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Determinants Influencing Uptake of Financial Credit by Kenyan Youth: A Case Study of Bomet County

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Abstract: **The study seek to analyzing factors influencing uptake of financial credit by Kenya youths of Bomet County. Specific objectives are; to establish the influence of credit terms on the uptake of financial credit by youth of Bomet County, to determine the extent to which awareness of credit facilities influences uptake of financial credit by Bomet youth and to find out the influence of entrepreneurial skills in financial credit uptake by youths of Bomet County. The study targeted a total of 350 youth entrepreneurs who are currently licensed or registered to operate different business ventures in Bomet County to all the youth in Bomet County aged between 18 and 35 years numbering to 350. Using stratified sampling technique, the sample size that was used is 254 and was drawn from all the five sub counties in Bomet County namely Bomet Central, Bomet East, Chepalungu, Konoin and Sotik. Primary data was collected using structured questionnaires based on the research questions administered by the researcher. The study adopted descriptive research design. Data was analyzed by use of quantitative methods. Descriptive statistics was used to analyze data including frequencies and percentages and results were displayed in tables. Inferential statistics, correlation and regression analysis was also be used.The regression results of the study revealed that, holding other variables constant, the credit terms, the business and entrepreneurial skills and the awareness of the youths account for 82.3% of the variability in the amount of credits taken by the youths. Also, the regression model developed illustrates clearly that, the credit terms attached to the loans has an inverse relationship with the youth's credit uptake. The findings of this study will also create awareness to policy makers on the factors that need to be looked into to ensure youth are more effective in contributing to Gross domestic product of the country. Researchers will find the study useful as it will give highlights for further research and also contribute to new knowledge. This study will facilitate individual researchers to identify gaps in the current research work and carry out research in those areas.**

Keywords: **Determinants, Financial Credit, Youth.**

1. BACKGROUND OF THE STUDY

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

Supply and demand for credit from youth changes with the recovery and growth of an economy. When the economy is growing rapidly, Youth will find many projects that would be more profitable than when the economy is growing slowly and shrinking. Changes in specific business sectors increase or decrease the supply and demand for credit from youth.

Most economic and financial analysts view the market for business loans from youth in a traditional supply and demand framework that takes into consideration the alternate ways to finance a business and various ways for controlling capital to invest by financial institutions (Weiss, 2008).

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

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

Youth in Bomet County:

The youth in the county face many challenges like weak job market, poverty, and high unemployment rates, are economically marginalized and financially excluded. These youth unlike their counterparts in established other county youths often face limited access to educational programs suited to their situation and needs and some of them drop out of school early so that they can tend to the family or be in the farms or get married. The young women even face greater adversity than young men as some are often denied the same opportunities in education, training and involvement in the county development activities.

While some of these youth venture into entrepreneurship, they additionally face challenges in accessing credit for establishing and/or growing their enterprises. The main reason being that many rural youth lack the knowledge on how to draft business plans or keep financial records and are thus denied credit by financial institutions. Credit access is a basic prerequisite for establishing and growing income generating enterprises and while many institutions have made inroads in provision of financial services to the youth in the county, many of these youth are still not accessing these facilities. According to Wanjohi (2008), financial institutions have encountered many difficulties in their quest to advance credit facilities to youths because of limited collaterals; inadequately compiled financial records and lack of technical and management skills of the youths.

Research Problem:

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

2. LITERATURE REVIEW

Loanable Funds Theory:

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

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

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

Imperfect Information:

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

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

Asymmetrical Information:

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

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

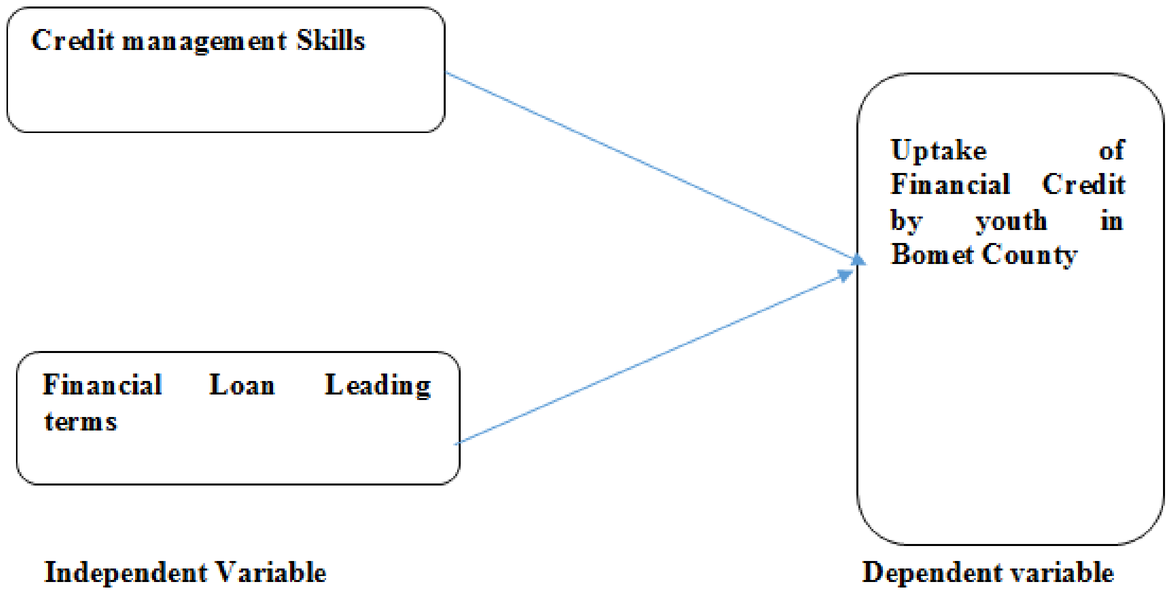
Moral hazard phenomenon is part of the problem of imperfect information concerning borrowers' actions. It is misapplication of borrowed funds that shifts the risk to the lender, especially if the project does not succeed. Borrowers may be tempted to divert borrowed funds to other projects with high risks,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

Classical Theory of Interest Rates:

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

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

Conceptual Framework:



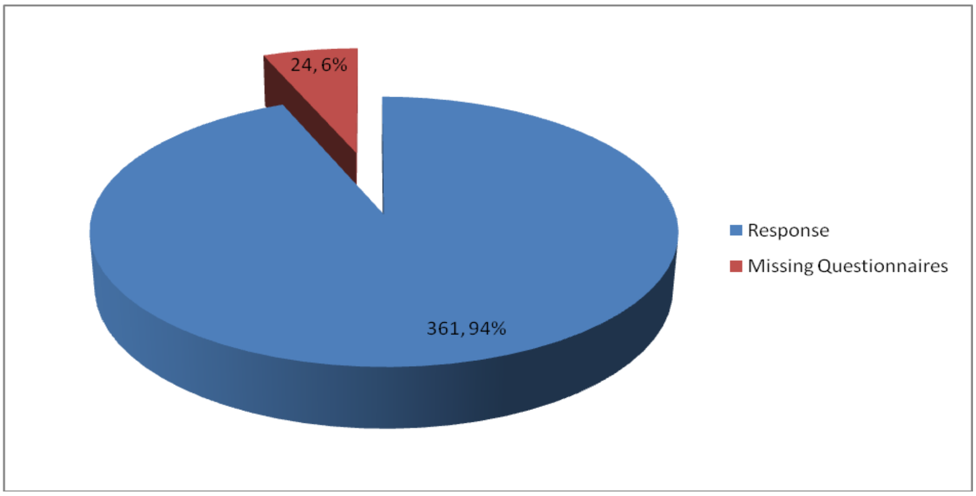
Research Gap:

The Youth in Bomet is a like a youth in the rural and just like any other youth in kenya face many challenges like lack of skills to attain a decent job , lack of white color job current rate of unemployment is very high, poverty, are economically marginalized and financially excluded. The rural youth unlike their urban counterparts often face limited access to educational programs suited to their situation and needs and some of them drop out of school early so that they can tend to the family or be in the farms or get married. The rural young women even face greater adversity than young men as some are often denied the same opportunities in education, training and involvement in rural development activities.

While some of these youth venture into entrepreneurship, they additionally face challenges in accessing credit for establishing and/or growing their enterprises. The main reason being that many rural youth lack the knowledge on how to draft business plans or keep financial records and are thus denied credit by financial institutions. Credit access is a basic prerequisite for establishing and growing income generating enterprises and while many institutions have made inroads in provision of financial services to the rural youth, many of these youth are still not accessing these facilities. According to Wanjohi (2008), financial institutions have encountered many difficulties in their quest to advance credit facilities to youths because of limited collaterals; inadequately compiled financial records and lack of technical and management skills of the youths. Despite the difference this proposal wants to address what influences financial credit uptake on the youth of Bomet County.

3. DATA ANALYSIS, RESULTS AND DISCUSSIONS

Response Rate:



Response Rate:

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

Background Information of the Respondents:

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

Gender of the Respondents:

	Frequency	Percent
Male	243	67.3
Female	118	32.7
Total	361	100.0

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

Age of the respondents:

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

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

Education Level:

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

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

Primary Sources of Credit:

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

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

Loan Granted Over the Last Five Years:

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

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

Lending Terms of Credits Offered by Financial Institutions:

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

3.0-3.9 for neutral, 4.0-4.9 for disagree and mean value above 4.9 for strongly disagree.

Credit Terms:

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

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

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

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

4. DISCUSSION OF THE FINDINGS

The findings illustrated that the dependent variable is strongly associated with the independent variables.Here youth are considered riskier by most financial institutions hence most lenders allocate a very small proportion of loans to youth. This is because most youth lack adequate collateral for credit facilities.

This therefore confirms that there is a statistically significant relationship between the credit uptake by the youths and the credit terms, business and entrepreneurial skills and awareness of the credits offered by the lending institutions. Specifically, the uptake of credit by youths has a correlation of -0.760 with the terms of credit issuance.

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

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary of Finding:

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

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

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

Conclusions:

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

On the effect of credit terms attached to the loans offered by the lending institutions, the study findings illustrated that these terms greatly influence the level to which the youths obtain the credits for their investments. This is due to the fact that the youths, being not familiar with loan investments have the fear of defaults in repayment and also fear of risk taking thus they tend to think that although they qualify for the loans, it would be more strain for them to pay back the loans

Recommendations:

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

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

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