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Effects of Microfinance Institutions Credit Conditions on Youth Livelihood Development in Nairobi County

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Abstract

Youth unemployment is a pressing challenge in Kenya, particularly in urban centers like Nairobi County, where a large and growing youth population often struggles to secure stable livelihoods. Microfinance institutions (MFIs) play a central role in providing financial services to underserved communities, including youth, who may not meet the stringent requirements of traditional banks. However, the specific conditions under which these credits are offered by MFIs influences their accessibility and, consequently, their impact on the livelihood development of young individuals. This study examined the effects of microfinance institutions (MFIs) credit conditions on youths' livelihood development in Nairobi County. This study was guided by credit rationing theory and applied embraced positivist and interpretivist approaches. The research adopted exploratory sequential mixed method research design, collecting quantitative data through structured questionnaires and key informant interviews with MFI staff and local enterprise officers. The study targeted 3,400 youth drawn from groups across 17 sub-counties in Nairobi County. Yamane (1967) formula was used to obtain 358 youths from the target population. The study used a combination of stratified random sampling, purposive sampling and census techniques to select respondents from different categories. Quantitative data were gathered through the use of structured questionnaires, whereas qualitative data were obtained using key informant interview guides. The quantitative data were analyzed using both descriptive and inferential statistical methods, while the qualitative responses were organized and presented using thematic and narrative analysis techniques. Findings revealed that high interest rates and rigid repayment terms negatively affected the ability of youth to invest in and expand their businesses. Collateral requirements excluded a significant portion of the youth, particularly those in informal settlements and low-income brackets. However, flexible loan products such as group-based lending and mobile credit platforms were associated with improved access and positive livelihood outcomes, including increased savings, asset acquisition, and employment generation. The study also established a significant negative correlation between credit conditions and youth livelihood development in Nairobi County ($r = -0.523$, $p = 0.011$). This means

that stricter credit requirements such as collateral, guarantors, and formal documentation limit youth access to finance, ultimately undermining their ability to grow income-generating activities. Further, regression results revealed that credit conditions have a negative and statistically significant effect ($\beta = -0.596$, $t = 4.74$, $p < 0.05$) on youth livelihood development. In conclusion, youth credit conditions significantly influenced livelihood development in Nairobi County. The study recommended that MFIs adopt more youth-responsive lending frameworks that reduce collateral demands, offer longer repayment periods and integrate mobile-based services. It further suggested capacity-building programs to improve youth financial management and entrepreneurial readiness.

Keywords: Credit condition, youths, financial services, access, livelihood development, microfinance institutions

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Introduction

The transition from education to employment is particularly challenging for African youth, with youth unemployment rates consistently exceeding those of adults (AfDB, 2022; World Bank, 2022). Historically, regions like North Africa have reported even higher rates, around 25% (ILO, 2023). Beyond unemployment, a substantial proportion of young people are classified as NEET (Not in Employment, Education, or Training). In 2023, the NEET rate in SSA was 21.9%, affecting over 53 million young individuals and slightly surpassing the global average (ILO, 2023). This status signifies a concerning detachment from both the labor market and opportunities for skills development, hindering future employability and economic participation. Sub-Saharan Africa is considered "off track" in achieving Sustainable Development Goal (SDG) target 8.6.1, which aims to substantially reduce the proportion of youth NEETs (ILO, 2023).

Moreover, the quality of employment secured by young people is a significant concern. The vast majority of youth employment is concentrated in the informal sector or involves self-employment and contributing family work, often driven by necessity rather than choice (ILO, 2023). Recent data from 2023 reveals that nearly three in four (71.7%) young adult workers (aged 25-29) in SSA were engaged in "insecure" forms of work,

including own-account workers, contributing family workers, and those in temporary paid jobs (ILO, 2023). Alarmingly, this figure has shown minimal improvement over the past two decades, indicating a persistent crisis in job quality and security for young workers. This prevalence of insecure work means that escaping unemployment often leads not to stable, formal employment with benefits and protections, but to precarious livelihoods. This significantly contributes to the phenomenon of the "working poor," where individuals remain in poverty despite being employed. The International Labour Organization (ILO) reported in 2016 that up to 70% of African workers fell into this category, the highest rate globally, with the number of poor working youth having increased substantially over the preceding 25 years (ILO, 2016). Compounding these issues is underemployment, where youth work fewer hours than desired or are employed in roles that do not fully utilize their skills, resulting in minimal economic returns. Accurately measuring the full extent of underemployment is challenging due to the large and often unrecorded informal economy where many youths operate.

Development and poverty reduction strategies increasingly recognize the crucial role of youth involvement in addressing economic disparities and achieving sustainable development. According to Bennell (2000), a diverse range of programs directly address the economic livelihood needs of youth, including access to financial services such as credit, savings schemes, grants, and the provision of assets like capital, land, and other inputs for individual or collective use. African microfinance exhibits diversity, utilizing various approaches ranging from traditional group-based systems to specialized lending by banks and funded by international non-governmental organizations (NGO) financial intermediaries. The focus has been on pooling together people's resources, leveraging existing social networks, and improving existing systems to reduce poverty (Bennell, 2010). The formation of groups is a common and effective strategy for the sustainability of Microfinance Institutions (MFIs). Group formation is an existing mode of organization within traditional financial schemes and is readily adaptable to new microfinance initiatives.

Microfinance initiatives that are embedded within local traditions such as communal savings and lending groups like chamas in Kenya, susus in West Africa, or rotating savings and credit associations (ROSCAs) tend to achieve higher rates of community acceptance, trust, and long-term sustainability. These informal systems build on existing social cohesion, mutual accountability, and cultural legitimacy, thus minimizing the need for formal collateral and external enforcement mechanisms (Sheraton, 2004). Because members typically know each other personally and share communal ties, default rates are often lower, and peer monitoring naturally enforces repayment behavior. This culturally rooted approach to microfinance enhances financial inclusion among populations that might otherwise distrust or be excluded from formal banking systems.

Furthermore, the increasing engagement of commercial banks in Africa’s low-income and underserved segments has created new pathways for expanding credit and savings access. This shift often driven by financial sector liberalization, mobile banking innovations, and regulatory reforms has allowed microfinance institutions (MFIs) to scale operations more sustainably while reaching marginalized communities (Ondoro, 2012). Through supporting microenterprises and informal businesses, MFIs not only inject capital into grassroots economic activities but also foster a gradual transformation

from subsistence to prosperity. This is particularly visible in sectors like small-scale retail, artisanal trades, and vocational skills development, where access to microcredit directly enhances income generation and job creation (Aryeetey, 2004).

In Kenya, where a substantial portion of the population comprises youth, Microfinance institutions (MFIs) have emerged as key players in bridging the financial inclusion gap for poor populations, offering credit, savings, and other financial services that traditional banks often deem too risky or unprofitable (Chemtai, 2023). However, the effectiveness of these interventions, particularly concerning youth, is heavily influenced by the specific credit conditions imposed by MFIs. Access to appropriate and flexible financial services is paramount for young entrepreneurs and job seekers to translate their innovative ideas into sustainable income-generating activities. Nevertheless, youth in Kenya frequently face stringent eligibility criteria, such as age limits, collateral requirements and a demand for established business operational lifespans, which effectively lock many out of formal credit markets (Athiambo, 2024; Nyatogo, 2012). For instance, some financial institutions in Kenya require borrowers to be 21 or even 22 years old, and impose minimum monthly income thresholds, making it difficult for fresh graduates or those in informal employment to qualify for loans (Athiambo, 2024). Furthermore, the lack of collateral or a discernible credit history among young borrowers exacerbates the challenge of credit accessibility (Odondi, 2021 as cited in Athiambo, 2024). These conditions often disproportionately affect youth who may lack formal employment or significant assets, hindering their ability to start or expand small-scale businesses that are crucial for livelihood development.

A study by Nyatogo (2012) on youth enterprises in Nairobi, Kenya, concluded that while access to credit significantly increases the capital base of youth-owned businesses, a lack of access to long-term credit often forces them to rely on high-cost short-term finance. Similarly, Wajero (2011) found that youth entrepreneurs in Kitui Township were greatly affected by restrictive terms and conditions from microfinance providers, coupled with negative perceptions by lenders and a lack of appropriate microfinance products. More recently, Athiambo (2024) highlighted that inadequate funding from easily accessible credit services like the Hustler Fund, alongside stringent borrower age and business operational lifespan criteria, are notable impediments hindering youth from establishing small-scale enterprises. While government-backed initiatives like the Youth Enterprise Development Fund (YEDF) aim to provide affordable financing, youth still grapple with accessing sufficient and flexible capital. A study by Wambua (2014) found that unfavourable credit terms, particularly high interest rates and complex loan requirements, reduced youth loan uptake. The study reported that credit terms had an inverse relationship with credit access among youth aged 18–35, and that knowledge of credit processes and entrepreneurial skills accounted for over 82% of the variation in uptake. In a related study, Njoroge (2016) found that while credit access positively influenced the growth of youth-led enterprises in Nairobi, the absence of long-term financing forced many young entrepreneurs to rely on short-term loans, which limited capital investment and long-term business planning. Several research conducted in Kenya have majorly focused on youth and credit in Kenya, few studies have focused on how specific credit conditions not only affects access but also livelihood development. Therefore, this study seeks

to examine the influence of youth credit conditions on financial service access offered by microfinance institutions (MFIs) on livelihood development in Nairobi County.

Literature Review

Empirical Review

Empirical evidence consistently indicates that while microfinance holds significant potential for enhancing youth livelihoods, the specific credit conditions imposed by MFIs affects their accessibility. Islam (2022), in a difference-in-difference survey conducted in Sunamganj, Bangladesh, found that microcredit borrowers experienced a 13.6% increase in earnings and invested 26.2% more, while incurring 2.4% less debt compared to non-borrowers. The study concluded that longer, larger, and lower-interest loans were instrumental in strengthening livelihoods. Similarly, Jimi et al. (2020), using stochastic production frontier analysis on rice microenterprises in Bangladesh, demonstrated that access to credit significantly boosted rice yields by 14% (attributed to 11% technological adoption and 3% efficiency gains), concluding that favorable loan terms could substantially enhance agricultural livelihoods. These findings underscore the direct link between accessible credit and tangible improvements in productive assets and income.

However, the impact on broader well-being and consumption was not always as pronounced. Angelucci, Karlan, and Zinman (2015), through a randomized controlled trial (RCT) across several Latin American countries, observed that while microcredit loans boosted investment and asset utilization, they did not lead to significant increases in consumption or improvements in education outcomes. Their conclusion indicated that while loans supported livelihoods, they did not substantially affect overall well-being. This sentiment was echoed by Banerjee et al. (2015), who, in a multi-site RCT evaluating group lending effects in India, found that microcredit modestly increased business investment and income but had no discernible effect on health or education. These studies suggest that while microcredit can directly support economic activities, its spillover effects on other dimensions of livelihood, such as social capital or human development, may be limited without complementary interventions.

Despite the positive contributions, certain credit conditions posed significant constraints on livelihood transformation. Islam et al. (2024), through a survey of 346 PDBF borrowers in Bangladesh, identified high interest rates and mandatory savings as primary barriers limiting the livelihood impact of microcredit for women. The study also noted a lack of adequate income-generating training, concluding that credit, without sufficient supportive structures, yielded limited livelihood benefits. This highlights that the terms and conditions, beyond mere availability, are critical determinants of the actual impact on borrowers' economic resilience and growth.

In Africa, Oladele and Ward (2017), in a pre-post survey of MAFISA micro-agricultural loan beneficiaries in South Africa, reported over 90% increases in savings and investable capital, alongside a decreased reliance on informal loans. They concluded that agricultural microcredit significantly enhanced financial, natural, and social assets, directly contributing to improved livelihoods. Similarly, Tegambwage and Kasoga (2022), assessing group lending repayment dynamics in Tanzania using survey data, found that strong borrower relationships significantly improved repayment rates, which in turn supported livelihood sustainability. Their work emphasized that group trust

underpins effective credit utilization and income-generating activities. Litunya and Nyende (2017), in a descriptive survey of youth in Machakos, Kenya, found that training and larger loan amounts significantly increased youth group loan uptake from the Uwezo Fund, while strict lending conditions reduced it. They concluded that youth-responsive training and flexible conditions were key drivers of credit uptake. Furthermore, Enoch et al. (2021), focusing on client appraisal in Nigerian MFIs, found that good appraisal practices increased service efficiency, likely expanding youth credit access and enabling deeper financial outreach, thereby indirectly supporting livelihood development.

However, several studies pointed to persistent challenges posed by credit conditions. Athiambo (2024), through qualitative interviews with Kenyan youth, identified limited Hustler Fund resources, strict eligibility criteria (e.g., age, business operational lifespan), and collateral demands as major hindrances to credit uptake. The study advocated for relaxed criteria, collateral support, and public-private partnerships to boost youth access. Ndegwa (2016), in a cross-sectional survey of youth farmers in Kiambu, Kenya, quantified the impact, showing that a 1% drop in interest rates led to a 31% increase in access, while collateral requirements significantly reduced it. The presence of multiple lenders, however, increased access, suggesting that lower interest rates, reduced collateral demands, and diverse lending options are crucial for improving youth livelihoods. Ali (2020), examining youth-group performance in Wajir County, Kenya, through a descriptive cross-sectional survey, concluded that high interest and collateral requirements significantly reduced performance, advocating for MFIs to reduce interest, accept alternative collateral, and simplify procedures. Mwirigi (2020), in an ex post facto survey of youth entrepreneurs in Nairobi, found that while microfinance lending had a strong positive influence on microenterprise performance (r=0.788), the interest rate had only a weak positive relationship (r=0.293), and accessibility had a low impact, suggesting that loan cost and access barriers limited overall performance.

Gichuki (2013) found that in Kiambu County, most youth lacked the fixed assets needed to meet MFI collateral demands. As a result, many were excluded from formal credit. Similar trends were observed among SMEs in Nairobi County, where MFIs' collateral rules and short repayment periods were found to discourage loan application. Further, research by Cheruiyot (2022) found that MFIs with strong internal controls, well-trained staff, and mobile-based loan processing platforms served youth clients more efficiently. Tools such as mobile money, biometric ID, and digital loan tracking have been linked to improved credit access and repayment performance.

Makara, Faimau, and Maphosa (2024), in a qualitative study on SILC savings-led microfinance in Lesotho, found that while SILC improved income and social relations, it also raised stress and group friction, concluding that savings-led models need psychosocial support to truly aid livelihood capital. Easton-Calabria (2021), exploring refugee-led microfinance in Kampala, Uganda, through qualitative interviews, found that flexibility in repayment and interest-sharing boosted livelihoods, trust, and resilience, indicating that informal refugee groups often outperformed formal MFIs in livelihood support due to their adaptive credit conditions. Lastly, research in Nairobi County highlights the restrictive nature of most credit conditions for youth. A study by Wambua (2014) found that unfavorable credit terms, particularly high interest rates and complex loan requirements, reduced

youth loan uptake. The study reported that credit terms had an inverse relationship with credit access among youth aged 18–35, and that knowledge of credit processes and entrepreneurial skills accounted for over 82% of the variation in uptake. In a related study, Njoroge (2016) found that while credit access positively influenced the growth of youth-led enterprises in Nairobi, the absence of long-term financing forced many young entrepreneurs to rely on short-term loans, which limited capital investment and long-term business planning. From the discussion this study hypothesis that;

H_{o1}: Credit conditions on financial services offered by *microfinance institutions has no significant effect on livelihood development among youth in Nairobi County.*

Theoretical Review

The study was grounded on Credit Rationing Theory, first introduced by Stiglitz and Weiss (1981), helps us understand why lenders often choose to limit the amount of money they lend rather than simply increasing interest rates, especially in financial markets where information is imperfect. This happens because banks cannot always accurately assess how risky a borrower might be. If banks were to raise interest rates too high, it would inadvertently attract only the riskiest clients a phenomenon known as adverse selection. These riskier borrowers are more willing to take on high-interest loans because they have less to lose or are pursuing highly speculative ventures. Additionally, higher interest rates can encourage borrowers to take on more reckless or risky investments (moral hazard), as they might feel they need to pursue higher returns to cover the increased cost of borrowing. To protect themselves from potential defaults, banks instead ration credit, meaning they restrict the total amount of loans available and often demand collateral as security (Okurut et al., 2012).

Helsen and Chmelar (2014) further elaborate on this, explaining that banks deliberately keep interest rates lower and limit the supply of credit to prevent the issues of adverse selection from escalating. This practice leads to persistent market imbalances where the demand for loans consistently outweighs the supply. These rationing practices, whether they come in the form of high borrowing costs, strict collateral demands, or simply capping the amount of money available, disproportionately affect Small and Medium-sized Enterprises (SMEs) and youth entrepreneurs. Such businesses often have no choice but to rely on their own limited internal funds, which severely restricts their growth potential (Campello et al., 2010). The problem is further compounded when central banks raise interest rates, as commercial banks tend to prefer credit rationing over adjusting loan terms to manage risk (Ladime et al., 2013).

This theory is critical for understanding why microfinance institutions (MFIs), despite their mission to serve underserved populations, often impose strict lending conditions on youth. Young borrowers are frequently perceived as inherently high-risk, making them prime candidates for credit rationing. While credit rationing is a protective mechanism for lenders, it simultaneously deepens financial exclusion, severely limiting young people's access to the capital they need for livelihood development. Hence, recognizing these market failures, policymakers can devise targeted interventions, such as offering credit guarantees or developing alternative risk-assessment models, to improve credit access for youth without destabilizing the broader financial system.

Methodology

The study was grounded on pragmatism, which posits that research should focus on practical problem-solving and acknowledge multiple realities (Morgan, 2014). This approach enabled an in-depth understanding of the research participants' varied experiences and allowed the researcher to explore how microfinance conditions practically influence youth livelihoods. Exploratory sequential mixed method research design was utilized, where the qualitative phase preceded and informed the quantitative phase (Toyon, 2021). This involved first collecting qualitative data through in-depth interviews and focus group discussions to gather rich, contextual insights into the perceptions and experiences of youth and MFI personnel. The study was conducted in Nairobi County, Kenya, chosen due to its diverse economic activities, significant youth population and the high concentration of microfinance service providers. The target population comprised of 3,500 youth from youth groups in Nairobi County, credit officers from registered microfinance institutions, Sub-County youth department officials, officials from relevant ministries (Public Service, Youth and Gender Affairs; Cooperatives; Industrialization), and approximately. For the youth groups, Yamane (1967) formula was used to determine a sample size of 317 youth group chairpersons, selected through systematic sampling (every 5th group from an ordered list). Purposive sampling was used for key informants, including credit managers from the MFIs, youth department officials from Sub-Counties, and ministry officials (one from each relevant ministry). Primary data was collected using self-administered questionnaires for the 317 youth group chairpersons, which contained both open-ended and closed-ended questions to capture attitudes, perceptions, and experiences. Interview schedules were used for the key informants (MFI credit officers and government officials) to obtain in-depth, context-rich information. A pilot study involving 10% of the target population (34 youth group members and 4 key informants) was conducted to test and refine the instruments, ensuring clarity, relevance, and structure. Data from the pilot was excluded from the main analysis. Content validity of the instruments was assessed using the Content Validity Index (CVI), calculated from evaluations by three subject matter experts. A CVI score of 0.78 or higher was deemed acceptable (Amin, 2005. Reliability was ensured for quantitative data through internal consistency testing using Cronbach's Alpha (Mugenda & Mugenda, 2003), with a threshold of 0.7 or above indicating good reliability. The data analysis process was rigorous and systematic, integrating both quantitative and qualitative approaches to derive meaningful conclusions (Kothari, 2004). Quantitative data were analyzed using both descriptive and inferential statistics. Descriptive statistics (means, standard deviations, frequencies, percentages) summarized demographic and response variables, presented using tables, bar graphs, and pie charts. Inferential statistics, primarily multiple regression analysis, were employed to explore relationships between variables and test hypotheses.

The multiple regression model was defined as:

$Y = \beta 0 + \beta_1 X + \varepsilon$.....Model 1

Where:

Y = Youth Livelihood development
X1 = Credit Conditions
β0 = constant
β= Coefficients of the equations
ε = error term

Qualitative data underwent content analysis, involving the systematic categorization and interpretation of recurring themes, patterns, and meanings derived from key informant interviews.

Results and Discussion

Demographic Characteristic of the Respondents

The demographic data reveals that the majority of individuals engaged in formal microfinance in Kenya are young men, with 63.1% of respondents being male and 64.1% falling within the 18–29 age bracket. This highlights the significant economic involvement of Kenya's youth, particularly young men, in these financial spaces. A substantial proportion (66.6%) had participated in youth groups for 1–10 years, underscoring their consistent engagement with group-based financial programs.

Despite high educational attainment, with 90.6% having at least a secondary education, a notable number of these young individuals remain underemployed, prompting their pursuit of self-employment. Furthermore, while 61% had received some economic training, a significant 39% lacked formal preparation, which could potentially impact their effective use of loans and the long-term sustainability of their businesses.In Nairobi County, the majority of young people are concentrated in informal sector activities that require minimal startup capital and provide daily income. These include small-scale trade (18.1%), transport services such as "boda boda" (12.5%), and personal care work (10.5%). Other economic survival strategies, influenced by urban conditions, skills, and gender, involve small-scale farming (9.8%), digital services (7.7%), artisan work (7.0%), and education or childcare (6.3%). Additionally, a notable percentage are involved in casual labor (9.1%), health-related roles (4.9%), and street vending (7.3%), while 7.0% are students or currently not employed.

Loan Application Process

The study aimed to evaluate the respondents' perceptions of the loan application process in microfinance institutions by analyzing their level of agreement with a series of related statements. The results are summarized in Table 1. A five-point Likert scale was utilized to capture participants' responses, where 1 represented "Strongly Disagree," 2 "Disagree," 3 "Neutral," 4 "Agree," and 5 "Strongly Agree." For analytical clarity, the scale was further categorized into interpretation ranges: 1.00–1.80 (Strongly Disagree), 1.81–2.60 (Disagree), 2.61–3.40 (Neutral), 3.41–4.20 (Agree), and 4.21–5.00 (Strongly Agree).

Table 1: Experiences with loan application process

	N	Minimum	Maximum	Mean	Std. Deviation
It was easy to be give a loan	287	1.00	5.00	1.71	0.33
The criteria used by the MFI in offering loans is fair	287	1.00	5.00	2.25	0.35
The criteria used by the MFI is easy to be met	287	1.00	5.00	2.03	1.21
I would conclude that the MFI has helped me in developing my business	287	1.00	5.00	3.81	0.26
I would like to obtain another loan if need be from MFI	287	1.00	5.00	3.64	0.42
Am happy with the loan repayment conditions given	287	1.00	5.00	1.93	1.06
Interest rates offered was fair	287	1.00	5.00	1.76	0.90

Source: *Research Data (2022)*

The findings presented in Table 1 reveal significant challenges faced by youth in Nairobi County during the loan application process with microfinance institutions (MFIs). A large proportion of respondents strongly disagreed with the statement that it was easy to be given a loan, as reflected by a very low mean score of 1.71 (SD = 0.33). Similarly, many respondents disagreed with the fairness and attainability of the criteria used by MFIs to issue loans. The mean scores for these statements stood at 2.25 (SD = 0.35) and 2.03 (SD = 1.21), respectively, indicating that a substantial number of youths perceive the existing requirements as either unclear or too demanding. These figures point to structural barriers within the loan approval process that may discourage young entrepreneurs from seeking credit, especially those lacking formal employment, collateral, or business records.

Despite these difficulties, there is evidence that microfinance has positively influenced youth livelihoods. Respondents largely agreed that loans from MFIs have helped them develop their businesses, with a mean score of 3.81 (SD = 0.26). Many also expressed a willingness to apply for another loan if needed (M = 3.64, SD = 0.42). These findings suggest that, although the application process is difficult, youth still recognize the value of financial support in enabling business growth and economic resilience.

However, satisfaction with repayment conditions and interest rates remains low. Respondents disagreed that loan repayment terms were favorable (M = 1.93, SD = 1.06), and they also strongly disagreed with the fairness of interest rates charged by MFIs (M = 1.76, SD = 0.90). This points to a significant gap between the financial needs of young people and the products being offered to them. Youth borrowers may be forced into repayment schedules that do not match the cash flow realities of their ventures, leading to stress, default risks, and diminished trust in financial institutions. These findings align with recent studies conducted in Kenya. Wachira and Kihara (2023) observed that digital credit services have expanded youth access to finance in informal settlements like Kibera, but also warned that high costs and aggressive repayment timelines pose risks of over-indebtedness.

Descriptive Statistics for Livelihood Development

The study first evaluated access to microfinance services affects youth's livelihood development. A set of statements was given to assess their level of agreement using a 5-point Likert scale, where 1 = strongly disagree and 5 = strongly agree. The scale ranges were defined as follows: 1–1.8 (strongly disagree), 1.81–2.6 (disagree), 2.61–3.4 (neutral), 3.41–4.2 (agree), and 4.21–5 (strongly agree). The findings are presented in Table 2.

The findings indicate that majority of the respondents agreed that access to microfinance has contributed to increased income (Mean = 3.74, SD = 1.30) and business growth or stabilization (Mean = 3.66, SD = 1.26). Youth also reported that engagement with microfinance institutions improved their financial and entrepreneurial skills (Mean = 3.72, SD = 1.22) and supported the acquisition of business assets (Mean = 3.51, SD = 1.29). These findings align with Onyango and Wafula (2018) study in Kitui County, which established that microfinance services significantly enabled the growth of youth-owned MSMEs, though access was often constrained by lack of collateral and credit history.

Additionally, many respondents reported that microfinance access contributed to economic self-reliance (Mean = 3.69, SD = 1.18) and livelihood sustainability (Mean = 3.62, SD = 1.20).

Table 2: Descriptive statistics for Livelihood development

Statement	N	Minimum	Maximum	Mean	Std. Deviation
Access to MFI services has helped me increase my income	287	1.00	5.00	3.74	1.30
Financial support from MFIs has helped me grow or stabilize my business	287	1.00	5.00	3.66	1.26
My engagement with MFIs has improved my financial and entrepreneurial skills	287	1.00	5.00	3.72	1.22
I have acquired business assets through financial services accessed	287	1.00	5.00	3.51	1.29
Microfinance access has made me more economically self-reliant	287	1.00	5.00	3.69	1.18
The financial services I accessed have helped me sustain my livelihood over time	287	1.00	5.00	3.62	1.20
Access to microfinance services significantly improves youth livelihood development	287	1.00	5.00	3.70	1.25
Credit facilities from MFIs contribute to youth entrepreneurship and job creation	287	1.00	5.00	3.68	1.24
Training and financial literacy linked to microfinance access enhances youth financial management	287	1.00	5.00	3.75	1.21
Savings services promote asset accumulation and income stability	287	1.00	5.00	3.60	1.19
Barriers in microfinance access limit potential livelihood outcomes	287	1.00	5.00	3.45	1.28
Access to microfinance is positively correlated with self-reliance and reduced vulnerability	287	1.00	5.00	3.67	1.20

Source: *Research Data (2022)*

They also believed that microfinance directly improves youth livelihood development (Mean = 3.70, SD = 1.25) and supports job creation and entrepreneurship (Mean = 3.68, SD = 1.24). These responses are supported by Wilo (2023) analysis of FinAccess data, which showed that youth with access to formal microfinance services experienced better business outcomes and improved financial well-being.

Further, respondents agreed that financial literacy and training linked to microfinance access enhances youth financial management (Mean = 3.75, SD = 1.21), while savings services help promote income stability and asset accumulation (Mean = 3.60, SD = 1.19). These findings echo the work of Muhati and Bosire (2023), who found that financial literacy in budgeting, bookkeeping, and debt management played a critical role in credit uptake and enterprise performance among youth in Machakos. However, respondents also acknowledged the challenges, with a moderate agreement that barriers in

accessing microfinance limit livelihood outcomes (Mean = 3.45, SD = 1.28). The findings also echo Rathinam and Akudugu (2014), who argued that financial services, especially when supported by group-based lending and social networks, help young people improve their confidence, income, and living standards. The findings further align with findings from Wachira, Kihara and Okech (2023) reported that use of digital loans when informed by financial awareness enhanced youth business performance in Kibera. The current study supports these conclusions, showing that youth who are aware of financial tools are more likely to translate access to finance into tangible improvements in their livelihoods.

To further support understanding of how microfinance services influence youth livelihood development, the study engaged key informants from both government departments and licensed microfinance institutions operating in Nairobi County. Respondents included sub-county youth officers, national officials from the Ministry of Public Service, Youth and Gender Affairs, Ministry of Cooperatives, Ministry of Industrialization, and credit officers actively working with youth clients.

A youth officer in Embakasi Sub-County highlighted the impact of microfinance access on youth livelihoods: *"Many youths who've managed to access loans have started or expanded their businesses. Some now run small shops or boda boda services. These are visible transformations, but only for those who actually get the funds and know how to use them well"* (Youth Officer, Department of Youth Affairs, Embakasi Sub-County, 27 Jan 2022).

A national official from the Ministry of Public Service, Youth and Gender Affairs explained that financial support through both government and MFI programs had boosted self-employment: *"We've seen youth use microfinance to open salons, retail kiosks, and farming projects. It may not always be large-scale, but it gives them daily income and builds resilience. However, success depends heavily on how prepared and committed they are"* (Ministry of Public Service, Youth and Gender Affairs, Nairobi, 28 Jan 2022).

From the Ministry of Cooperatives, one official pointed out that while credit access has generated business activity, sustainability remains uneven: *"Some youths do well when they get loans especially those with prior training or group support. Others default because they weren't ready or lacked proper planning. Microfinance has potential, but it must be paired with capacity building"* (Ministry of Cooperatives, Nairobi, 28 Jan 2022).

A Ministry of Industrialization official emphasized that the greatest impact is seen when microcredit is combined with technical training: *"When youth go through industrial training and also get access to capital, they're more likely to succeed. We've seen this with youth in tailoring and light manufacturing. They can invest in tools and raw materials. But for untrained youth, the money is often misused"* (Ministry of Industrialization, Nairobi, 29 Jan 2022).

Credit officers shared similar observations. One MFI loan officer noted that: *"We fund businesses in retail, agribusiness, transport, and even small manufacturing. Youth in these sectors have used loans to expand, restock, or buy tools. Where they succeed, we notice increased repayment and requests for repeat loans"* (Credit Officer, MFI Nairobi Branch, 30 Jan 2022).

Another officer explained that: *"Microcredit has helped youth grow small businesses and reduce dependence on informal jobs. But financial literacy plays a big role those who understand budgeting and have realistic plans benefit most. Others misuse loans or treat them as*

grants" (Credit Officer, Youth-Focused MFI, 30 Jan 2022).

Descriptive Statistics for Credit Conditions

The study further assessed the extent to which credit conditions affects youth owned business operating in Nairobi County. A set of statements was given to assess their level of agreement using a 5-point Likert scale, where 1 = strongly disagree and 5 = strongly agree. The scale ranges were defined as follows: 1–1.8 (strongly disagree), 1.81–2.6 (disagree), 2.61–3.4 (neutral), 3.41–4.2 (agree), and 4.21–5 (strongly agree). Data were analyzed using measures of central tendency, with results reported in terms of mean and standard deviation. The findings are presented in Table 3.

Table 3: Descriptive statistics for credit conditions

Statement	N	Min	Max	Mean	Std. Deviation
Credit conditions affect youth livelihood to a great or very great extent	287	1	5	4.00	0.87
Respondents met the necessary credit conditions to access credit	287	1	5	2.41	1.59
Youth face challenges when seeking credit	193	1	5	4.23	0.73
Collateral is a major condition for accessing credit	287	2	5	4.25	0.69
Guarantors are required to qualify for loans from MFIs	287	2	5	4.32	0.72
Business records are mandatory to access loans	287	1	5	4.33	0.71
Youth must have savings in their accounts before applying for loans	287	1	5	4.23	0.78
Most youth in informal sector lack required banking information	287	1	5	2.30	1.64
Many youth lack proper books of accounts or strong financial statements	287	1	5	4.42	0.69
Most youth lack fixed assets for collateral in loan applications	287	2	5	4.37	0.50
Creating and perfecting collateral is costly and time-consuming	287	1	5	1.65	0.76
Youth capacity influences financial accessibility to a great or very great extent	287	1	5	4.00	0.95
Youth access to credit depends on availability of collateral	287	1	5	3.76	0.99
Youth need entrepreneurial and business management skills to qualify for loans	287	1	5	3.94	1.01
Higher education level among youth improves chances of accessing credit	287	1	5	3.74	0.98
Youth business training enhances access to microfinance	287	1	5	3.85	1.02
Youth with prior business experience are more likely to obtain credit	287	1	5	3.93	0.93
Age of the youth influences their ability to access loans	287	1	5	4.05	1.15
Youth are perceived as too risky by financial institutions, which limits their access to credit	287	1	5	4.08	1.11

Youth-owned businesses are often at early stages and fail to attract lenders or investors	287	1	5	3.56	1.04
Youth believe their business activities are too small to attract financial support	287	1	5	3.71	1.01
Many youth lack business knowledge and skills, which limits their access to credit	287	1	5	3.56	0.97

Source: *Research Data (2022)*

Results in Table 3 indicates that credit conditions significantly affect the livelihoods of youth-owned businesses in Nairobi County. A majority of respondents indicated that lending terms impact them to a great or very great extent (Mean = 4.00, SD = 0.87). However, many youths reported that they failed to meet the necessary conditions required to access credit from microfinance institutions (Mean = 2.41, SD = 1.59). Additionally, youth face notable challenges during the loan application process (Mean = 4.23, SD = 0.73), confirming that structural barriers persist even for those deemed eligible.

On specific credit conditions, most respondents strongly agreed that collateral remains a major barrier (Mean = 4.25, SD = 0.69). Guarantors are also commonly required to secure loans (Mean = 4.32, SD = 0.72), and business records are viewed as essential documentation for loan approval (Mean = 4.33, SD = 0.71). Furthermore, youth must demonstrate savings in their accounts to qualify for financing (Mean = 4.23, SD = 0.78). These strict requirements often exclude youth operating informally, as many cannot provide the minimum information required by banks (Mean = 2.30, SD = 1.64). The majority also agreed that youth lack formal financial records or strong statements, complicating credit assessment (Mean = 4.42, SD = 0.69), and that most lack fixed assets for use as collateral (Mean = 4.37, SD = 0.50). Interestingly, respondents generally disagreed with the notion that creating and perfecting collateral is time-consuming or expensive (Mean = 1.65, SD = 0.76).

The credit officer noted that MFIs required collateral to issue loans, which limited access for youth-owned businesses. Although group savings could serve as collateral, they were often insufficient. Commonly accepted collateral included savings, land title deeds, logbooks, and payslips from group members.

"In order to access loans, the youths must provide collateral before the loans are advanced to them, books of accounts for the youth businesses, and guarantors as most of them are risky customers" (Credit Officer Kumac Microfinance 29th Jan, 2022).

The findings further revealed that youth capacity significantly influences their ability to access finance (Mean = 4.00, SD = 0.95). Collateral availability was considered a key factor (Mean = 3.76, SD = 0.99), while entrepreneurial and business management skills were deemed essential for qualifying for loans (Mean = 3.94, SD = 1.01). Education also plays a notable role in improving loan accessibility (Mean = 3.74, SD = 0.98), and business training was seen to enhance access to microfinance services (Mean = 3.85, SD = 1.02). Business experience was also rated highly (Mean = 3.93, SD = 0.93), with age being identified as a significant influence on loan eligibility (Mean = 4.05, SD = 1.15).

A credit officer from Rafiki Microfinance indicated that lack of capacity among young entrepreneurs limited their access to financial services from microfinance institutions in Nairobi County. The interviewees further highlighted that majority of youth had no skills on business planning, financial

management, book keeping, customer relation and marketing of which all were prerequisite condition an individual or group must meet before being granted business credit. Since the credit officer noted that the youth lacked the capacity (i.e. entrepreneurial capacity, education level business and managerial skills, collateral, business trainings, experience in business and age), it implies therefore that the youth in Nairobi face an uphill task trying to access credit from the MFIs for their livelihood betterment.

"Capacity of the youth in terms of skills and entrepreneurial orientation is key to helping livelihood development of the youth. Once the youth have a stable livelihoods they can access collateral necessary for access of credit in microfinance." (Credit Officer Rafiki Microfinance, 20th Jan, 2022).

Youth face perception-related challenges as well. Most respondents agreed that young entrepreneurs are perceived as risky clients by financial institutions, which limits their credit access (Mean = 4.08, SD = 1.11). Youth-owned businesses, often at the startup phase, fail to attract formal investors or lenders (Mean = 3.56, SD = 1.04). Many youths also believed that their businesses were too small to warrant financial support (Mean = 3.71, SD = 1.01), and a lack of business knowledge and skills was seen to significantly hinder credit access (Mean = 3.56, SD = 0.97). The findings from this study align with a growing body of research across Africa that highlights structural, institutional, and personal barriers to financial access among youth. A key insight from the present analysis is that both credit conditions such as collateral requirements, guarantor demands, and documentation and youth capacity such as financial literacy, business skills, and education shape financial accessibility. This resonates with Mulema et al. (2021), who found in Zambia and Vietnam that youth face substantial hurdles in accessing start-up capital due to lack of collateral and financial capacity. They called for targeted financing options, skills development, and capacity-building interventions. Similarly, this study found that limited skills, poor financial records, and lack of assets prevent youth in Nairobi from qualifying for credit, even when they operate active businesses.

Chidaushe et al. (2022) pointed out that rigid administrative requirements in Botswana hinder youth from accessing credit. Like Nairobi's youth, Botswana's youth also faced institutional barriers and bureaucratic complexity, reinforcing the need to simplify application processes and adapt financial services to youth realities. This supports the present study's finding that most respondents failed to meet formal microfinance institutions' credit conditions especially around collateral, documentation, and guarantors.

Koloma (2021), using World Bank data in Mali, emphasized that education, financial literacy, and access to accounts significantly affect youth inclusion. Similarly, this study found that education and financial training influenced access to loans. Koloma also highlighted that access to credit increases youth engagement in entrepreneurship particularly in agriculture. The present findings confirm that Nairobi's youth, when unable to access loans, cannot expand or sustain businesses, resulting in constrained livelihood improvement. Benni et al. (2021) reported that in Uganda, only 6% of agribusiness youth had formal credit, despite 77% being financially included similar to this study findings that youth often depend on informal financing due to inaccessible formal credit. High collateral demands, age discrimination, and poor business history block access, and many youths turn to mobile loans despite unfavorable terms.

Digital finance has shown potential in easing access, particularly in urban

areas. Nyokwoyo et al. (2023) found that mobile banking and agency banking helped urban youth gain financial access, although rural youth remained largely excluded. In Nairobi, while mobile loans are accessible and preferred (Wanjohi, 2023), they are also expensive and unsustainable. Wanjohi found that only 6.3% of youth borrowed from formal institutions, with mobile loans filling the gap despite limited borrower protection and high interest rates. Shibia (2023) highlighted that while regulatory reforms under the CBK Act (2021) and Digital Credit Providers (DCP) Regulations (2022) are helping formalize digital lending, youth still require financial literacy to borrow responsibly. This matches the current finding that lack of business knowledge is a core barrier to access. Wachira, Kihara, and Okech (2023) reported improved financial outcomes, suggesting digital lending may help if accompanied by effective regulation and user education.

Correlation Between Credit Conditions and Youth Livelihood Development

To determine the relationship between credit conditions and youth livelihood development, a Pearson correlation analysis was conducted. The results are presented in Table 4.

Table 4: Correlation Analysis

		Youth Livelihood Development	Credit Conditions
Youth Livelihood Development	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	265	
Credit Conditions	Pearson Correlation	-.523*	1
	Sig. (2-tailed)	0.011	
	N	265	287

Source: *Research Data (2022)*

The correlation analysis shows a significant negative relationship between credit conditions and youth livelihood development (r = -0.523, p = 0.011). This suggests that stricter or more demanding credit conditions are associated with lower levels of livelihood development among youth. In other words, as barriers such as collateral, guarantors, or documentation requirements increase, the ability of youth to use credit for improving their livelihoods declines. These findings are consistent with those of Oladele and Ward (2017), in a study of MAFISA loan beneficiaries in South Africa, found that access to agricultural microcredit significantly enhanced youth livelihood assets including savings, investable capital, and reduced reliance on informal loans. Their findings suggest that when credit terms are flexible and well-targeted, financial services can directly improve income stability and business investment. Similarly, Tegambwage and Kasoga (2022) showed that group trust and positive borrower relationships in Tanzania improved repayment rates and livelihood sustainability pointing out the importance of borrower–lender dynamics and participatory lending models. In Kenya, Litunya and Nyende (2017) found that while access to youth loans through the Uwezo Fund was generally beneficial, stringent conditions limited uptake. Their study showed that youth responded more positively to larger loans coupled with

training, pointing to the need for capacity building and adaptive loan conditions.

Hypothesis Testing

The hypothesis of the study stated that *Credit conditions on financial services* offered by *microfinance institutions has no significant effect on livelihood development among youth in Nairobi County*. Based on the analysis results presented in Table 7, the beta coefficient for credit conditions was (β=-.596, t=4.74, ρ=<0.05). Due to low ρ-value associated with t-ratio, the null hypothesis was rejected. It was therefore, concluded that there is a statistically significant effect of credit conditions on financial services access from microfinance institutions in Nairobi County. The negative beta coefficient indicates an inverse relationship more stringent credit conditions, such as high interest rates, collateral requirements, and short repayment periods, reduce the likelihood that youth can access credit from microfinance institutions. This informs that for each unit increase in credit conditions, financial services access reduces by 0.479 units. The effect of youth awareness was almost 4 times the effect attributed to the standard error as indicated by the t-test value of 4.74. The study therefore concludes that higher credit conditions significantly but negatively affect youth access to financial services from microfinance institutions in Nairobi County.

Table 8: Regression Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients		
Model	β	Std. Error	Beta	t	Sig.
1 (Constant)	11.992	2.467		4.86	.000
Credit Conditions	-.596	.101	.375	4.74	.012

a. Dependent Variable: Youth Livelihood Development

Source: *Research Data (2022)*

Wachira and Kihiu (2012) observed that high interest rates and stringent collateral requirements were key barriers that hindered youth, especially in urban informal sectors, from accessing loans. These restrictive terms discouraged participation even when loan products were available. Similarly, Ngugi and Kerongo (2015), in their analysis of microfinance outreach in Nairobi's informal settlements, found that while MFIs claimed to focus on youth and micro-enterprises, the actual loan requirements such as business registration, collateral, and guarantors excluded a large portion of the target population. These conditions effectively limited financial access for those lacking formal income or business documentation.

Conclusion

The study concludes that the current credit conditions set by MFIs are relatively high and therefore hampers credit access youth from microfinance institutions in Nairobi County among the conditions indicated as challenging include, lack of collaterals, weak bank statement, weak portfolios, inability to present guarantors, lack of security, tedious approval process, hidden costs and unfair interest rates. Youth lacked necessary documents and requirements needed to access financial capital and that youth can't afford to borrow and repay credit from microfinance institutions. The study has also concluded that credit condition by many financial institution limits youth ability to improve their livelihood and thus enhancing their socio-economic status.

Recommendations

The study recommends that there is need for the MFIs to review their lending rates as it was found that the current lending rates negatively affect the youth owned SMEs in Nairobi County. Full support and encouragement should be accorded to non-bank funding platforms as they were found to influence financial accessibility. SME's should be encouraged to building stronger internal structural base such that funds will be adequate to enable them function more effectively and compete favourably. Deposit Money Banks should provide more training to help the SME's in financial management practices as this will enhance the accounting processes of SME's for improved accountability, transparency and effective management for better performance. The government should be involved in business growth. MFIs should assist youth owned SMEs in marketing of their business products and making credit available to SMEs at an affordable rate. Thorough having lenient credit for the youth should be encouraged by the MFIs and other financial institutions to ensure that through their business they can enhance their livelihood and thus their socio-economic status.

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