

Effect of Debt Management Literacy on Investment Decisions Among Youth Entrepreneurs in Mombasa County

Ahmed Mohamed Omar*

Postgraduate Student, Technical University of Mombasa, Kenya

**Corresponding Author*

Dr. Jamal Noor

Technical University of Mombasa, Kenya

Dr. Juliana Asser

Technical University of Mombasa, Kenya

Abstract

This study investigates the effect of debt management literacy on investment decisions among youth entrepreneurs in Mombasa County. Despite growing recognition of financial literacy as a key driver of entrepreneurship, limited debt management knowledge continues to undermine youth entrepreneurs' ability to access, manage, and leverage credit effectively. Guided by Information Asymmetry Theory, the study employed a descriptive research design. A stratified random sample of 400 respondents was selected using Yamane's formula. Structured questionnaires were used for data collection, and data analysis was conducted using descriptive and inferential statistics. Findings revealed that debt management literacy has a statistically significant positive effect on investment decisions, highlighting the importance of skills in evaluating loan terms, understanding repayment obligations, and managing credit responsibly. The study concludes that enhancing debt management literacy is critical to improving investment outcomes and recommends policy measures to integrate financial literacy training into youth entrepreneurship programs. The study recommends integrating financial literacy training into youth entrepreneurship programs, with a focus on skills such as debt management. It encourages collaboration between banks, educational stakeholders, and community organizations to offer workshops and mentorship for young entrepreneurs. Additionally, it calls for government policies that support financial literacy in youth development, access to credit, and business startups, as well as partnerships among universities, financial institutions, and youth organizations to create tailored programs for today's youth.

Key Words: Debt Management Literacy, Investment Decisions, Financial Literacy, Youth Entrepreneurs, Mombasa County

Doi: 10.61250/ssmj/v1.i3.5

1. Introduction

Globally, financial literacy is increasingly recognized as a critical skill for entrepreneurial success. Inadequate debt literacy has been linked to poor financial decision-making, over-indebtedness, and a limited ability to leverage credit for business growth

(Saptiana et al., 2023). According to Löfgren & Nordblom (2020), only one in three adults worldwide is financially literate, with debt management literacy being one of the weakest areas. The consequences include high default rates, poor investment planning, and financial instability.

Regionally, Sub-Saharan Africa has some of the lowest financial literacy levels, averaging 38% World Bank (2022). Youth entrepreneurs are particularly affected due to limited access to financial education, the high cost of borrowing, and structural inequalities in financial systems Ogunlusi & Obademi (2019). (Klapper & Lusardi, 2019) found that weak debt literacy in African economies constrains entrepreneurial growth and access to affordable credit.

In Kenya, the Kenya National Bureau of Statistics (KNBS, 2024) highlights that over 60% of youth entrepreneurs lack adequate financial literacy, with deficits in budgeting, debt management, and risk assessment. Mombasa County, with ever-increasing youth entrepreneurs, reflects these challenges. Studies by (Khalid, 2020) & (Njeru, 2023) demonstrate that inadequate debt management knowledge contributes to poor repayment behavior, limiting youth entrepreneurs' access to finance and undermining investment capacity.

Investment decisions are crucial for securing financial futures, as many individuals engage in various forms of investment, like pension plans, life insurance, or real estate. However, not all investments are profitable (Kimaiyo, 2021). Financial literacy, which includes Debt Management Literacy, plays a vital role in making sound investment choices. Higher financial literacy helps individuals understand products and select suitable options, leading to better financial performance (Tamara et al., 2022). This study addresses this gap by examining the effect of debt management literacy on investment decisions among youth entrepreneurs in Mombasa County.

1.2 Statement of the Problem

Despite the growing recognition of financial literacy as a vital driver of entrepreneurship and sustainable investment behavior, many youth entrepreneurs globally—and particularly in developing economies—continue to make suboptimal financial choices. Studies reveal that limited debt management literacy remains a major impediment to prudent investment decisions, often resulting in excessive borrowing, poor credit utilization, and financial instability (OECD, 2020). In Africa, young entrepreneurs frequently encounter asymmetric access to financial information, leading to heightened vulnerability to predatory lending, unsustainable debt cycles, and missed investment opportunities (AfDB, 2022).

In Kenya, while youth entrepreneurship is viewed as a cornerstone for economic transformation, many young business owners in counties such as Mombasa face persistent challenges in managing their debt portfolios effectively (KNBS, 2024). Insufficient understanding of interest rate dynamics, repayment schedules, and credit risk contributes to weak financial health and limited reinvestment capacity. Consequently, youth enterprises

struggle to expand or sustain long-term growth, despite government and institutional efforts to enhance access to finance.

This study, therefore, seeks to examine the effect of debt management literacy on investment decisions among youth entrepreneurs in Mombasa County. By focusing on this specific aspect of financial literacy, the research aims to provide empirical evidence to guide policy interventions, capacity-building initiatives, and financial education programs that enhance youth entrepreneurs' ability to make informed and sustainable investment decisions.

1.3 Research Objective

To assess the effect of budgeting skills on investment decisions among Youth Entrepreneurs in Mombasa County.

1.4 Research Hypothesis

H₀₁: Debt management literacy has no significant effect on investment decisions among Youth Entrepreneurs in Mombasa County. H₀₂: There is no significant effect of need specification on procurement performance of maritime parastatals in Mombasa County.

2. Literature Review

2.1 Theoretical Framework

This study is anchored on Information Asymmetry Theory, proposed by Akerlof (1970) and advanced by Stiglitz (1975), which explains that unequal access to information among market participants leads to inefficiencies and poor decision-making. In financial markets, such asymmetry arises when one party—typically the lender—has more or better information than the borrower. This imbalance results in phenomena such as adverse selection and moral hazard, where borrowers either enter into credit arrangements without understanding risks or engage in behaviors that increase default likelihood after obtaining financing (Ahmad et al., 2023). Consequently, financial markets often fail to allocate resources efficiently, especially where borrowers lack the literacy needed to assess and manage credit responsibly.

For youth entrepreneurs in developing contexts like Mombasa County, information asymmetry is particularly problematic due to limited financial knowledge and unequal bargaining power with financial institutions. Many young entrepreneurs cannot interpret complex credit terms, compare financing options, or identify the full implications of interest rates and repayment schedules (Molson, 2019). This exposes them to unfavorable debt agreements, predatory lending, and financial distress. Conversely, debt management literacy enables entrepreneurs to bridge this information gap by making informed borrowing and repayment decisions. Through sound debt management practices, they can negotiate better loan terms, maintain financial stability, and enhance their capacity to reinvest profits (Abdelhafid & Mohammed, 2019).

In this study, Information Asymmetry Theory provides a conceptual foundation for examining how differences in financial knowledge influence investment decisions among youth entrepreneurs. Entrepreneurs with higher debt management literacy can reduce information gaps, evaluate risk-return trade-offs, and optimize credit use for productive investments (Omar, 2023). By enhancing transparency and financial awareness, debt management literacy mitigates adverse selection and moral hazard, leading to improved financial inclusion and business sustainability. Thus, this theory underscores that empowering youth with debt management skills is essential for correcting information imbalances, fostering efficient capital utilization, and strengthening investment decision-making within Mombasa County.

2.2 Empirical Review

Empirical data highlights the significance of debt management literacy in influencing investment results. According to Abdelhafid & Mohammed (2019), business owners who lack debt literacy frequently end up in unfavorable borrowing situations that limit their ability to make additional investments in the future. Bosnjak et al. (2020) also showed that high default rates among SMEs were caused by financial illiteracy about interest rates and repayment terms, which resulted in diminished creditworthiness and restricted access to finance. According to Nyale & Omar (2020), the majority of young business owners in Kenya have trouble managing their debt and frequently mishandle borrowed money, which limits their ability to expand their companies. These results demonstrate how important debt management abilities are in forming wise investing choices.

Overall, empirical evidence suggests that Debt Management literacy plays a pivotal role in shaping investment decisions. However, much of the existing research has concentrated on general populations, such as adults in formal employment or students, with limited attention given to youth entrepreneurs operating in dynamic and constrained environments like Mombasa County. This highlights the need for context-specific studies to better understand how Debt Management literacy affects youth entrepreneurial investment decisions in Kenya.

2.3 Research gaps

There is a significant gap in research focused on the financial literacy of Youth Entrepreneurs in Mombasa County. While some studies address financial literacy among broader groups like young adults or urban entrepreneurs, few target the unique challenges faced by this demographic (Oluoch, 2021).

Moreover, there was a lack of research on the financial literacy needs of Youth Entrepreneurs in Mombasa County. Existing programs often rely on general assumptions about financial knowledge, failing to consider the unique circumstances of these entrepreneurs. This oversight limits their ability to make informed investment decisions (Khalid, 2020).

Finally, while some studies have explored the financial behavior of entrepreneurs in Kenya, most have focused on established businesses or experienced individuals. There is limited research on Youth Entrepreneurs in the early stages of their journey. Understanding their financial literacy and investment behavior in Mombasa County is essential for identifying barriers to financial success and developing targeted interventions (Nyale & Omar, 2020).

2.4 Summary

The literature review focused on Youth Entrepreneurs, highlighting the importance of Debt Management literacy in making informed investment decisions. It also examined Information Asymmetry Theory to explain the factors influencing investment decisions among Youth Entrepreneurs.

The analysis focused on empirical studies that showed the beneficial correlation between Debt Management literacy and Investment Decisions, as well as the impact of this link on overall financial performance. Furthermore, the analysis highlighted the significance of focused financial literacy interventions catered to the particular requirements of Youth Entrepreneurs, especially when it comes to negotiating difficult Investment Decisions and handling pressures related to money, including debt management (Lusardi, 2019).

The review of the literature highlighted theoretical framework inadequacies and urges more investigation to fully comprehend the complex dynamics of Youth Entrepreneurs' Investment decisions, particularly in settings like Mombasa County. The evaluation of the literature emphasized how important financial literacy is in enabling Youth Entrepreneurs to manage debt, make informed Investment decisions, and succeed financially over the long run.

3. Methodology

The study adopted a descriptive research design. The target population was 32,102 youth entrepreneurs registered in Mombasa County. A stratified random sampling technique was employed to ensure representation across sub-counties, with a final sample size of 400 respondents determined using Yamane's formula. Primary data was collected using structured questionnaires. Reliability of the instruments was confirmed through Cronbach's alpha (>0.7). Data were analyzed using SPSS v26, applying both descriptive and inferential statistics. Regression analysis tested the relationship between debt management literacy and investment decisions, while diagnostic tests confirmed model validity.

To assess the link between the independent and dependent variable, a linear regression model was employed. The regression model used for this study is as shown in equation 1:

$$Y = \alpha + \beta_1 X_1 + \epsilon \quad \dots \dots \dots \quad (1)$$

Where: Y = Investment Decisions

α – the constant (intercept). It's the value of Y when the independent variable (X1) is equal to zero.

β_1 – beta coefficient

X1= Debt Management Literacy

ε = error term.

4. Research Findings and Discussion

4.1 Response Rate

In this research, a total of four hundred questionnaires were given out to potential respondents within the target population. Of the 400 respondents targeted, 385 completed and returned the questionnaires. This translates to a 96.25% response rate, which is way above the minimum threshold of 50% proposed as adequate for measuring objectives by (Nakamya, 2020). The response rate is presented in Table 1.

Table 1 Response Rate

Response	Frequency	Percentage
Responded	385	96.25
Non-response	15	3.75
Total	400	100

Table 1 indicates that the response rate was 96.25%, which is attributed to the high level of training provided to the enumerators. The researcher made numerous calls and sent multiple reminders to the respondents.

4.2 Descriptive Statistics of Debt Management Literacy

The statements under debt management literacy were coded and transformed into a ratio scale from which the mean and standard deviations were computed. The proportion of responses per scale was also determined for each element as given by the Table below.

Table 2 Descriptive results of debt management literacy

	SD	D	NS	A	SA	Mean	Standard deviation
I am knowledgeable regarding different types of debt	8.3	11.9	22.6	36.6	20.5	3.49	0.918
I pay my debt on time	9.9	15.3	21.6	31.9	21.3	3.39	0.925
I am confident in my ability to manage debt effectively	9.1	13.5	23.9	33	20.5	3.42	0.921
I often review my debt obligations and assess their impact on my financial situation	9.9	13.8	20	39.2	17.1	3.4	0.920
I use alternative sources of credit (e.g. borrow from friends and family)	11.4	15.3	17.4	36.4	19.5	3.37	0.927
I know the consequences of defaulting	10.6	14	19	31.9	24.4	3.45	0.929

on a loan							
Debt management practice enables me to plan my investments well and effectively	9.4	13.2	19.7	40.3	17.4	3.43	0.913
Overall	0	3.1	51.4	46.7	0.8	3.42	0.480

Results from Table 2 shows that the mean response per question ranges between 3.37 and 3.49. This implies that on average majority of the respondents were somehow in agreement with all the items under debt management. The standard deviations were all less than 1 which implies that the responses were close to one another ruling out the possibility of the presence of outliers in the data. The overall mean for the variable debt management was 3.42 with a standard deviation of 0.480.

Respondents demonstrated moderate to high literacy in managing different types of debt, repayment terms, and interest rate considerations. The relatively high standard deviation, however, suggests variability in debt management practices across respondents. This agrees with Mwarangu (2022), who noted that limited debt literacy exposes entrepreneurs to unfavorable borrowing terms and financial distress. Effective debt management allows youth entrepreneurs to reduce financing costs and improve creditworthiness, ultimately enabling them to invest more confidently.

4.3 Regression Analysis

This research’s main objective was to determine the effect of financial Literacy on investment decisions among Youth Entrepreneurs in Mombasa County. This was achieved through measuring specific objectives by assessing the effect of budgeting skills on investment decisions among Youth Entrepreneurs in Mombasa County; evaluating the effect of Debt Management literacy on investment decisions among Youth Entrepreneurs in Mombasa County; determining the effect of Financial Reporting Literacy on investment decisions among Youth Entrepreneurs in Mombasa County; and ascertaining the effect of Risk Management Literacy on investment decisions among Youth Entrepreneurs in Mombasa County. These specific objectives were measured through hypothesis testing by fitting a linear regression model between the measures of financial literacy and investment decisions. Table 3 presents the model summary resulting from a multiple regression model.

Table 3 Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.639 ^a	.408	.402	.2178

a. Predictors: (Constant), Budgeting Skills, Debt Management, Financial Reporting, Financial Risk Management literacy

Table 3 shows that the coefficient of determination (R-squared) was 0.408. This means that 40.8% of all the variations in investment decisions are explained by budgeting skills, debt management, financial reporting, and financial risk management literacy. The remaining

59.2% of the variations in investment decisions are accounted for by other variables not considered in this model.

The regression effect of the model was determined by the ANOVA table, where the null hypothesis is that none of the measures of financial literacy influences the investment decision against the alternative that at least one of the measures of financial literacy influences investment decisions. Table 4 presents the ANOVA table

Table 4 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	12.441	4	3.110	65.537	.000 ^b
Residual	18.034	380	.047		
Total	30.475	384			

a. Dependent Variable: Investment Decisions

b. Predictors: (Constant), Debt Management literacy

Table 4 shows that the F-statistic ratio was 65.537 with a P value of 0.000. This implies that there is a significant regression effect of the model. Therefore, the null hypothesis was rejected, indicating that at least one of the measures of financial literacy has a significant influence on the investment decision. The regression coefficients were generated to help determine which specific measures of Financial Literacy had a significant influence on Investment Decisions. Table 5 presents the regression coefficients.

Table 5 Regression Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.
	B	Std. Error	Beta			
1 (Constant)	.746	.159			4.706	.000
Debt Management	.168	.023	.286		7.214	.000

a. Dependent Variable: Investment Decisions

Debt management had a regression coefficient of 0.168 with a p-value of 0.000. This implies that debt management has a significant positive influence on investment decisions. The developed regression linear model is thus given by equation 1 as

$$Y=0.746+0.168X_1+\varepsilon \dots\dots\dots (2)$$

Equation 2 shows that for every single unit change in debt management, investment decisions increase by 16.8% keeping other factors constant.

4.4 Hypothesis Testing

H₀1: Debt management literacy has no significant effect on investment decisions among Youth Entrepreneurs in Mombasa County.

This was tested using a regression model fitted in equation 1, where the P value (0.000) of the t test was found to be less than 0.05. The null hypothesis was rejected, implying that debt management has a significant effect on investment decisions among Youth Entrepreneurs in Mombasa County.

4.5 Discussion of Research Findings

The objective of this study was to evaluate the effect of Debt Management literacy on investment decisions among Youth Entrepreneurs in Mombasa County. Debt management literacy was also found to influence investment decisions significantly ($\beta = 0.168$, $p < 0.05$; $r = 0.271$). The study revealed that youth entrepreneurs who understand debt types, repayment structures, interest rates, and the implications of borrowing are more likely to make prudent investment choices. These findings corroborate the work of (Alaaraj & Bakri, 2020), (Nyale & Omar, 2020) and (Oluoch, 2021), who reported a strong connection between debt knowledge and sound financial behavior.

This result is underpinned by Information Asymmetry Theory, which posits that a lack of access to or understanding of financial information may lead to poor financial decisions. By enhancing debt literacy, youth entrepreneurs reduce informational gaps and are better positioned to select financing options that align with their investment objectives.

5. Conclusions and Recommendations

5.1 Conclusions

The regression results indicated that Debt Management Skills and Investment Decisions are positively and significantly related. The results show that a unit increase in Debt Management Skills would lead to more informed Investment Decisions. Thus, debt management literacy plays a critical role in improving Investment decisions for Youth Entrepreneurs, ensuring that they can manage their financial obligations without putting their businesses at risk.

Debt management literacy was also found to have a positive and significant influence on investment decisions. Entrepreneurs with knowledge of debt types, repayment terms, and interest rates were better positioned to avoid over-indebtedness and leverage credit responsibly for productive investments. This aligns with Information Asymmetry Theory, which emphasizes that better-informed borrowers can mitigate risks of exploitation and moral hazard. The implication is that enhancing debt management skills can reduce financial vulnerability and expand investment opportunities for youth entrepreneurs.

The study concludes that financial literacy has a significant and positive effect on investment decisions among youth entrepreneurs. Financial literacy helps youth plan, analyze, and manage their investment behaviors in a structured and informed manner.

These findings reinforce the critical role of Financial Literacy in entrepreneurial success, particularly in a dynamic financial environment characterized by increased access to capital, evolving financial products, and economic uncertainty.

5.2 Recommendations

This study recommends that the Government and NGOs prioritize integrating financial literacy training into youth entrepreneurship initiatives to promote responsible financial practices. Programs should address specific gaps identified among youth, focusing on key skills like budgeting, debt analysis, and financial reporting.

This study advocates that banks and microfinance institutions should collaborate with educational and community stakeholders to create engaging workshops and mentorship programs to enhance financial knowledge and decision-making among young entrepreneurs.

County and National governments can play a crucial role by developing policies that promote the integration of financial literacy into youth development programs, supporting business startups, and facilitating access to credit for youth entrepreneurs.

Additionally, this study recommends establishing strong and mutually beneficial partnerships among universities, financial institutions, and youth organizations to develop tailored financial literacy programs specifically designed to address the unique challenges and aspirations of today's youth.

5.3 Suggestions for Further Study

Future research should consider longitudinal studies to track the evolution of Debt Management literacy and its impact on investment decisions over time, and expand the scope to other regions to validate and generalize the findings further. A comparative analysis between urban and rural Youth Entrepreneurs is warranted to elucidate the contextual differences in Debt Management Literacy and investment decisions. Future studies should also focus on the role of digital financial tools in shaping the investment decisions of Youth Entrepreneurs.

References

- Abdelhafid, M., & Mohammed, S. (2019). The Impact of Information Asymmetry on the Bank Financing of SMEs in Algeria: An Econometric Study.
- AfDB. (2022). Annual Report for 2022 (Annual 1).
- Ahmad, M. M., Hunjra, A. I., & Taskin, D. (2023). Do asymmetric information and leverage affect investment decisions? *The Quarterly Review of Economics and Finance*, Volume 87, 337–345. <https://doi.org/10.1016/j.qref.2021.05.001>.

- Alaaraj, H., & Bakri, A. (2020). The Effect of Financial Literacy on Investment Decision Making in Southern Lebanon. *International Business and Accounting Research Journal*, 4(1), 37–43.
- Bosnjak, M., Ajzen, I., & Schmidt, P. (2020). The Theory of Planned Behavior: Selected Recent Advances and Applications. *Europe's Journal of Psychology*, 16, 352–356. <https://doi.org/10.5964/ejop.v16i3.3107>
- Kamau, C. G., Patrick, M. K., & Ratanya, S. N. (2025). Behavioral finance and equity investment decisions: evidence from the Nairobi Securities Exchange, Kenya. *SAM Advanced Management Journal*. 90 (2): 165–193
- Khalid, S. (2020). Effect of Financial Literacy on Financial Decision of the Youth at Youth Enterprise Development Fund in Mombasa County. University of Nairobi.
- Kimaiyo, F. C. (2021). Financial Literacy and Household Savings in Kenya. University of Nairobi.
- KNBS. (2024). Economy Survey 2024. Kenya National Bureau of Statistics.
- Löfgren, Å., & Nordblom, K. (2020). A Theoretical Framework of Decision Making Explaining the Mechanisms of Nudging. *Journal of Economic Behavior & Organization*, 174, 1–12. <https://doi.org/10.1016/j.jebo.2020.03.021>
- Lusardi, A. (2019). Financial Literacy and the Need for Financial Education: Evidence and Implications. *Swiss Journal of Economics and Statistics*, 155(1), 1. <https://doi.org/10.1186/s41937-019-0027-5>
- Molson, S. O. (2019). Influence of Loan Portfolio on Financial Performance of Commercial Banks in Kenya. Jomo Kenyatta University of Agriculture and Technology.
- Mwarangu, F. W. (2022). Financial Literacy and Personal Financial Management Among Finance Managers of Insurance Companies in Kenya.
- Nakamya, A. (2020). The Impact of Behavioral Finance on Investment Decisions by Investment Banks in Kenya. United States International University-Africa.
- Njeru, D. K. (2023). Behavioral Factors and Investment Decisions Among Retail Investors in Real Estate in Nairobi City County: Kenya. *International Academic Journal of Economics and Finance*, 3(9).
- Nyale, A., & Omar, Dr. N. (2020). Influence of Financial Literacy on Growth of Start-up Businesses in Mombasa County. *The Strategic Journal of Business & Change Management*, 7(1), 810–826.
- OECD. (2020). OECD Economic Outlook. OECD Publishing, Volume 2020(Issue 2). <https://doi.org/10.1787/39a88ab1-en>.

- Ogunlusi, O. E., & Obademi, O. (2019). The Impact of Behavioural Finance on Investment Decision-making: A Study of Selected Investment Banks in Nigeria. *Global Business Review*, 22(6), 1345–1361. <https://doi.org/10.1177/0972150919851388>
- Oluoch, F. J. (2021). The Relationship Between Financial Literacy and Retirement Planning in Nairobi County, Kenya. University of Nairobi.
- Omar, A. M. (2023). Utility Theory and Its Application on Investment Decisions in Kenya. *East African Finance Journal (EAFJ)*, 2(1), 48–55. <https://doi.org/10.59413/eafj/v2.i1.7>
- Patrick, M. K., Kamau, C. G., & Ratanya, S. N. (2024). Influence of information processing bias on investment decision of equity investors at Nairobi securities exchange in Kenya. *Journal of Contemporary Research in Business, Economics and Finance*, 6(2), 59–67.
- Saptiana, Savitri, E., Hidayat, R., & Bimantara, F. (2023). The Influence of Financial Literacy and Behavior Finance on Investment Decision in the Millennial Generation in the Sub-District Across from Ulu Ii Palembang City. *International Conference on Business, Economics & Management for Sustainable Future*.
- Tamara, D., Silvia, S., Rustam, S. S., & Kurniawan, B. (2022). Indonesian Millennial Generations' Financial Literacy in Relation to its Behavior in Investment Decision. *Proceedings of the International Conference on Industrial Engineering and Operations Management*, 1196–1207. <https://doi.org/10.46254/AP03.20220227>
- World Bank. (2022). *World Development Report 2022: Finance for an Equitable Recovery*. World Bank, World Development Report 2022. <https://doi.org/10.1596/978-1-4648-1730-4>