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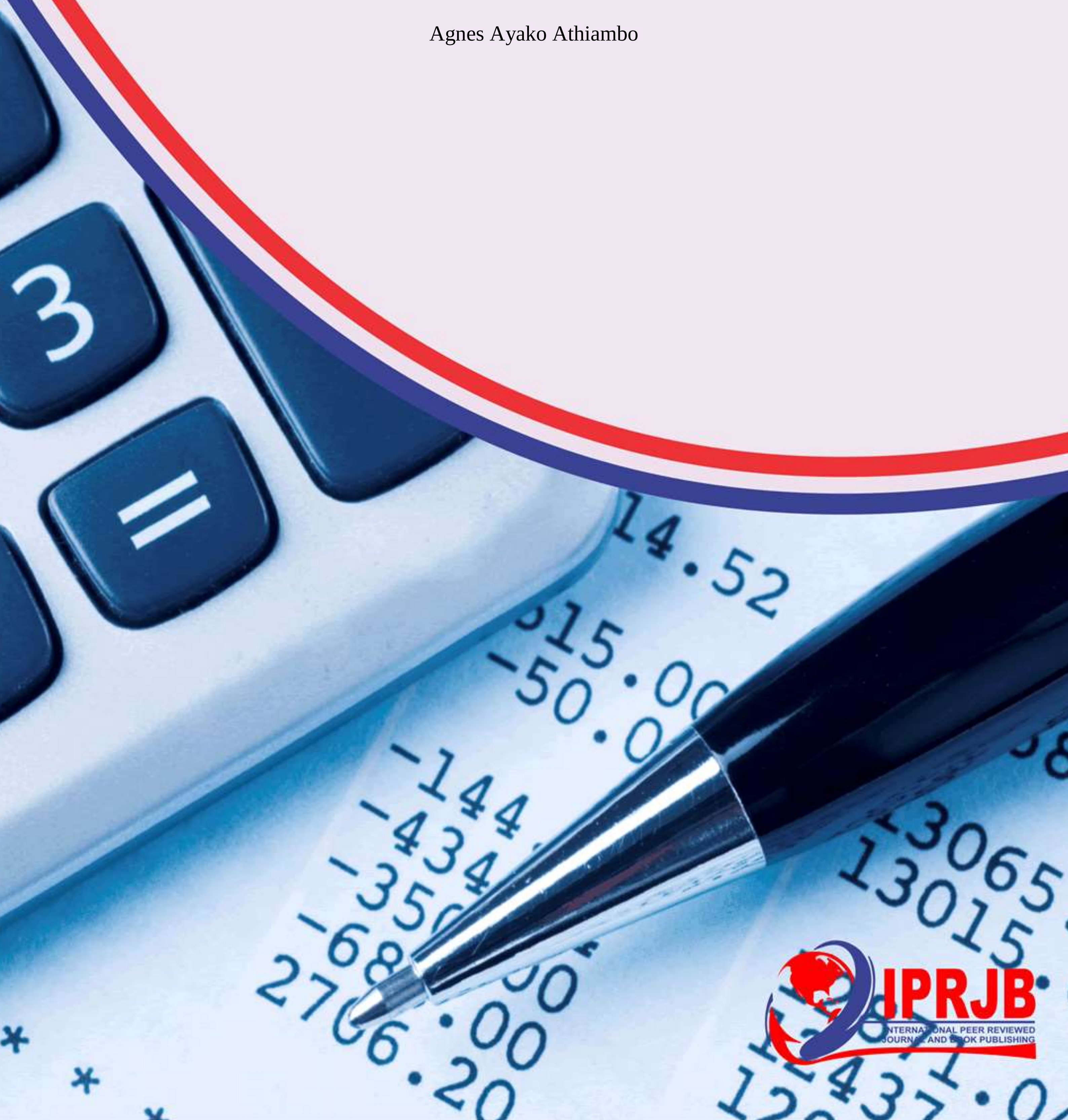

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Abstract

Purpose: This study explores the factors limiting credit uptake among Kenyan youth, a demographic comprising about 75% of the country's population yet facing high unemployment and barriers in accessing credit to start businesses.

Methodology: The study employed a qualitative design using semi-structured interviews with 20 Kenyan youth entrepreneurs (ages 18-35) who sought credit, and four focus groups with 6-8 diverse participants. Purposive sampling recruited participants who pursued credit within the past two years. Thematic analysis identified themes from the inductively coded interview and focus group data. Ethical protocols were followed. Validity and reliability were enhanced through triangulation, member checking, maintaining an audit trail, and strategies to minimize bias.

Findings: The inadequate funding by easily accessible credit services such as the Hustler Fund is one of the notable impediments hindering the youth from starting small-scale business enterprises. Other barriers include stringent borrower age, business operational lifespan, and employability and minimum wage limit eligibility criteria.

Unique Contribution to Theory, Practice and Policy: The study recommends government partnerships with private lenders, relaxed eligibility criteria for youth, credit guarantees or collateral support, expansion of low-risk credit products, and initiatives to build youth's banking histories. These recommendations integrate theoretical perspectives on financial literacy, social influences, and individual or systemic factors shaping credit behaviors. The study contributes to practice by proposing context-specific interventions tailored to Kenyan youth. Policy-wise, it aims to empower this valuable economic resource by improving credit access and harnessing their entrepreneurial potential.

Keywords: *Credit Uptake, Loans, Youth, Banks, Hustler Fund, Businesses, Kenya*

INTRODUCTION

The limited uptake of credit among youth in Kenya can be attributed to a myriad of interconnected factors that encompass both individual and systemic challenges. At the heart of this issue lies the intricate interplay between financial literacy, access to credit facilities, socio-economic circumstances, and cultural perceptions surrounding debt. The youth demographic often faces barriers in accessing credit due to inadequate financial education, which leaves them ill-equipped to navigate the complexities of borrowing and managing debt responsibly. Moreover, the stringent eligibility criteria set forth by financial institutions, coupled with the lack of collateral or credit history among young borrowers, further exacerbate the challenge of credit accessibility (Odondi, 2021). Socio-economic factors such as unemployment, underemployment, and low-income levels limit the capacity of youth to qualify for credit and service loan repayments effectively. Additionally, prevailing cultural attitudes towards debt, where indebtedness may be stigmatized or perceived as a sign of financial irresponsibility, influence youths' reluctance to seek credit opportunities. These factors collectively create a complex ecosystem that constrains credit uptake among Kenyan youth, highlighting the need for holistic interventions that address both individual financial literacy and structural barriers within the financial system. Therefore, fostering a conducive environment that promotes financial education, expands access to credit, and addresses socio-economic disparities is imperative in empowering Kenyan youth to harness credit as a tool for socio-economic advancement.

Inadequate Funding by Easily Accessible Credit Services

Funding insufficiency by easily accessible credit services is arguably one of the most notable challenges derailing Kenya’s youth from launching microbusiness enterprises. The Youth Enterprise Development Fund and the Hustler Fund are currently the most accessible sources of loans for the youth in Kenya. However, the loans granted by these funds are small and are often reliant on the business’s operational levels and other multiple requirements. Available evidence indicates that the Youth Enterprise Development Fund does not enable young entrepreneurs to set up businesses. In a study by Joyce (2015), 41.7% of the respondents indicated that the fund had not helped them expand their businesses to a reasonable level. This finding could be attributed to the fact that most youth groups received Kshs. 50,000, which they perceived as insufficient for their business enterprises and could not affect growth substantially.

Similarly, the newly introduced Hustler Fund has yet to achieve the intended purpose of supporting the youth in achieving financial sustainability. President William Ruto’s government launched this fund in late 2022 to support youth, small-scale businessmen, and women. Nonetheless, a study by the Central Bank of Kenya shows that most Hustler Fund borrowers use the credit (which presently ranges from Ksh. 500 to 50,000) for personal and household purposes (Kombo, 2023). Moreover, 77.7%, 14.3%, and 7.9% used the loan facility for daily expenses, medical emergencies, and personal investments, respectively. Interestingly, the survey revealed that the majority of Hustler Fund borrowers were young people aged 36 years and below. Overall, the survey demonstrates that only a small percentage of youths use the Hustler Fund to start or expand business enterprises, partly due to its perceived insufficiency.

Stringent Eligibility Age to Access Loans from Banks and Microfinance Institutions

Age limit is a crucial consideration in determining access to credit facilities within the Kenyan context. An analysis of Kenyan banks and microfinance institutions, which comprise the chief sources of funds for business development, depicts eligibility age as a fundamental factor hampering a section of the youth from accessing credit. While some banks require credit borrowers to be above 18 years, others cap the minimum eligibility age at 21-25. For instance, the acceptable age for seeking a personal loan from Standard Chartered Bank of Kenya is 22-55 years (Standard Chartered Bank, 2022). This requirement implies that youths aged below 22 years cannot access credit from the institution even if they meet other criteria.

Strict Business Lifespan Eligibility Criteria for Bank Loans

The Kenyan youth also grapple with accessing loans from financial services due to harsh business operational lifespan requirements. While a sizable population of youths do not run businesses, most banking institutions stipulate stringent firm or venture operational lifespan to qualify for loans. Notably, many banking institutions lend to a business that has run for at least six months to three years (Muthoni, 2021). This prerequisite implies that young people, especially those fresh from school, will likely struggle to qualify for bank loans due to their low probability of having run business enterprises for more than six months. For this reason, the affected youths are left with no option but to go for easily accessible credit facilities such as borrowing from friends and shylocks. Often, such credit avenues are not only insufficient to start a meaningful business, but also come with an elevated risk. This financing gap linked to the business lifespan requirement is majorly experienced in the initial phase of the business model. The lifespan stipulation is anchored on the assumption that a business that has operated for more than six months is relatively stable and sustainable (Muthoni, 2021). In this sense, the condition is put in place to mitigate defaulting tendencies and unreliable behaviour among youths engaged in entrepreneurial undertakings.

Employability and Minimum Wage Requirement by Banks

Rigorous borrowing terms and conditions by banks requiring individuals to be salaried employees receiving a specific minimum net wage also contribute to the low credit uptake among Kenya's youths. All mainstream banking institutions require individuals without business enterprises to demonstrate that they are employed and receive a minimum monthly net wage of between Ksh. 15,000 and Ksh. 25,000. For example, Bank of Africa Kenya Limited defines eligible individuals for personal loans as salaried persons who have been in continuous employment for more than six months. Besides, the bank caps the minimum qualifying salary at Ksh. 25,000 (Bank of Africa Kenya Limited, 2023). In essence, these requirements effectively lock many youths from accessing bank loans even before beginning the borrowing process. Since the existing government funds are inadequate for the initial start-up capital, most unemployed youths and those with low minimum wages lack access to meaningful credit facilities to start and run small-scale businesses to augment their chances of personal success and contribute to nation building.

LITERATURE REVIEW

Theoretical Review

Theory of Planned Behavior (TPB)

Developed by Icek Ajzen, TPB proposes that behavioral intentions are influenced by three factors: attitudes toward the behavior, subjective norms, and perceived behavioral control. In the context of credit uptake among Kenyan youth, this theory suggests that their intentions to utilize credit are shaped by their attitudes towards borrowing, perceptions of social norms regarding borrowing practices among their peers and community, and their perceived ability to manage credit responsibly. By examining these factors, policymakers and financial institutions can design interventions to positively influence youth's intentions to uptake credit (Ajzen, 1991).

Financial Socialization Theory

This theory emphasizes the role of socialization processes, such as family, peer groups, and educational institutions, in shaping individuals' financial attitudes, knowledge, and behaviors. Proposed by John E. Grable and Sonya L. Britt, Financial Socialization Theory suggests that experiences and interactions within these social contexts significantly influence financial decision-making throughout one's life course. In the context of credit uptake among Kenyan youth, this theory suggests that their financial behaviors, including their attitudes towards credit, are influenced by the financial values and practices learned from their families, peers, and educational institutions (Grable & Britt, 2012). Understanding the role of financial socialization can inform interventions aimed at improving financial literacy and promoting responsible credit use among Kenyan youth.

Empirical Review

Existing literature has explored various factors influencing credit access and uptake among youth populations in developing countries. Several studies have highlighted the significance of financial literacy as a key determinant of credit participation. For instance, Calvert, Campbell, and Sodiya (2009) found that low levels of financial literacy among South African youth hindered their ability to make informed decisions regarding credit products and services. Similarly, Anarfo, Abor, Agyeman, and Anamua-Mensah (2019) reported that inadequate financial knowledge was a significant barrier to credit access among Ghanaian youth entrepreneurs.

Additionally, researchers have explored the role of socio-economic factors in shaping credit uptake among youth. Muthoni (2019) identified unemployment, low income levels, and lack of collateral as major obstacles preventing Kenyan youth from accessing credit facilities. These findings align with Okello, Ntayi, Munene, and Malinga (2017), who observed that poverty and limited asset ownership among Ugandan youth hindered their ability to meet lending institutions' eligibility criteria.

Furthermore, studies have examined the influence of institutional and regulatory frameworks on youth credit access. Fatoki (2014) highlighted the role of stringent eligibility criteria imposed by financial institutions in limiting credit availability for South African youth entrepreneurs. Similarly, Nanziri (2016) found that regulatory barriers, such as complex loan application processes and high collateral requirements, hindered credit access for Ugandan youth.

While these studies have contributed to our understanding of the challenges faced by youth in accessing credit, there are several gaps that remain unexplored. First, limited research has specifically examined the impact of cultural and societal perceptions surrounding debt on credit uptake among Kenyan youth. Understanding these cultural influences could provide valuable insights for designing targeted interventions that address potential stigmas or misconceptions.

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Moreover, existing research has primarily focused on urban or semi-urban settings, potentially overlooking the unique challenges faced by youth in rural areas. Exploring the rural-urban divide in credit access could shed light on location-specific barriers and inform tailored strategies for different geographic contexts. While previous studies have identified various obstacles to credit uptake, limited research has proposed concrete, context-specific policy recommendations or interventions tailored to the Kenyan youth demographic. Addressing this gap could provide valuable insights for policymakers and stakeholders aiming to empower Kenyan youth through improved access to credit facilities.

METHODOLOGY

The study employed a qualitative research design to explore the factors limiting credit uptake among Kenyan youth, as this approach allowed for an in-depth examination of the complex individual and systemic factors influencing credit access within this demographic, and facilitated the exploration of subjective experiences, perceptions, and attitudes surrounding credit and borrowing practices. Data was collected through semi-structured interviews with 20 Kenyan youth entrepreneurs aged 18-35 who had attempted to access credit facilities, and four focus group discussions with 6-8 participants from diverse backgrounds, to gather insights into their experiences, challenges, and perspectives regarding credit access. A purposive sampling technique was used to recruit participants who had actively sought credit from banks, microfinance institutions, or government funds within the past two years, through youth organizations, entrepreneurship networks, and community centers. The sample size was determined by data saturation. The interview and focus group data were analyzed using thematic analysis to identify, analyze, and report patterns (themes) within the data, with themes derived inductively to explore emergent concepts related to factors influencing credit uptake. Ethical approval was obtained, informed consent ensured, and confidentiality and anonymity maintained. To enhance validity and reliability, triangulation of data sources and investigators, member checking, and maintaining an audit trail were employed. Strategies to minimize bias and establish trustworthiness of the findings included corroborating findings across data sources and analysts, verifying interpretations with participants, and documenting the research process transparently.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The Kenyan youth struggle economically due to high unemployment rates and difficulties accessing sustainable credit from conventional banks and microfinance institutions. Despite accounting for more than three-quarters of the Kenyan population, individuals aged between 18 and 36 years are disproportionately underrepresented in the labour sector. Besides, this population cohort faces numerous hurdles in accessing meaningful loans from credit services to start businesses. Inadequate funding by easily accessible credit services such as the Hustler fund is one of the monumental challenges undermining youths' efforts to establish small-scale enterprises. Other notable barriers include stringent borrower age, business operational lifespan, and employability and minimum wage limit eligibility criteria. These variables have hindered Kenya from exploiting the immense potential of the youth to revive the economy and transform it to the next level.

Recommendations

In retrospect to the uncovered impediments, this report proposes several recommendations to boost credit accessibility among the Kenyan youth. Firstly, the government should complement the Youth Enterprise Development Fund with the efficiency networks of private banks and investment institutions. Apart from being accessible to the public, these institutions have the experience and workforce that is pivotal to improving eligibility threshold during application and vetting processes (Wu et al., 2022). Secondly, the government can also allocate funds to banks to support youths' businesses by removing age and other limits. This strategy can be actualized by formulating policies that favour businesses run by the youth. For example, the government can prompt all lending institutions to lower the eligibility age to 18 years to ensure no youth is marginalized based on this criterion. Thirdly, the government should ensure credit policies incorporate special guarantees for the youths. These guarantees can take the form of 50% to 50% matching of collateral in the lending process or 25% collateral contribution by the business and the guarantee fund to match with 75% contribution for women-owned businesses, as adopted by the African Guarantee Fund currently (African Guarantee Fund, 2024).

Moreover, the Kenyan government should consider expanding low-risk credit products to the youths. Low-risk products but effective for businesses, for instance, trade facilities can be advanced to the youth to enhance their business operations. These include guarantees, letter of credit (LCs), local purchase order (LPOs), stock financing, and invoice discounting. It is worth noting that the government presently provides special consideration to the youth by allocating special tenders for state-run projects (National Water Harvesting and Storage Authority, 2024). This policy, coupled with bank efforts to soften eligibility criteria, can go a long way in boosting youth-run enterprises.

Additionally, lending institutions can assist the youth by facilitating account operations by making them free of charge to encourage a culture of banking and transacting. With an elaborate track record of banking and transacting with a bank, individuals have a better chance of improving their eligibility for loans (Kenya Institute for Public Policy Research and Analysis, 2023). Lending to youth comes with an extremely high risk to any investing organization; hence, these institutions may be sceptical about issuing credit. Alternatively, banks should consider lending to youths on a graduation basis as per the number of years the business has operated in Kenya (Kenya Institute for Public Policy Research and Analysis, 2023). This arrangement would imply that, ceteris paribus, a longer operational tenure would guarantee access to more credit.

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