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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 R<sup>2</sup> 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

suboptimal means of financing businesses. These sources yield limited funds and/or are exploitative in nature.

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. 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 Government funds.

### *1.2 Statement of the Problem*

Engagement by youth in small business enterprises plays a significant role in creating employment and enhancing economic growth in the country. Hence, access to credit by youth would go a long way in enabling their engagement in business enterprises as a form of employment. Kenya Youth Development Policy (GOK, 2019) indicates that some of the working youths are underemployed, on part-time employment, or left idle thereby underutilizing the worker's skills. The policy further alludes that under employment among youth aged 15-34 years was estimated at 27.8 per cent in 2015/16. The highest rates of labour underutilization were observed among the youth aged 15-19 years and was estimated as high as 55.4 per cent against an overall population (aged 15- 64 years) underemployment rate of 26.6 per cent in 2015/16. The policy document posits that this situation poses a risk for the idle youth to engage in defiant behaviours and other social challenges. Among the proposals for remedy measures to mitigate the problem entailed equipping the youth with financial skills to help them gainfully engage in small businesses as a form of employment. This would enable them to make better business and financing decisions for their enterprises. With the right knowledge, skills, mentorship, financial resources, and enabling policies, youth-led enterprises can grow economies and create job opportunities (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, Hogarth & Berverly, 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, Van & Lusardi, 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 Research Objectives*

Specifically, this study sought to;

- a) To establish the influence of bookkeeping skills on credit uptake by youth enterprises in Machakos Town, Kenya.
- b) To establish the influence of budgeting skills on credit uptake by youth enterprises in Machakos Town, Kenya.
- c) To establish the influence of debt management skills on credit uptake by youth enterprises in Machakos Town, Kenya.
- d) To establish the influence of financial knowledge on credit uptake by youth enterprises in Machakos Town, Kenya.

### *1.4 Research Hypothesis*

**H<sub>01</sub>:** Bookkeeping skills do not influence credit uptake by youth enterprises in Machakos Town, Kenya.

**H<sub>02</sub>:** Budgeting skills do not influence credit uptake by youth enterprises in Machakos Town, Kenya.

**H<sub>03</sub>:** Debt management skills do not influence credit uptake by youth enterprises in Machakos Town, Kenya.

**H<sub>04</sub>:** 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.

## **2. Review of Literature**

The main theories that informed this study were the Dual Process Theory and Gorith's Business Refinancing Theory.

### *2.1 Dual Process Theory*

The Dual Process theory, propounded by Richard E. Petty and John Cacioppo in 1986, disputes that the deeds of a group ranked high in financial literacy may depend on the occurrence of the

two philosophy styles: intuition (system 1) and cognition (system 2) (Glaser & Walther, 2013). Intuition, the ability to achieve awareness without implication, gives judgments, beliefs, or perceptions which cannot be observed logically. Taylor (1981) states that intuition-based decisions are rationally made because individuals are largely influenced by their emotions. Glaser and Walther (2013) identify the milestone influence of financial education on sound investment decisions is moderated by the high dominance of intuition. Therefore, increased use of intuition results to sub-optimal investment decisions. Cognition is a systematic way by which decisions are made whereby the contribution is altered, summarized, detailed, stocked up, recuperated, and used. According to Chan, & Park (2013), cognition is the psychological dispensation consisting of understanding, conniving, interpreting, analyzing, and administration. They noted that individuals with high cognition had a keen eye, were analytical, and thought critically as far as decision-making is concerned. Based on the propositions of dual theory, it implies that implementation of intuition (system 1) evidences a short cut in decision making and thus may to a greater extent result to negative decisions. On the other hand, application of Cognitive (system 2) means thorough search of the facts and judgements are based on largely accurate data. Therefore, dual theory applied to the current study, the youth require enough data regarding financial literacy, what it entails and how it can enable them to improve their standard of living before they commit to credits. This shows that with enough financial literacy knowledge, the youth are therefore capable of making relevant and correct decisions which will translate to high credit uptake in the long run.

### *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.

### *2.3 Empirical Studies*

#### *2.3.1 Bookkeeping skills and credit uptake by Youth Enterprises*

Hassan & Olaniran (2011) carried out an analysis of the impact of accounting records keeping on the performance of small-scale enterprises in Ogbomosho, Oyo State, Nigeria. This study used a combination of descriptive and cross-sectional research designs. The population was comprised

of 113 people and a descriptive design such as personal interviews and questionnaires were employed as the major techniques for primary data collection. Findings revealed that most of the respondents did keep business accounting records. Records were kept on a cash basis. Sales purchases, creditors and debtors, receipts, invoices, and payment vouchers were used as record-keeping documents, which helped to reduce operating costs and improve efficiency and productivity. It was concluded that record keeping is essential for decision-making and business adjustment since accounting records are very essential for decision-making.

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 their study on the relevance of accounting records in small business performance in Nigeria, Ezejiolor et al., (2014) found out that Micro and Small Enterprises (MSEs) that kept proper books of account could accurately measure the performance of their businesses. 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.

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 Small and Medium Enterprises (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. Further, the findings indicate that proper bookkeeping enabled SMEs to meet debt obligations effectively. The study found that bookkeeping knowledge was insufficient

to enable SMEs to file tax returns without engaging a consultant. Additionally, the SMEs were rated below average in the aspect of reconciling the cashbook with the bank statements. The study concluded that bookkeeping knowledge enabled SMEs to prepare financial statements. These statements enabled them to evaluate the financial performance of the enterprise and consequently fostered informed decisions.

### 2.3.2 Budgeting skills and 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 MSEs. The study population was 1300 MSEs registered under a single business permit in Kakamega Central Sub County as of 2015 from which a sample of 306 MSEs was selected. Findings revealed that most MSE owners had a low level of budgeting since they never engaged in formal financial planning, budgeting, and control. Further, the MSE owners could not prepare financial statements which would have increased their information capacity and consequently their access to finance. Consequently, she concluded that improving the budgeting skills of MSE owners can have a positive impact on the MSE growth in terms of the value of assets.

### 2.3.3 Debt management skills and Credit Uptake by Youth Enterprises

Those who are financially illiterate tend to borrow too much and generally use more expensive sources of finance. These highly priced finances negatively impact their business performance and are also likely to report excessive debt position or inability to measure their debt position (Mastercard, 2011). Persons of limited financial literacy are more prone to exploitation when it comes to debt management, savings, and credit, and are not able to administer their resources competitively (Lusardi & Mitchell, 2011). Lusardi & Mitchell (2011) further state that the financially illiterate end up planning poorly on money market investments as opposed to individuals with high financial literacy.

Otieno (2018) carried out a study on the critical factors and credit uptake in youth enterprise development funds in Suna East constituency, Migori County, Kenya. The study population was 892 youth entrepreneurs registered in Suna East Constituency engaged in different businesses. 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 concluded that through credit management YEDF was to incorporate activities aimed at ensuring that invoices are paid within the defined payment terms and conditions. Effective credit management served to prevent late payments or non-payment. YEDF required that the youth entrepreneurs when seeking loans, provide certain relevant information regarding their financial capability to qualify for the loans. YEDF needed to enhance youth entrepreneurial skills by polishing their business skills, improving their strategic thinking, and incorporating networking into small business activities.

### 2.3.4 Financial Knowledge and Credit Uptake by Youth Enterprises

Birech (2013) did a study on the factors affecting loan utilization among youth in Nakuru County. They 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. 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 that matched 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.

A study was carried out on the link between financial knowledge, financial product awareness, and utilization: A study among small and medium enterprises in Zimbabwe. The study was conducted following a realization that a significant number of SMEs were financially excluded despite efforts by the financial services sector to tailor-make products to their needs. A self-administered questionnaire was used to collect data among a randomly selected sample of 400 SMEs in the capital city (Harare). Findings indicated a lack of awareness of financial products and hence low usage of these products by SMEs. An association between financial product awareness and financial knowledge was noted but no relationship between financial product usage and financial knowledge. The study concluded that although SMEs are financially knowledgeable, there is no link with their participation in the main financial stream. The study, therefore, recommended the need to further increase awareness at the same time encourage participation in the financial markets to reduce vulnerability associated with financial exclusion (Mashizha & Sibanda, 2017).

OECD, (2017) find that basic knowledge of financial concepts in a financial context ensures that consumers can act autonomously to manage their financial matters. 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).

#### 2.3.5 Credit Uptake by Youth Enterprises

Uptake of credit is important in increasing income activities, creating employment opportunities, and leading to better living standards for people (Salia, 2011). It assists many youths who are unable to get formal employment in white-collar jobs. The concern about the availability of credit for youth suggests that they pay a higher rate or face more requirements to get a loan than an equally credit-worthy larger business. As a result, they raise less money than larger businesses in the same locality and are unable to take advantage of economies of scale to raise capital. A study was carried out by Musha (2015) on the factors influencing the uptake of credit by Kenyan youths in Nairobi County. The study targeted all the youth in Nairobi aged between 18 and 35 years numbering 1,462,803 out of which a sample size of 381, was selected. 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 number of credits taken by the youths. Also, the regression model developed illustrates that the credit terms attached to the loans have an inverse relationship with the youth's credit uptake.



2.4 Conceptual Framework

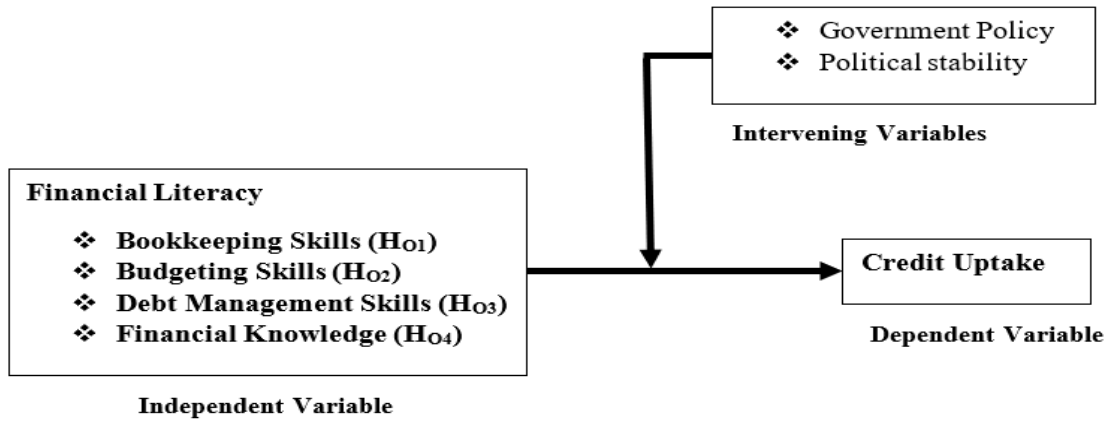


Figure 1: Conceptual Framework showing the Relationship between Financial Literacy and Credit Uptake.

3. Methodology

The study adopted a descriptive research design. The study population was 1704 small enterprises spread across Machakos Town. A stratified random sampling technique was used to pick the 314 small enterprises were selected to participate in the study as respondents. The sample size for the study, 314, was calculated by using Sharma's (1983) formula from a population of 1704. This sample was calculated  $(314/1704 \times 100\%)$  as 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 1 below. For example, Small Trader, Shop, or Retail Service category sample size would be  $(1,609 \times 18.42)/100 = 297$ . 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. Primary data was collected using structured questionnaires. Correlation analysis, simple regression, and multiple regression were used to analyze data and test hypotheses.

Table 1 Sample Size Determination

| <b>Business Category</b>                | <b>Population</b> | <b>Sample Percentage</b> | <b>Sample</b> |
|---|-------------------|--------------------------|---------------|
| 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             |
| <b>Total</b>                            | <b>1704</b>       | <b>18.42%</b>            | <b>314</b>    |

*3.1 Analytical Model*

Simple and multiple regression models were adopted to assess the influence of independent variables on the dependent variable.

$$Y = \beta_0 + \beta_1X_1+ \beta_2X_2+ \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where: Y = Credit Uptake by youth enterprises,  $\beta_0$  = the Constant term,  $\beta_1$  = beta coefficient of literacy in bookkeeping literacy ( $X_1$ ),  $\beta_2$  = 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.

**4. Results and Discussion**

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 & Mugenda (2003) who stipulated that a response rate of 70% - 80% was very good.

*4.1 Descriptive Statistics*

Descriptive statistics in table 2 below show the general level of financial literacy among sampled youth entrepreneurs, based on the components of financial literacy (bookkeeping skills, budgeting skills, debt management skills, and financial knowledge). Table 2 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 2. Descriptive Results for Financial Literacy among the Youth Entrepreneurs

| <b>Financial Literacy</b> | <b>Mean</b>  | <b>Std. Dev.</b> |
|---------------------------|--------------|------------------|
| 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            |
| <b>Overall mean score</b> | <b>4.158</b> | <b>0.846</b>     |

*4.2 Correlational Analysis*

Before testing for the influence of each component of financial literacy on credit uptake, the study used a Pearson's correlation to establish relationships between the variables. 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 3 below.

Table 3 Relationship between financial literacy and credit uptake by youth enterprises

| Independent Variables                 | Dependent Variables                   |                     |                        |                  |                     |  |
|---------------------------------------|---------------------------------------|---------------------|------------------------|------------------|---------------------|--|
|                                       | Credit uptake among youth enterprises | Financial Knowledge | Debt management skills | Budgeting skills | Book keeping skills |  |
| <b>Pearson correlation</b>            | 1                                     | 0.829**             | 0.746**                | 0.729**          | 0.901**             |  |
| Credit uptake among youth enterprises | <b>Sig. (2-tailed)</b>                | 0.000               | 0.000                  | 0.000            | 0.000               |  |
| <b>N</b>                              | 289                                   | 289                 | 289                    | 289              | 289                 |  |

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

According to the correlation results findings (table 3 above), credit uptake was found to be positively and significantly correlated 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. 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.

#### 4.3 Testing of Hypothesis

There were four objectives in this study and the corresponding hypotheses were that each of the four predictors of financial literacy (bookkeeping skills, budgeting skills, debt management skills, and financial knowledge) did not affect the credit uptake of youth enterprises. Multiple regression was used to test for their influences. This section presents the results and interpretations concerning the study objectives and corresponding hypotheses.

4.3.1 Influence of bookkeeping skills on credit uptake by youth enterprises in Machakos Town, Kenya

Table 4 Results of simple regression analysis of bookkeeping skills and credit uptake

| <b>Model Summary</b>   |            |                             |            |                           |         |                           |
|--|------------|-----------------------------|------------|---------------------------|---------|---------------------------|
| Model  |            | R                           | R Square   | Adjusted Square           | R       | Std Error of the Estimate |
| 1  |            | 0.602 <sup>1</sup>          | 0.363      | 0.350                     |         | 0.67698                   |
| 1. Predictors: (constant), Bookkeeping skills                |            |                             |            |                           |         |                           |
| <b>ANOVA<sup>a</sup></b>                                     |            |                             |            |                           |         |                           |
| Model  |            | Sum of Squares              | df         | Mean Squares              | F       | Sig.                      |
| 1  | Regression | 60.081                      | 1          | 60.081                    | 163.783 | 0.000 <sup>b</sup>        |
|  | Residual   | 105.281                     | 287        | 0.366                     |         |                           |
|  | Total      | 165.362                     | 288        |                           |         |                           |
| 1. Predictors: (constant), Bookkeeping skills                |            |                             |            |                           |         |                           |
| 2. Dependent variable: Credit Uptake Among Youth Enterprises |            |                             |            |                           |         |                           |
| <b>Coefficients<sup>a</sup></b>                              |            |                             |            |                           |         |                           |
|  |            | Unstandardized Coefficients |            | Standardized Coefficients |         |                           |
|  |            | B                           | Std. Error | Beta                      | T       | Sig.                      |
| (Constant)   |            | 1.782                       | 0.315      |                           | 5.653   | 0.000                     |
| Bookkeeping skills   |            | 0.911                       | 0.070      | 0.901                     | 8.592   | 0.000                     |

a. Dependent variable: Credit Uptake among Youth Enterprises

The results in table 4 above, show that the R<sup>2</sup> is 0.363 indicating that bookkeeping skills explain only 36.3% of the variation in Credit Uptake. This implies that there could be 63.7% of other factors which affect Credit Uptake and are not included in the model. The ANOVA results indicate that the model is statistically significant (F= 163.783, p =0.000, thus, p<0.05). The standardized coefficients results show that Y (Credit Uptake) =1.782+0.911X1, where X1 represents the bookkeeping skills, were significant at 0.05 level of significance (p= 0.00, p<0.05). A unit increase in bookkeeping skills results in an increase in Credit Uptake by 0.911 units. This means that bookkeeping skill has a positive and significant effect on Credit uptake. The simple regression model results thus reject the null Hypothesis H01, that bookkeeping skills do not influence the credit uptake by youth enterprises in Machakos town. The null hypothesis is therefore rejected. 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.

4.3.2 Influence of budgeting skills on credit uptake by youth enterprises in Machakos Town, Kenya.

Table 5 Results of simple regression analysis of budgeting skills and credit uptake

| <b>Model Summary</b>   |            |                             |            |                           |         |                           |
|--|------------|-----------------------------|------------|---------------------------|---------|---------------------------|
| Model  |            | R                           | R Square   | Adjusted Square           | R       | Std Error of the Estimate |
| 1  |            | 0.554 <sup>1</sup>          | 0.307      | 0.289                     |         | 0.68459                   |
| 1. Predictors: (constant), budgeting skills                  |            |                             |            |                           |         |                           |
| <b>ANOVA<sup>a</sup></b>                                     |            |                             |            |                           |         |                           |
| Model  |            | Sum of Squares              | df         | Mean Squares              | F       | Sig.                      |
| 1  | Regression | 50.899                      | 1          | 50.899                    | 127.622 | 0.000 <sup>b</sup>        |
|  | Residual   | 114.462                     | 287        | 0.398                     |         |                           |
|  | Total      | 165.362                     | 288        |                           |         |                           |
| 1. Predictors: (constant), budgeting skills                  |            |                             |            |                           |         |                           |
| 2. Dependent variable: Credit Uptake Among Youth Enterprises |            |                             |            |                           |         |                           |
| <b>Coefficients<sup>a</sup></b>                              |            |                             |            |                           |         |                           |
|  |            | Unstandardized Coefficients |            | Standardized Coefficients |         |                           |
|  |            | B                           | Std. Error | Beta                      | T       | Sig.                      |
| (Constant)   |            | 2.201                       | 0.304      |                           | 7.245   | 0.000                     |
| budgeting skills   |            | 0.749                       | 0.070      | 0.729                     | 7.534   | 0.000                     |

a. Dependent variable: Credit Uptake Among Youth Enterprises

The results in Table 5, show that the R<sup>2</sup> is 0.307 indicating that budgeting skills explain only 30.7% of the variation in Credit Uptake. This implies that there could be 69.3% of other factors which affect Credit Uptake and are not included in the model. The ANOVA results indicate that the model is statistically significant (F= 127.622, p =0.000, thus, p<0.05). The standardized coefficients results show that Y (Credit Uptake) =2.201+0.749X<sub>2</sub>, where X<sub>2</sub> represents the budgeting skills, were significant at 0.05 level of significance (p= 0.00, p<0.05). A unit increase in budgeting skills results in an increase in Credit Uptake by 0.749 units. This means that budgeting skills have a positive and significant effect on Credit uptake. The simple regression model results thus reject the null Hypothesis H<sub>02</sub>, that budgeting skills do not influence the credit uptake by youth enterprises in Machakos town. The null hypothesis is therefore rejected. 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, Sunday, Burani & Eliabu (2013) who found that most small businesses do not engage in formal financial planning and control and budgeting.

4.3.3 Influence of debt management skills on credit uptake by youth enterprises in Machakos Town, Kenya

Table 6 Results of simple regression analysis of debt management skills and credit uptake

| <b>Model Summary</b>   |            |                             |            |                           |        |                           |
|--|------------|-----------------------------|------------|---------------------------|--------|---------------------------|
| Model  |            | R                           | R Square   | Adjusted Square           | R      | Std Error of the Estimate |
| 1  |            | 0.529 <sup>1</sup>          | 0.199      | 0.196                     |        | 0.67928                   |
| 1. Predictors: (constant), debt management skills            |            |                             |            |                           |        |                           |
| <b>ANOVA<sup>a</sup></b>                                     |            |                             |            |                           |        |                           |
| Model  |            | Sum of Squares              | df         | Mean Squares              | F      | Sig.                      |
| 1  | Regression | 32.934                      | 1          | 32.934                    | 71.376 | 0.000 <sup>b</sup>        |
|  | Residual   | 132.427                     | 287        | 0.461                     |        |                           |
|  | Total      | 165.362                     | 288        |                           |        |                           |
| 1. Predictors: (constant), debt management skills            |            |                             |            |                           |        |                           |
| 2. Dependent variable: Credit Uptake Among Youth Enterprises |            |                             |            |                           |        |                           |
| <b>Coefficients<sup>a</sup></b>                              |            |                             |            |                           |        |                           |
|  |            | Unstandardized Coefficients |            | Standardized Coefficients |        |                           |
|  |            | B                           | Std. Error | Beta                      | t      | Sig.                      |
| (Constant)   |            | 2.785                       | 0.236      |                           | 11.795 | 0.000                     |
| Debt management skills                                       |            | 0.712                       | 0.057      | 0.693                     | 7.242  | 0.000                     |

a. Dependent variable: Credit Uptake among Youth Enterprises

The results in Table 6, show that the R<sup>2</sup> is 0.199 indicating that debt management skills explain only 19.9% of the variation in Credit Uptake. This implies that there could be 80.1% of other factors which affect Credit Uptake and are not included in the model. The ANOVA results indicate that the model is statistically significant (F= 71.376, p =0.000, thus, p<0.05). The standardized coefficients results show that Y (Credit Uptake) = 2.785+0.712X3, where X3 represents the debt management skills, were significant at 0.05 level of significance (p= 0.00, p<0.05). A unit increase in debt management skills results in an increase in Credit Uptake by 0.712 units. This means that debt management skills have a positive and significant effect on Credit uptake. The simple regression model results thus reject the null Hypothesis H03, that debt management skills do not influence the credit uptake by youth enterprises in Machakos town. The null hypothesis is therefore rejected. 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.

4.3.4 Influence of financial knowledge on credit uptake by youth enterprises in Machakos Town, Kenya

Table 7 Results of simple regression analysis of financial knowledge and credit uptake

| <b>Model Summary</b>   |            |                             |            |                           |         |                           |
|--|------------|-----------------------------|------------|---------------------------|---------|---------------------------|
| Model  |            | R                           | R Square   | Adjusted Square           | R       | Std Error of the Estimate |
| 1  |            | 0.738 <sup>1</sup>          | 0.545      | 0.501                     |         | 0.64398                   |
| 1. Predictors: (constant), financial knowledge               |            |                             |            |                           |         |                           |
| <b>ANOVA<sup>a</sup></b>                                     |            |                             |            |                           |         |                           |
| Model  |            | Sum of Squares              | df         | Mean Squares              | F       | Sig.                      |
| 1  | Regression | 90.123                      | 1          | 90.123                    | 343.980 | 0.000 <sup>b</sup>        |
|  | Residual   | 75.239                      | 287        | 0.262                     |         |                           |
|  | Total      | 165.362                     | 288        |                           |         |                           |
| 1. Predictors: (constant), financial knowledge               |            |                             |            |                           |         |                           |
| 2. Dependent variable: Credit Uptake Among Youth Enterprises |            |                             |            |                           |         |                           |
| <b>Coefficients<sup>a</sup></b>                              |            |                             |            |                           |         |                           |
|  |            | Unstandardized Coefficients |            | Standardized Coefficients |         |                           |
|  |            | B                           | Std. Error | Beta                      | T       | Sig.                      |
| (Constant)   |            | 2.144                       | 0.245      |                           | 8.765   | 0.000                     |
| financial knowledge  |            | 0.773                       | 0.059      | 0.775                     | 9.630   | 0.000                     |

a. Dependent variable: Credit Uptake Among Youth Enterprises

The results in Table 7, show that the R<sup>2</sup> is 0.545 indicating that financial knowledge explains only 54.50% of the variation in Credit Uptake. This implies that there could be 45.50% of other factors which affect Credit Uptake and are not included in the model. The ANOVA results indicate that the model is statistically significant (F= 343.775, p =0.000, thus, p<0.05). The standardized coefficients results show that Y (Credit Uptake) = 2.144+0.773X<sub>4</sub>, where X<sub>4</sub> represents the financial knowledge, were significant at 0.05 level of significance (p= 0.00, p<0.05). A unit increase in financial knowledge results in an increase in Credit Uptake by 0.773 units. This means that financial knowledge has a positive and significant effect on Credit uptake. The simple regression model results thus reject the null Hypothesis H<sub>04</sub>, financial knowledge does not influence the credit uptake by youth enterprises in Machakos town. The null hypothesis is therefore rejected. 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.

4.3.5 Influence of financial literacy on credit uptake by youth enterprises in Machakos Town, Kenya

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

| <b>Model Summary</b> |                    |          |                 |                             |
|----------------------|--------------------|----------|-----------------|-----------------------------|
| Model                | R                  | R Square | Adjusted Square | R Std Error of the Estimate |
| 1                    | 0.868 <sup>1</sup> | 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

| <b>ANOVA<sup>a</sup></b> |            |                |     |              |         |                    |
|--------------------------|------------|----------------|-----|--------------|---------|--------------------|
| Model                    |            | Sum of Squares | df  | Mean Squares | F       | Sig.               |
| 1                        | Regression | 124.682        | 4   | 31.921       | 223.220 | 0.000 <sup>b</sup> |
|                          | 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

| <b>Coefficients<sup>a</sup></b> |                             |            |                           |       |       |
|---------------------------------|-----------------------------|------------|---------------------------|-------|-------|
|                                 | Unstandardized Coefficients |            | Standardized Coefficients | T     | Sig.  |
|                                 | B                           | Std. Error | Beta                      |       |       |
| (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

The results in Table 8, show that the R<sup>2</sup> is 0.754 indicating that financial literacy explains 75.4% of the variation in Credit Uptake. This implies that there could be 24.6% of other factors which affect Credit Uptake and are not included in the model. The ANOVA results indicate that the model is statistically significant (F= 223.22, p =0.000, thus, p<0.05). The standardized coefficients results show that:

**Y = 1.233 + 0.53X<sub>1</sub> + 0.449X<sub>2</sub> - 0.158X<sub>3</sub> + 0.823X<sub>4</sub> + ε.** Where: Y = Credit Uptake by youth enterprises; X<sub>1</sub> = Bookkeeping skills; X<sub>2</sub> = Budgeting Skills; X<sub>3</sub> = Debt management skills; X<sub>4</sub> = Financial knowledge and ε = Error Term



According to the regression equation established, taking all factors constant credit uptake by youth enterprises will be 1.233. Table 8 above further show 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 financial knowledge variable, bookkeeping skills variable, and budgeting skills variable, the coefficients (parameter estimates) are 0.829, 0.53, and 0.449 respectively. These values are statistically significant because the p-value ( $p=0.000$ ) 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 skills, an approximately -0.158-unit decrease in the credit uptake among youth enterprises is insignificantly 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. It's prudent to note that the debt management skills had a statistically significant influence on the dependent variable by simple regression analysis. It was clear that the null hypotheses coined around the predictors of financial literacy's influence on credit uptake by youth enterprises were consequently rejected. As shown, the highest predictor for credit uptake among the youth is financial knowledge at (0.823), then bookkeeping skills at (0.53) and lastly budgeting skills at (0.449).

### **5. Summary and Conclusions**

This research set out to investigate the influence of financial 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 growth of SMEs. However, credit uptake among youth enterprises in Machakos Town Kenya was greatly influenced by bookkeeping skills, budgeting skills, and financial knowledge.

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 both in simple regression

analysis and a gave a negative insignificant influence on multiple regression analysis. Since one of the results is insignificant the study concludes alongside the significant result. This means that the debt management positively and significantly influenced credit uptake by youth enterprises in Machakos Town.

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.

## **6. 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:

1. National government and county governments should 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 source for credit to grow their enterprises.
2. 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.

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