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The Effect of Business Environment on Investment among Financially Included Youth in Kenya

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Abstract *The importance of financial inclusion in reducing poverty and achieving inclusive growth through household investments cannot be gainsaid. This has seen countries spend huge amount of resources towards financial inclusion. Due to these efforts, Kenya has achieved high levels of financial inclusion. Unfortunately, the poverty levels are still high and unemployment has been increasing. The purpose of this study was to find out the effect of business environment on investment among financially included youth in Kenya. The study 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 test of the full model against constant only model was statistically significant, indicating that predictors as a set reliably distinguished between investors and non-investors (chi square =23.945, p =.000 with df =4). The Wald criterion demonstrated that Government Services, and Governance and Security were negatively related to investment and statistically significant, but Business Registration and Tax Procedure though negatively related to investment were not statistically significant. The government should put mechanisms in place that will improve business environment of the youth. With the implementation of the recommendations, youth will be able to undertake advantage of financial inclusion.*

Key words Financial inclusion, household investment, business environment, employment, poverty

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1. Introduction

Business environment is key in success of any economy (Ciobanu and Bahna, 2016; World Bank, 2016a). This is important especially where financial inclusion has is being advocated as a tool in reducing poverty and achieving inclusive growth through household investments (Demirguc-Kunt *et al.*, 2015). Soursourian and Dashi (2015) noted that the funding towards financial inclusion has been increasing over time and it was estimated that as at 2014, the funding for financial inclusion was 31 billion dollars. Apart from funding, World Bank has also been undertaking a lot of research on the various facets of financial inclusion. Another organization that has put much efforts of financial inclusion is Bill and Melinda Gates foundation (Voorhies *et al.*, 2013). This is a global institution and it plays a catalytic role in broadening the outreach of digital payment systems focusing particularly in poor and rural areas. The organization has funded a number of projects towards financial inclusion especially on digital field.

The critical role played by access to financial services in poverty reduction was recognized and well-articulated in the development of Sustainable Development Goals (SDGs). Under Goal one on ending poverty in all its forms everywhere, the target indicates that the poor and the vulnerable should have equal rights in accessing financial service. Under goal two, on ending hunger, achieve food security and improved nutrition and promote sustainable agriculture, the goal indicates that this will be achieved by having equal access to resources including financial services. To promote inclusive and sustainable economic growth, full and productive employment and decent work for all, there will be need for access to financial services. Another target indicates that for sustainable job creation, there is need to strengthen financial institutions

to encourage access to financial services by all (Klapper *et al.*, 2016; UNTCAD, 2015). Though the SDGs did not explicitly target financial inclusion, greater access to financial services has been indicated will be a key enabler for many of them (Klapper *et al.*, 2016). For SDGs to be achieved, financial inclusion has to be improved.

African countries especially those who are members of Alliance of Financial Inclusion have made significant strides towards achieving the targets of Maya declaration by reviewing financial regulations and undertaking a number of innovations. Specifically, this includes review regulatory frameworks, policies on mobile financial services, agent banking, consumer protection, financial literacy and financial integrity (AFI, 2014; Al-Shbiel and Ahmad, 2016). The efforts by African countries have borne fruits. The scenario of financial exclusion has changed with time and Africa has made significant achievement towards enhancing financial inclusion (Demirguc-Kunt *et al*., 2015). In contrast with about 10 years ago where over 90 percent were financially excluded, the average financial inclusion for Africa as per the Global Findex Database 2014 stood at 34% from 24% in 2012 (Demirguc-Kunt *et al*., 2015; Demirguç-Kunt and Klapper, 2012).

Kenya has performed exemplary good in advancing financial inclusion. For instance, evaluating one of the user-side indicators of financial inclusion, the share of adults who own an account at financial institution indicates a great success. The share of adults who owned an account per 1,000 adults was an average of 386 adults for the world, 116 for low income countries while it was 50 for Kenya in 2004 (IMF, 2014). In 2011, situation was very different, the world average was 738 adults, low-income countries was 201, while Kenya had moved to 589 (IMF, 2014). While the average for low income and for the world had increased by less than double, the Kenya figures were more than 10 times, an indication that Kenya's increase in financial inclusion was very high. Financial system has actually been recognized as playing key role in savings mobilization (Maigua and Mouni, 2016). With provision of financial services, citizens are able to save and use saving for investment purposes.

Globally, Kenya has performed very well in financial inclusion. Using the access to financial services strand, it was 42.3% in 2014, which compared favorably with the world average of 45.75% (World Bank, 2014). Other studies have shown more evidence on the increase in financial inclusion. For instance, FinAccess (2013) noted that in the year 2006 the financially included were 26.4% of the population, this increased to 41.3% in the year 2009 and to 66.7% in the year 2013. In 2015, the levels had gone up to 75% from the whole population and 63% among the 40% of the poor population (Demirguc-Kunt *et al*., 2015). A study in 2015 indicated that, Kenya was the best performing country globally in enhancing financial inclusion (Villasenor *et al.*, 2015). The latest study by FinAccess (2016) indicated that Kenya has maintained high levels of financial inclusion at 75.3%.

Though financial inclusion has been confirmed to help in employment creation and poverty reduction through household investment, this is not the case in Kenya. Despite the increase in financial inclusion in Kenya, the unemployment and poverty levels are still high and more pronounced among the youth. 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; Ondoro, 2012; World Bank, 2016b). 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) while 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).

1.1. Statement of the problem

The increase in financial inclusion and the subsequent increases in investment have been found to help in employment creation and poverty reduction (Ashraf *et al*., 2010; Demirguc-Kunt *et al.*, 2015; Villasenor *et al.,* 2015; World Bank, 2008). This critical role played by financial inclusion has seen many countries spend huge amounts of resources to advocate for increase of financial inclusion levels among its citizens (Villasenor *et al.,* 2015). Kenyan government and financial institutions has also spent huge amount of resources towards financial inclusion. 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, 2006; FinAccess 2013; Kalunda, 2014; Ndii 2011; Wambua and Datche, 2013; World Bank, 2014). Another study indicated that in 2015, Kenya topped globally as the most highly included country (Villasenor *et al*., 2015). A more recent study indicates a high level of financial inclusion at 76.3 percent (FinAccess, 2016).

Despite the high levels of financial inclusion in Kenya, the positive effect expected from this has not been achieved as unemployment and poverty levels are still high (Mutia, 2014; World Bank, 2015). The inequality gap between the rich and the poor is still wide (Klapper *et al*., 2016). The purpose of this study was to find out the relationship between business environment and investment among financially included youth in Kenya.

1.2. Objective of the study

Assess the relationship between business environment and investment on financially included youth in Kenya.

2. Literature review

Finance and inequality theory holds that financial system development enables those who could not have access to financial services initially access the same and improve their human and physical capital. This allows low-income individuals to improve their human and physical capital. Models advanced by Becker and Tomes (1979, 1986) and Galor and Zeira (1993) indicated that information and transactions costs associated with financing education made poor people unable to finance their education. In their model, they predicted that that inequality reduces when low-income families borrow to pay for the education of their children. Thus with increase in financial inclusion, more people are expected to be involved in household investment and create wealth.

To increase the access to financial services, McKinnon (1973) and Shaw (1973) advocated for financial liberalization concept. The two introduced a model of an economy with underdeveloped financial markets. McKinnon argued that developing economies are closed economies where there is limited access to external finance and self-financed investments. McKinnon (1973) and Shaw (1973) challenged the case for low controlled interest rates and financial repression, and they advocated for financial liberalization and development for economic-growth enhancing policies.

McKinnon (1973) and Shaw (1973) were of the opinion that, potential investors must first accumulate monetary assets before investing in physical capital. When the financial market is attractive, people will put their money in the financial institutions and accumulate savings for purchase of physical assets in the future. With financial repression, the financial markets will not be attractive and people will tend to consume more rather than saving. The point by McKinnon was that if returns on monetary assets are kept low through repressive policies, the public is discouraged from saving and accumulating them and the incentive to invest wanes. This in the end slows the process of capital formation. Shaw argued that for there to be real growth in an economy, financial institutions must be developed. Shaw noted that financial institutions provides investors with access to borrowing and gives them incentive to save and to accumulate the equity that makes borrowing cheaper. The development of the financial market thus increases incentives to save, raises the volume and efficiency of investment and accelerates economic growth (Fry, 1982).

Government regulation played a key role in the transformation of financial sector. Through Central Bank of Kenya, a number of regulations were put into place which saw the success of M-Pesa. The granting of M-Pesa money transfer service license after liberalization of the telecommunication sector showed clearly government commitment towards regulation that was in support of business environment. The greater access to deposit facilities enhanced the ability financial intermediaries in mobilizing savings, while on part of the citizens it can facilitate economic growth by increasing the ability of households to undertake investments (Andrianaivo and Kpodar, 2011; Kama and Adigun, 2013). However, due to poor business environment, citizens are not able to undertake the investments.

Conducive business environment is a prerequisite for successful investments in an economy. Inclusive business environment consists of a network of interconnected and interdependent players, whose actions help businesses succeed, generate impact and grow to a larger scale. The environment includes all

types of actors, including companies, governments, development partners, civil society organizations, research institutions and intermediaries. Poor business environment may affect success of financial inclusion especially on taking up investments (UNDP, 2013). According to Ciobanu and Bahna (2015) on their study on the social, cultural and political factors that influence the level of mergers and acquisitions noted that business environment play a key role. The researchers indicated that investors have more interest in placing their capital in developing economies and are usually looking for a friendly business environment.

Alliance for Financial Inclusion, a member-based organization that brings together regulators from about 80 countries in the globe published a survey in the year 2010 that asked its members to discuss the trends and the challenges in financial inclusion (Gardeva and Rhyne, 2011). The survey was intended to provoke dialogue about what financial inclusion is and how to achieve it. This survey gauged the views of 301 industry participants from around the world who were financial service providers, and members of support organizations, investors, with a strong voice from the microfinance. The study noted that one of the major obstacle of leveraging on financial inclusion and undertakes investment among the poor is unfriendly business environment (Gardeva and Rhyne, 2011).

A report on the State of Financial Inclusion in the Philippines for 2013 highlighted the results in pioneering measures to promote greater financial inclusion in the country. These included the expansion of the physical reach of banks through the so-called micro-banking offices, extended virtual reach through electronic money and wider range of affordable financial products through microfinance. The report also featured the financial inclusion indicators for the Philippines, using the tools that were developed by the Alliance for Financial Inclusion (AFI) and the G20 through its Global Partnership for Financial Inclusion (GPFI). The study noted that bank loans increased for the year 2013 by 17%. The study further noted that the increase in loan were highest in three cities where business environment was good for investment and an indication of the role business environment plays on investment among financially included youths (Supervision and Examination Sector, 2013).

The Economist Intelligence Unit (2014) through Global Microscope 2014 assessed the regulatory environment for financial inclusion across 12 indicators and in 55 countries. Microscope was originally developed for countries in the Latin America and Caribbean region in 2007 and later expanded to a global study in 2009. The Microscope study framework considers products and institutions that reflect financial inclusion in a country. The 2014 report included interviews and desk analysis that was conducted between June and August 2014. The study noted that countries with favorable business environments are likely to have favorable conditions for investment as a result of financial inclusion

The Kenyan business environment has been rated poor. Kenya ranked position 108 out of 189 which is an improvement from 136 out of 189 economies in “Ease of Doing Business” survey which focuses on the business environment (World Bank, 2015; World Bank, 2016a). UNDP (2013) noted that there is need to enhance business environment for African countries to harness its potential. In Global Competiveness Report, Schwab (2015) noted that, Kenya business environment was not conducive for business. The report of 2015-2016 ranked Kenya position 99. This report indicated that the most problematic factors for doing business were corruption. Corruption affected heavily on the performance of businesses in Kenya. This was followed by access to finances, tax rates, inadequate supply of infrastructure and inefficient government bureaucracy. It was noted that for the businesses to expand in the country, there is need to improve business environment.

Kama and Adigun (2013) argued that if the legal environment is favorable to lending, this might enable banks to operate more profitably. This will eventually lead to expansion of banking services and investment. It noted that the role of government is to create enabling environment for the citizens to operate and interact with consumers in a mutually beneficial way. It is the role of government through the regulatory organs to strengthen land and property registries as well as enhance the transparency and efficiency of court systems. It should also play role in promotion investment in communications, physical infrastructure, and services and power.

Kenya’s infrastructure is a major contributor to poor business environment as it is insufficiently developed though huge amount of budget is allocated to development infrastructure (Kibet *et al.*, 2009). This makes Kenya to be uncompetitive and it affects investment especially among the poor. To improve this, there has been need for the policy makers to improve transport and communication in Kenya. The

government should also increase its involvement in services that support economic activities in the rural areas such as, electricity, water, extension services and marketing channel. This will improve business environment, motivate household increase their production, income, saving and investments. Actually, Africa Development Bank [AfDB] (2014) noted that Kenya has a very high potential for investments, but business environment is challenging.

Studies shows that Kenya business environment is still not conducive (World Bank, 2015; World Bank, 2016). This could hinder the youth who would wish to start business shun away despite the availability of money. Other youths could have started the business but they are not able to operate it full cycle. The relationship between household investment and business environment on financially included population has not been comprehensively studied. Thus, the youth are not able to realize the impacts of financial inclusion as expected.

3. Methodology of research

This study adopted positivism philosophy. On research design, this study adopted a descriptive survey research design while probabilistic sampling design was used for this study 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. To confirm reliability of the questionnaire, Cronbach's alpha coefficient was computed which was 0.918 and it was considered appropriate.

Data analysis, presentation and interpretation

Response rate and respondents characteristics

Four hundred and sixty three (463) questionnaires were distributed of which four hundred and twenty (420) questionnaires were accurately filled and used for analysis representing 90.7% response rate. The respondents were 52.9% male while female were 47.1%. As regards to age, 18-20 years, was 13%, 21 to 25 years was 32%, age group 26 to 30 years was 25% while age group 31 to 35 years was 30%. Majority of the respondents, 55.4% were not married while 44.6 % were married. On status of place of residence, majority of the respondents, 74% 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.

On economic indicators, the study noted that the youth who were not working were 24.5 percent. Those who were casual laborers were 25.7 percent while 6.7 percent were working in the family business, while 29.3 percent were self-employed. Only 13.1 percent were formally employed. On income levels, 18.7 percent were found not to be earning anything whereas majority 30.1 percent were earning less than Kshs 5,000 (49 US Dollars). The average income per month was Kshs 9,089 (89 US Dollars) which translated to about Kshs 303 (3 US dollars) per day the results indicated a poor state of the youth in terms of economic status

The study found that, the level of financial inclusion in terms of access to financial services through bank accounts was 77.8% while mobile money account was at 81%. The 77.8 percent of bank account and 81 percent ownership of mobile money account clearly indicated high levels of financial inclusion among the youth. The study also evaluated the level of investment among the youth where only 47.3% had undertaken investment. The study also noted that, majority of the youth financed their investments from own savings at 26.9 percent of the total population, followed by loans at 16.7 percent of the total population. Out of 16.7 percent, only 11.9 percent had borrowed from formal financial institutions. Insurance uptake was also low at 17 percent only. The results showed apathy in maximum utilization of financial services. Though majority of the youths were not earning or earning very little, only less than half had undertaken some form of investment. This is against the fact that majority had access to financial services.

Descriptive statistics of financial capability

Business environment was measured in form of Likert scale where youth were requested give a rating depending on how they perceive each parameter to be a challenge for them to invest. Descriptive statistics indicated that majority of the respondent rated the variables high. The average score was 3.0969

out of the possible five indicating a strong hindrance to investment. The overall standard deviation was 0.288 with a Skewness of -0.26497. The data for business environment had seventeen parameters. These parameters were correlated with each other as they were measuring the same construct. To improve construct reliability and to reduce a large number of items into factors, observed variables were reduced to a smaller number of factors. Principal component analysis, which is a variable reduction procedure, was used. First, the study tested for multicolinearity and determinant from correlation matrix was 0.000017 which was above the recommended of 0.00001. Kaiser-Meyer-Olkin Measure of Sampling Adequacy was 0.894 Bartlett's Test of Sphericity was highly significant as p<0.0001 indicating that the data was adequate for factor reduction. Kaiser criteria of Eigen value > 1 rule was used to determine the data to retain where component that displayed an Eigen value greater than 1.00 was retained as it was accounting for a greater amount of variance that had been contributed by one variable. Four factors were extracted which included, Business Registration, Government Services, Taxation, and Security and governance.

Relationship between Collective action and Cooperation, and Social cohesion and inclusion and investment among the youth in Kenya

In testing the hypothesis, binary logistic regression equation model was used in the form of $Logit[p] = \ln\left[\frac{p}{1-p}\right] = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$ the variables of the study were X_1 = Business Registration, X_2 = Government Services, X_3 = Taxation and X_4 = Governance and Security. To compute the probability of the overall significance statistics, the following formula was used;

$$p = \frac{e^{\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4}}{1+e^{\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4}}$$, n =4

Where:
p = the probability that youth will invest,
e = the base of natural logarithms (approximately 2.72).

A test of the full model against a constant only model was statistically significant, indicating that the predictors as a set reliably distinguished between those who invested and those who did not invest (chi square =23.945, p =.000 with df =4). The strength of relationship between predictor variable and responsive variable was tested by use of the likelihood and pseudo-R2 values. The results of the study indicated that -2 Log likelihood was 548.811a, Cox and Snell R Square was 0.056 and Nagelkerke R Square was 0.075. Nagelkerke R Square indicated that 7.5% of the variation was determined by the variables of the study.

Hosmer and Lemeshow Test, was used to tests whether he model was a good fitting model. The results of the test indicated a chi-square of 6.896, with 8 degrees of freedom and P value of 0.548. The H-L statistic has a significance of 0.548 which means that it was not statistically significant and therefore the model of the study is quite a good fit. This was further confirmed by prediction success overall which improved from 52.7 percent to 60.1 percent. The Wald criterion demonstrated that Government Services, and Governance and Security were negatively related to investment and statistically significant, but Business Registration and Tax Procedure though negatively related to investment were not statistically significant.

Table 1. Binary logistic regression of business environment and investment

	l	B	S.E.	Wald	df	Sig.	Exp (B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	Business Registration	-0.037	0.101	0.135	1	0.713	0.963	0.79	1.175
	Government Services	-0.438	0.104	17.54	1	0.000	0.646	0.526	0.792
	Taxation	-0.047	0.101	0.218	1	0.641	0.954	0.783	1.162
	Governance	-0.233	0.103	5.153	1	0.023	0.792	0.647	0.969
	Constant	-0.115	0.101	1.275	1	0.259	0.892		

a. Variable(s) entered on step 1: Business Registration, Government Services, Taxation, Governance and Security.

The model the study was: Logit of (Invest) = -.0.112 + (-0.037) * Business Registration + (-0.438) * Government Services + (-0.047) * Taxation + (-0.233) * Governance and Security. The negative B coefficients for predictor variables indicated that increasing predictor variables score is associated with decreased odds of investing. The Odds ratio expressed as Exp(B) column indicate the overall effect on dependent variable of increasing the predictor variables.

4. Discussion of findings

The levels of financial inclusion revealed by this study were high and in they were agreement with other studies on the level of financial inclusion. A study in 2015 indicated that 76% of the Kenyans were financially included (Villasenor *et al.,* 2015). InterMedia survey (2014) also found that about 74 percent of Kenyans surveyed in September 2014 had access to a bank, mobile money services, or both. FinAccess (2016) has indicated that 75.3% of Kenyan adults are now included. Thus the results of this study fully agrees with other studies on financial inclusion in Kenya and especially FinAccess (2016) study whose data was collected almost at the same period with this study.

A number of researchers have confirmed the effect of financial inclusion on investment. To start with, commitment savings in Malawi that showed positive effects on business investment and this was in agreement with McKinnon Complimentary Hypothesis (Brune, Gine, Goldberg and Yang, 2013). Similarly, access to a commitment savings account had positive impacts on female empowerment in the Philippines. Due to the enhancement of capacity in commitment savings, self-reported household decision-making increased, particularly for women with little decision-making power at the baseline. This resulted to a shift towards female-oriented durable goods purchases in the household (Ahsraf *et al.*, 2010).

Park and Mercado (2015) also tested the relationship between financial inclusion and poverty by carrying out a study on financial inclusion, poverty, and income inequality in developing Asia. The study considered that financial inclusion is critical element that makes growth inclusive as access to finance can enable economic agents make long-term consumption and economic decisions. The study constructed financial inclusion indicators to assess financial inclusion in 37 Asian economies. The study also assessed financial inclusion and other control variables on poverty and income inequality. The results of the study indicated that financial inclusion significantly reduces poverty and lowers income inequality. This study concluded that provision of young and old for example retirement pensions, conductive financial systems, financial regulation oversight will broaden financial inclusion and this would contribute to poverty reduction and lower income inequality.

With financial inclusion, people are able to access credit. Access to credit has been indicated to help investments in assets that enable individuals to start or grow their businesses (Cull *et al*., 2014; Maigua and Mouni, 2016). Another study by Augsburg, de Haas, Harmgart, and Meghir (2012) noted that there is evidence that credit both spurred new business creation and benefitted existing micro businesses in Mongolia and Bosnia. World Bank (2014) found positive effects from access to credit on a variety of indicators, including the income of existing businesses (India, the Philippines, and Mongolia), business size (Mexico), and the scale of agricultural activities and the diversification of livestock (Morocco). This clearly indicates that providing saving and credit facilities can enhance investment among the youth (Cull *et al*., 2014). Ellis *et al*. (2012) concluded that, there is a strong link between access to formal financial services and investment. The same would be expected from increase in financial inclusion in Kenya. However, there is no significant increase in household investment among the youth emanating from financial inclusion.

Despite financial inclusion being high, there is a missing link between financial inclusion and usage of all facilities provided by financial inclusion especially on borrowing. This missing link was also noted in other studies. This especially access to credit as indicated by imperfect credit theory, financial liberalization theory and financial intermediation theory. World Bank (2016b) noted that, for the developed economies where financial inclusion was 89%, those who had borrowed were 51%. Holding other factors constant, it would be expected that at least 57.9% of the youth would have some loan from bank from investment. However, this is different as the youths who had borrowed are half this figure as it was only 29% who had indicated to have borrowed from financial institutions. Similar findings on low borrowing was on a study by Ndii (2011) which also noted that, though there is much focus on lending especially to the youth and women, the loan uptake was still low.

Other comparison on culture of borrowing for investment purposes in Kenya indicate similar trend. World Bank (2014) indicated that Kenyans who had bank account were 42.9%, while the borrowing as a percentage of GDP was 30.1%. Comparing this with South Africa, an African country whose levels of financial inclusion compares favorably with Kenya indicated that South African adults with banks were 53.6% while borrowing was at 72.4% of GDP. Similarly, countries that are at comparable level with Kenya in terms of financial inclusion, do better in terms of borrowing. Colombia where bank accounts were 30.4%, borrowing was 31.2% of GDP, Chile, bank accounts 42.2%, and borrowing 64.6% of GDP. This disparity between financial inclusion and usage of financial services for investment is seen from different perspectives and it is reflected among the youth.

FSDK (2014) noted that despite the increase in financial inclusion, the poorest have shown weaker gains. The question that arises from the finding of this study and the discussion there on is what are the determinants of investment in a financially included population. The youth are not taking advantage of financial inclusion and take up investments the way it would be expected.

Kenya has recognized the importance of business environment and it is making great strides in integrating its low-income citizens to the mainstream commercial activity. This is through acknowledgment of the importance of the informal sector. Kenya's Vision 2030 has put an integrated policy programme which aims at aligning economic and human development, other initiatives such as the Financial Sector Deepening Initiative to create inclusive business environment (UNDP, 2013). However, the effects of the government efforts are yet to be realized.

The results of this study found that business environment was rated as un-conducive by the youth. The four sub-variables of this study on business environment were all negatively related to probability of undertaking investment. This indicates that, the higher a sub-variable was rated, the more it hindered the probability of investment. Government services and governance sub-variables were found to be statistically significant in influencing the probability to invest. This indicates that if the service delivery from the government is poor, which includes speed of government services, road network and getting electricity and water significantly influenced whether a youth will invest or not. Governance which included security and corruption again were statistically significant in influencing probability of youth undertaking investment.

The results of this study agree with other studies relating to business environment. The World Bank (2015) annual ease of doing business survey, Kenya was ranked lowly at position 129. The study noted that this compared poorly to countries that compete with Kenya like Rwanda which was ranked position 34. Compared to Rwanda, Kenya performed poorly on access to energy, ease of paying taxes, registering property, and backlogs in the judiciary which make it difficult to enforce contracts and support commerce. This makes it difficult for the poor to participate in the harsh economy their risk appetite is low. Sorunke and Adekanmi (2016) also noted that corruption is identified as one the global major problems that have negative consequences on economic development of many nations.

From the results of this study, Government Services was statistically significant in predicting whether a youth will invest or not if provided with finances. Governance was also statistically significant in predicting whether a youth will invest or not if provided with finances. Business Registration though negative was not statistically significant in predicting whether the youth invests or not. On overall, Business Environment was statistically significant in predicting whether a youth will invest or not if provided with finances. Increase in Business Environment rating by a unit among the youth reduces the probability of investing by 16.9%.

The policy behind financial inclusion is affording formal financial services to the poor so that they can undertake investments (Ellis *et al.,* 2012). With improved business environment, financial inclusion is enhanced and it connects people to banks with the consequential benefits. Access to a well-functioning financial system due to conductive business environment, enables socially and economically excluded people to integrate into the economy and actively contribute to economic development through household investment. The conductive business environment translates to inclusive growth that reduces the income inequality gap (Kama and Adigun, 2013; Sorunke and Adekanmi, 2016).

When business registration processes, government service delivery and taxation process are not efficient and there are issues of insecurity and corruption, business are negatively affected. The business environment becomes un-conducive and it has effects on probability to invest. The public sector that is supposed to offer services to the citizen must be efficient for there to be conductive business environment.

According to World Bank (2014), there are many important links between the public sector and financial inclusion and consequently investment. It noted that weak public sector institutions are detrimental to financial inclusion and investment. Improving the public sector governance can have a positive impact on the use of and the access to financial services to the public. With strong public institutions, this will improve in other factors including electronic payments and online services. This improves the efficiency of public sector programs and the performance of the economy as a whole (World Bank, 2014).

African Development Bank Group Kenya, (ADBGK, 2014) indicated that the government has to create a conducive business environment for it to create employment. This was in recognition that business environment plays critical role in investment. The bank argued that there was a need for establishment of a conductive business environment across the country. This way, the private sector will be motivated, there will be more investment and more employment opportunities will be created especially among the youth. According to Policy Forum (2010) conductive business environment offers opportunities for income growth, rewards productive activity, fosters innovation, risk taking and the ability to invest, and move out of poverty. On the other hand a non-conducive business environment puts has an implication on transactions cost which affects the business negatively. The high cost of operations discourages people from investing and this slows down poverty reduction.

Poor legal system affects the business environment and as a result, it has influence on investment. Kama and Adigun (2013) argued that if the legal environment is favorable to lending, this may enable banks to operate more profitably. This will eventually lead to expansion of banking services and investment. They noted that the role of government is to create enabling environment for the citizens to operate and interact with consumers in a mutually beneficial way. It is the role of government through the regulatory organs to strengthen land and property registries as well as enhance the transparency and efficiency of court systems. It should also play role in promoting of investment in communications, physical infrastructure, and services and power. Government regulation played a key role in the transformation of financial sector. Through Central Bank of Kenya, a number of regulations were put into place which saw the success of M-pesa. The granting of M-Pesa money transfer service license after liberalization of the telecommunication sector showed clearly government commitment towards regulation that was in support of business environment. The greater access to deposit facilities enhanced the ability of financial intermediaries in mobilizing savings, while at the same time; it helps citizens in economic growth by increasing the capability of households in undertaking investments (Andrianaivo and Kpodar, 2011).

Some of the measures of improving business environment over time have been by reducing bureaucracy in government through liberalization and improving infrastructure. Kibet *et al*. (2009) noted that adoption of liberalization measures in Kenya brought about change in the performance of the economy. A study was done to evaluate factors that influence savings among households of teachers, entrepreneurs and farmers in rural parts of Nakuru District. A sample of 359 teachers, entrepreneurs, and farmers were selected from seven rural administrative units. The study noted that among other factors, service charge, transport costs and credit access had an influence on usage of financial services. The study argued that for the government to see the development of its people, it has to look at the infrastructure, which has impacts on service charge and transport cost. When this is addressed, usage of financial services and the expected investment can be achieved.

In recognition of the status of the business environment in Kenya and the effect business environment has on investment among the poor household, Africa Development Bank stepped in to help (AdB, 2014). The Bank tried to create job opportunities by establishing a more conducive environment for investors through investments in physical infrastructure. It focused on improving energy, transport and water which was to increase the access to more affordable and reliable electricity, improve transport connectivity, decrease transport cost and time, and enhance access to more reliable water supply. This was expected to have an impact in private-sector activity, increase productivity, stimulate structural transformation, and generate employment, help in reducing poverty. Failure to do this leaves the Kenya economy uncompetitive and unemployment and poverty persist.

The other contributor to business environment is service delivery by governments that was also noted in this study (KPMG, 2014). Most of the businesses require services from the national government or the county government. The efficiency on the offer of the services determines a great deal the success of the business. Business community expressed their concern on the rate of offering the services by the

government. They indicated that the operations especially during transitions from national government to county governments were implemented haphazardly and never took into consideration the needs of business. There was need for the government to improve on how it offers its services to enhance the operations of the business sector where it needs the services of the governments (KPMG, 2014).

Payment of tax to the government should not be cumbersome as this may discourage payment of the same (KPMG, 2014). Study in 2014 indicated that 27 percent of respondents were of the opinion that simplifying and making tax and other monetary incentives more relevant would give Kenya a competitive edge. When sectors of the economy are not performing well, the public always falls back to the government for the improvement of the business environment for the existing business to thrive. When the tea proceeds in 2014 reduced considerably, business leaders asked the government to intervene with key areas being the provision of tax and monetary incentives to spur growth, investments in infrastructure specifically transport and energy and reduction in government bureaucracy (KPMG, 2014).

After the global financial crisis, investment was weak in India. Tokuoka (2012) carried out a study to analyze the reasons that could have caused the slowdown investment and how the investment can be boosted. The study analyzed macro and micro data. The data analysis indicated that macroeconomic factors could largely explain investment but that they were not accounting fully for weak performance. The study suggested that business environment played a key role in reviving investment. On the other hand, the analysis of micro panel data suggested that improving the business environment through reducing costs of doing business, improving financial access, and developing infrastructure, could stimulate investment. This study also noted that increase in macroeconomic uncertainty which includes high inflation and the weaker global economic outlook may be weighing on to investments. Still structural factors, such as unfavorable business environment could be depressing investment. The results implied that improving the business environment could boost investment substantially. Specifically, these results indicated that reducing the average of each cost of doing business to the lowest among Indian cities surveyed could boost aggregate demand by 0.25 to 1.5 percent of GDP, raising investment by 3 to 13.5 percent.

Bowen *et al.*, (2009) noted the informal sector creates more than 50% of the jobs in the country. However, the jobs in this sector face myriad of challenges, which include competition from large firms, cheap imports, debt collection and insecurity, which are components of business environment. This was from a study that was carried from 198 businesses trying to understand how businesses manage the challenges they face. This study noted that the challenges evolve according to different macro and micro conditions. This study noted though the success of the business is a mix of different strategies, including the support of government in improving business environment. In detail, the study noted that 89.4 percent of respondents mentioned competition while 68.2 percent mentioned insecurity as a challenge. It was indicated that debt collection, lack of working capital and power outages are challenges by 54.5 percent, 53 percent and 44.9 percent of the respondents respectively.

Security threats have far-reaching effects inform of increased cost of business and opportunity lost. Bowen *et al*., (2009) study found that security threats are great challenge to businesses and this affects the business environment. Many business managers and owners employ different means in preventing or deterring criminals. It was noted that 37.5 percent make use of security firms or guards to safeguard their businesses, which increases their cost of operation. Another 22.2 percent of them close early to avoid thugs which means losing the opportunity for the hours closed. Thus, security affects businesses negatively due to increased cost or lost opportunity.

5. Conclusions

Business environment was rated poor by respondents also noted to be negatively related to investment. Poor business environment becomes a stabling block towards achievement the potentials of financial inclusion. Though the provisions of finance and inequality theory indicate increase in access to financial services improves economic status of citizens, it is not possible when business environment is not conducive. Financial liberalization theory also indicates that, with increased access to financial services due to liberalization, people are able to start investment. But when business environment is not conducive, this may not happen. This study therefore concludes that poor business environment is the reason why the youth are not undertaking investment despite the high levels of financial inclusion.

6. Recommendations

The business environment was found to be poor in this study as per the rating given by the youth. This study also clearly indicated that business environment has influence on investment. This study recommends that the government should put mechanisms in place that will improve business environment. The government needs to shorten the business registration process, time taken to get access to electricity and water, reduce the number of permits required for business startups. This study further recommends that the government should improve on security as this hampers the youth from starting business. There is need to have special terms for doing business by the youth as this will shield the youth from competition. The reservation of 30 percent of public procurement to the youth is a step in the right direction. However, special conditions should be extended to other areas like export and manufacturing. With improvement of business environment, the youth will be able to take advantage of financial inclusion and undertake investment. The expected effects of financial inclusion will be realized.

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