial Knowledge, Bookkeeping skills, Debt management skills, Budgeting Skills
2. Dependent variable: Credit Uptake Among Youth Enterprises

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Squares | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 124.682 | 4 | 31.921 | 223.220 | 0.000[b] |
| | Residual | 40.68 | 284 | 0.143 | | |
| | Total | 165.362 | 288 | | | |

1. Predictors: (constant), Financial Knowledge, Bookkeeping skills, Debt management skills, Budgeting Skills
2. Dependent variable: Credit Uptake Among Youth Enterprises

**Coefficients[a]**

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | T | Sig. |
| (Constant) | 1.233 | 0.314 | | 3.933 | 0.000 |
| Bookkeeping skills | 0.530 | 0.095 | 0.447 | 3.470 | 0.001 |
| Budgeting skills | 0.449 | 0.127 | 0.109 | 2.127 | 0.012 |
| Debt management skills | -0.158 | 0.095 | -0.099 | 1.250 | 0.212 |
| Financial Knowledge | 0.823 | 0.085 | 0.397 | 5.553 | 0.000 |

1. Predictors: (constant), Financial Knowledge, Bookkeeping skills, Debt management skills, Budgeting Skills
2. Dependent variable: Credit Uptake Among Youth Enterprises