Financial Inclusion Strategy Focus in Kenya

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ABSTRACT

Inclusive financing strategy is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments members of the society. Previously, the main stream Commercial Banks had left out low income earners who constitute a big percentage of the Kenyan population. Development through Financial Inclusion in Kenya aims at improving the standard of living of the people. Improvement in living standards has not been confined to economic gains, or increments in per capita income. It has certainly involved improvements of people to social, cultural and political spheres of life. Rural development involves the transformation of the economic, social, cultural and political conditions of the rural people for the better in order to enable them actively participate, consciously bring about their development, take their own share of benefits and sustain such benefits for long. Surprisingly, however, two notable issues remain constant across the foregoing half-a century in attempts to address poverty and equal opportunity. About one billion people globally earn per capita income of less than one dollar per day. Increasingly poverty worsens the problems of the poor in the world today. Particularly in Sub Saharan Africa, a sharp contrast of increasing disparity between the rich and the poor, men and women or urban and rural people. Financial inclusion Strategy is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments members of the society. As a result, companies in India have developed m-payment systems on the lines of M-PESA, a mobile-based financial service, in Kenya, to increase financial inclusion by providing deposit and withdrawal services to customers in remote areas. These have increased mobilization of money in form of capital for investment to rural areas which is inaccessible by big commercial banks.

Key Words: Financial inclusion, financial strategy, financial services, M-PESA.

Introduction

Inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments members of the society. As a result, companies in India have developed m-payment systems on the lines of M-PESA, a mobile-based financial service, in Kenya, to increase financial inclusion by providing deposit and withdrawal services to customers in remote areas. The success of this concept in Kenya is proof of how a new system, if properly introduced, can change the whole scenario of mobile payment within just a few years. Safaricom, a leading mobile network operator, launched **M-PESA** in Kenya in 2007and successfully connected nearly 60 per cent of Kenya's adult population within the next two years. M-PESA not only allowed easier remittance but also supported business transactions.

The success story of M-PESA inspired the authorities in India to launch similar applications. The Interbank Mobile System (IMPS) was thus launched in India in 2010. Soon after, mobile network companies such as Airtel and banks such as HDFC, ICICI and State Bank of India came forward to launch mobile banking services for its customers.

Safaricom Kenyan Network Operator Saving Kenyans

A mobile money transfer service has revolutionized the way Kenyans transact their money. Before the inception of M-pesa, Airtel money, Yu cash, and Orange money, many Kenyans had to contend themselves with queuing in banks to deposit or withdraw money. Not only that, many other cash transactions like paying electricity bills, water bills, school fees, paying salaries, depositing or withdrawing from one's account, sending or receiving money from overseas among other payments required one to go to a bank, Sacco or payment offices to transact. Nowadays, this is a thing of the past as all these transactions are done through mobile money transfer. Statistics from Central Bank show that Kenyans last year transacted more than Sh1.5 trillion using mobile money transfer services. Mobile phone money transfer services have grown by almost 31%, Top on this list being Safaricom's M-pesa service which is popular with many Kenyans and available countrywide with almost 16 million Kenyans now using this service. M-pesa agents are strategically positioned in many places country wide making it easy for transactions to take place. Statistics further show that the number of agents for all mobile money transfer networks is 76,912 more than half of them being from Safaricom. The mobile money transfer platforms from all providers moved about 575 million money transfer messages worth Sh1.53 trillion representing an increase of 32.8 per cent and 31.5 per cent in volume and value respectively compared to 2011. A big percentage of this trade transactions are from Safaricom's M-pesa. Safaricom's Okoa Jahazi service that allows one to borrow emergency credit and repay within three days also has good news for its users. It has extended the repayment period for emergency credit by 24 hours, meaning prepaid customers can now repay after four days. Users who access this service were notified via text of this good news. Okoa Jahazi service was launched in April 2009 to save many especially poor Kenyans who in one way or another find themselves in a tight corner and need to make an emergency call. The service also comes in handy when is not doing well financially. One is allowed to borrow up to Kshs. 100 and now repay within four days. Failure to repay by a subscriber means that one cannot access the service for a period of 14 days. Safaricom recently launched M-shwari a service that allows a subscriber to save with Safaricom then borrow a loan from the same service and repay within 30 days. Safaricom also allows subscribers to redeem their data bundles known as bonga points and make off-net calls a service that was previously restricted to on-net calls. To date, the use of M-PESA for attaining health services has to date been primarily indirect users receive funds through M-PESA and cash out the money to pay for services independent from the providers. But, high potential exist to improve access to health care in Kenya through use of the M-PESA platform as more providers integrate it into their methods of service delivery. The potential is highlighted by the new developments that are aimed at enhancing the functions of M-PESA to provide direct billing services for health seekers and hospitals. Twelve institutions are listed as “Health Management Providers and Hospitals” for M-PESA Pay Bill accounts with Safaricom. This includes organizations such as Population Services International, to insurance companies, to hospitals. There are also a number of organizations categorized as Insurance Agencies which could also be considered to be part of health provision (Safaricom-2011).

Importance of M-PESA’s potential role in supporting economic
Activities in the communities:

1. Money circulation effects (Local economic expansion) Overall signal has been the highest-ranked effect was increased money circulation, due to a greater volume of money flowing into and out of the communities and a faster flow of money within the community to boost local consumption.
2. Transactions ease (business environment): Business transactions has been made easy compared to the former banking sector where people has to spend a long time waiting for prolonged detailed procedures of cash transfer process and maturity period. M-Pesa transactions are instant process.

3. Money security—(security): Gone are the days where businessmen and women need to carry money. These days business is transacted in M-PESA single click tounch. No need of carrying cash or cheque books
4. Food security—(security): It is an important breakthrough in enhancing the functionality of M-PESA in directly addressing the basic human basic needs, clothing, housing and also community-level governance and project sustainability issues.
5. Human capital accumulation (capital accumulation): Customers of safaricom are privileged to operate M-Kesho accounts in which they can accumulate capital for future investments. Safaricom allows them some additional credit facilities. In manners, Safaricom promotes capital accumulation and hence inclusive financial credits.
6. Expansion of businesses (local economic expansion): Business expansion was noticed primarily in terms of growth of existing Businesses rather than new business start-ups. Existing businesses were able to expand to meet growing local demand for goods and services, which was in part driven by increased money circulation through M-PESA and lower transactions costs for vendors using M-PESA to obtain their stocks.
7. Social capital accumulation (capital accumulation): M-Pesa strengthened social bonds by enabling people to be able to send money to each other when in need arose. More especially family people can easily send money via M-PESA within any emergency times.
8. Employment opportunities (Local economic expansion): Increased employment opportunities were mostly referenced in direct relationship to the M-PESA's kiosks. Although this may seem like a relatively small increase in employment, given the high level of unemployment in the areas, it was very noticeable to the community members. Also, in some cases, existing businesses expanded employment with the addition of M-PESA windows wit
9. Financial capital accumulation (capital accumulation) : It has been identified that M-PESA positively Contributes towards financial capital accumulation since residents linked it to business expansion and a better business
10. Physical security (security): People do not have to carry money physically but they have to deposit their money in M-Pesa account. Withdrawals can be made as they please.

Three keys points to the success of M-PESA services

These are services based on electronic payments system and has been adopted by 8.5 million Kenyans in the relatively short span of two and half (2½) years. Surveys of users show it is a highly valued service, and Safaricom continues to expand the range of applications it can be used for. This paper explores how Safaricom, the mobile operator that commercializes M-PESA, managed to create enough tractions with both customers and retail stores, building trust and overcoming the adverse network effects that afflict new payments systems. We focus on three key aspects of M-PESA's success:

i. Creating awareness and building trust through branding;
ii. Creating a consistent user experience while building an extensive channel of retail agents offering cash in/cash out services;
iii. A customer pricing and agent commission structure that focus on key drivers of customer willingness to pay and incentivized early adoption

Donor Partners, Financial Institutions' and NGOs Management of Financial Inclusion in Kenya

Financial inclusion has risen steadily in development circles over the last 10 years to become a key policy objective for donors and governments. In Africa, more than 600 active financial sector projects are currently being carried out by a variety of donors. The increasing amount of public capital coming into the sector suggests the need for a better understanding of what works to promote financial inclusion on the ground, and how to coordinate donor efforts to achieve sustainable results. Early financial deepening theories emphasized the need to increase savings in order to stimulate investment and help emerging economies achieve catch-up growth, with poverty reduction to follow. Evidence to support the effectiveness of this approach has been mixed. It was quickly overtaken by the global microfinance movement, which promotes the benefits of direct financial service provision to the poor. Many financial inclusion promoters now agree that direct access to finance services can improve individual livelihoods amongst the poor by enabling them to manage scarce resources more efficiently, thereby smoothing consumption and protecting against economic shock. However, microfinance institutions themselves have achieved limited success in sustainably increasing beneficial financial access for the poor. Critics argue that financing for micro-enterprises that carry minimal productive potential is unsustainable. Microfinance has also been questioned for its inability to offer lower interest rates or reach deeper into remote rural markets. Various donor attempts to provide financial services directly to poor consumers referred to as the "poverty banking" approach – have also been limited in scope and impact.

A financial institution: is an institution that provides financial services for its clients or members. Financial institutions are also known to apply the principle of financial inclusion.

Probably the most important financial service provided by financial institutions is acting as financial intermediaries. Most financial institutions are regulated by the government.

Broadly speaking, there are three major types of financial institutions in Kenya;

a) *Depositary institutions:* Deposits-taking institutions are those institutions that accept and manage deposits and make loans including banks, building societies, credit unions, trusts companies and mortgages

b) *Contractual institutions:* These are savings institutions that obtain their funds through long-term contractual arrangements and invest these funds on the capital markets. Insurance companies and Pension funds are contractual savings institutions.

c) *Investment institutions:* They are investments banks, underwriters and brokerage firms. There are about 105 institutions which supports Programmes and schemes for SMEs sector in Kenya. Majority of SMEs are located in the rural areas of Kenya. There is need to equitability distribute development projects in this areas. Financial institutions are involved devolving development in these areas. These include five commercial banks and ninety eight (98) non-governmental organizations (NGOs). Approximately 46 of these institutions and organizations have various credits and finance projects and programmes for SMEs. Choro (1995) lists 27 institutions that provide loans to SMEs in Kenya. Financial institutions in Kenya constitute the following;

The main financial institutions in Kenya

1. Development Financial institutions
2. Development Finance Institutions
3. Non-Bank Financial institutions
4. Government programmes

Commercial Banks

Kenya has a relatively sophisticated banking sector with 37 commercial banks with more than 225 fully operational branch offices and over 70 sub-branches all over the country (Oketch et al 1995). Four main commercial banks dominate the sector. This includes;

1. Kenya Commercial Bank
2. Barclays Bank of Kenya
3. Standard Chartered Bank
4. National Bank of Kenya
5. Equity Bank

The five banks mobilize 70% of all deposits, account for 70% of the credit volumes and controls over 85% of the branch network in Kenya. The banking sector has registered steady growth in total assets and liabilities over the years. The bank assets increased from Kenya pounds (K£) 3353 million in 1990 to 2005 million in 1994 and recorded a growth rate of 17% in 1991, 19% in 1992, 29% in 1993 and 33% in 1994. The commercial banking industry has attempted to meet the financial Requirement of SMEs through special credit programmes. Despite this attempt, all commercial banks are conservative and have demonstrated bias towards minimizing risk by lending to prime borrowers who provide collateral **(**Government of Kenya, 1989 and Oketch et al 1995).

Development Finance Institutions (DFIs)

The second sets of financial institutions that have historically been the most active in financing SMEs in Kenya, are DFIs. By 1995, the total number of DFIs in the country was nine (9), all operating in the industrial and commercial sector. The GOK started DFIs to promote industrial development. Some key DFIs include the Industrial and Commercial Development Corporation (ICDC), the Development Financial Corporation of Kenya (DFCK), the Kenya Industrial Estates (KIE) and Industrial Development Bank (IDB). DFIs provide long-term finance of up to 10 years with grace period of up to two years. Unlike commercial banks and NBFIs that insist on 100% security, DFIs lending is based on the viability of projects being funded and security is based on the fixed asset being financed. They also provide non-financial services, such as appraisal, implementation, monitoring of projects and training of entrepreneurs;

Non-Bank Financial Institutions (NBFIs)

There are about 43 NBFIs in Kenya. The number has decreased from 51 to 43 since 1995 following a decision by the Central Bank to encourage NBFIs to convert to banks (GK 1994). Lending by most of NBFIs is security based and their loan maturity is longer than that of commercial banks (about 5 years). Lending to SMEs is limited because most NBFIs are security based.

Non-Govermental Organizations (NGOs)

NGOs are the latecomers in SMEs lending in Kenya. They reach out through Inclusive financing strategy to untargeted populous. There are 98 NGOs that are involved with different informal sector programmes. The number of NGOs providing credit to SMEs increased during the last decade largely due donor interest in the field. There are about 43 NGOs providing credit to SMEs in Kenya. Active NGOs in credit delivery are;

1. Action Aid (Kenya)
2. Kenya Rural Enterprise Program (KREP)
3. National Christian Council of Kenya (NCCK)

4. Presbyterian Church of East Africa (PCEA)
5. Promotion of Rural Initiatives and Development Enterprises (Pride)
6. Kenya Women Finance Trust (KWFT)

These institutions also provide non-financial promotion services

Government Programmes

The oldest actor in SMEs lending is the government. Lending is done through the Joint Loan Board Scheme (JLBS) launched in the 1950s and the Rural Enterprises Fund (REF) launched in 1991. They provide credit to SMEs and since independence, JLBS has provided SMEs with credit of Kshs.170 million while REF has provided Kshs. 400 million (Government of Kenya, 1989). Most of these Programmes have not been successful due to political and corrupt practices;

Kenya Women Finance Trust (KWFT)

Kenya Women Finance Trust Limited (KWFT) is now a Deposit Taking Microfinance. This follows the issuance of a license to conduct nationwide deposit taking microfinance business by the Central Bank of Kenya. This means that in addition to giving loans to its clients, KWFT will now be able to mobilize and intermediates savings. It is also widely known to applying the principle of financial inclusion strategy to its customers.

Source of Data

The study data entirely based on secondary sources i.e., journals, various books and websites

Objective of the Study

1. To find the significance Financial inclusion strategy in microfinance institution in poverty reduction
2. To find out whether financial inclusion strategy in financial institutions Programmes have been effective.
3. To find the efficacy and efficiency of Financial inclusion strategy in institutions / microfinance Programmes
4. To find out the Effects financial inclusion strategy of MFI on Socio-Economic Status of Beneficiaries
5. To find out the challenges facing the micro finance Programmes in effecting financial inclusion strategy

Hypothesis of the study

1. There is no significant relationship between the financial inclusion strategy of micro finance Programmes and social- Economic status of the beneficiaries in Kenya.

2. There is a significant relationship between financial inclusion strategy of finance institutions Programmes and the Social-Economic status of beneficiaries in Kenya.

Literature Review

Microfinance institution

Microfinance institution, use financial inclusion strategy for provisions of financial services to the low-income households and micro and small enterprises [Thereafter referred as MSEs], provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation. Widespread experiences and research have shown the importance of savings and credit facilities for the poor and MSEs. This puts emphasis on the sound development of microfinance institutions as vital ingredients for investment, employment and Economic growth. As means to realize such development in developing countries, several development approaches have been introduced, and shifted from, for instance, the emphasis on developing infrastructure and financing large capital intensive projects in the 1960s, to the focus on meeting basic needs of people in poor communities in the 1970s, to the priority on structural adjustment and stabilizing economics in the 1980s and 1990s to today's attempt to construct a sustainable development framework against the background of increasing globalization (Otero, 1999; Robinson, 2003). The potential of using institutional credit and other financial services for poverty alleviation in Kenya is quite significant. About 18 million people, or 60% of the population, are poor and mostly out of the scope of formal banking services. According to the National Micro and Small Enterprise Baseline Survey of 1999, there are close to 1.3 million MSEs employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP. Despite this important contribution, only 10.4% of the MSEs receive credit and other financial services. The formal banking sector in Kenya over the years has regarded the informal sector as risky and not commercially viable. According to the Poverty Reduction Strategy Paper (PRSP) of 1999, a large number of Kenyans derive their livelihood from the MSEs. Therefore, development of this sector represents an important means of creating employment, promoting growth, and reducing poverty in the long-term. However, in spite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions, such as commercial banks has been below expectation. This means that it is difficult for the poor to climb out of poverty due to lack of finance for their productive Activities. Therefore, new, innovative, and pro-poor modes of financing low-income households and MSEs based on sound operating principles needs to be developed .The Government of Kenya recognizes that greater access to, and sustainable system of flow of financial services, particularly credit, to the low-income households and MSEs is critical to poverty alleviation. Therefore, an appropriate policy, legal and regulatory framework to promote a viable and sustainable system of microfinance in the country has been developed via the proposed

Deposit Taking Micro Finance Bill: In drafting the Bill, the Government has consulted with stakeholders to get their views on the best way to create the required enabling environment for the microfinance sub-sector. In addition, full-fledged microfinance units have been established in the Ministry of Finance and the Central Bank of Kenya to formulate policies and procedures to address the challenges facing microfinance institutions, especially in the rural area to build a database to facilitate better regulation and monitoring of their operations.

Equity Bank- Kenya

Financial Inclusion services that transform live hoods:

Having a bank account and accessibility to bank services (i.e. savings and borrowings) is taken for granted in middle and high income countries. These services are not available in large parts of Africa, where millions of people continue to be excluded from the banking system. Kenya's Equity Bank is helping to bridge this gap. This Bank was established in 1982 as a building society to serve the 'unbanked' and to provide products and services that economically empower its customers. Equity Bank opens around 3,000 new accounts each day and is now the largest bank in the East African in terms of customer base with 3.4m account holders in Kenya and Uganda. The company is also one of Kenya's largest corporate tax payers and is listed on the Kenyan stock exchange. Equity Bank's success is rooted in its focus on market need and it is widely considered to be a global leader in microfinance. The loan products include a diverse range and are targeted to specific needs including SME loans, microfinance and agribusiness loans Equity Bank has been able to grow profitably due to the large volumes of business services provided through its expanding branch network. It has won numerous awards for innovation and service delivery including Best Microfinance Institution in Africa 2007 by Micro Capital and Best Kenyan Bank 2007 and 2008 by Euro money. Equity Bank works with partners to develop products tailored to the specific needs of the poor and previously un-served markets such as:

1. Kenya Cooperative Creameries to provide loans to farmers for the purchase of quality dairy cattle to help improve milk yields. Loans are repaid with proceeds from guaranteed forecast milk sales committed with Kenyan cooperative creameries
2. United Nations Development Programme (UNDP) to promote women in business and to develop loans suited specifically to the needs of women entrepreneurs

Conclusion

The review of financial inclusion strategy in all Financial Institutions and microfinance programmes implemented at four sites in Kenya have demonstrated the importance in programme design in delivering benefits across financial, social and environmental criteria. A main observation includes;

1. The findings from our first stage of the study clearly suggest that M-PESA affects positively the economic outcomes of community members, both users and non-users of M-PESA, through direct effects and externalities, respectively
2. Financial inclusion strategy in microfinance institution is an effective way of curbing poverty reduction
3. The initial training input in establishing microfinance projects is very important and should not be compromised.
4. The role of startup revolving loans for group formation needs further examination.
5. Implementing agencies should aim to put in place long-term support mechanism for Financial Institution and Micro financial activities.
6. It is important the financial institutions evaluate their programmes in order to determine how effective they had gone in the achievement of their objectives
7. The international community should support the efforts of the developing countries to eradicate poverty, ensure basic social protection and to promote enabling international environment for financial institutions to attain their overall objectives.

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