DIGITAL CREDITS AND FINANCIAL INCLUSION AMONG THE YOUTH IN KENYA

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ABSTRACT

Objective of the Study: This study sought to investigate the relationship between digital credits and financial inclusion among the youth in Kenya. In specific, the study used borrowing for basic needs and borrowing for personal needs as measures of digital credits.

Research Methodology: The population of interest was the youth in Kenya focusing on public and private university students on the main campuses in Nairobi City County aged between 18 years and 35 years estimated at 84,848. This study sought to collect primary data using questionnaires for one year targeting the year 2020. The data collected were analyzed using both descriptive and inferential statistics.

Results and Findings: The study found out digital credits have no effect on financial inclusion among the youth in Kenya. Emulated from the empirical results, the study recommends that policymakers and digital financial service providers should work to enhance the provision of digital credits as a result of which they can have a significant impact on financial inclusion among the youth in Kenya.

Conclusion and Recommendation: Digital financial service providers should embrace transparency for a comprehensive decision-making process by the borrowers. Interest rate, security requirement, and repayment period should be clearly explained to the borrower in detail and any concerns clarified. Further, the government should educate the public on the use of digital credit to embrace entrepreneurship and investment to avoid defaulting payments, late repayment, and CRB listing.

Keywords: Digital Credits, Financial Inclusion, Youth.

1.0 INTRODUCTION

Financial inclusion in developing countries has been used as an effective tool for measuring economic improvement. Further, financial inclusion has been used to eradicate financial hurdles that have overwhelmed individuals. This has ensued through the provision of fair

means of payments, credit, and savings at an affordable cost (Shafi & Medabesh, 2012). Provision of financial education and the creation of financial awareness to the public are measures employed to improve financial inclusion as they enable better financial choices.

In the past, lending in the banking industry has been characterized by very stringent conditions that must be met before the issuance of a bank loan. It is from this gap that digital credit services are formulated. They aim to provide financial credit to low-income earners and startups without asking for collateral. In 2018, the value of the digital credit market in the world was estimated to be USD 3.5 billion and is expected to rise by 20.7 percent by 2026 (Grand View Research Inc, 2019). The rapid growth of digital credit services is due to the ease of applying for loans. For instance, in Kenya, over 8.2 million people had digital loans as of May 2018 where most borrowers used the loans to meet emergencies, business, and day-to-day needs (Biallas *et al.*, 2019).

In this study, digital credits were measured by borrowing for personal needs and borrowing for basic needs. This study sought to investigate whether digital credits have an impact on financial inclusion among youth in Kenya

1.1 Statement of the problem and objective of the study

A study by Rutten & Fanou (2015) sought to investigate the innovation and financial inclusivity for youth in agriculture and found out that financial constraints are key hampers to the participation of youth in agriculture. Further, the study stated that only 48 percent of youth in Kenya held a formal bank account in 2014. The study concluded that the lack of financial access among the youth was due to poor perception by finance providers about the youth, where the providers deemed them too risky to lend to.

Sixty-nine percent of digital loans are issued to youth. A large number of them have been listed on the Credit Rating Bureau (CRB) due to failure to repay these loans. Consequently, barring them from accessing financial assistance from any accredited financial institutions plus the government (Wameya, 2019). Further, financial services providers' capacity, youth financial illiteracy, and strict regulations were also key contributors. Further, studies by Mohamud (2019); Muruthi (2016); Odongo (2019) focused on the impact of the Youth Development Fund on youth from various regions in the country.

Following a gap in the above studies, where none focused on digital credit and financial inclusion of the youth. The current study sought to enrich previous research on digital finance by examining the impact of digital credit on financial inclusion among youth in Kenya.

1. 2 Significance of the study

The significance of this study was to investigate the effect of digital credits on financial inclusion among the youth in Kenya. The current research aimed to provide local and global policymakers with more insight into the rapid development of digital credits available to the youth. Further, establish clarity on the role of the emerging digital credits on financial inclusion among the youth. Further, it was a benchmark in the formulation of policies, guidelines, and rules for the current emerging digital credits that are unregulated.

2.0 LITERATURE REVIEW

This section contains an outline of the relevant theories that underpin this research and empirical literature.

2.1 Theoretical Review
2.1.1 Technology Acceptance Model

In 1986, Technology Acceptance Model (TAM) was pioneered by Davis F. This theory is concerned with the individual's acceptance and utilization of technology. TAM believes that a variety of factors influence an individual's decision to use new technology and when to use it.

Before adopting new technologies, people primarily consider perceived utility and perceived ease of use. Perceived utility refers to how much the recipient believes the new technology improves his or her work performance, whereas perceived ease of use refers to how easily the target uses and comprehends the new technology (Davis, Bagozzi, & Warshaw, 1989).

Digital credits are referenced in this theory because of their perceived usefulness and ease of use by potential customers in Kenya, as well as their role in the financial inclusion of the youth.

2.1.2 Rational Choice Theory

Adam Smith developed the Rational Choice Theory in 1776. The theory contends that economic decision-making and social behavior are inextricably linked. The rational choice theory includes three concepts: rational actor, self-interest, and the invisible hand. Where, before making an economic decision, an individual will conduct a cost-benefit analysis to determine the best decision despite the presence of uncontrollable factors.

The rational choice theory is used to examine the demand side of financial inclusion, which includes the availability of financial services and the conditions under which the provision occurs. The demand side of financial inclusion is represented by characteristics or quality of financial services and service provider attributes in the utility function (Awunyo, 2018).

As the primary theory in this study, it underpins the dependent variable, financial inclusion, as it promotes rationality in decision-making when requesting financial services.

2.2 Empirical Review

Digital credit has been instrumental in granting formal credit via the internet and mobile phones. It has provided individuals with the tools to manage their day-to-day needs.

Wathome (2020) carried out a study on the effect of digital credit on financial inclusion among the youth in Kenya. In addition, the study aimed to assess the effect of positive and negative spillovers of digital credit on financial inclusion. The study used M-shwari as a dimension of digital credit. The study found out that males aged 18 years to 25 years were the majority engaging in digital borrowing. Further, the majority of the youth reported that digital credit has improved access to finance for them. 39 percent of the youth had a digital loan from more than one provider. In the above study, M-shwari was used as a measure of digital credit. The current study sought to incorporate all digital credit services by analyzing the use of digital credit in terms of borrowing for personal needs and for basic needs.

The rise of digital lenders in Kenya has been seen as a way of increasing financial inclusion. A report on the loan cycle trap among the youth in Kenya reported that a large part of 76 percent of the total people surveyed who have taken a digital loan are aged between 26 and 35 years. Also, the survey found out that digital loans holders used the digital loan from one provider to repay another. For Instance, 36 percent of persons surveyed used Fuliza to repay other digital loans (Patascore Ltd, 2019). However, this report failed to provide a statistical relationship between digital loans and financial inclusion among the youth which was addressed by the current study.

A similar report by Kimani (2020) analyzed the effect of FinTech on poverty and financial inclusion. The author stated that predatory lending and gambling through the application of financial technology have affected youth in Kenya. For instance, through predatory lending, some digital lenders charge above 500 percent annual interest compared to approximately 13 percent charged by commercial banks. This study was carried out by analyzing using secondary data. The current study sought to employ primary data from the consumer perspective.

Wamalwa, Rugiri, & Lauler (2019)carried out an analysis of digital credit, financial literacy, and household indebtedness. The study measured financial literacy by accessing the respondent's understanding of collateral and interest rates. According to the study, financially literate business owners were more likely to use digital credit than conventional credit. Further, the study concluded that the presence of debt distress where a household was financing more than one digital loan. However, households were better off having digital credit than none. This study focused on households but the current study was narrowed to youth, to establish whether digital financial services have any influence on their financial inclusion. Further, the current study employed sources of finance, time value of money, and Risk and Return as measures of financial literacy.

3.0 RESEARCH METHODOLOGY

3.1 Research design

This study employed an explanatory research design because it aimed at providing more insight and understanding by answering the "why" and "how" about digital credits. This was done by the analysis of statistical data to provide quantitative results hence justify a qualitative relationship Boru (2018).

3.2 Operationalization and measurement of variables

Digital credit is the independent variable, while financial inclusion is the dependent variable. **Table 3.1 shows how these variables were operationalized.**

Variable	Variable Type	Scale	Measurement
Digital credit	Independent	2-point Likert Scale	• Borrowed for personal needs • Borrowed for basic needs
Financial Inclusion	Dependent	2-point Likert Scale	• Affordability • Convenience • Safety

3.3 Target Population and Sampling Techniques

The population of interest in this study was the youth in Kenya, with a focus on public and private university students on the main campuses in Nairobi City County aged 18 to 35. This was estimated to be 84,848 students from Nairobi City County's 12 private and public universities (Commission for University Education, 2019). To determine whether there was gender parity in the use of digital financial services, the target population was divided into two strata: male and female. A sample from each stratum was selected using a simple random technique. The sample size was 385 people.

3.4 Data Source and Data collection Instrument

In this study, a structured questionnaire was used as a data collection instrument to collect primary data from the target population.

3.5 Analytical model

A regression model was used to test the relationship between digital credits and financial inclusion among youth in Kenya.

$Y = \beta_0 + \beta_1 Dc + \varepsilon i$ ……………………………………………… (3.1)

Where:

Regression Parameters:

β_0-The intercept (value of $\sum Y$ when Dc = 0).

β_1 is the regression coefficient.

εi = Error term.

Independent Variables:

Dc – Digital Credits

Dependent Variables:

Y- Financial inclusion

4.0 RESULTS AND DISCUSSION

4.1 Descriptive statistics

Table 1: Mean and Standard Deviation of Digital Credits.

Statement	Disagree	Agree	Mean	Standard Deviation
I borrowed using digital credit services to finance my personal needs (weekend out, lunch with friends, road trip) in the year 2020.	71.6%	28.4%	0.28	0.452
I borrowed from a digital credit to finance my daily basic needs (Transport, Food, and Clothing) in the year 2020	67.8%	32.2%	0.32	0.468
I borrowed from a digital credit for any other reason in the year 2020	66.6%	33.4%	0.33	0.473
Aggregate Score	**68.7%**	**31.3%**	**0.31**	**0.464**

Source: Study data (2021)

The rate of 71.6 percent of respondents disagreed with the statements that they borrowed using digital credit services to finance personal needs in the year 2020 with a mean of 0.28 and low variability of 0.452 as per results in table 4.3. Further, 67.8 percent of the respondents disagreed to have borrowed from a digital credit to finance daily basic needs in the year 2020 with a mean of 0.32 and a standard deviation of 0.468. Lastly, 66.6 percent disagreed to have borrowed from a digital credit for any other reason in the year 2020. This was with a mean of 0.33 and a standard deviation of 0.473.

There was an average mean of 0.31 and a small variability of 0.464 in the responses on digital credit. This shows that a large number of respondents disagreed with the statements on digital credits at an average of 68.7 percent. From the above findings, digital credits don't play an integral part in enhancing financial inclusion among the youth in Kenya.

The above findings are contrary to Wamalwa, Rugiri, & Lauler (2019) who argued that youth have high digital credit uptake. Further, they do so to meet their personal needs and others to hasten asset accumulation. In addition, contrary to Wathome (2020) who stated that digital credit has enabled easy access to finance that wasn't available from traditional banks.

4.2 Diagnostic Tests

Several diagnostic tests were performed before the application of the model estimation to ensure adherence to the regression model assumptions and the best linear unbiased estimator (BLUE). The normalcy, multicollinearity, linearity, and heteroscedasticity tests were used to accomplish this.

4.2.1 Normality Test

The normality test was performed using skewness and kurtosis. The normality assumption is satisfied if the skewness and kurtosis values are between 1 and -1 (Mishra *et al.,* 2019). The statistic values for skewness and kurtosis in Table 4.10 are between 1 and -1, indicating that the normality assumption was followed in the study.

Table 2: Normality Results

Variable	N	Skewness Statistics	Std. Error	Kurtosis Statistics	Std. Error
Digital Credits	319	0.773	0.137	-0.919	0.273

4.2.2 Heteroscedasticity

The heteroscedasticity test was carried out using the Breusch Pagan test. If the p-value was greater than the critical value, the null hypothesis would not be rejected because it implied the absence of heteroscedasticity.

Table 3: Breusch Pagan test Heteroscedasticity Results

Variable	Heteroscedasticity statistics
Digital Credits	Test statistic: 0.88 P-value: 0.377

4.2.3 Linearity Test

According to Krieger (2018), a violation of the linearity assumption indicates that there is an error and that predictions beyond the sample data are incorrect. This study used SPSS to perform a linearity test, and deviation from linearity test values should be greater than the alpha value of 0.05 for the linearity assumption to be followed.

Table 4: Linearity Test Results

Variable	Deviation from Linearity (Sig.)
Digital Credits	0.713

4.2.4 Multicollinearity

To ensure that predictor variables were not correlating with one another, multicollinearity was tested. The absence of multicollinearity was indicated by tolerance values greater than 0.1 and a Vector Inflation Factor (VIF) less than 10 (Cooper & Schindler, 2008).

Table 5: Multicollinearity Results

Coefficient			
	Collinearity Statistics		
	Tolerance	VIF	Remarks
Digital Credits	0.908	1.102	Absence of multicollinearity

4.3 Regression Analysis

Table 6: Effects of Digital credits on Financial Inclusion

Digital Credits	Coefficients	Standard Error	t Stat	P-value
Intercept	0.40336766	0.061096004	6.602194	0.00
Digital Credits	0.076125108	0.049137612	1.549223	0.122332
Observations: 319				
F statistics= 16.18077				
R Squared = 0.1335				
Adjusted R Squared = 0.1253				
Significance F= 0.00				

The following regression model was developed based on the analysis of Table 4.11:

Financial Inclusion=0.40336766+0.076125108Dc+εi………………………………………… (4.1)

Where:

Dc – Digital Credits

According to Table 4.6, the adjusted R squared was 0.1253, indicating that digital credits had a low explanatory power on financial inclusion of 12.53 percent, while other factors not captured in this study explain 87.47 percent of the variation in financial inclusion.

H_{01}: Digital credits have no effect on financial inclusion among the youth in Kenya

The objective was to determine the effect of digital credits on financial inclusion among the youth in Kenya. The findings thereof are shown in table 4.6. This objective was achieved through the formulation of null hypothesis **H_{01},** which states that digital credits have no effect on financial inclusion among the youth in Kenya. The coefficient of digital credits was 0.076125108 and a P-value of 0.122332 is greater than 0.05, as specified in table 4.6. This suggests that there was a positive connection between digital credits and financial inclusion, however, it was insignificant. As result, at a 5% significance level, the null hypothesis that digital credits have no effect on financial inclusion among the youth in Kenya was not rejected.

In the findings, a positive coefficient of 0.076125108 meant that as digital credits increase financial inclusion among the youth also increases. This further indicated that when borrowing for personal needs and borrowing for basic needs, which were the measurement indices for digital credits increase financial inclusion among the youth also increases.

Wathome (2020) concluded that use and access to digital credit were enhanced by digital loans. As a result, in Kangemi, digital credit had a significant impact on youth financial inclusion. This contradicted the findings of the current study.

5.0 SUMMARY OF FINDINGS, POLICY IMPLICATIONS, AND RECOMMENDATIONS

An explanatory research design was used in this study. Primary data was collected using a questionnaire presented in Google forms and administered to respondents face to face. Descriptive and inferential statistics were used to analyze the collected data. Regression was used to establish the relationship between digital credits and financial inclusion among youth in Kenya. The study found a significant positive relationship between digital credits and financial inclusion among youth in Kenya.

6.0 CONCLUSION

The study found a negligible positive relationship between digital credits and financial inclusion among the youth in Kenya. Despite a positive relationship, an increase in digital credits such as borrowing for personal needs and for basic needs would not result in an increased level of financial inclusion among the youth in Kenya.

7.0 RECOMMENDATIONS

Policymakers and digital financial service providers should work to enhance the provision of digital credits as a result of which they can have a significant impact on financial inclusion among the youth in Kenya. According to the study, even though there is a positive relationship between digital credit and financial inclusion, this interaction was insignificant. Digital financial service providers can enhance this by embracing transparency for a comprehensive decision-making process by the borrowers. Interest rate, security requirement, and repayment period should be clearly explained to the borrower in detail and any concerns clarified. Further, the government should educate the public on the use of digital credit to embrace entrepreneurship and investment to avoid defaulting payments, late repayment, and CRB listing.

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