

**THE RELATIONSHIP BETWEEN FINANCIAL LITERACY AND ACCESS TO
CREDIT AMONG YOUTH IN RURAL AREAS: A CASE OF KIMILILI
CONSTITUENCY**

BY

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ABSTRACT

Access to credit has grown tremendously in the last decade and so has been the focus on youth. Access to credit has been touted as one of the tools for economic growth. While most studies have focused on the urban youth, the rural youth face unique challenges compared to their urban counterparts. This study's objective was to determine whether there is a relationship connecting financial literacy and access to credit among the rural youth. The study had a target population of 41,181 youth in Kimilili Constituency out of which a sample of 384 was selected. Primary data was used for data collection through use of questionnaires matching the research objective and analyzed through regression model, mean, standard deviations and analysis of variances. The study found an affirmative connection between financial literacy and credit accessibility. From the data analysis, majority of the sampled respondents paid their bills on time, they are able to evaluate financial products by different financial institutions, they save and in general were financially literate and therefore as a result they were able to access credit. The study further revealed that the youths could access credits from financial institutions but this was limited by lack of collateral but whenever they accessed the credits it led to an improvement in their economic status. The study recommends that more educational programs be put in place especially in rural areas to ensure that the unbanked can access credit.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Scholars and economists have identified access to credit is an essential tool for economic growth as it helps deficient households to access the necessary finance to undertake their economic activities. The youth in Kenya are faced with many challenges especially following increased level of unemployment (Kinyanjui, 2010). This has seen the country's leadership launch many financial assistant programs aimed at assisting the financially vulnerable population like women and the youth (Kuzilwa, 2005). According to Wanjohi (2008), financial institutions have encountered many difficulties in their quest advance credit facilities to youths because of limited collaterals; inadequately compiled financial records and lack of technical and management skills of the youths.

This study will be anchored on financial intermediation theory, the credit rationing theory and Prospect theory. Financial intermediation theory states that financial institutions holds a critical position in mediating between surplus and deficient households in an economic manner so as to promote economic growth in a nation. This theory will help explain the way financial providers go about assessing loan applicants so as to ensure they issue loans to applicants who can repay them as and when they fall due. The credit rationing theory on the other hand a talks about financial market inefficiencies or imperfection. The Information asymmetry has been cited in this theory as the cause of financial market failure in developing countries. Information asymmetry generates moral

hazards and adverse selections resulting to market inefficiencies that lead to exclusion of potential borrowers not meeting the set threshold (Wanjohi & No, 2008).

Financial inclusion and access to credit has been a problem to the Kenyan government who have tried different strategies help majority of the population access. A vast majority of Kenyans are unbanked. The Kenya National Bureau of Statistics (KNBS) reports that 32% (summing up to 13 million) of Kenya's population are youth. The Institute of Economic Affairs (IEA) in Kenya reports that the youthful population is yet to increase because current statistics from UNFPA indicate that children between 0-14 years make 43% of Kenya's total population. Kenyan youth face many challenges in accessing credit facilities as they have limited collateral which can be pledged. For instance, the 2009 National Bureau of Statistics census reports acknowledge that 75% of these youth are unemployed. This has seen the Government of Kenya introduce specific funding organizations to help these vulnerable youth access credit. Some of these funds include, the Youth Enterprise Development Fund (YEDF) and the Uwezo Fund.

1.1.1 Financial Literacy

According to Atkinson and Messy (2012), Financial Literacy as the knowledge and understanding of financial products and concepts by investors or consumers, their understanding of financial risks and opportunities, and their ability to use this knowledge to make proper decisions and actions for their own financial benefit. Atkinson and Messy (2012), continue to define financial literacy as more than just financial knowledge but a combination of awareness, knowledge, skills, attitudes and behaviors necessary to make sound financial decisions and ultimately achieve individual financial well-being. They

continue to elaborate further that financial literacy should help in decision making and impact an individual positively through improvement in their financial wellbeing.

Financial literacy helps an individual make better decisions like timely bill payments, debt management, investment decisions, improvement of the economic growth wellbeing of an individual and general sound financial management. Greenspan (2002) defines financial literacy as the financial knowledge which helps individuals in making, either strategic or operational decisions like budgeting for the households, savings plans, debt management which assists households to better plan and allocate resources and thus meet their financial obligations. Individuals are able to drive positively their financial future through financial literacy and they are more effective and efficient in utilizing financial products and are able to identify and avoid fraudulent schemes. A financial literate population will give rise to competitive pressures on financial institutions, or retailers that will lead to development of better offerings from these financial institutions in terms of price, quality and products. Lusardi & Mitchell, (2011) confirms that financially literate individuals can make comparisons on and evaluate the various options, negotiate on price, ask informed questions on areas such as loan products, financial services, savings products, investments and insurance and therefore make effective and efficient decisions.

1.1.2 Credit Accessibility

Credit access has been defined as the capability of individuals or enterprises to access financial services. These financial services can be in terms of bank accounts, deposits, payment services, credit, and insurance. The credit services can be given in various forms like cash credit, credit in kind or advance of services or capital inputs. Credit access has

been mentioned as one of the key ingredient for economic growth in developing and emerging markets. The banking sector in Kenya has grown tremendously in the past decade through innovations such as mobile and agency banking which has aided in financial inclusion of the unbanked population mostly found in the rural areas. The rural population has been largely unbanked due to various reasons including risk profile of applicants, availability of financial institutions in the rural areas and economic activities in the rural areas.

1.1.3 The relationship between financial Literacy and credit accessibility

An increasing number of research papers have been done on the correlation between financial knowledge and financial outcomes. It is anticipated that financial literacy helps in financial decision making in terms of where to get help, sources of finance and better credit terms. Lyons et al(2006)posits that financial behavior is influenced by financial literacy levels and that households who are not knowledgeable are prone to take financial advice from peers or friends and in addition less probable to take part in the stocks market. Financial literacy empowers consumers in facing financial distress, through strategies that alleviate risks such as diversifying investments, taking insurance and amass savings. Hilgert, Hogarth and Beverly (2003) affirm a direct association between financial literacy and financial behavior and that the causality is however not clear. Financial literacy has far and wide reaching consequences for individual savings and investment behavior. Bernheim, Skinner and Weinberg (1997) states that households with low levels of financial knowledge use the basic rule of thumb in their saving behavior. It is has been witnessed that financial illiterate individuals can self-exclude themselves

from formal financial systems. Financially knowledgeable individuals tend to better decipher complex financial systems and in turn make sound self-beneficial decisions.

1.1.4 Rural Youth

The rural youth face many challenges like weak job market, poverty, high unemployment rates, 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.

1.2 Research Problem

Many scholars have shown the positive effect that financial literacy has had on the different aspects of a business or on entrepreneurship. By equipping the youth with financial knowledge they are able to make better judgments from identified alternatives, on their enterprises. In addition the focus on youth has been on an increasing trend for many governments and stakeholders and many initiatives have been brought forth and implemented for these youth. The most beneficiaries however, are the urban youth compared to the rural youth. By focusing on the rural youth's financial literacy and their access to credit, would lead to creation of more job opportunities for them and thus reduce the unemployment rate, grow the rural economy which is often economically marginalized, financial inclusion of the rural population and creation of sustainable livelihoods. Financial literacy has been advocated as a useful tool for both the individual and the economy in economic and financial stability,

Atieno (2001), states that lending to businesses in the informal sector has been difficult because most formal financial institutions consider them "un-credit-worthy. Other studies done on determinants of credit access in the rural economy include; Bakhshoodeh and Karami (2008) who examined the determinants and accessibility of credit by rural farmers Iran and established that levels of farmers' literacy, their total revenue and acreage of land under cultivation had positive effects whereas distance to bank branches had negative effects on credit accessibility. Duy, et al. (2012) investigated the factors affecting rural households' access to formal credit in Mekong Vietnam and identified that financial assets owned, marital status, family size, distance to the market center affected

the access to and amount of credit asked. Tu, et al (2015) did a study in rural Vietnam on the determinants and impact of credit access on the living standards of Poor Households. The study used the survey approach the findings indicated education level, land area per capita, residential area owned, total assets, were determinants to credit access.

Jeiyol, Akpan and Tee (2013) looked at credit access by small scale rural farmers in Benue State Nigeria and analyzed the access to the credit by gender .The study established that presence of aging farming population; low formal education among farmers and importance of remittance to agricultural production as the key determinants of credit access.

Locally in Kenya, Kiplimo, et al (2015) focused the study on credit access by the small scale farmers in Eastern region of Kenya. The findings identified key factors as including: gender, marital status, age, education level, household size, main occupation, distance to credit source, total land size, total income and extension service access as key factors. Musha (2014) also investigated the credit access by youth in Nairobi County and established that the credit access was determined by credit terms, business and entrepreneurial skills and level of awareness of the youths, account for the variability in the amount of credits.

The existing studies reviewed above have focused on different aspects of credit accessibility in rural areas. Bakhshoodeh and Karami (2008), Duy et al. (2012), Tu et al., (2015) and Jeiyol et al. (2013); (2015) have different environments from that in Kenya hence limiting their findings applicability. For those done in Kenya (Kiplimo, Ngenoh &

Bett, 2015) focused on farmers and not the youth and Musha (2014) focused on the urban youth. The above studies have not clearly demonstrated the relationship between financial literacy among the rural youth in accessing credit. Additionally, the above studies show that availability of credit is not a constraint in the rural areas and rather there are other influences that determine the uptake of credit. The current study seeks to focus more on financial literacy as a determinant of credit access and rural youth who present a different population target. The research question for this study will therefore be; what is the relationship between financial literacy and Credit access with the rural youth in Kimilili Constituency?

1.3 Research Objective

To determine the relationship between financial literacy and access to credit with rural youth in Kimilili Constituency

1.4 Value of the Study

This study's findings will be beneficial to a number of stakeholders including, Government of Kenya especially the Ministry of Public Service, Youth and Gender, youth in rural areas, institutions providing credit facilities in rural areas and future scholars and academicians. For the Government of Kenya, the findings of this study will guide their policy formulation and implementation on credit administration and management with rural youth to boost their living standards.

The findings of this study will also be valuable to institutions working with youth in rural areas in provision of credit as they will clearly understand the key determinants of

accessibility to credit and develop strategies on how to mitigate the effects of credit constraints among the youth. For the youth in rural area settings, the findings of this study will identify the determinants of access to credit so that they can evaluate themselves to see how they can access credit facilities and improve their living standards.

It is also hoped that this study's findings will be important to future scholars and academician acting as a source of empirical literature which can inform their future studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter considers the theoretical review, the empirical literature and the conceptual framework in attempting to understand the relationship between financial literacy and credit access among rural society setting.

2.2 Theoretical review

This study will be anchored on financial intermediation theory and the credit rationing theory. These theories are discussed in details below and the way in which they support the current study.

2.2.1 Financial intermediation Theory

The Financial intermediation theory stipulates the purpose of financial institutions as middlemen in reducing transaction costs and informational asymmetries between debtors and moneylenders. Financial intermediaries aid in bringing about efficiency in the market and they can have significant macroeconomic effects. In addition, through the intermediaries, liquidity and risk transformation of the assets are facilitated. (Jensen & Meckling, 1976).

Through their roles, financial intermediaries educate customers on available financial services and products and how they suit their financial needs. This theory explains how financial institutions can improve customer knowledge on financial products through customer education. In an efficient market, financial institutions are supposed to have

clear information about their customers and thus improve the way they relate with them especially on credit extension. Financial intermediaries are important in the economy as they revolutionize their services to enable all characteristics of borrowers and savers are incorporated within it. Financial intermediaries serve both the interests of savers and borrowers which ensure an all-inclusive participation by both parties. Financial intermediaries aid in maturity intermediation, transformation of risks, security, and reduce transactional costs.

2.2.2 Credit Rationing Theory

Credit is essential in poor rural economies to finance working capital and investment in fixed capital. Credit is important in helping whenever there is a resource scarcity. Credit rationing theory stipulates a condition where lenders constrain credit supply to borrowers albeit the borrowers' willingness to take elevated prices. This may be caused by issues on adverse selection and imperfect information that characterizes a credit market. In an ordinary market, equilibrium state is brought about through price, by supply and demand. Stiglitz and Weiss (1981) posits that adverse selection characterizes the credit market due to imperfect information on the borrower risk, the asymmetric spread of the players in the credit market and the effect of the price on that risk. The population could fail to access credit facilities because they may not have capacity to repay the loans as and when they fall due. This theory is important in this study because it indicates some of the determinants of access to credit among populations.

2.2.3 Prospect Theory

Daniel Kahneman and Amos Tversky were the proponents of this theory established in 1979. They argued that investors value gains and losses differently and make choices depending on perceived gains rather than losses. This theory stipulates that investors are not always rational and make decisions based on their risk attitudes. Kahneman and Tversky, (1979) posits that the investor evaluates the prospective gains and losses before making the decision and avoids making losses to protect their investments. They opine that investor's risk attitudes towards gains are different compared to their risk attitudes towards losses. They state that according to investors, losses are perceived to carry more weight than equivalent gains and that investors will take more risks to avoid losses than take little risk to achieve an equivalent gain. Prospect theory is relevant to this study as it can support the importance of financial literacy to help in making sound financial decisions. Financially literate investors are able to assess the relationship between risk (eg debt) and return and choose the alternative that gives the best outcome

2.3 Determinants of credit Access

Credit appraisal process is used to determine the loan applicants that are to be awarded with credit and identify those who do not qualify for one reason or another. Hussain, Millman and Matlay (2006) identified lending policies as one of the main determinants of credit access and their use by applicants. Other determinants to access and use of credit among applicants include as assets owned, income levels, and the marital status of the applicants. Jeiyol, Jeiyol, Akpanand and Terver (2013) identified farmers' household

expenditure, cost of fertilizer, cost of hired labour, farm size and farm income as significant determinants of access to credit among male and female farmers.

Akpan, Inimfon, Samuel and Agom (2015) identify the perceived constraints to credit access among the youth to include: insufficient initial capital, insufficient credit facility, poor storage facility, poor access to tractors and inadequate farm land among others. A study by Atieno (2001) who focused on small scale entrepreneurs identified that access to credit was influenced mainly by lending policies of the financial institutions. In addition that participation by the small scale entrepreneurs to the financial institutions was influenced by the past experience, the assets owned, and the income level, level of education, credit history and distance to credit sources.

2.4 Empirical Literature

Several studies have been done on financial literacy and credit accessibility. This review will be conducted on the basis of global and local so as to ensure exhaustive review. The first section reviews international studies while the second section will review local studies.

2.4.1 International studies

Anang, Sipiläinen, Bäckman and Kola (2015) study focused on farmers in rural Ghana and examined determinants of access to credit for agriculture. The study looked at both the access to credit by the farmers and the size of credit accessed. Heckman selection model was used as the analytical tool. The study's findings were that gender, sex,

income, farm assets, technology, farm location, and knowledge of credit organisations in the area influenced access to credit and the size of loan accessed.

Lusardi and Scheresberg (2013) looked at the influence of financial literacy on High-cost Borrowing in the United States” and identified the high cost credit instruments and with a sample of 26, 000 respondents and well tested questions to the respondents, the findings confirmed a positive link between financial literacy and the cost of borrowing. The study identified that the respondents who did not have the numeracy skills and or knowledge of basic financial concepts were the majority of high cost borrowers. In addition the study found that between ages 18-34 were high cost borrowers.

Adomako and Danso (2014) study in Ghana, examined the role of financial literacy and firm performance by also looking at the moderating role of resource flexibility and financial capital availability on the two variables. The study employed survey-based approach and employing Operating Least Square Method (OLS), sampled 298 entrepreneurial firms. The findings showed an affirmative association between financial literacy and firm performance. In addition resource flexibility and financial capital availability moderated positively in the relationship between financial literacy and firm performance.

2.4.2 Local Studies

Locally, Wachira and Kihiu (2012) in the 2009 National Financial Access study, examined through use of survey, that financial literacy in Kenya was still low. The study focused on access to financial services and its link with Financial Literacy. The study

employed a multinomial logit model and data analyzed using a regression model. The study indicated that households' access to financial services was influenced by income levels, age, household size, education level, distance from banks, marital status and gender and not financial literacy levels. The findings further indicated however, that financially illiterate individuals are still more likely to be financially. This study combined both rural and urban population in the analysis hence the findings may be different for rural communities.

Musundi (2014) examined "The Effects of Financial Literacy on Personal Investment Decisions in Real Estate in Nairobi County". The target population included real estate investors in Nairobi County. Primary data was used for data collection using a semi structured questionnaire. A target population of 140, 115 was used in the study. The results indicated that the real estate investors' level of financial literacy was not as per the required level. However, the study found that financial literacy has a positive impact on the real estate investors' decision making. The study called for enhanced financial literacy amongst consumers to meet the needs of the growing complexity of financial markets and products.

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 through use of semi structured questionnaire. The research design was descriptive statistics and Regression analysis was employed. Data was analyzed and presented using mean, correlation, standard deviation

and percentages. The findings indicate that financial literacy had positive correlation with financial management by the youth. The youth were found to be financially illiterate which was attributed to less financial knowledge, less exposure to managing finances and also their education levels. It was also found out that parent 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.

Njoroge (2013) examined the “Relationship between Financial Literacy and Entrepreneurial Success in Nairobi County Kenya”. The study sample was seventy nine entrepreneurs registered and operating in Nairobi County. The findings show that all the SMEs interviewed had some level of financial literacy and on average most entrepreneurs scored well above average in financial literacy. Highly successful entrepreneurs scored highly in financial literacy and demonstrated high understanding of finance. In contrast, less successful entrepreneurs exhibited stagnant growth, and low levels of financial knowledge majority of who were discovered to be in informal sector. The study concluded that that there was a direct positive link between the two variables.

Kariuki (2012) research focused on microfinance institutions’ clients in Embu County and whether financial literacy by these clients influences their financial decisions making. The study looked at three areas of financial literacy, that is, knowledge on sources of Finance, financial investment literacy and financial technological literacy. The population focused on was the 2,168 members of the twenty five registered microfinance institutions in the county and the data collection method employed was a semi structured

questionnaire. He investigated how these three areas of financial literacy had on the financial decisions of the microfinance institution clients. The study's findings were that there was a positive relationship between the two variables.

Mutegi et al. (2015) examined the impact of Equity bank foundation financial literacy training on the small and medium entrepreneurs' loan repayments. The study through the use of questionnaires, focused on 30 out of total population of 300 small and micro entrepreneurs in Ngara, Nairobi County. The study focused on bookkeeping, credit management and budgeting skills as a measure of financial literacy. The study's findings showed a positive correlation between the skills mentioned and the ability of SMEs to repay loans.

2.5 Conceptual Framework

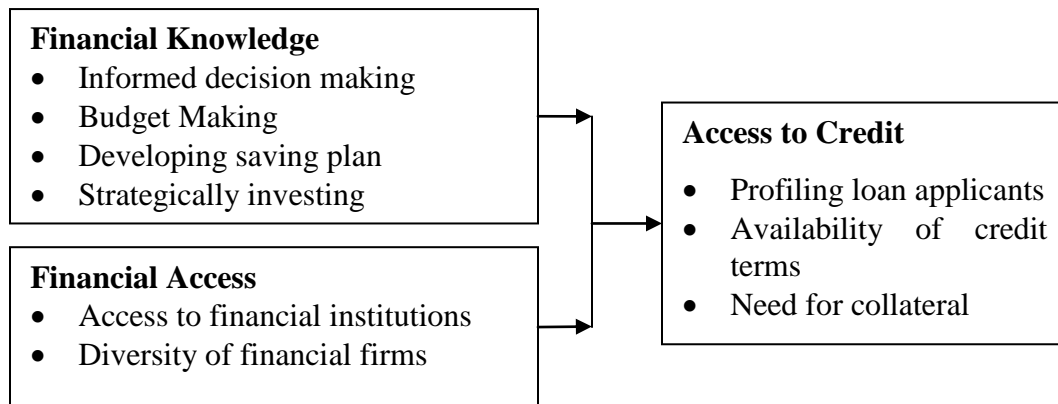


Figure 2.1: Conceptual Framework

2.6 Chapter Summary

This chapter has highlighted the studies done on the effect of financial literacy on SMEs, entrepreneurship and households. The chapter has also highlighted the various

determinants of credit access which are financial literacy, income levels, gender, age, education levels, availability of financial institutions and financial literacy. From the studies highlighted it is evident that the influence of financial literacy on the youth, financial services access, entrepreneurship and the economy is positive. Many of these studies have concentrated on SMEs, farmers and urban youth. However there's is no direct study on the connection between financial literacy and access to credit with a bias on the rural youth who face other unique challenges than their urban counterparts. In addition, no specific theories have been found that talks about financial literacy and credit access. This chapter thus shows there are some theoretical and empirical gaps that has necessitated this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains how this study will be conducted and how the data will be collected and analyzed. It will cover the research design, population of the study, the sample size, and data analysis and the analytical model.

3.2 Research Design

Research design is the overall strategy employed to carry out the research that would effectively and efficiently address the research objective. A descriptive research design was employed in order to describe the what, when and how of an existing phenomenon. Descriptive research design is more applicable to this study as it will help in describing the existing situation as per the objective of this study.

3.3 Population of the Study

The population in focus was all the youth in Kimilili constituency. KNBS (2013) have identified a population of 41,181 for ages 15-34 years in Kimilili constituency.

3.4 Sample Size

The sample is a subcategory or representation of the entire population. The study used a sample size of 384 youths as per Fischer's formula shown below.

$$n = Z^2 pq / d^2$$

Where:

n = the sample size (for population greater than 10,000)

Z= the normal standard deviation at an identified level of confidence.

p = the proportion of the target population being measured.

q = 1- p

d = significance level

$$n = 1.96^2 * (0.5) (1-0.5) / (0.5 * 0.05)$$

$$n = 384$$

3.5 Data Collection

Primary data was collected through use of questionnaires matching this study's objective. The questionnaires were distributed to the respondents where they were supposed to answer questions regarding their profile and answer questions on the degree to which they are in agreement with the statements in the questionnaires. Questionnaires are more efficient and effective in gathering of information, are easy to use, take a shorter time in collection and analysis of data.

3.6 Data Analysis

Descriptive measures of central tendency including mean, standard deviation and the multiple linear regression analysis was adopted to analyse the data. The ANOVA and R-squared was used to test whether the model is significant in explaining the relationship between the identified variables at 0.05 level of significance.

3.6.1 Analytical Model

To measure the dependent variable (access to credit) and the independent variable (Financial Literacy), the respondents answered questions measured on a likert scale of between 0 to 5 to assess the degree to which they are in agreement with the statements that touch on financial literacy, and credit access.

In the determination of the relationship between financial literacy and access to credit with rural youth in Kimilili Constituency, a regression analysis was done using the below analytical model.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Y = Credit Accessibility

X_1 = Financial Knowledge

X_2 = Financial Access

ϵ = Error term/Erroneous variables

3.6.2 Inferential Statistics

The significance of the model in measuring the relationship between financial literacy and access to credit with rural youth in Kimilili Constituency was tested through the T test or Analysis of Variance (ANOVA). The T test of F statistics helped in testing if we have similar means and if the model is significant in explaining the relationship between the two variables.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

In this chapter, the results of the analysis of data and findings of the study will be exhibited. The objective of the study was to ascertain the relationship between financial literacy and Credit access with the rural youth a case of Kimilili constituency.

4.1.1 Response Rate

From the 384 distributed questionnaires, 296 questionnaires which translates to 77% were duly filled and returned. Some questionnaires were not completely filled and thus were not included in the study.

4.2 General Information

The study looked at the general profile and characteristics of the respondents in order to have an understanding of their suitability to undertake the study. The findings are shown in the subsequent sections.

4.2.1 Gender of the Respondents

Majority of the respondents were male accounting for 59% of the total respondents and 41% for female respondents as shown in figure 4.1 below.

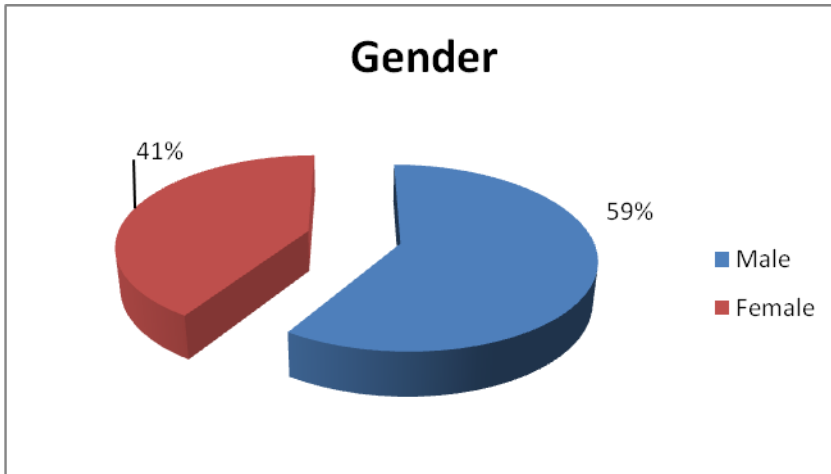


Figure 4.1: Gender Distribution

4.2.2 Age Bracket

The Table 4.1 below shows 55% of the respondents were aged between 18-30 years, 25-30 years and 30-35 years had an equal representation at 32%. This shows that all youth age groups were covered in the study thus the information provided was reliable.

Table 4. 9: Age Brackets

Age	Frequency	Percent
18 -25 Years	104	55
25-30 Years	97	32
30-35 Years	95	32
Total	296	99

4.2.3 Education Level

From the Figure 4.2 below, majority of respondents had a Diploma at 36%; 32% had a certificate, 22% held a bachelor's degree and 10% had a master's degree. This implies the respondents had relevant knowledge on financial literacy and credit access thus they had ease in addressing the question and provided the correct responses

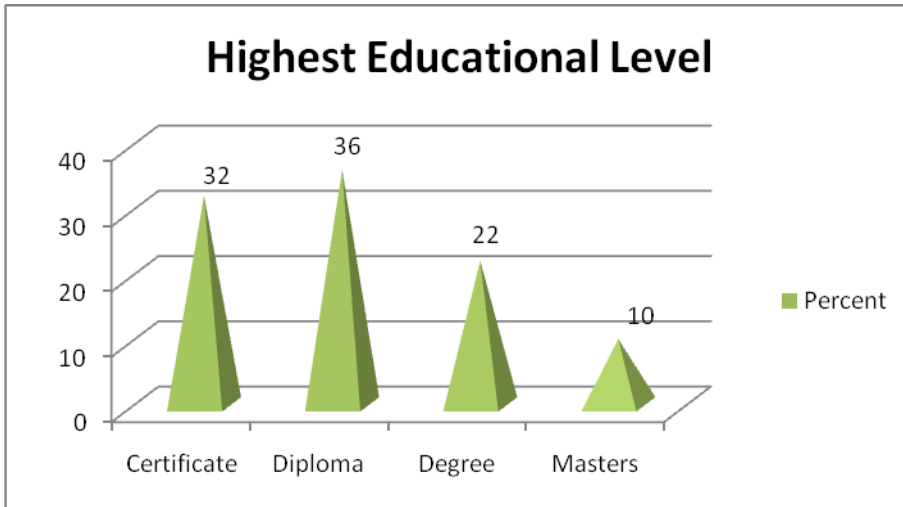


Figure 4.2: Highest Education Level

4.2.4 Occupation

From Figure 4.3 below, majority of the respondents were self-employed at 39%; followed by 33% of them who are in school and 27% are employed. The diversity in the respondent's occupation meant they would give reliable responses.

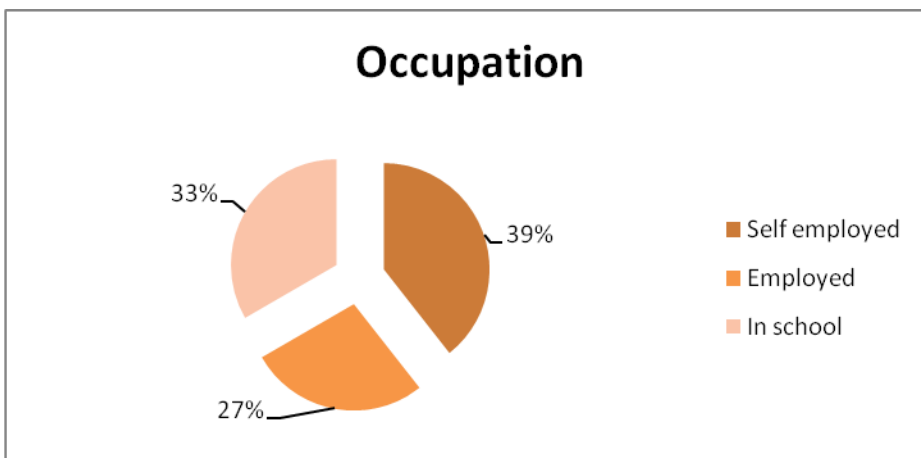


Figure 4.3: Occupation

4.2.5 Monthly Income

From Table 4.2 below, majority of the respondents were earning a monthly income of sh.15,001-25,000 at 31%, 29% of the respondents were earning sh. 5,001-15,000, 21% were earning below sh. 5,000 and 19% were earning over sh. 25,000.

Table 4.1: Monthly Income

Monthly Income (sh)	Frequency	Percent
Below 5,000	61	21
5,001-15,000	87	29
15,001-25,000	93	31
over 25,000	55	19
Total	296	100

4.2.6 Account

Figure 4.4 below shows, majority of the respondents had an account with the bank at a frequency of 163, 91 respondents had an account with a SACCO while 42 of the respondents did not have an account either with a bank or with a SACCO. This information was used to know the availability and use of financial institutions among the respondents

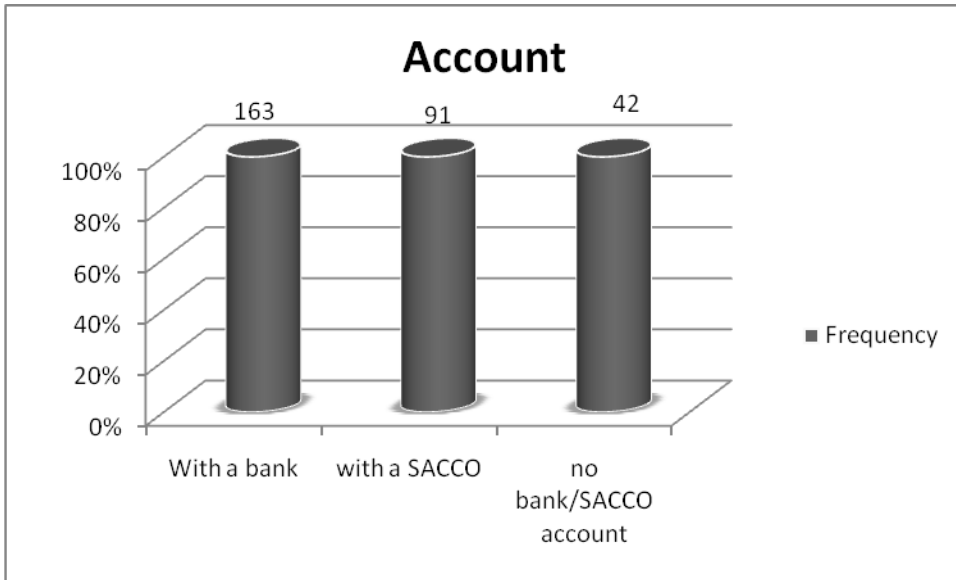


Figure 4.4: Account with a financial institution

4.3 Financial Literacy and Access to Credit

4.3.1 Financial Knowledge

The respondents were required to answer several statements on financial knowledge by indicating the degree to which they are in agreement with them on a likert scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent. Table 4.3 shows in summary the calculation of the mean and the standard deviation for each statement.

Table 4.2: Financial Knowledge

Financial Knowledge	Mean	Std. Dev
I make payment of my bills on time	3.8659	.87810
Through Financial education I can evaluate financial products	3.2174	1.02151
I manage my debts properly	3.2210	1.20230
I can make informed decisions on my finances	4.0435	.90950
My household budget making is effective	3.7065	1.05007
I have created a saving plan	4.2420	1.14427
I make strategic investment decisions using financial knowledge	3.1899	1.10669
I meet my financial obligations through wise planning	4.1254	.60550
I can control my financial future	3.5217	1.17685
I am not vulnerable to overzealous vendors or fraudulent ploys	3.7101	.93188
I diversify assets in preparation for tough economic times	4.1775	.88688
I have adequate knowledge of price changes on cost of living	3.9565	1.00137
I am able to compare bank accounts	4.2913	1.11416
I can make optimal decisions on credit and loan options	4.0145	1.04143
I am able to compare and contrast the different payment instruments	3.7319	.85314
I check the insurance coverage before making decisions	3.6450	.69127

The findings of the study showed a mean on whether I make payment of my bills on time of 3.8659 and Standard Deviation of .87810, on the statement on through financial education, I can evaluate financial products the mean was 3.2174 and Standard Deviation was 1.02151. On whether I manage my debts properly the mean was 3.2210 and standard deviation was 1.20230; I can make informed decisions on my finances the mean was

4.0435 and standard deviation was 0.90950; in the statement my household budget making is effective the mean was 3.7065 and standard deviation was 1.05007.

With regards to the statement on I have created a saving plan the mean was 4.2420 and standard deviation was 1.14427; the statement - I make strategic investment decisions using financial knowledge the mean was 3.1899 and the standard deviation was 1.10669; while I meet my financial obligations through wise planning the mean was 4.1254 and the standard deviation was 0.60550; on I can control my financial future the mean was 3.5217 and standard deviation was 1.17685; and on I am not vulnerable to overzealous vendors or fraudulent ploys the mean was 3.7101 and the standard deviation was 0.93188 and on I diversify assets in preparation for tough economic times the mean was 4.1775 and the standard deviation was 0.88688.

On whether I have adequate knowledge of price changes on cost of living the mean was 3.9565 and standard deviation was 1.00137; on I am able to compare bank accounts the mean was 4.2913 and standard deviation was 1.11416, while I can make optimal decisions on credit and loan options the mean was 4.0145 and the standard deviation was 1.04143; I am able to compare and contrast the different payment instruments the mean was 3.7319 and the standard deviation was 0.85314 and I check the insurance coverage before making decisions the mean was 3.6450 and the standard deviation was .69127.

4.3.2 Financial Access

The respondents were required to indicate the degree to which they were in agreement with the statements on financial access and the mean and standard deviation was calculated as shown on Table 4.4.

Table 4.3: Financial Access

Financial Access	Mean	Std. Dev
I can easily access the financial institutions in Kimilili constituency	4.2901	.56508
Several financial institutions are within my walking distance	3.9725	.54105
I have several options for borrowing money whenever I need	3.3087	.78564
There are diverse financial firms within Kimilili that I can contact	3.9125	1.18104
Using my strong asset base I can access more finances	4.2619	1.08930
Insufficient initial capital is a constraints I face in accessing credit	3.6479	.87220
My income level determines the amount of credit I can access	3.4092	1.01260

The findings on I can easily access the financial institutions in Kimilili constituency was agreed by the respondents at an average of 4.2901 and standard deviation of 0.56508, on several financial institutions are within my walking distance, the respondents agreed at an average of 3.9725 and with a standard deviation of .54105, I have several options for borrowing money whenever I need had an average of 3.3087 and a standard deviation of .78564.

In regards to the statement on there are diverse financial firms within Kimilili that I can contact it was agreed at an average of 3.9125 and a standard deviation of 1.18104; Using my strong asset base I can access more finances had mean of 4.2619 and a standard

deviation of 1.08930; while on insufficient initial capital is a constraints I face in accessing credit was agreed at an average of 3.6479 and a standard deviation of .87220 and on my income level determines the amount of credit I can access having an average of 3.4092 and a standard deviation of 1.01260.

4.4 Credit Accessibility

The respondents answered on a likert scale of between 1 to 5 on the degree to which they are in agreement on several statements on credit accessibility among youths in rural areas, where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent and the means and standard deviation calculated.

Table 4.4: Credit Accessibility

Credit Accessibility	Mean	Std. Dev
I can access credit from financial institutions	4.1033	1.12639
Lack of collateral limits my access to credit services	3.5232	.98368
I can access loans to fund my business prospects	3.8696	.74175
Accessing credit has improved my economic status	4.4672	.86211
My credit profile is done before I am awarded credit	4.0783	1.17085
The credit terms are good when I seek credit services	3.2849	.88614

The respondents agreed on the statement I can access credits from financial institutions at an average of 4.1033 and standard deviation of 1.12639; on lack of collateral limits my access to credit services having an average of 3.5232 and standard deviation of .98368, while I can access loans to fund my business prospects had an average of 3.8696 and standard deviation of .74175 and in accessing credits has improved my economic status having an average of 4.4672 and standard deviation of .86211; while My credit profile is

done before I can am awarded credit was agreed at an average of 4.0783 and standard deviation of 1.17085 and on the credit terms are good when I seek credit services was agreed by the respondents at an average of 3.2849 and a standard deviation of .88614.

4.5 Regression Analysis

To investigate the extent to which the independent variables (financial knowledge and financial access) affects the dependent variable (credit accessibility), a regression analysis was conducted. The coefficient of determination R^2 (R-squared) was used to determine how well the linear regression equation represents the data collected and an R-squared over 0.7 indicates a very good fit. P-values for the t-test statistics were used to determine the significance of the independent variables in the regression model.

Table 4.5: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	392.576	4	98.144	45.1667	.002
Residual	588.864	271	2.17293		
Total	981.440	275			

The ANOVA results at 5% level of significance indicate that F calculated is 45.1667 while F critical is 1.94486. Since the calculated F value is greater than F critical value ($45.1667 > 1.94486$), this therefore means the overall model was significant.

Table 4.6: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	13.134	1.948		6.743	.000
Financial Knowledge	.017	.050	.022	.348	.028
Financial Access	.116	.029	.272	4.023	.000

The established equation becomes:

$$Y = 13.134 + 0.017X_1 + 0.116X_2 + e$$

Where, Y = Credit Accessibility (Dependent variable), X₁ = Financial Knowledge, X₂ = Financial Access and e = Error Term. The findings indicate that holding other variables constant, Credit Accessibility among the youths in Kimilili Constituency would be at 13.134, a unit increase in financial knowledge holding other variables constant would improve credit accessibility by 0.017, a unit increase in financial access holding other variables constant would improve credit accessibility by 0.11. All the p values (0.000, 0.028, 0.000) were less than 0.05 and therefore were significant.

Table 4.7: Model Summary

Model	R	R Square	R Square Adjusted	Std. Error of the Estimate
	.6325	.400	.460	1.84859

The findings of the model summary indicate that the value of R is 0.6325, R square is 0.40 and R squared adjusted is 0.46. An R squared of more than .2 means that there is statistically significant relationship between the financial literacy and access to credit. This finding indicates that 40% changes in credit accessibility among the youths in Kimilili Constituency are explained by financial literacy and financial access.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter offers the summary of the findings, the conclusions drawn and the recommendations.

5.2 Summary of the Findings

The study found out that the respondents paid their bills on time; they were also able to evaluate financial products by making informed decisions on finances. The study found that the respondents made affective household budget and managed their debts well. The study further revealed that many youths created a saving plan, they invested and easily met their financial obligations through wise planning. They were also able to control their financial spending and were not susceptible to overzealous vendors or fraudulent ploys. The study also found out that the youths made a comparison between the different accounts banks had; they also made optimal decisions on credit and loan options while comparing and contrasting the various available payment options.

The study also revealed that accessing financial institutions in Kimilili constituency was very easy as they were within walking distance of the youths. This increased the options for the youths seeking to borrow money as they could check on many financial institutions that are placed in one location. The study also noted that there were diverse financial firms within Kimilili that could be contacted, though the amount the youths could borrow was depended on their incomes and their asset base. Higher incomes and

higher asset bases meant the youths could access more money. The study further revealed that the youths could access credits from financial institutions but this was limited by lack of collateral but whenever they accessed the credits it led to an improvement in their economic status. The study also revealed that before credits are awarded the credit profile is done

5.3 Conclusion

The study concluded that the youths in Kimilili were able to pay their bills on time after getting financial knowledge. This is because the youths could now make informed decisions and they could plan wisely for their incomes and prioritize their expenditure. Furthermore, the youths could analyze and evaluate the different financial products and make better decisions.

The study concludes that with the financial knowledge the youths can make effective household budget, which enables them to manage their debts well, they could plan for their investment which yielded higher returns enabling them to meet their financial obligations in an easy way. The youths could also control their spending as now they are not vulnerable and susceptible to overzealous vendors or fraudulent ploys. This is due to the fact that the youths made comparisons between one product/service with others and hence they were able to choose the best.

The study further concludes that accessing financial institutions in Kimilili constituency was very easy and that it was within the walking distance of the youths. Furthermore, Kimilili constituency had many financial institutions that the youth could access for

advice, financial knowledge, credits and loan borrowings. The study further concludes that the youths checked on many financial institutions within the Kimilili constituency.

The study also concludes that the youths could access credits financial institutions. The youths had to have collateral before they could borrow. The study further concluded that whenever the youths accessed credit, they put it to good use resulting in improved economic status. The study further concludes that financial institution had to check the profile of the applicant before the credit was awarded.

5.4 Recommendation

The study recommends that organizations in Kenya should provide the youths with financial information which would enable them to access loans and credits from financial institutions and put it to good use in an effort to improve their economic lives.

The study also recommends that before the awarding of credit to youths in rural areas, the financial institutions must conduct a financial literacy program to educate the youths. They must also evaluate the reasons for borrowings, to confirm that they are valid and will eventually benefit not only the youths but also the entire community. The credits given should be able to improve the economic life of the youths and the community.

The study also recommends that financial institutions should have policies that are geared towards giving credit to youths that may lack collateral acting as a guarantee or those seeking higher loans but lack the necessary asset base.

5.5 Limitation of the Study

The respondents were youths and they felt that revealing some personal information such as their incomes and education levels portrayed them as inadequate and inferior. They also felt embarrassed with some questions due to their inadequacies in their personal financial management aspect and especially where they are not assured of confidentiality hence some respondents were biased and dishonest in their answers.

5.6 Suggestion for Further Studies

This study's objective was the examination of the relationship between financial literacy and credit access among rural youth: a case of Kimilili Constituency. It is therefore recommended that similar studies should be done to cover other very remote areas like the Arid and Semi-arid areas which could be facing different situations as compare to this study and investigate the case as it applies to youths in those areas.

A similar study could be conducted in the whole country due to the fact that Kenyan youths account for the highest group of the country's population. This will enable the financial institutions in planning on how to improve the economic status of the youths both in urban and remote areas.

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Financial Knowledge					
I make payment of my bills on time					
Through Financial education I can evaluate financial products					
I manage my debts properly					
I can make informed decisions on my finances					
My household budget making is effective					
I have created a saving plan					
I make strategic investment decisions using financial knowledge					
I meet my financial obligations through wise planning					
I can control my financial future					
I am not vulnerable to overzealous vendors or fraudulent ploys					
I diversify assets in preparation for tough economic times					
I have adequate knowledge of price changes on cost of living					
I am able to compare bank accounts					
I can make optimal decisions on credit and loan options					
I am able to compare and contrast the different payment instruments					
I check the insurance coverage before making decisions					
Financial Access					
I can easily access the financial institutions in Kimilili constituency					
Several financial institutions are within my walking distance					
I have several options for borrowing money whenever I need					
There are diverse financial firms within Kimilili that I can contact					
Using my strong asset base I can access more finances					
Insufficient initial capital is a constraints I face in accessing credit					
My income level determines the amount of credit I can access					

8. In general terms to what extent does financial literacy have an influence on the credit access with rural youth in Kimilili Constituency.

Very Great Extent [] Moderate Extent []
 Great Extent [] Little Extent [] No Extent []

CREDIT ACCESSIBILITY

9. Below are several statements on the access to credit with rural youth in Kimilili Constituency. Kindly indicate the degree to which you are in agreement with the given statements. Use a scale of 1-5 where 1= No extent, 2= Little Extent, 3= Moderate Extent, 4= Great Extent and 5= Very Great Extent.

Credit Accessibility	1	2	3	4	5
I can access credits from financial institutions					
Lack of collateral limits my access to credit services					
I can access loans to fund my business prospects					
Accessing credit has improved my economic status					
My credit profile is done before I am awarded credit					
The credit terms are good when I seek credit services					