

The Influence of Demographic Characteristics on Investment on Financially Included Youth in Nyeri and Kirinyaga Counties

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Abstract *The purpose of this study was to find out the influence demographic characteristics on investment on financially included youth in Nyeri and Kirinyaga Counties. The target population was Kenyan youth from Kirinyaga and Nyeri Counties. The study used a descriptive survey research design where sample size was 463 respondents. A questionnaire was used to collect the data. A cross tabulation of investment and demographic characteristics showed differences between those who had invested and those had not. The study then tested whether the difference was statistically significant using chi-square of demographic characteristics and investment. The results indicated that Gender, Age, Marital Status and Level of Education were statistically significant in influencing investment on financially included youth. Place of residence though it had influence, it was not statistically significant. This study concluded that demographic characteristics have influence on investment. The study recommends that financial institutions take into consideration demographic characteristics while designing their services.*

Key words Financial inclusion, financial institutions household investment, demographic characteristics, employment, poverty

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1. Introduction

There has been much advocacy towards financial inclusion as this plays a major role in reducing poverty and achieving inclusive growth through household investments (Demirguc-Kunt *et al.*, 2015). Countries have made quite significant progress towards financial inclusion. Further, international organizations including G-20 have put strategies to promote financial inclusion (Demirguc-Kunt *et al.*, 2015). From the efforts towards financial inclusion, surveys have shown that over the 143 economies, 67 percent have set clear mandates to promote financial inclusion. This has ensured that these countries are able to evaluate the progress of financial inclusion in their countries. Due to much effort towards financial inclusion, there has been a lot of innovation and changes to regulations to accommodate the needs of those who have been financially excluded (Al-Shbiel and Ahmad, 2016; Kalunda, 2014).

Kenya has equally carried this global agenda with zeal. Most of the reforms in the banking sector since 2007 have been largely geared towards enhancing financial inclusion. These reforms have changed the financial landscape especially with the introduction of mobile and agency banking (CBK, 2014). Kenyan government does not only advocate for financial inclusion at policy level; it has also set funds for vulnerable groups; people with disability, women and youth. Women fund and youth fund which have been running for over five years were the first funds to be set to enhance financial inclusion (Kaane, 2014; Kimando *et al.*, 2012; Lagat *et al.*, 2012). In 2013, another fund was launched, the Uwezo fund targeting the same groups where a total of Kshs 6 billion was set aside (Kaane, 2014). By use of the funds, the government is able to enhance capacity on social capital and financial capability. The purpose of all this was to provide finances to the youth as they don't have the same level of access to financial services compared with the other

segment of the society (Mbae *et al.*, 2016). Due to these efforts, those who are financially included have increased from 26.4% in 2006 to 66.7% in 2013 (FinAccess, 2013) and 75.3% in 2016 (FinAccess, 2016).

Studies have confirmed that providing the poor with affordable financial services can help them move out of poverty. This is through household investment which leads to employment and reduction in poverty (Ashraf *et al.*, 2010; Brune *et al.*, 2013; Ellis *et al.*, 2010; UNDP, 2013; Cull *et al.*, 2014; Maigua and Mouni, 2016; Park and Mercado, 2015; World Bank, 2014).

Though there has been increase on those who are financially included, those living below the poverty line have moved to about 42% from about 47% in the same period (World Bank, 2014). The rate of unemployed youth increased from 12.5% in 2006 to about 25% in 2013 (Mutia, 2014). Other studies indicate that Kenya compares poorly in reducing unemployment among other developing countries (Kaane, 2014; Mutia, 2014; Muyia, 2014; World Bank, 2015; World Bank, 2016b).

Despite the increase in financial inclusion in Kenya, the unemployment and poverty levels are still high and more pronounced among the youth (Mbae *et al.*, 2016). The poor have not been able to undertake household investment. Unemployment, poverty and income inequality are still high in Kenya (Balwanz, 2012; Kaane, 2014; KNBS, 2014; KNBS, 2016; Muyia, 2014; World Bank, 2016). The rate of unemployed youth increased from 12.5% in 2006 to about 25% in 2013 (Mutia, 2014).

1.1. Statement of the problem

Financial development that improves on access to financial services is usually associated with the poorest quintile's income growing faster than a country's average per capita and reduces income inequality (Beck *et al.*, 2007). Financial inclusion also prevents people from falling into poverty by softening the blow of unexpected expenses and this reduces the chances of increased poverty (Klapper *et al.*, 2016). The finance sector in Kenya has changed over time and to access financial services in Kenya has expanded. Studies focusing on financial inclusion have indicated that Kenya has achieved high levels of financial inclusion overtime (FinAccess 2013; Kalunda, 2014; World Bank, 2014; Demirguc-Kunt *et al.*, 2015; Villasenor *et al.*, 2015; FinAccess, 2016),

Despite this, unemployment and poverty level has continued to increase. If the resources continue to be used without consummate results, it is a big problem to the financiers and to the country as a whole as unemployment and poverty may continue. With unemployment and poverty, youth may engage themselves in criminal activities that may even affect the economic development of the country (Mutia, 2014; Kaane, 2014).

1.2. Objective of the study

Investigate whether demographic characteristics have any influence on investment on financially included youth in Kenya.

2. Literature review

The role of financial inclusion is affording formal financial services to the disadvantaged segments of the society. This includes the poor, women, youth and people with disabilities. This is from the fact that finance plays a critical role in minimizing the inequality gap. As per finance and inequality theory, access to finances determines how different households will be able to develop themselves economically and the income inequality in an economy is reduced (Piketty, 1997; 2000). It indicates that those with no access to finance are not able to take advantage of the economic activities and thus they live in poverty. The income inequality between those who have access to finances and those who don't have continued to widen (Piketty, 1997; 2000).

Finance and inequality theory holds that, lack of access to finances has a big impact on economic welfare of the poor by hindering the ability of poor families to develop the human capital of their children. Failure of accumulation of human capital increases the cross-dynasty persistence of relative incomes, reduces the economic opportunities of individuals born into poor dynasties, and lowers the socially efficient allocation of schooling resources (Jacoby and Skoufias, 1997).

The theory of income and inequality also indicate that, accumulation of physical capital by the rich, which creates source of income is skewed towards those people who have initial wealth. The theory

recognizes that to accumulate physical capital, it requires finances. In that case, those with finances are able to accumulate more capital. The more physical capital a person accumulates, the more income he is able to get. This increases the inequality gap. Where the market is perfect and every person can access finances irrespective of the initial wealth, the poor are also able to accumulate physical capital. In the end, the income inequality gap becomes narrower (Jacoby and Skoufias, 1997).

Income and inequality theory further indicates that earnings are also related to initial wealth as the poor tend to be employed in low-income sectors. Even when the nature of job they are undertaking is highly skilled and thus can be paid high wages, the employers tend to discriminate the poor (Becker and Tomes, 1979). When an owner is earning large income, the marginal cost of hiring a more expensive worker from a preferred group rather than an equally productive and less expensive worker from a discriminated group is not a very large share of the profits. This leaves the poor out of employment or accepting low wages. With monopoly of financing, the financial institutions only finances big organizations, thus there is no competition, and the discrimination persist.

Studies have shown that there is a relationship between demographic characteristics and the usage of financial services (Ellis et al, 2010). Demographic characteristics that are considered in majority of these studies include age, gender, level of education, marital status and place of residence. Demographic characteristics have effects on usage of financial inclusion on investment. Zakaria and Sabri (2013) reviewed studies on financial capability. The study noted that financial capability differs across different demographic characteristics. In particular, it was indicated that younger people, women, those on low income and low levels of education, literacy and numeracy were identified to lack financial capability. Lack of financial capability affected the usage of financial services for investment purposes. Another study done by Paaskesen and Angelow (2015) had similar findings where usage of financial services for economic benefits differed across different demographics.

Ardic *et al.*, (2013) carried out an analysis of cross country data set. Using this database, the study counted the number of unbanked adults around the world, analyzed the state of access to deposit and loan services as well as the extent of retail networks, and discussed the state of financial inclusion mandates around the world. The study used the Financial Access database by CGAP and the World Bank Group. The findings indicated that there was yet much to be done in the financial inclusion arena. The access to finance services was different across different individuals and where poor people use informal sources as it is perceived to be costly for formal providers to provide services for the poor. This limits access of loans from financial institutions by the poor and thus this less investment from this segment.

Mwangi and Sichei (2012) using multinomial probit models, in their study drew a comparative analysis of the role played by individual characteristics on access to credit from various strands in 2006 and 2009. The analysis was based on Financial Access, 2009 and 2006 survey data, collected by the Financial Sector Deepening (FSD) Kenya, in collaboration with the Central Bank of Kenya and the Kenya National Bureau of Statistics (KNBS). The results of the study indicated that, there is variance in access and usage of financial services for economic purposes alongside demographic characteristics.

Clamara *et al.*, (2014) study that comprised quantitative approach to the determinants of financial inclusion in Peru based on micro-data from surveys. The study was to identify significant correlations that may affect financial inclusion (or exclusion) of households and enterprises. The study analyzed the relevant characteristics for financial inclusion and for those individuals excluded from the formal financial system. The study found that factors such as being a woman, living in a rural area or having a low income and educational level may reduce the likelihood of being included in formal financial system.

Ellis *et al.*, (2010), using 2009 survey data noted that there was a positive statistically significant relationship of age with credit from banks, SACCOs, MFI and ASCAS. The study also observed that age had a positive statistical significant relationship with access to credit from banks and SACCOs. In addition, it was noted that, couples were found to be borrowing more than single people are. This is clear evidence that demographic characteristics affect because of financial inclusion.

Johnson and Arnold (2012) also noted age was important influence of financial inclusion as older people were much more likely to use a bank account than younger people were. Similarly, Ndi (2011) noted that Kenyans below 25 and above 55 years of age are least likely to use financial services while between 35 and 44 years are the age group that had the highest users of formal financial services. World Bank (2014) had similar studies that indicated older people globally use formal financial services than

younger people. On education, Johnson and Arnold (2012) noted that education was strongly associated with the likelihood of bank use. In particular, 39% of persons with secondary education had a bank account, which was higher compared to those with primary or no education. The same relationship was found in SACCOs where 18.4% of those with secondary education as compared to those without education at 8%.

3. Methodology of research

This research was guided by positivism philosophy and adopted descriptive survey research design. It used probabilistic sampling design to sample the respondents. The main data for this study was primary data that was collected between December 2015 and February 2016 using a questionnaire.

4. Data analysis, presentation and interpretation

Response rate and respondents characteristics

The study distributed four hundred and sixty three (463) questionnaires of which four hundred and twenty (420) questionnaires were accurately filled and used for analysis representing 90.7% response rate. From the results 52.9% of the respondents were male while female were 47.1%. On the age bracket, 13% were between 18-20 years, 32% were between 21 to 25 years, 25% were between 26 to 30 years while 30% were between age group 31 to 35 years. On marital status, majority of the respondents, 55.4% were not married while 44.6 % were married. It was also noted that 74% of the respondents were rural dwellers while 26% were urban dwellers. On education, 7.6% didn't have formal education, while the total of youth whose education was beyond secondary school was 69.8 percent.

The study wanted to evaluate whether demographic characteristics had any significant influence on investments among the youth. To achieve this, to study first did a cross tabulation to see whether there were differences in characteristics of those who had invested and those who had not. A cross tabulation of investment and demographic characteristics shows differences between those who had invested and those had not. The results in Table 1 indicate that out of those who had invested, 65.20 percent were male, while only 34.8 percent were female. From all the sampled youths, 30.71 male had invested while only 16.43 percent of female had undertaken investment. Age was also found to have influence on investment. The higher the age group, the higher the investment. The results indicates that 40.90 percent of all the investments were by age group between 31 to 35 years , followed by 26 to 30 years at 35.90 percent, 21 to 25 years at 18.20 percent while age group 18-20 years had 5.1 percent off all the investments.

Investment on marital status also exhibited a difference where out of all the investments, 64 percent were by married persons, while 36 percent were by persons who were not married. Most of the investment as indicated in this study was in the rural area at 73.20 percent. The level of education was also seen to have differences in the investment uptake where 43.40 of the investment were with persons who had tertiary education. This was followed by those with primary education at 27.30 percent, secondary education at 24.70 and finally, 4.5 percent was by the people without education.

Table 1. Demographic characteristics and youth investment

		Invested or Not Within Investors as a Percentage		Invested or Not Within Sample as a Percentage	
		Yes	No	Yes	No
Gender	Female	34.80	59.50	16.43	31.43
	Male	65.20	40.50	30.71	21.43
Age	18 - 20 years	5.10	19.40	2.38	10.24
	21 to 25 years	18.20	43.70	8.57	23.10
	26 to 30 years	35.90	15.80	16.90	8.33
	31 to 35 years	40.90	21.20	19.29	11.19
Marital Status	Not Married	36.00	73.10	17.19	38.26
	Married	64.00	26.90	30.51	14.04
Place of Residence	Rural	73.20	74.50	34.69	39.23
	Urban	26.80	25.50	12.68	13.40

		Invested or Not Within Investors as a Percentage		Invested or Not Within Sample as a Percentage	
		Yes	No	Yes	No
		Highest Level of Education Achieved	No Formal Education	4.50	10.40
	Primary Education	27.30	25.80	12.89	13.60
	Secondary Education	24.70	31.20	11.69	16.47
	Tertiary education	43.40	32.60	20.53	17.18

The results in this study indicate that demographic characteristics were different between those who had invested and those who had not. The probability of a male youth investing was higher than a female as 65.20 percent of all the investments were by male. The higher the age of the youth, the higher the probability of investing. Age group of 18 to 20 years had the least investment of 5.1 percent while most of the investments, 40.90 percent were with the highest age group of 31 to 35 years. Probability of a married person investing was higher than a person who is not married. The same applied to a person living in the rural area. On level of education, it was noted that those with tertiary education had a higher probability of investing compared to other groups. Table 2 indicates the chi-square of demographic characteristics and investment. Table 2 shows values of Pearson Chi-Square and Continuity Correction for 2x2 table, degree of freedom for each Characteristic and significance levels. The results indicate that Gender, Age, Marital Status and Level of Education P value was less than 0.05. For Place of residence, P value was more than 0.05.

Table 2. Chi-Square of demographic characteristics and investment

Demographic Characteristic		Value	df	Asymp. Sig. (2-sided)
Gender	Pearson Chi-Square	25.403 ^a	1	.000
Gender	Continuity Correction ^b	24.426	1	.000
Age	Pearson Chi-Square	68.635 ^a	3	.000
Marital Status	Pearson Chi-Square	57.430 ^a	1	.000
Marital Status	Continuity Correction ^b	55.938	1	.000
Place of Residence	Pearson Chi-Square	.093 ^a	1	.760
Place of Residence	Continuity Correction ^b	.038	1	.846
Level of Education	Pearson Chi-Square	9.603 ^a	3	.022

a. 0 cells (0.0%) have expected count less than 5.

b. Computed only for a 2x2 table

The results in Table 2 indicate that Gender with Chi-square = 24.426, df= 1, p = 0.000. This means that the differences of gender between those who had invested and those who had not invested were statistically significant. For age, Chi-square = 68.635, df= 3, p = 0.000, indicates that was a statistically significant difference between the various age groups and investment. The levels of education were statistically different between those who had invested and those who had not. For level of education, chi-square = 9.603, df = 3, p=0.022. This indicates that, change of level of education among the youth will influence the probability of whether the youth will invest or not. Being married also influenced the probability of a person investing as chi= 55.938, df = 1, P value=0.000. Place of residence was found not to be statistically significant in influencing probability to invest as chi= 0.38, df = 1, p=0.846.

The Influence of Demographic Characteristics on Investment on Financially Included Youth

Many studies have indicated that the demographic characteristics have a high influence on financial decision making which includes investment (Ellis, *et al*, 2012; Hsu, 2011; Johnson and Arnold, 2012; Kenichiro, and Hideki, 2012; Mwangi and Kihiu, 2012; World Bank, 2014). The first demographic characteristic that was evaluated was gender of respondents. Majority of the respondents were men at 52.1% while female were 47.9%. The study went further to evaluate whether gender had any influence on investment. The study noted that gender had an influence on investment on financially included youth. This was in agreement with other studies that have indicated that gender has influence in access to finance where being a woman was significantly associated with a high likelihood of exclusion from financial services

and thus not able to use financial services for investment (Ellis *et al.*, 2012). More men than women are more likely to use formal and informal financial services. On the other hand, the women are more likely to use semi-formal financial services. Women have been found to lag significantly behind men on the rate of saving and borrowing from formal institutions, even after accounting for personal characteristics such as education, age, income, and urban or rural residence (World Bank, 2014).

The youth belong to different age groups with a minimum of 18 years to a maximum of 35 years. The category with the least respondents was 18-20 years, which was 13%. This corresponds with other studies that have indicated majority of the youth at this stage are in school (Kaane, 2014) and thus few youths were sampled in this category. The other age categories were relatively well distributed with 21 -25 years, 32 %, 26- 30 years, 25% and 31 to 36 years, 30%. Age was indicated to have influence on investment.

The effect of age agrees with a number of studies that have shown age and financial inclusion had an inverted U shaped relationship. When people are at early stages of their youth they tend to be excluded. The level of inclusion increases with age but then declines at old ages. Mwangi and Kihui (2012) noted that as banks try to determine credit worthiness of potential borrowers, age exhibited a quadratic relationship in the formal, semi-formal and informal strands, rising fast initially before starting to increase at a decreasing rate and finally the slope turning negative. Beck (2009) in his study noted that older Kenyans are more likely to use financial services, with the exception of M-Pesa which was more popular among the young people. Further, the study noted that there is a non-linear relationship between age and the likelihood of using financial services with the maximum point in most cases being between 50 and 60 years. The study concluded that older Kenyans are likely to use financial services more than young people. Similar findings were by Malkamaki (2009) who observed that citizens who were 25-44 years were more likely to use financial services compared to 18-24 years and older people above 44 years.

Johnson and Arnold (2012) also noted age had important influence of financial inclusion, as older people were much more likely to use a bank account than younger people were. Ndi (2011) noted that Kenyans below 25 and above 55 years of age are least likely to use financial services while between 35 and 44 years are the age group that had the highest users of formal financial services. World Bank (2014) had similar studies that indicated older people globally use formal financial services than younger people.

Married persons have been found to have higher chances of being included, as they are considered more responsible compared to single persons. Single people are sometimes considered less reliable or stable without family or relations to assure for them (Mwangi and Sichei, 2011). This study thus tested whether marital status had any influence on investment. Majority of the respondents, 54.5% were single while 45.5% were married. This compares favorably by Millennium Development Goals report (MDG, 2013) which indicates almost half of the youth are single.

The study found that, there was an influence by marital status. This is supported by other studies that have indicated marital status to have an influence on decision making. Johnson and Arnold (2012) noted being single in Kenya can have a strong influence on exclusion from financial services. The study found that married persons have higher chances of being included, as they are considered more responsible. Single people are sometimes considered less reliable or stable without family or relations to assure for them. Mwangi and Kihui (2012) had similar findings and argued that service providers believe that married persons appears to have higher levels of responsibility hence are more trusted. The study indicated that, a married person had a 3.48% higher probability of accessing financial services than a non-married person while probability of remaining financially excluded reduces by 4.40%.

The financial behaviors of citizens are influenced by their geographic location and thus the place of residence of the respondents was evaluated whether it had any influence on investment. The study found that majority of the respondents, 74% were rural dwellers while 26% were urban dwellers. The high response rate of rural dwellers was by the fact that majority of the Kenyan citizens live in rural areas (MDG, 2013). Similarly, the bigger part of Nyeri and Kirinyaga Counties is rural area (KCG, 2013; NCG, 2013). The study noted that, the place of residence had influence on investment. Other scholars have found this effect. Ellis *et al.*, (2009) noted significant differences in usage of financial services between rural and urban households. Urban households were around 4% more likely to use formal savings compared to rural households. The rural also have different challenges when it came to the use of financial services. Malkamaki (2009) also noted that rural dwellers use more of informal finances at 30.4% compared to urban dwellers at 26.5%.

World Bank (2014) had similar results which indicated that the use of bank accounts in the rural areas is at minimal levels, lagging far behind urban areas especially in developing countries. The situation is not in any way different for the mobile accounts as per study by Villasenor *et al.*, (2015). The study noted that approximately 70 percent of urban respondents were active registered users of mobile money, in contrast to about 51 percent of rural respondents. FinAccess (2016) has also concluded that place of residence has influence on financial inclusion. Education is usually positively related to the usage of financial services, the higher the level of education the higher the usage of financial services (Johnson and Arnold, 2012). Education was also found to have an influence though minimal. Education has been found to be positively related to the usage of financial services, the higher the level of education the higher the usage of financial services. Johnson and Arnold (2012) noted that education was strongly associated with the likelihood of bank use. In particular, 39% of persons with secondary education had a bank account, which was higher compared to those with primary or no education. The same relationship was found in SACCOs where 18.4% were those with secondary education as compared to those without education at 8%.

Ndii (2011) found that use of financial services increases with level of education. The use of formal financial services is higher for Kenyans with primary, secondary and/or tertiary education compared with Kenyans without any formal education. The use of mobile financial services follows the same trend as in bank accounts. FinAccess (2016) on their study on access to financial services noted it varied with the education level. The study noted that only 37.3 percent of Kenyans without formal education were using formal financial services, while 73.1 percent of Kenyans with a primary education, 88.6 percent of Kenyans with a secondary school education, and 97.9 percent of Kenyans with some post-secondary education using formal financial services. World Bank (2014) also observed that only 37 percent of adults with primary or lower educational attainment had accounts at formal financial institutions compared with 63 percent among adults with secondary educational attainment and 83 percent among adults with tertiary or higher educational attainment. An in-depth analysis by Allen *et al.*, (2012) found that the probability of owning a bank account is twelve percent lower for adults who had 0–8 years of education compared to other adults. Similarly, Cole, Paulson, and Shastry (2012) showed that the level of general educational attainment had a strong effect on financial market participation. Highly educated people perform better along a number of dimensions including budgeting, living within means, attitudes toward the future, and impulse control (Kempson *et al.*, 2013).

Mwangi and Sichei (2011) came with similar results where they noted that increase in education level by one level higher raises access to semi-formal services by 14.1% and 0.9% for formal. The study also noted that increase in education by one level lowers the probability of remaining excluded by 8.5%. The study argued that education serves to enlighten people on the various financial services available while at the same time creating awareness on how best to manage the available services. Latest study by FinAccess (2016) have indicated similar results where the higher the level of education the higher the probability of being included financially. With different demographic characteristics having an implication on access to finances, income inequality may not be reduced as per income and inequality theory. The theory holds that access to finances determines whether one can undertake investment and improve himself economically (Banerjee and Newman, 1993). With differentials in access, some to the individuals may not be able to take advantage of financial inclusion.

5. Conclusions

The study noted demographic characteristics have influence on investment on financially included youth. Depending on certain demographic characteristic, the level of investment was different. This study therefore concluded that demographic characteristics had an influence on probability to invest.

Recommendations

The results of the study indicate that, demographic characteristics influence on investment among financially included. It may not be easy or even not possible to change demographic characteristics of the youth. This study therefore recommends that financial service providers and advocators of financial inclusion should put into consideration age, marital status, and level of education and place of residence while designing financial products or advocating for the same. With such consideration by the banks, it will

be possible for the youth to undertake investment as a result of increased financial inclusion. This will see increase in employment and reduction of poverty among the youth.

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