THE EFFECT OF FINANCIAL SERVICES BY MICROFINANCE INSTITUTIONS ON FINANCIAL INCLUSION IN KILIFI COUNTY, KENYA

BY

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DECLARATION

This Research Project is my original work and has not been presented for award of a degree in any other university.

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DEDICATION

I wish to dedicate this research project to my father, Samuel Njuguna Kuria and my late mother, Ruth Muthoni Njuguna who tirelessly ensured that I go through school to 'lead a better life than theirs' as they used to constantly advise me. I also honor my little baby girl Sereti Wangui Githaiga whose being has given me so much motivation to work hard.

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LIST OF ABBREVIATIONS

AMFI-K	Association of Microfinance Institutions, Kenya
CGAP	Consultative Group to Assist the Poor
DFI	Development Finance Institutions
GDP	Gross Domestic Product
GFDD	Global Finance Development Database
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
M-PESA	Mobile Money Transfer
MSE	Micro and Small Enterprises
NGO	Non-Governmental Organizations
ROSCA	Rotating Savings and Credit Associations
SACCO	Savings and Credit Cooperative Organizations
SHG	Self Help Groups
SPSS	Statistical Package for Social Scientists
UN	United Nations

ABSTRACT

Financial inclusion is the easy access to safe savings, appropriately designed loans for poor and low-income households and for micro, small and medium-sized enterprises, and suitable insurance and payments services. MFIs have been known to offer different services that include: deposit mobilization (savings), micro credits, money transfers and micro insurance. The purpose of this study was to establish the effects these financial services by Microfinance Institutions on financial inclusion in Kilifi County, Kenya. The study employed a descriptive survey research design. The targeted institutions for this study comprised all the 28 established MFIs operating in Kilifi County by administering questionnaires on 1 manager in each MFI and 5 randomly chosen customers of each MFI. Data collected by use of the questionnaire cleaned, coded and analyzed using Statistical Package for Social Scientists (SPSS). Data was presented in summary form using the frequency distribution tables, bar charts and pie charts. The study established positive correlation between deposit collection by MFIs and financial inclusion (persons correlation value = 0.417, P value .006). Further the research found that safeguarding members' savings through insurance, liquidity ratio, and short-term security was vital in encouraging customer trust and participation therefore, the study found a positive correlation between provision of other services by MFIs and financial inclusion (persons correlation value = 0.450, P value 0.011). The research also found that, encouragement and provision of financial personal money management tactics could highly encourage participation and financial inclusion. The study found a positive correlation between lending by MFIs and financial inclusion (persons correlation value = 0.391, P value .023). The study also established that an increase in the level of income among residents would enhance financial inclusion. The study concludes that effectiveness in deposit collection, provision of other services by MFIs, lending strategies and level of income, all enhanced financial inclusion. In order to enhance financial inclusion, the management of MFIs in Kilifi County need to enhance their deposit collection strategies. Adjustments on deposit regime should be made in order to make conditions more favorable to the clients and reduce defaults in deposit patterns. The management of MFIs in Kilifi County should consider improving on lending strategies with view of increasing loan awards and lengthening the loan repayment period which were found to be dissatisfying to majority of the clients. There is great need to intensify on financial literacy training among the residents of Kilifi County as this will help the rural realise their full potential and maximize their little income thus improving their economic status. MFIs should consider educating clients on other management services they offer as knowledge on other MFIs services was found to be low amongst customers. All the partners in financial sector should collaborate with the National and County governments in creating an enabling environment for poverty eradication in Kilifi County.

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Financial inclusion is the easy access to safe savings, appropriately designed loans for poor and low-income households and for micro, small and medium-sized enterprises, and suitable insurance and payments services (United Nations, 2006). A well-functioning financial systems empowers people economically and socially, especially the poor, and allows them to better integrate into their country's economy, actively contribute to their development and protect themselves against economic shocks. Financial products and services are identified as basic banking services like deposits accounts, institutional loans, access to payment, remittance facilities and also life and non-life insurance services.

For a long time, financial institutions all over the world overlooked the poorer segments of the market due to the high cost of small transactions. However, the emergence of microfinance over the past two decades in most developing countries has shown that the poor clients can be served despite the higher transaction costs. The Monterrey Consensus adopted in 2002 by numerous countries explicitly recognized that "microfinance and credit for micro, small and medium enterprises, as well as national savings schemes, are important for enhancing the social and economic impact of the financial sector" (Conroy, 2008). This statement reflects the belief that microfinance strategies that embrace savings, deposits, remittances, micro-insurance and pensions, are among the most powerful tools available for reducing financial exclusion.

Microfinance success stories, epitomized by the Grameen Bank, have led to an unusual convergence of interests between governments, businesses, aid agencies, philanthropists and civil society. Underlying this consensus is a belief that access to financial services is a powerful means of reducing poverty. Kenya's impressive economic growth rates leading up to 2013 have stimulated demand for financial services in all but the bottom wealth quantile. Increased economic buoyancy is likely to have been a factor in the growth of M-PESA, as well as fueling the growth of MFIs and bank services for middle-income markets. This necessitates the need for a financial inclusion assessment, as the MFIs, SACCOs and SHGs play a crucial role in the empowerment of the people by accumulating savings and offering loans. This study aims to review the extent to which services by microfinance institutions have contributed in promoting financial inclusion for the people of Kilifi County, a county in the coastal region of Kenya.

1.1.1 MFI Services

MFIs have been known to offer different services that include: deposit mobilization (savings), micro credits, money transfers and micro insurance. In Kenya, only MFIs registered under the Banking Act can legally mobilize deposits. Others only offer micro credit none known to offer insurance services.

1.1.1.1 Deposits

The Oxford English Dictionary defines a deposit as 'a sum of money placed with some other entity'. It is a credit for the party who placed it, and it may be taken back (withdrawn), transferred to some other party, or used for a purchase. People deposit their moneys into financial institutions for safekeeping, interest earning, or in the hope of borrowing more at a future date. Karlan, Ratan and Zinman (2013), lay out five sets of constraints that may hinder the adoption and effective usage of savings products and services by the poor: transaction costs, lack of trust and regulatory barriers, information and knowledge gaps, social constraints, and behavioral biases. The Microfinance Act of 2006 allowed licensed MFIs to mobilize deposits in Kenya. The concept of deposit will be measured through the number of deposit taking microfinance institutions in Kilifi County, the number of people making deposits, and the average amount of money the people deposit, on monthly basis.

1.1.1.2 Lending

To lend is to grant someone the use of something on the understanding that it shall be returned (Oxford English Dictionary). In finance, a borrower initially receives an amount of money, called the principal, from the lender, and is obligated to pay back an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments of the same amount. The loan is generally provided at a cost, referred to as interest, which provides an incentive for the lender to engage in the loan (CGAP, 2006). The financial services sector plays a big role in channeling funds for fruitful purposes, mobilizing and controlling flow of funds from surplus to deficit units supporting financial and economic policies of a government (Freixas and Rochet, 2008). However, the concept of lending cannot be fully discussed without the mention of risk. The major types of risks faced by lending institutions globally include market risk, operational risk and performance risk. The level of each type of risk largely depends on the environment under which the lending institution operates (Nourse, 2001). In this study, the concept of lending will be measured by the number of microfinance instructions offering loans in Kilifi County, the number of clients they serve, and the amount of loans they have successfully issued and re-paid.

1.1.1.3 Other MFI Services

Some microfinance institutions also offer a form of insurance, so-called “micro insurances”. The spectrum of these services include life insurance, property insurance, health insurance and disability insurance. Insurance enable micro-entrepreneurs to withstand major life events. Microfinance institutions get involved in insurance for a variety of reasons, and their motivations could have a significant bearing on what products they offer and how they offer them. Some are concerned about the well-being of their clients and offer insurance to protect the poor, to ensure that workers in the informal economy have access to an appropriate menu of affordable social protection, risk prevention and coping mechanisms. Others want to protect themselves by offering insurance from the death or illness of borrowers (Roth, Churchill, Ramm and Namerta 2005).

To avoid carrying cash for the purchase of goods or for relatives, the customers of some microfinance institutions are able to conduct transfers. These are services of transferring money without opening a current account and therefore offered to both members and non-members. Remittances are also an important source of income for many developing countries including India, China and Mexico, all of which receive over 20 billion dollars each year in remittances from abroad (World Bank, 2013). In Kenya however, there is no known MFI that offers these services.

1.1.2 Financial Inclusion

Financial inclusion or banking sector outreach can be defined as the process of availing an array of required financial services, at a fair price, at the right place, form and time and without any form of discrimination to all members of the society (Aduda and Kalunda, 2012). It is an intervention strategy that seeks to overcome the market friction that hinders the markets from operating in favour of the poor and underprivileged. It aims at drawing the unbanked population into the formal financial system so that they have the opportunity to access financial services.

Proponents of financial inclusion opine that financial exclusion leads to loss of opportunity to grow, a retarded country's growth and increased poverty levels. According to Sinclair, McHard, Dobbie, Lindsay and Gillespie (2009), exclusion from the financial system brings real and rising costs, often borne by those who can least afford them. A well-developed financial system reduces information and transaction costs, influences saving rates, investment decisions, technological innovation, and the long-run growth rates (Beck, 2006). It creates equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks (Aduda and Kalunda, 2012).

Improved financial institutions afford several benefits to the consumer, regulator and the economy alike. An account relationship can pave the way for the customer to avail the benefits of a variety of safe financial products from institutions that are regulated. The bank accounts can also be used for making small value remittances at low cost and making purchases on credit. Furthermore, the regulator benefits, as the audit trail is available and transactions are conducted transparently. The economy benefits, as greater financial resources become transparently available for efficient intermediation and allocation for uses that have the highest returns. At a country level, financial inclusion can boost efficiency of financial intermediation and thus improve the soundness of investment financing and investment cycles (Prasad, 2010). The concept of financial inclusion, as contributed by MFIs will be measured by; the penetration of MFIs and their branches in Kilifi County, the usage if these MFIs' financial services and the quality of these services in meeting clients' needs.

1.1.3 Effects of Financial Services on Financial Inclusion

For the marginalized poor to build their lives, one of the greatest needs is improved access to financial services not just loans but also savings, insurance, pension and other products. Such services can lead to breakthrough opportunities for people who have had limited economic avenues (World Bank Report, 2013). Traditional places where the poor save their money are often at risk of theft and temptation. People who save by informal means rarely benefit from the interest rate and tax advantages that people using formal methods of savings. Lack of savings and saving avenues means recourse to non-formal lenders, like money lenders (Kempson, 2006). Forced savings program ostensibly teaches financial discipline and more often serve as a form of cash collateral. Adams, (1978) argued in support of mobilizing voluntary saving from rural pro poor households as strengthening rural financial markets. Savings constitute the first line of defense to help poor households cope with the external shocks, emergencies, and life-cycle events and allow the poor to take advantage of productive investment opportunities (Grosh and Somolekae, 1996).

Individuals and households take loan opportunities to realize development by generating further income hoping to repay the money lent in time and at the least cost. Formal loans facilities provide a motivation and mitigate borrowers from exploitation by non-formal lenders. As loans from non-formal lenders are often secured against the borrower's property, this raises the problem of inter-linkage between two apparently separate markets (Christen et al. 1995). Microcredit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most MFI clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral (Wenner, 1995).

The poor living conditions make disease more probable. People are often malnourished, the quality of water is poor, and the possibilities for an adequate level of hygiene do not exist. The risk of accidents is relatively high and the possibility of being affected by a natural disaster is also rife. People living below or barely above the poverty line are exposed to dangers against which a micro insurance can offer a certain level of protection. To avoid carrying cash for the purchase of goods or for relatives, the customers of some microfinance institutions are able to conduct transfers. This obviates the need to travel long distances to hand over money and the risk associated with cash payments (World Bank, 2013). In Kenya however, there is no known MFI that offers these services.

1.1.4 MFIs in Kilifi County

The main types of microfinance service providers in Kilifi include downscaling commercial banks, non-bank financial institutions, licensed saving and credit cooperatives and NGOs (regulated by the Central Bank of Kenya) and a number of unregulated small Non-Deposit Taking enterprises. Regulation and supervision of Non Deposit Taking Microfinance Institutions are yet to be put in place as the Ministry of Finance is in the process of discussing the way forward. Because of the restrictions in the Banking Act, most MFIs have developed as credit-led programmes, thus limiting the extent to which these institutions can mobilize deposits. Several leading microfinance institutions like Faulu Kenya, Kenya Women Finance Trust, and some SACCO-based MFIs have developed savings and credit products (AMFI-K, 2011).

The deposit taking institutions largely mobilise savings from depositors to fund their operations by offering voluntary saving schemes for their customers. A few are SACCO based and take deposits from registered members which are used as security on loans and membership offer guarantorship platform for loan seekers. In this case deposit may be forced as demanded by the SACCO bylaws. MFIs in Kilifi County offer little amounts of loans payable in short periods of time usually less than one year with interest often slightly higher than commercial bank rates but lower than loan-shark rates. Application procedures are simple, often with short processing periods and often with no collateral. Instead of collateral, microfinance intermediaries use alternative methods like guarantors, or the assessments of clients' repayment potential by running cash flow analysis, which is based on the stream of cash flows, generated by the activities for which loans are taken (Opiyo, 2012).

However, glaring gaps still remain in the microfinance industry offer of products. Very little has been done to develop micro-insurance, micro-pensions and micro-leasing products and services. Many rural areas away from Mtwapa, Kilifi and Malindi towns are still grossly underserved by microfinance institutions. On the whole there has been insufficient innovation with delivery methodologies. Currently, most MFIs offer a single product (credit only) to a single customer segment, operators of Micro and Small Enterprises (MSEs) through a single methodology, thus reaching a limited segment of the potential market. Financial systems for MSEs leaves out important segments of the poor e.g. smallholder agricultural activities on which the majority of the poor in the rural areas depend on (Reille, 2009).

1.2 Research Problem

There are many stories of the transformative effect of microfinance on individual borrowers but until recently there has been surprisingly little rigorous research that attempts to identify how different approaches to microfinance change outcomes (Chowdbury, 2009). MFIs provide similar products as formal sector financial institutions. The scale and method of delivery differ, but the fundamental services of savings, loans, and insurance are the same (Brau and Woller, 2004). It is therefore important to measure the extent to which these particular services by MFIs contribute to financial inclusion.

Banking services in Kenya are skewed in favor of large private and public enterprises in urban areas as evidenced by 93 and 7 percent distribution of bank branches in urban and rural arid-and-semi-arid areas respectively (Beck, Cull, Fuchs, Gatenga, Gatere, Randa, and Trandafir, 2012). Kilifi being semi-arid and among the counties with the highest population in Kenya has been largely marginalized with only 25% of this population living in urban centers (Kenya open data, 2015). The success of MFIs operating in this County to address this exclusion has not been reviewed.

While the success of MFIs in poverty eradication has been echoed by many, there has been divergent views on their effectiveness and hence a need for further research. Chattopadhyay (2011) worked out an Index on Financial Inclusion (IFI) and concluded that the relationship between microfinance and inclusion is not straightforward. Hans (2009) observed that microfinance lending model offers reasonable and sustainable rates to the poor taking the place of money lenders who charge exorbitant prices. Perry (2002) differed when he observed that the demand for money lenders had remained robust in Senegal. Yunus (2003) emphasized that micro credit is an essential tool “in our search for a poverty-free world”. Hulme and Mosley (1996) observed that it is non-poor borrowers and not poor households that benefit from microfinance.

In Kenya there is lack of data to back up the success of MFIs as concluded by two studies done by Malkamäki et al., (FSD, 2006 and 2009) (as cited by Paye, 2012). Aduda and Kalunda (2012) posited that financial inclusion is a prerequisite to economic development but observed that financial inclusion studies should focus not just on access but also usage. Paye (2012) identified savings and credit services as the major methods adopted by MFIs in promoting financial inclusion but did not measure the extent to which this is achieved. Hannig and Jansen (2010) advised that reliable and comprehensive data that captures various dimensions of financial inclusion is a critical condition for evidence-based policy making. This study aims to address the research question; what is the effect of deposits and lending by microfinance institutions on financial inclusion in Kilifi County, Kenya?

1.3 Objectives of the study

The general objective of this study was to establish the effect of deposits and lending by Microfinance Institutions on financial inclusion in Kilifi County.

The specific objectives were:

i. To establish the effects of deposits by Microfinance Institutions on financial inclusion in Kilifi County.
ii. To establish the effect of lending by Microfinance Institutions on financial inclusion for the people of Kilifi County.
iii. To establish what other services are offered by MFIs in Kilifi County and the effect of these on financial inclusion.

1.4 Value of the Study

Theories exist on the role of MFIs on financial inclusion. Many studies have shown that MFIs contribute a great deal in alleviating poverty through positive impact on financial inclusion. By providing the much needed reliable data on the contribution of MFIs to financial inclusion, this study will be an additional contribution to these theories and will prove or challenge these already existing theories. The findings of this study are also expected to provide current information on the status of microfinance institutions in Kilifi County. This information is important in formulation and amendments of the already set policies in finance services arena. By making it possible to identify segments of the population excluded from the formal financial sector, the data can help policy makers prioritize reforms accordingly and, as future rounds of the data set become available, track the success of those reforms.

The findings of this research will enable management of MFIs to improve on their strategies for providing adequate access to financial services by the unbanked in rural areas with a goal of reducing poverty by way of saving, investing and growth. By studying the data from this report, managers would be in a better position to understand what strategies they need to put in place to promote financial inclusion hence their market share. This research paper will also be a valuable reference to future researchers and scholars in finance and especially in the area of financial inclusion. This study would specifically suggest areas for further research where future scholars and researchers can expand knowledge while at the same time act as source of reference material. Findings from this research may be used as a basis for further research on the same subject in other counties in Kenya or in other related fields of finance and banking, in the same locale.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature, on theories of financial inclusion, determinants of financial inclusion overview of microfinance institutions in Kenya, microfinance as an agent of financial inclusion, banking to the informal sector, and contribution of microfinance institutions to the economic growth.

2.2 Theoretical Review

There exist a few theories in literature that explain the concept of financial inclusion and MFIs. These have been fronted by scholars who have studied social economic development. Most of them look at the challenges created by conventional banks that leave out the marginalized ‘poor’. These are discussed here below.

2.2.1 Theory of Social Welfare

Developed by Bergson (1938), the theory states that in precise form, value judgment is required for the derivation of the conditions of maximum economic welfare. Bergson believed that the theoretical rationale for microfinance regulation and for financial regulation in general, is predicated on the notion of theory of social welfare. The theory aims to reconcile the jargon of microcredit with the standard tools of project analysis. It argues that outreach is the social value of the output of a microfinance organization in terms of depth, worth to users, cost to users, breadth, length, and scope. Outreach is commonly proxied by the gender or poverty of borrowers, the size or the terms of loan contracts, the price and transaction costs borne by users, the number of users, the financial and organizational strength of the lender, and the number of products offered, including deposits. The theory posits that the social goal is not to have sustainable microfinance organizations but rather to maximize expected social value.

Rhyne (1998) agrees with the theory and states that sustainability is not an end in itself but rather a means to the end of improved social welfare. Thus outreach stands for the social value of loans from a microfinance organization, and sustainability helps to maximize expected social value minus social cost discounted through time, including the net gain of users from loans and deposits, the profits or losses of the microfinance organization, and the social opportunity cost of the resources used. In principle, a complete evaluation would use cost-benefit analysis or cost effectiveness analysis to compare social value with social cost in general equilibrium.

This theory has relevance in financial inclusion as MFIs place more weight on the poor than on the rich. The society values the net gain from a small loan for a poor widow more than the same gains for a richer person. Deeper outreach usually increases not only social value but also social cost because the poor are more heterogeneous and less able to signal their ability and willingness to repay (Conning, 1999). Woller et al. (1999) observed that perpetual source of support can allow a microfinance organization to achieve length of outreach without sustainability. However, longer outreach through sustainability usually strengthens the structures of incentives that serve to maximize expected social value minus social cost discounted through time.

2.2.2 Finance-Growth Nexus Theories

Financial Growth Nexus theories were developed by Bagehot (1873) and advanced by Solow (1956). Financial-Growth Nexus theories advocate that financial development creates a productive environment for growth through ‘supply leading’ or ‘demand-following’ effect. The theories also perceive the lack of access to finance as a critical factor responsible for persistent income inequality as well as slower growth. Therefore, access to safe, easy and affordable source of finance is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty which creates equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protect themselves against economic shocks.

Economists have expressed divergent view on this theory. Those of the demand view argue that the financial system does not spur economic growth; rather the financial system simply responds to development in the real sector. Those who favor the finance-led growth hypothesis argue that the existence of an energetic financial sector has growth-enhancing effects. Several studies (Goldsmith, 1969; McKinnon, 1973 and Levine & Zervos, 1996) also emphasized the positive role of financial systems in economic growth (as cited in Ndebbio, 2004). The main argument of proponents of the supply leading theory is that, financial markets evolve in response to increased demands for financial services from an already budding economy. Therefore, the development of financial markets is a reflection of growth in other sectors of the economy. This theory has established a positive link between financial inclusion and economic development. It would be interesting to prove the strength of this linkage by measuring the extent to which the development microfinance institutions contribute to financial inclusion and ultimate economic development.

2.2.3 Modern Development Theory

This theory was developed by Hoff and Stiglitz (2001). The theory perceives the lack of access to finance as a critical factor responsible for persistent income inequality as well as slower growth. The theory argues that in an underdeveloped financial system, certain segments of the population experience difficulties in accessing financial services. As a result, they resort to high cost informal sources such as moneylenders. This is particularly true for the sporadic financing requirements of low income households such as for non-productive consumption and medical expenditure. In mature financial systems, financial institutions develop appraisal techniques and information gathering and sharing mechanisms which then enable them to finance even those activities or firms or individuals that are at the margin, thereby promoting their growth activities.

A large body of empirical literature concurs that improving access to finance may accelerate economic growth along with a reduction in income inequality and poverty. Without an inclusive financial system, poor individuals and small enterprises have to rely on their own limited savings and earnings to invest in their education and entrepreneurship to take advantage of growth opportunities (World Bank, 2008). However, developed financial systems also encounter difficulties in serving low income groups for financing their consumption and other needs. Inclusive finance, including safe savings, appropriately designed loans for poor and low-income households and for micro, small and medium-sized enterprises, and appropriate insurance and payments services can help people to enhance incomes, acquire capital, manage risk, and come out of poverty (United Nations, 2006). This study will try and establish the presence of a positive relationship between the access and use of deposits and loans as foretold by this theory.

2.3 Determinants of Financial Inclusion

The access to finance by the poor is a prerequisite for poverty reduction and sustainable economic development of an economy. It is desirable to establish the determinants of financial inclusion so as to take appropriate policy measures for bringing about a more inclusive society in terms of access to financial services. In this section, an attempt has been made to examine some of the social-economic factors that dictate financial inclusivity.

2.3.1 Literacy level

The level of education of the population measured by the average number of years of schooling has been known to be positively associated with the process of financial inclusion (Laha and Kuri, 2011). Financial literacy refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. It also includes skills like long-term vision and planning for the future, and the discipline to use those skills every day. It is argued that standard classroom lectures do not impact on financial inclusion but strategic and targeted interventions to impact financial knowledge. Areas with high level of financial literacy have high levels of financial inclusion compared to areas with low financial literacy levels.

2.3.2 Economic status of households

The possibility of seeking banking services increases with the increase in economic level of individuals, households and states. It is clear that higher income levels translate to high levels of inclusion (Park and Mercado, 2015). The more income individuals have the more they seek financial services to help them manage their financial affairs better. Economic inclusion is a precondition financial inclusion. The probability of becoming a bank customer increases with higher degree of economic status of the households.

2.3.3 Level of Infrastructure Development

Gonzales (2007) identified physical infrastructure for connectivity and information as having significant association with financial inclusion. Road networks, telephone networks, access to information (e.g. through media, internet connectivity), play a vital role in facilitating accessibility and awareness of financial services. The number of access points such as bank branches and Automated Teller Machines (ATMs) is positively related to financial inclusion. Inherently people in rural areas tend to be financially excluded due to low levels of infrastructure development and financial services investments in the area compared to urban dwellers.

2.3.4 Economic Policies

Financial inclusion entails institutions designing products, regulations, processes and training staff to think, plan and deliver tailor made financial services and products. In the contemporary era of achieving economic power and self-reliance, it is imperative for any regime to create congenial conditions for individuals, households and private institutions. The availability of banking facilities and strong bank branch network are the major facilitators of developmental and expansionary activities. In turn the economic agents facilitate in growth, development, investment, employment generation, infrastructure improvement, which are now well established in the literature (Hartog and Oosterbeek, 1993).

2.4 Empirical Review

This section attempts to review some previous researches done on Financial Inclusion and the contributions of MFIs to Financial Inclusion both locally and internationally. It concludes with a summary of the empirical studies conducted.

2.4.1 International Evidence

Christabell and Raj (2012) researched on how microfinance enables financial inclusion of the poor women of rural India. The research used secondary sources of data published by various finance institutions such as World Bank, Reserve Bank of India and Consultative Group to Assist the Poor (CGAP) among others to analyze the progress of Self Help Groups to Bank linkage. The report established a positive influence of microfinance on moving the rural India to banking. The report concluded that finance is a lubricant, which oils the wheels of development. It observed that bringing financial services to rural clients is the biggest challenge in the quest for broad-based financial inclusion. The report recommended extending the reach of financial services to the poor through new technologies and simplified branch regulations.

Shankar (2013) researched on whether Microfinance Institutions address access barriers in India. He identified the common barriers to inclusion under supply and demand factors. Shankar analyzed the spread of Microfinance penetration and interviewed 103 MFI field officers. It was found that, while MFIs do break many barriers to financial inclusion there are limitations in the extent of their outreach and that penetration in the country was skewed urban areas and that even in areas where MFIs operate, they have been unable to provide services to some financially excluded individuals on account of the way they operate. He recommended that MFIs consider adopting more flexible models and to offer profitability of accounts. He also recommended skill based training to enable greater access to MFI membership.

The World Bank Group, in its reports, Global Financial Development Report (2013 and 2014) re-examined the state's role in finance after the global finance crisis. These reports presented a nuanced approach to financial sector policy, grounded in a synthesis of new research evidence. The bank used the Global Finance Development Database (GFDD) with dataset of financial system characteristics for 203 economies around the world and based on '4x2 framework' that measure depth, access, efficiency and stability of financial systems. The major finding of these researches was that financial inclusion is crucial for reducing poverty and boosting shared prosperity but the current financial systems are far from inclusive as half of the world's adults have no bank accounts. The reports recommended that policy should focus of fixing market and government failures, not on promoting inclusion for inclusions sake and policy makers should provide and environment of strong laws and regulations, good information and healthy competition.

Karlan (2014) investigated the evolving of nonprofit organizations in providing microcredit to people with low incomes. While looking at major developing countries in the world, he argued that the role of nonprofit organizations has been changed as for-profit companies have entered the market and begun to provide these services effectively. The article is structured around three issues: reaching individuals not covered by the for-profit sector, including those "too rural," "too poor" or "too young", building trust among customers and microcredit providers, and promoting innovation. The researcher recons that, pursuing poor people living in very rural areas is expensive and in fact unsustainable on a for-profit basis. He argued that nonprofit institutions are essential to strengthen trust between the financial industry and its future customers, and that they are vital in ensuring a smooth transition for the emergence of for-profit companies. He suggested that nonprofit organizations should promote savings-led microfinance, such as savings groups in which 10 to 30 people work together to save and loan to each other.

2.4.2 Local Evidence

FinAccess (2006) carried out a research on the levels of financial inclusion in Kenya. They investigated the penetration of financial services with a focus on savings credits and transfers. The study revealed that the level of financial exclusion had fallen from 38.4 percent to 32.7 percent and that the usage of banking services had increased from 18.9

percent to 22.6 percent. The study further revealed that the total proportion of people formally included by banks, SACCOs, MFIs and money transfer operators such as M-PESA has increased significantly from the period 2004 to 2006 from 26.4 percent to 40.5 percent. This growth was also revealed by Ndii (2009). He revealed further increase in access, with a quarter of the adult population registered as M-PESA users. The MFI and commercial banks customer base grew by 117 and 92 percent respectively. The two reports observed that increase in access statistics is admirable though the menu of services included in these statistics need to be analyzed in terms of real and comprehensive access.

Mutua and Oyugi (2007) researched on poverty eradication through enhanced rural access to financial services in Kenya. The research investigated various rural financing programmes in Kenya that included MFIs, SACCOs and ROSCAs. They concluded that the programmes have had a positive impact on poverty reduction among the poor. The study noted that the saving mobilization of the rural poor, utilization potential and their unique banking needs have not been exploited and catered for adequately while formal banking institutions' impact has been limited by the poor rural infrastructure and lack of clear rural financing policy and the pending MFI Bill and SACCO Bill. A limitation of the study is that it restricted its analysis on the link between access to financial services and poverty reduction by using outreach levels and financial sustainability indicators.

Ellis et al. (2010) (as cited in Aduda and Kalunda, 2012) conducted a study on financial inclusion household investment and growth and Kenya and Tanzania. In a descriptive survey, they interview sampled households in Kenya and Tanzania and studied the reasons for saving and borrowing among households. The study revealed that many people save and borrow for household investment purposes. Savings tend to be used more than borrowing for all purposes and men and women exhibit similar patterns of behavior in saving and borrowing. Most common reasons for not saving or borrowing was given as lack of money but supply side access barriers such as high charges were cited as well. The study confirmed that there is a need for financial services and a gap in the supply of the services by formal lenders is supplemented by informal lenders.

Waihenya (2012) carried out a study on the effects of agency banking on financial access in Kenya by measuring the penetration of banking agents and established that the financial system in Kenya has grown rapidly in the last decade. However, the researcher observed that though the largest in East Africa, Kenya has failed to provide adequate access to banking services to the bulk of the population and lending is skewed in favor of large private and public enterprises in urban areas. This is evidenced by distribution of bank branches at 93 percent in urban and rural areas and 7 percent in arid and semi-arid areas. The report concluded that the data demonstrates that there is exclusion and that the poorer sections of the society, who are found in rural and arid and semi-arid areas have not been able to access adequately financial services.

2.5 Summary of Literature Review

The theory of social welfare puts more emphasis on the social value created by the outreach of microfinance organisations as opposed to desired economic gains. Although the social welfare as described by Bergson (1938) creates a conducive environment for economic development it may not be an end in itself but a means to economic empowerment. Financial Inclusion cannot be measured on social gains or less social costs but on ultimate economic development. Bagehot (1873)'s finance-growth nexus theory and the modern development theory by Hoff and Stiglitz (2001) cite access to safe and affordable source of finance as preconditions for accelerated growth, income disparity reduction and poverty eradication. It is therefore interesting to measure how these safe savings and affordable finance have contributed to financial inclusion in various regions.

While a number of studies on financial inclusion have been done in other parts of the world, inherently their data and findings may not be a reflection of the Kenyan context. Christabel and Raj (2012) and Shankar (2013) carried out their studies in India while Karlan (2014) looked at major developing countries in the world such a Mexico. These economies are arguably saturated in terms of microfinance. Their case studies have credited microfinance to linking the poor to formal finance arena effectively delivering financial services to the rural poor.

The local evidence literature that has been reviewed, presents the role played by various financial institutions in enhancing financial inclusion and the benefits of financial inclusion itself. However, the financial inclusion bit has not been adequately reviewed due to gaps in the literature on Kenyan based empirical studies touching on Microfinance institutions. In Ellis et al. (2010) study dwelt on the reasons for saving and borrowing by households but failed to measure the effect of these on financial inclusion. A similar gap is evident in a study by Mutua and Oyugi (2007) on rural financing programmes and their effect on poverty eradication. This study restricted its deduction to the link between access to financial services and poverty reduction.

Waihenya (2012) only measured the penetration of banking agents in Kenya and did not dwell on the success or lack of it, on financial inclusion, probably assuming a positive linkage. Microfinance institutions offer two main services to its customers, namely; deposit (funds accumulation) and lending (disbursement of loans). The extent to which these two contribute to financial inclusion (poverty alleviation) has not been measured. This study therefore aims at establishing the effects of Deposits and Lending by Microfinance Institutions on Financial Inclusion. This study aims at filling the literature gaps with the findings obtained from Kilifi County, Kenya.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that will be used in the study. The chapter covers the research design, the target population, sampling procedures and sample size, research instruments, validity and reliability of the instruments, and data analysis.

3.2 Research Design

The study employed a descriptive survey research design. Descriptive research design is used to describe characteristic of a population. Mugenda and Mugenda (2003) describes descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. The descriptive survey was chosen for the study because it allows the researchers to study phenomena that do not allow for manipulation of variables (Kombo and Tromp, 2006). The researcher collected information on the state of affairs in the microfinance institutions, without manipulating any variables making the design appropriate for the study. According to Lockesh (1984) descriptive research studies are designed to obtain pertinent and precise information concerning the status of phenomena and whenever possible to draw valid general conclusions from the facts discovered.

3.3 Target Population

According to Kothari (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The targeted institutions for this study comprised all the 28 established MFIs operating in Kilifi County. Data from institutions with more than one branch was aggregated. This was a census study since the number of MFIs is small. The study targeted 1 manager in each of the 28 MFIs and 5 randomly chosen customers of each MFI.

3.4 Data collection

This study used primary data sources. The primary data was collected using questionnaires. Questionnaires give respondents freedom to express their views or opinion and also to make suggestions. There were two sets of questionnaire; one to managers of the MFIs under study and the other to sampled customers of each MFI. The questionnaires were in four sections. Section A attempted to collect the demographic data of the respondent. Section B had questions on deposits/savings to measure the level and frequency of deposits. Section C had questions on borrowing. Section D had questions on other financial services offered and questions relevant to financial inclusion assessment. The questionnaires had both open and closed ended questions that sought to find effect of financial services by MFIs on financial inclusion of the people of Kilifi County.

The researcher obtained an introductory letter from University of Nairobi and a research permit from the National Council of Science and Technology. The permit was presented to the County Commissioner, to be allowed to conduct the study. After this, the researcher booked appointments with the respondents to visit and administer the questionnaires. The researcher personally administered instruments to all the respondents who were allowed to complete all the items adequately, after which the researcher collected the filled-in questionnaires. This exercise will took a period of 3 weeks.

3.4.1 Validity and Reliability

According to Borg and Gall (1983) validity is the degree to which a test measures what it purport to measure. In other words, validity is the degree to which results obtained from the analysis of the data actually represent the phenomena under study. They stated that validity is improved through expert judgment. As such, the content validity was ascertained by my supervisors and other experts in the faculty at the University of Nairobi.

Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials (Mugenda and Mugenda, 2003). Before the actual data collection the researcher tested the reliability of the instrument using Spearman Brown prophesy formula of split half technique. The researcher categorized all the responses given in the open-ended questions and assigned numbers to them by coding. The pilot questionnaires was divided into two equivalent halves and then a correlation coefficient for the two halves computed. A correlation co-efficient of 0.7 and above was deemed reliable since Borg and Gall (1983) recommend a reliability coefficient of 0.7 and above.

3.5 Data Analysis

Data from the field was collected, cleaned, coded and recorded. Data collected by use of the questionnaire, coded, and analyzed, using Statistical Package for Social Scientists (SPSS). Analysis procedures employed involved both quantitative and qualitative techniques. Qualitative data was analyzed thematically, whereby similar responses were tallied to come up with frequency counts and then percentages calculated based on the total number of responses. Quantitative data was analyzed using descriptive statistics including frequency counts, percentages, modes and means. Bell (1993) maintains that when making the results known to a variety of readers, percentages have a considerable advantage over more complex statistics. Data was presented in summary form using the frequency distribution tables, bar charts and pie charts.

3.5.1 Analytical Model

The researcher used descriptive statistics and inferential statistics to provide a detailed description of the data collected in section A of the questionnaire. Data from section B and section C of the questionnaires was analyzed using inferential statistics. The study used Multiple Regression Model that involved analyzing the relationship between the independent variables and dependent variable. The researcher also introduce two control variables namely level of education and level of income. Control variables are those independent variables which are not part of the research study but whose influence cannot be ignored. By controlling for these additional variables and choosing the best design, the researcher can ensure the best possible, honest results (Leroy, 2011).

The adopted regression equations was as follows:

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon}$$

Where;

Y = Contribution of MFIs to financial inclusion as measured by the percentage of adults (over 18yrs) to the total population, using an MFI's financial service. 75% of the population has not been covered by Commercial banks which only operate in major towns.

X_1= Deposits measured by the average deposits with MFIs in the past 5years.

X_2 = Lending measured by the average amount of loan issued by MFIs in the past 5 years.

X_3 = Other services provided by MFIs measured by the number customers using them.

X_4 = Level of education.

X_5 = Level of income.

β = Coefficient of the independent variables X_1, X_2, X_3 andX_4 and X_5.

ε = Error factor (contains factors rather than X_1, X_2, X_3 and X_4 that affect Y.

3.5.2 Test of Significance

In addition to using multiple regressions analysis the researcher also used Analysis of Variance (ANOVA) to test the strength of association between variables. To enable the researcher to draw concrete conclusions, the hypothesis was tested at 0.05 significance levels. Finally the researcher analysed the qualitative data open structured questions using content analysis.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the research. The objective of this study was to establish the effect of financial services offered by Microfinance Institutions on financial inclusion in Kilifi County.

4.2 Response Rate

The research targeted 28 microfinance institutions known to operate in Kilifi County in collecting data on financial inclusion. 20 MFIs responded with others having closed or merged in the recent past while others were none responsive. This is a 71% response rate and was found reasonable to infer from. This was achieved by use of personal contacts and references and frequent visits to ensure the respondents filled the questionnaires.

4.3 Descriptive Statistics (Analysis from the MFI Managers)

The following are brief descriptive coefficients that summarizes the data collected from the managers of MFIs in Kilifi County during the research. The data collected was in line with the general and specific objectives of this study. These have been described using frequencies, percentages, mean and standard deviations.

4.3.1 General Information on MFI

The study sought to establish the period elapsed since the institution commenced its operations in Kilifi County. From the research findings, most of the managers indicated that the MFIs had more than 6 years since they commenced their operations in Kilifi County. This implies that most of the MFIs have operated in the area for a considerable period of time and therefore they were in a position to give credible information relating to this research.

Table 4.1: Target Clients

Target clients	Percent
Traders	70%
Individuals	85%
Government credit program	10%
Farmers	50%
Others	0%

Source: Research Findings

The MFI managers were requested to indicate their target clients. From the research findings, 85% indicated that they targeted individuals, 70% indicated that they targeted traders in SME sector, 50% indicated farmers as their target clients while 10% of the MFI managers indicated that they targeted government credit programs. This implied that most of the MFIs targeted individuals, traders in SME sector and local farmers.

Table 4.1: Financial services offered by the MFI

Financial services	Percent
Savings services	55%
Credit services	100%
Cheques clearance	10%
Money transfer	5%
Credit/Debit cards	5%

Source: Research Findings

The study sought to establish the financial services offered by MFI operating in Kilifi County. From the research findings, the study revealed that all the MFIs offered credit services as shown by 100% positive response, 55% offered deposits/saving facilities while 10% offered cheques clearance services and 5% offered money transfer services and Credit/Debit cards as shown by the responses. This implies that MFIs in Kilifi County mainly offer credit and savings with little options of cheques clearance, credit/debit cards and money transfer services.

Table 4.2: Nature of the MFI

Financial services	Frequency	Percent
NGO	5	25
Government Programme	2	10
Private	6	30
Community initiative	3	15
Sacco	4	20
Total	20	100

Source: Research Findings

Managers were requested to classify their MFI. From the research findings 30% of the respondents classified their MFI under Private category, 25% of the respondents classified their MFI under NGO category, 20% of the respondents classified their MFI under SACCO, and 15% of the respondents classified their MFI under Community Initiative whereas 10% of the respondents classified their MFI under Government Programme. This implies that different categories of MFI were fairly engaged in this research.

4.3.2 Deposits

The study sought to establish which MFIs offer savings/deposit services. Out of the 20 MFIs that responded, 11 (that is 55%) confirmed as being deposit taking institutions. The tally in this section therefore excludes non deposit taking MFIs. The study also sought to establish the kinds of deposits/savings products offered by the MFIs. The research revealed that the savings products offer include group premiums ordinary savings and employer checkoffs.

Table 4.3: Average number of current members/clients

Statement	Mean (000)	Std deviation (000)
total current number of members/clients making deposits/savings in Kilifi county	11.681	.064

Source: Research Findings

The study sought to establish the average number of current members/clients making deposits/savings in Kilifi County; from the research findings the study revealed that averagely all the MFIs had a mean value of 11,681 customers.

Table 4.4: Nature of the Deposits

Nature of the Deposits	**Frequency**	**Percentage**
Voluntary	4	36
Forced	7	64
Total	11	100

Source: Research Findings

The study sought to establish the nature of deposits/savings with the deposit taking MFIs. From the research findings, majority of the managers of deposit taking MFIs indicated that members savings was forced as shown by a 64% response whereas 36% indicated that deposits were voluntary. This implies that most of the customers were periodically forced to make deposits with the MFI.

Table 4.5: Volume of members' savings in the past five years

Year	Mean	Std deviation
2010	18,748,563	.361
2011	20,158,595	.256
2012	21,854,712	.451
2013	19,216,008	.115
2014	24,752,847	.068

Source: Research Findings

The study sought to establish the volume of members' savings with deposit taking MFIs in the past five years. The study established that the year 2010 recorded lowest volume of members' savings as shown by a mean value of Kshs 18,748,563 whereas the year 2014 recorded highest volume of members' savings as shown by a mean value of Kshs 24,752,847. The study revealed that there has been an increase in volume of members' savings in the last five years,

Table 4.6: Clients saving rate

Clients Saving rate	Frequency	Percentage
At least once a week	3	27
At least once a month	7	64
As and when they can	1	9
Total	11	100

Source: Research Findings

The study sought to establish how frequently the clients of deposit taking institutions saved. From the research findings most of the respondents as shown by 64% indicated at least once a month, 27% respondents indicated at least once a week whereas 9% respondents indicated that they are allowed to deposit as and when they can. This implies that most members of the MFIs saved at least once a month.

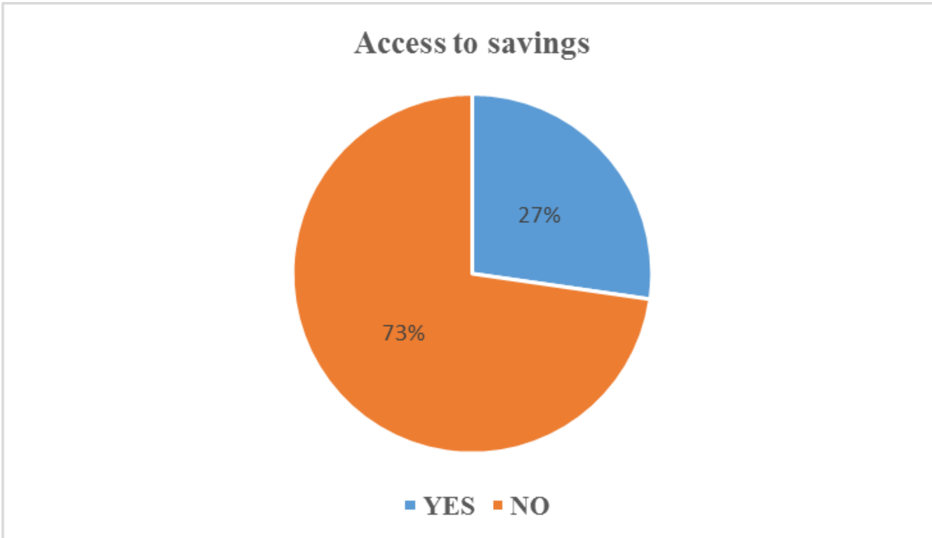
Table 4.7: Whether MFI members were in a position to deposit on a timely basis

Opinion	Frequency	Percentage
Yes	6	55
No	5	45
Total	11	100

Source: Research Findings

The study sought to establish whether the members of deposit taking MFIs were in a position to deposit on a timely basis. From the research findings, 40% of the respondents indicated that clients failed to meet the set deadlines whereas only 60% of the managers indicated that clients adhered to the deadlines. This implies that most of the MFI customers able to deposit on a timely basis.

Chart 4.1: Access to member savings



Source: Research Findings

The research sought to establish whether the clients of deposit taking MFIs were able to access their savings as and when needed. From the research findings only 27% of the clients were able to access their savings as and when needed. 73% of clients were not in a position to access their savings as and when needed. This implies that in most of the MFIs clients were not in a position to access their savings as and when needed.

Table 4.9: Reasons why respondents could not access their savings urgently

Reasons	Percentage
They are often tied up in savings	68%
Savings act as collateral	70%
Amount only available at the end of saving cycle	62%
Total	100

Source: Research Findings

The research sough to establish the reasons why respondents could not access their savings as and when needed. From the research findings, 70% of the respondents indicated that savings act as collateral, 68% of the respondents indicated that customers are often tied up in savings, whereas 62% of the respondents indicated that they are only able to access their savings at the end of saving cycle. This implies that MFIs were more focused on personal development of their client.

Table 4.10: Means employed to safeguard members' savings

How members' savings were safeguarded	**Percentage**
Insurance	64%
Liquidity ratio	55%
Short-term security	27%
No security	9%

Source: Research Findings

The study sought to establish the strategies imposed to safeguard members' savings. From the research finding, most of the MFIs used a combination with majority of the respondents as shown by 64% indicated that members' savings were safeguarded through insurance, 55% indicated that members' savings were safeguarded through liquidity ratio whereas 27% indicated that members' savings were safeguarded through short-term security. 9% did not have a mechanism to safeguard savings. This implies that most of the MFIs safeguarded members' savings through Insurance, Liquidity ratio, and Short-term security.

Table 4.11: Level of effectiveness in collecting the member's deposits

Level of Effectiveness	**Frequency**	**Percentage**
Excellent	6	55
Good	3	27
Weak	2	18
Total	11	100

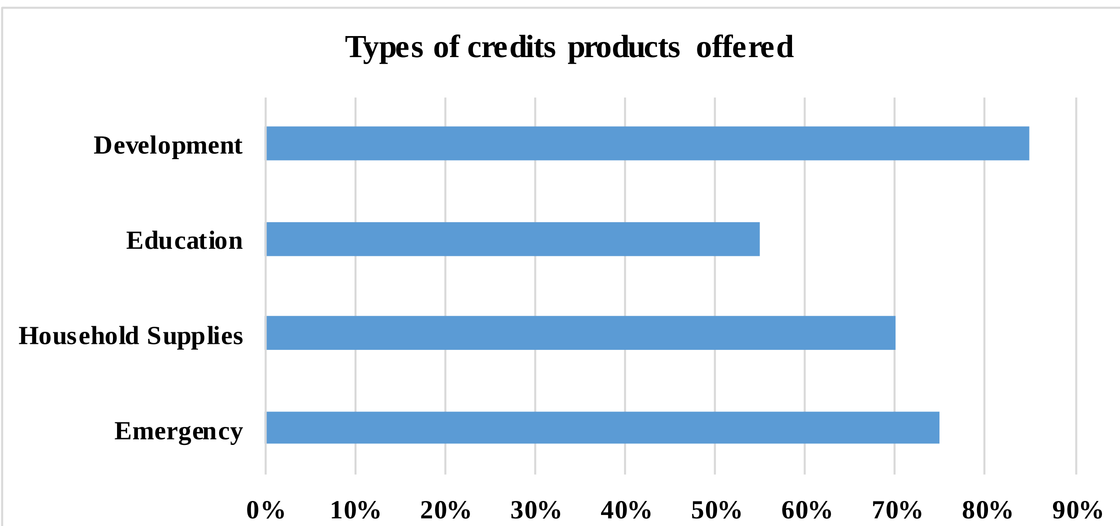
Source: Research Findings

The study sought to establish the MFIs level of effectiveness in collecting the member's deposits. 55% of the respondents indicated that their MFI was excellent in collecting the member's deposits, 27% indicated that their MFI was good in collecting the member's deposits whereas 18% indicated that the MFI was weak in collecting the member's deposits. This implies that most of the MFIs were excellent in collecting the member's deposits.

4.3.3 Lending

All the 20 MFIs involved in this research offer credit/loan services.

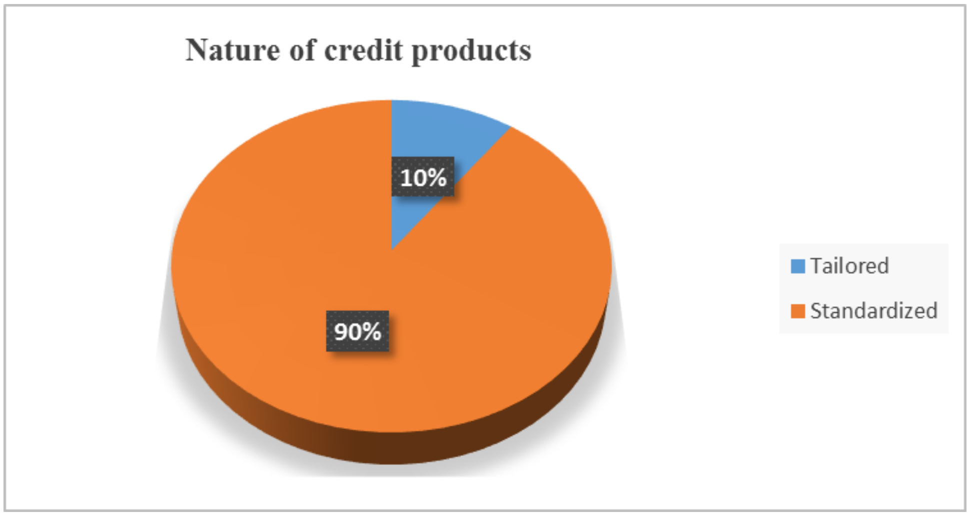
Chart 4.2: Type of credit products provided to clients/members



Source: Research Findings

The research sought to establish the type of credit products provided by the MFIs. 85% of the respondents indicated that the MFI provided development loans, 75% of the respondents indicated that their MFI provided emergency loans, 70% of the respondents indicated that their MFI provided household supplies loans, whereas 56% of the respondents indicated that the MFI provided school fees loans. This implies that most of MFIs operating in Kilifi County provided development, emergency loans, household supply loans and school fees loans.

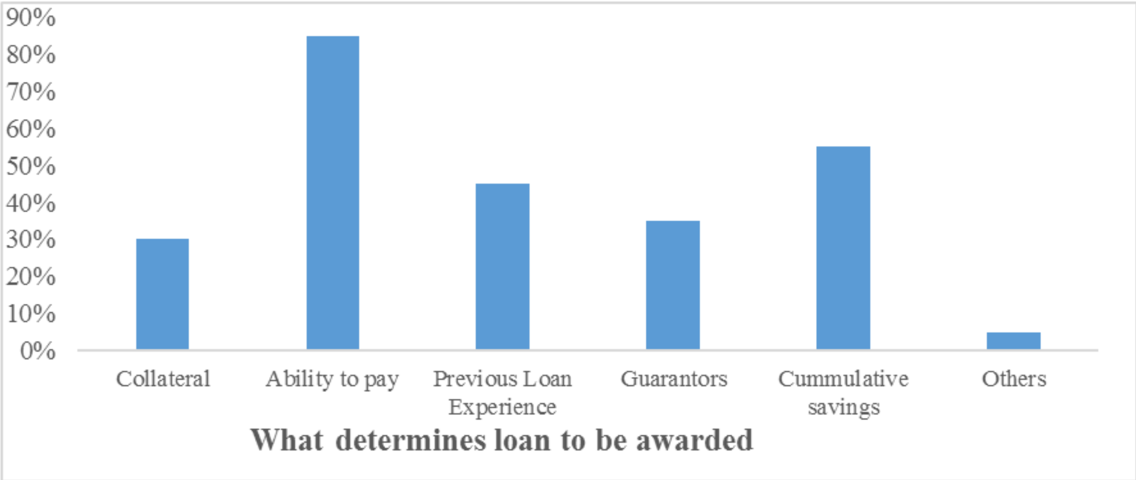
Chart 4.3: Nature of credit products



Source: Research Findings

The research sought to determine if the credit products were tailored or standardized. From the research findings, 90% of the respondents indicated that the MFI credits were standardized whereas 10% of the respondents indicated that the MFI loans were tailored. This implies that most of the MFI products were standardized.

Chart 4.4: Determinants of the amount to be awarded upon request



Source: Research Findings

The research sought to establish what determines the amount to be awarded upon a loan request. From the research finding, the determinants of loan awards were rated as ability to pay at 80%, savings at 55%, previous loan experience at 45% guarantors at 35% while others at 5% positive response. This implies that most of the MFIs relied on ability to repay, cumulated savings and previous loan experience in awarding loans to customers.

Table 4.13: Estimated waiting period before one can borrow upon joining

Period	Frequency	Percentage
Days	8	40
1 month	3	15
3 Months	7	35
Over 6 months	2	10
Total	20	100

Source: Research Findings

The study sought to establish the waiting period before one can borrow upon joining the MFI scheme. From the research finding majority of the respondents as shown by 40% indicated that one had to wait for a only a few days, 15% respondents indicated that one could take a loan after 1 month, 35% respondents indicated that one had to wait for at least 3 months while 10% indicated that one had to wait for more than 6 months before taking a loan. This implies that most of the MFIs could give instant loans or at least in 3 months of member joining.

Table 4.14: Maximum processing period for loan request

Maximum processing period	Frequency	Percentage
3 Days	2	10
1 Week	12	60
Over week	7	30
Total	20	100

Source: Research Findings

The study sought to establish the maximum processing period for loan request. From the research findings, 60% of the respondents indicated that processing took 1 week, 30% of the respondents indicated over week, whereas 10% of the respondents indicated that loan can be awarded in less than 3 days. This implies that maximum processing period for loan request was 1 week though this depends on clients' level of compliance with regulations.

Table 4.8: Maximum loan repayment period

The study sought to establish the maximum repayment period for loan products. From the research findings, the study revealed that the maximum repayment period Emergency loan in most of the MFIs was within 3months, maximum repayment period School fees loan in most of the MFIs was within 4months, maximum repayment period Household supply loan in most of the MFIs was within 4months whereas maximum repayment period Investment loan in most of the MFIs was within 1year. This implies that most of the MFI products were repayable within short period of time.

Table 4.15: Maximum loan allowable

Range	Frequency	Percentage
Kshs 1,000 to 10, 000	4	20
Kshs 10,000 to 50, 000	9	45
Kshs 50,000 to 100,000	4	20
more than Kshs 100,000	3	15
Total	20	100

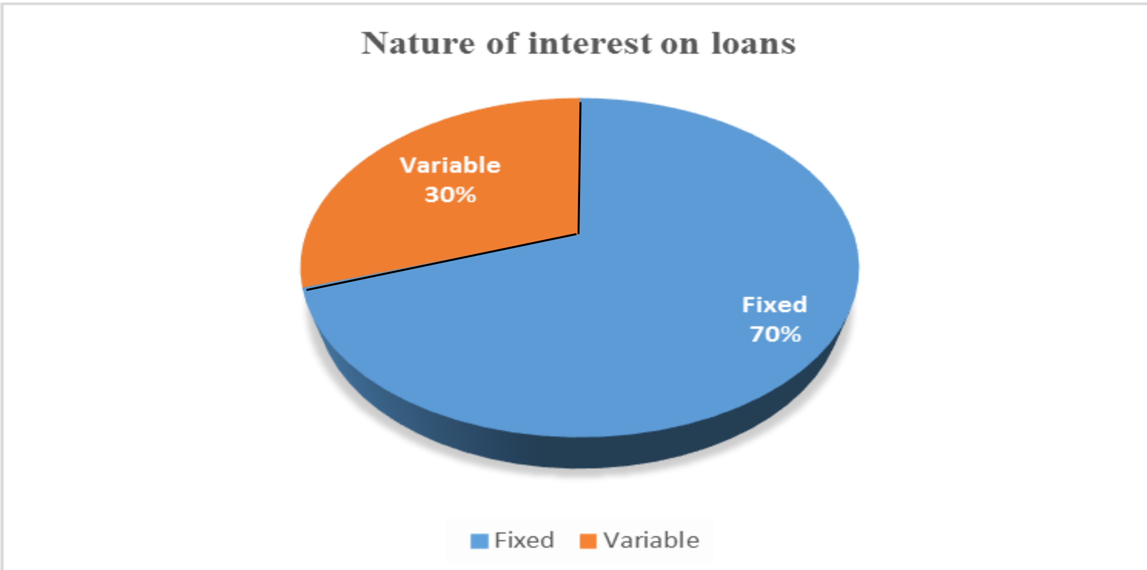
Source: Research Findings

The research sought to establish the maximum loan allowable. From the research findings, 45% of the MFIs offer loans to a maximum of between Kshs 10,000 and 50,000, 20% offer between Kshs 50,000 and 100,000, another 20% set their maximum loans over Kshs 100,000. This implies that most of the MFIs offer to a maximum of Kshs 50,000.

Minimum loan allowable

The research sought to establish the minimum loan allowable by the MFIs. An analysis of the research findings indicate that all the MFIs have set their minimum loan amounts at between Kshs 3,000 and 10,000.

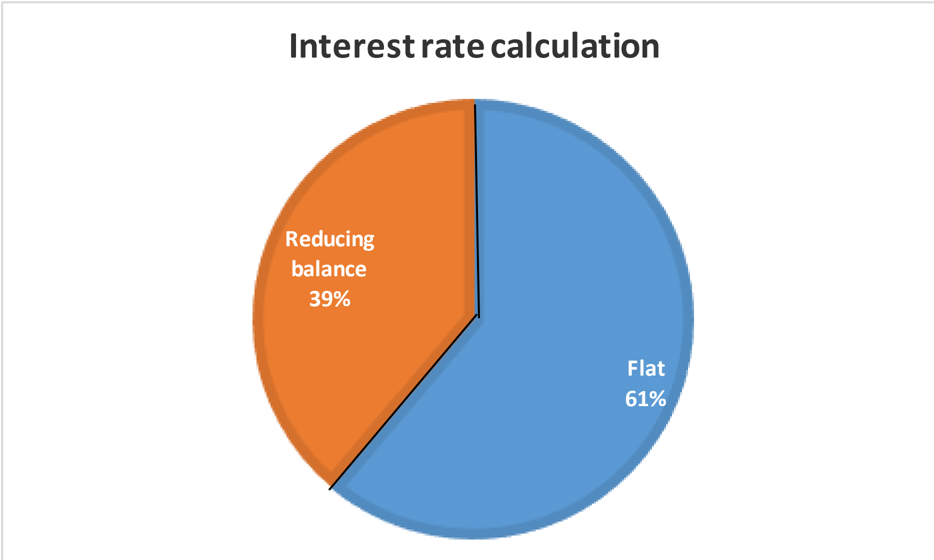
Chart 4.5: Nature of the interest charged on loans



Source: Research Findings

The study sought to determine the nature of the interest charged on loans. The research findings indicate 70% as fixed and 30% as variable. This implies that in most of the MFIs, interest charged on loans was fixed.

Chart 4.6: How interest MFIs calculated interest rate



Source: Research Findings

The study sought to determine how interest rate was calculated. The research findings showed that 61% of the loans' interest was calculated at a flat rate while 39% was calculated at a reducing balance rate. This implies that in most of the MFIs calculated interest rate on a flat rate.

Table 4.16: Other charges made on loans

Other charges made on loans	Percentage
Processing/legal fee	66%
Late repayment Penalties	23%
Insurance	78%
Withdrawal fees	36%
Total	100

Source: Research Findings

The research sought to establish other charges made on loans. From the research findings, the study revealed that MFIs charged processing/legal fee as shown by 66% positive response, withdrawal fees, 36%, insurance fee 78% and 23% charged late repayment penalty. This implies that loans obtained from MFIs were charged processing/legal, insurance fee, late repayment penalties.

Table 4.17: Amount of loan (Kshs) disbursed in the last five years

Year	Mean (Kshs in millions)	Std deviation (Kshs in millions)
2010	6.31	.24
2011	8.42	.75
2012	9.45	.14
2013	10.23	.21
2014	14.36	.14

Source: Research Findings

The research sought to establish the amount of loan (Kshs) disbursed in the last five years. From the research findings the study revealed that the year 2010 recorded the lowest amount of loan disbursed as shown by a mean value of 6.31, whereas the year 2014 recorded the amount of loan disbursed as shown by a mean value of 14.36. in addition, values for stardard deviation depicts variability in amount of loan disbursed in the last five years with the highest deviation of 0.75 in the year 2011 and the lowest at .014 in the year 2014. The study noted increase in amount of loans disbursed in the last five years.

Table 4.18: Amount of loan (Kshs) Paid up in the last five years

Year	Mean (Kshs in millions)	Std deviation (Kshs in millions)
2010	5.63	.36
2011	7.93	.45
2012	9.12	.14
2013	9.42	.22
2014	13.98	.07

Source: Research Findings

The research sought to establish the amount of loan paid up in the last five years. The findings of the study revealed that the year 2010 recorded the lowest amount of loan paid up as shown by a mean value of 5.63, whereas the year 2014 recorded the highest amount of loan (Kshs) paid up as shown by a mean value of 13.98. In addition, values for stardard deviation depicts variability in amount of loan paid up in the last five years with the highest deviation of 0.45 in the year 2011 and the lowest at .07 in the year 2014. The study noted increase in amount of loan paid up in the last five years.

Table 4.19: Number of clients that took loans in the last five years

Year	Mean	Std deviation
2010	1,285	0.49
2011	1,409	1.36
2012	1,685	0.32
2013	1,825	0.45
2014	2,040	0.36

Source: Research Findings

The research sought to establish the number of clients who took loans in the last five years. From the research findings the study revealed that the year 2010 recorded the lowest number of clients who took loans as shown by a mean value 1,285, whereas the year 2014 recorded the highest number of clients who took loans as shown by a mean value of 2,040. In addition, values for stardard deviation depicts variability in number of clients who took loans in the last five years with the highest deviation of 1.36 in the year 2011 and the lowest at 0.32 in the year 2012. The study noted increase in number of clients who took loans in the last five years.

Table 4.20: Number of clients who paid up loans five years

Year	Mean	Std deviation
2010	1,165	0.41
2011	1,266	0.18
2012	1.585	0.15
2013	1,722	0.23
2014	2,040	0.02

Source: Research Findings

The research sought to establish the clients who paid up loans in the last five years. From the research findings, the study revealed that the year 2010 recorded the lowest number of clients who paid up loans as shown by a mean value of 1,165, whereas the year 2014 recorded the highest number of clients who paid up loans as shown by a mean value of 2,040. In addition, values for stardard deviation depicts variability in number of clients who paid up loans in the last five years with the highest deviation of 0.40 in the year 2010 and the lowest at 0.02 in the year 2014. The study noted an increase in number of clients who paid up loans in the last five years.

Table 4.21: Extent to which loan products satisfied customer's expectations and needs

Opinion	Frequency	Percentage
Satisfactory	6	30
Average	14	70
Total	20	100

Source: Research Findings

The research sought to determine the extent to which loan products satisfied customer's expectations and needs. The research findings, as shown, indicate that 70% clients were averagely satisfied by the loan services whereas 30% of the respondents indicated that loan products highly satisfied customer's expectations and needs. This implies that MFIs loan products averagely satisfied customer's expectations and needs.

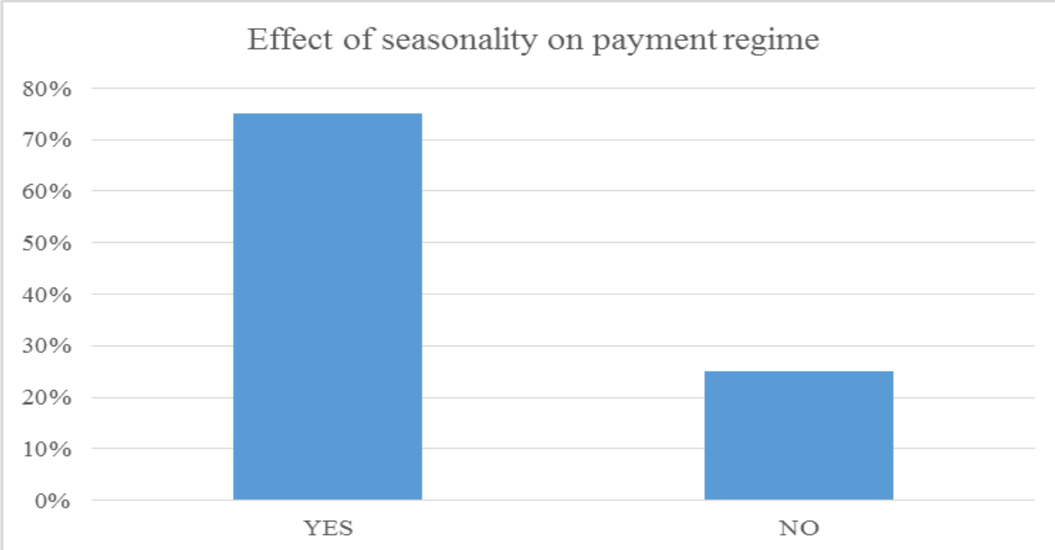
Table 4.22: Reasons for customer being unsatisfied with MFIS loan products

Reasons	Percentage
Want more with less sorority	50%
Want loans for longer periods	86%
Want unsecured loans	18%
Others	63%
Total	100

Source: Research Findings

The study sought to determine why customer were unsatisfied with MFIs' loan products. 86% of the respondents indicated that most of the customers want loans for longer periods, 50% of the respondents indicated that most of the customers want more with less sorority whereas 18% of the respondents indicated that most of the customers want unsecured loans. 63% indicated that they wanted faster processing procedures. This implies that among the reasons for customer being unsatisfied with MFIs loan products include desire for more and faster loans.

Chart 4.7: Effect of seasonality on payment regime



Source: Research Findings

The study sought to establish whether seasonality of increase affect payment regime. From the research findings 75% of the respondents indicated that seasonality affects the payment regime while 25% did not deem seasonality as having any effect on the payment regime. This implies that seasonality of increase affect payment regime.

Table 4.23: How seasonality affected payment regime

Opinion	Percentage
Able to pay during harvest time	95%
Able to pay when business is booming	85%
Total	100

Source: Research Findings

On how seasonality affected payment regime, the research revealed that client were able to pay well during harvest time as shown by 95% and that client were able to pay when business is booming as shown by 85%. The study established that the rate of default varied yearly, and commonly loan default was attributed to non-insurable risks.

4.3.4 Financial Inclusion

Table 4.24: Number of clients/members registered by MFIs in the last five years

Year	Mean	Std deviation
2010	1,934	.0231
2011	2,276	.1253
2012	2,347	.2563
2013	2,493	.2485
2014	2,703	.2085

Source: Research Findings

The study sought to establish the number of clients/members registered by MFIs in the last five years. The research noted that the year 2010 recorded the lowest number of clients/members registered by MFIs as shown by a mean of value of 1,934 while the year 2014 recorded the highest number of clients/members registered by MFIs as shown by a mean of value 2,703. In addition, values for stardard deviation depict variability in number of clients/members registered by the MFIs during the five year period with the highest deviation of 0.2563 in the year 2012 and the lowest at .0231 in the year 2010.

Table 4.25: Offices and branches in the remote areas of the County

Opinion	Frequency	Percentage
Yes	7	35
No	14	65
Total	20	100

Source: Research Findings

The study sought to establish whether the MFI have offices or branches in the remote areas of the County. From the research findings 65% of MFIs do not have branches in the remote areas while 35% indicated that they had branches/offices in the remote areas of the County. This implies that most of the MFIs were not present in the remote areas of the County.

Table 4.26: Difficulties in accessing personal savings

Opinion	Frequency	Percentage
Yes	15	75
No	5	25
Total	20	100

Source: Research Findings

The study sought to establish whether the MFI managers had come across a situation where a financially excluded member could not access savings facilities. From the research findings majority of the respondents as shown by 75% admitted to have come across a situation where a financially excluded member could not access his savings facilities whereas 25% indicated not implying that there are indeed some people who could not access savings services.

Table 4.27: Reasons leading to Difficulties in accessing personal savings

Reasons leading to Difficulties in accessing personal savings	**Percentage**
Lack of money to save	47%
Minimum balance too high	65%
High charges	47%
Lack of information	55%
Belong to group	57%
Regular deposits required	45%
Regular meetings	23%
Restricted withdrawals	60%

Source: Research Findings

Among the reasons given as leading to difficulties in accessing personal savings include restricted withdrawals as shown by a 60%, minimum balance too high as shown by a 65% lack of information as shown by a 55%, must belong to group as shown by 57%, high charges as shown by a 47%, regular deposits required as shown by a 45% and regular meetings as shown by 23%.

Table 4.28: Media used to reach potential clients in the County

Media	Percentage
Door to Door	35%
Community gatherings	45%
Social media	50%
Electronic and print advertisement	80%
Word of mouth	55%

Source: Research Findings

MFI managers were requested to indicate the type of media they used to reach out to the potential clients in the County. From the research findings, most of the respondents as shown by 80% indicated that the MFI was using electronic and print advertisement to reach out to the potential clients, 55% of the respondents indicated word of mouth, 50% of the respondents indicated social media, 45% of the respondents indicated community gatherings whereas 35% of the respondents indicate door to door. This implies that most of the MFIs were using electronic and print advertisement, word of mouth, social media, community gatherings and door to door reach out to the potential clients.

4.4 Descriptive Statistics (Analysis from members)

The following are brief descriptive coefficients that summarizes the data collected from the clients of MFIs in Kilifi County during the research. The data collected was in line with the general and specific objectives of this study. These have been described using frequencies, percentages, mean and standard deviations.

4.4.1 Demographic Information

Table 4.29: Gender Distribution

Gender	Frequency	Percentage
Female	29	39
Male	45	61
Total	74	100

Source: Research Findings

The study sought to determine the gender category of the respondent's from the research findings, majority of the respondents as shown by 61% were males whereas 39% of respondents were females. This implies that both genders were fairly engaged in this research.

Table 4.30: Age category

Age category	Frequency	Percentage
Under age 25	9	12
Age 26-35	30	41
Age 36-45	21	28
Age 46-55	9	12
Age 56 and above	5	7
Total	74	100

Source: Research Findings

The study sought to determine the age category of the respondents. The research findings revealed that most of the respondents as shown by 41% were aged between 26-35 years, 28% of the respondents were aged between 36-45 years, 12% of the respondents were aged below 25 years, and another 12% of the respondents were aged between 46-55 years while 7% of the respondents were aged 56 years and above. This implies that respondents were fairly distributed in terms of their age.

Table 4.31: Educational level

Educational level.	Frequency	Percentage
Primary School certificate	12	16
Primary and Secondary school certificate	17	23
Diploma or College Certificate	28	38
Bachelor's Degree and above	17	23
Total	74	100

Source: Research Findings

Respondents were requested to indicate the highest level of education attained. From the research findings the study revealed that most of the respondents as shown by 37.8% had diploma or college certificate, 25.3% of the respondents had bachelor's degree and above, 22.7% of the respondents had primary and secondary school certificate whereas, 16.0% of the respondents had primary school certificate. This implies that majority of the respondents were literate which means that they were in a position to respond to research questions with easy.

Table 4.32: Period as Micro Finance Institution member

Period	Frequency	Percentage
Below 1 year	16	21
1 – 5 years	21	29
6 – 10 years	24	33
Over 10 years	13	17
Total	74	100

Source: Research Findings

Respondents were requested to indicate the period which they had been a member of a Microfinance institution. From the research findings, most of the respondents as shown by 33% indicated they have been members of the MFI for a period of 6 – 10 years, 29% indicated they have been members of the MFI for a period of 1 – 5 years, 21% of the respondents indicated that they have been members of the MFI for not more than a year, whereas 17% of the respondents indicated that indicated they have been members of the MFI for a period of Over 10 years. This implies that majority of the respondents were in a position to give credible information relating to this study.

Table 4.33: Employment status

Employment status	Frequency	Percentage
Employed	27	36
Unemployed	47	64
Total	74	100

Source: Research Findings

The study sought to establish the employment status of the respondent. The findings of the study revealed that 64% of the respondents were unemployed whereas 36% of the respondents were employed. This implies that majority of the respondents were unemployed. The research also established that majority of the respondents were in self-employment which was their key source of income.

Table 4.34: Respondents average income per year for the last 5 years

Average income	**Frequency**	**Percentage**
Below Kshs 36,000	8	11
Between Kshs 36,000 and 120,000	22	30
Between Kshs 120,000 and 360,000	35	47
Over Kshs 360,000	9	12
Total	74	100

Source: Research Findings

Respondents were requested to indicate their average income per year for the last 5 years, The response revealed that majority of the respondents as shown by 47% earned between Kshs 120,000 and 360,000, 30% earned between Kshs 36,000 and 120,000, 12% earned over Kshs 360,000 while 11% earned below Kshs 36,000 per year. This implies that majority of the respondents had an average income of between Kshs120,000 and 360,000 per year in the past 5 years.

Table 4.35: Whether the respondent have a Bank Account

Bank Account	Frequency	Percentage
Yes	47	63
No	27	37
Total	74	100.0

Source: Research Findings

The study sought to establish whether the respondents had a bank account. 63% indicated that they have a bank account while 37% indicated as having none. This implies that majority of the respondents had bank accounts.

Table 4.36: Reasons for not having a bank account

Reasons	Frequency	Percentage
I have no money/little money to put in	12	44
No bank in this area	7	26
No point - benefits received in cash	8	30
Total	27	100

Source: Research Findings

The respondents who did not have a bank account were requested to indicate the reasons for not having one. 44% cited having little money to put in, 30% indicated that they earned in cash and did not require banking while 26% cited lack of access to a bank in their home area. This implies majority of the respondents failed to have a bank account due to the belief that little money requires no banking.

Table 4.37: Reasons for Joining MFI

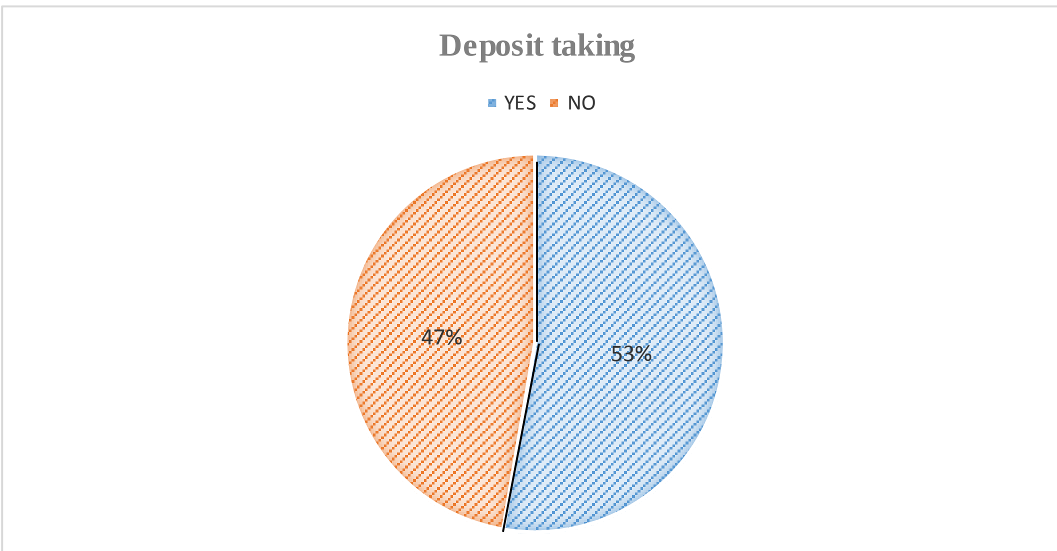
Reasons for Joining MFI	**Percentage**
To receive loan	84%
To receive remittances	26%
To deposit savings	68%

Source: Research Findings

The study requested respondents to indicate the reasons for them joining an MFI. The research findings indicate that majority of the respondents as shown by 84% joined MFI with reasons of receiving loans, 68% for saving money, whereas 26% of the respondents indicated that they joined their MFI with reasons of receiving remittances. This implies that most respondents joined MFIs in order receive loans and save money.

4.4.2 Deposits

Chart 4.8: Whether the MFI collected deposits



Source: Research Findings

The study sought to establish whether the MFIs collected deposits. From the research findings, 47% did not collect deposits.

Table 4.38: Level of effectiveness in collecting the member's deposits

Level of effectiveness	Frequency	Percentage
Very effective	21	54
Fairly effective	14	37
Ineffective	4	9
Total	39	100

Source: Research Findings

The research sought to determine the level of institutional effectiveness in collecting the member's deposits. The research findings revealed that majority of the respondents as shown by 54% rated their MFIs as very effective, 37% of the respondents rated them fairly effective,   whereas 9% of the respondents rated them as ineffective. This implies that most of the MFIs were very effective in collecting the member's deposits.

Table 4.39: Rate at which respondents saved with the MFI

Time frame	**Frequency**	**Percentage**
Weekly	7	18
Monthly	27	69
Quarterly	5	13
Yearly	0	0
Total	39	100

Source: Research Findings

The study sought to establish how frequent members of deposit taking MFIs saved. Majority of the respondents as shown by 69% indicated that they saved on monthly basis, 18% of the respondents indicated that they saved on weekly basis, and 13% of the respondents indicated that they saved on quarterly basis. This implies that majority of the respondents saved on monthly basis.

Table 4.40: Average amount of money saved by respondent per month

Amount	Frequency	Percentage
Below Kshs 1,000	3	8
Between Kshs 1,000 and 5,000	21	54
Between Kshs 5,000 and 10,000	15	38
Over Kshs 10,000	0	0
Total	39	100

Source: Research Findings

Respondents were requested to indicate the average amount they deposited with MFI per month. 54% indicated that they saved between Kshs 1,000 and 5,000, 38% indicated that that they saved between Kshs 5,000 and 10,000 per month, while 8% of the respondents indicated that they saved below Kshs 1,000 per month. There was no respondent who indicated having saved more than Kshs 10,000 per month. This implies that majority of the respondents saved between Kshs 1,000 and 5,000 per month.

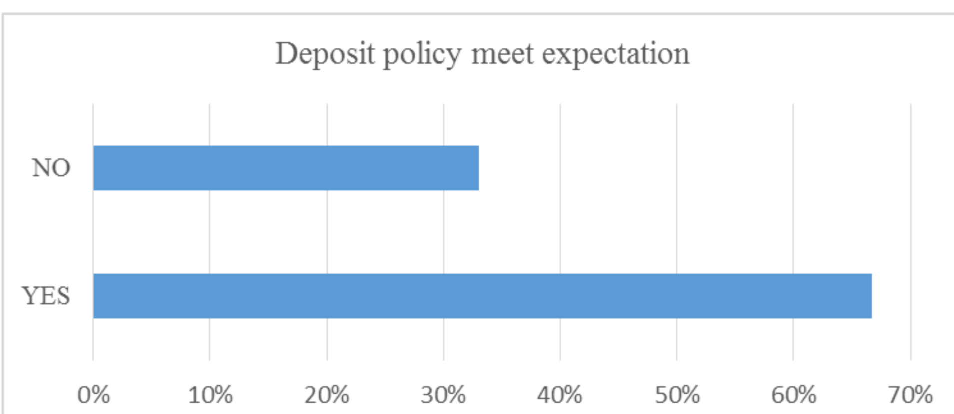
Table 4.41: Whether savings are easily available for withdrawal

Amount	Frequency	Percentage
Yes	8	21
No	31	79
Total	39	100

Source: Research Findings

The research sought to determine whether the respondent's savings were easily available for withdrawal. From the research findings, majority of the respondents as shown by 79% were of the opinion that their savings were not easily available on time of need whereas 21% of the respondents indicated that could not access their savings easily. This implies that majority of the respondents could not easily access their saving when they required them.

Chart 4.9: MFIs deposit policy meet expectations

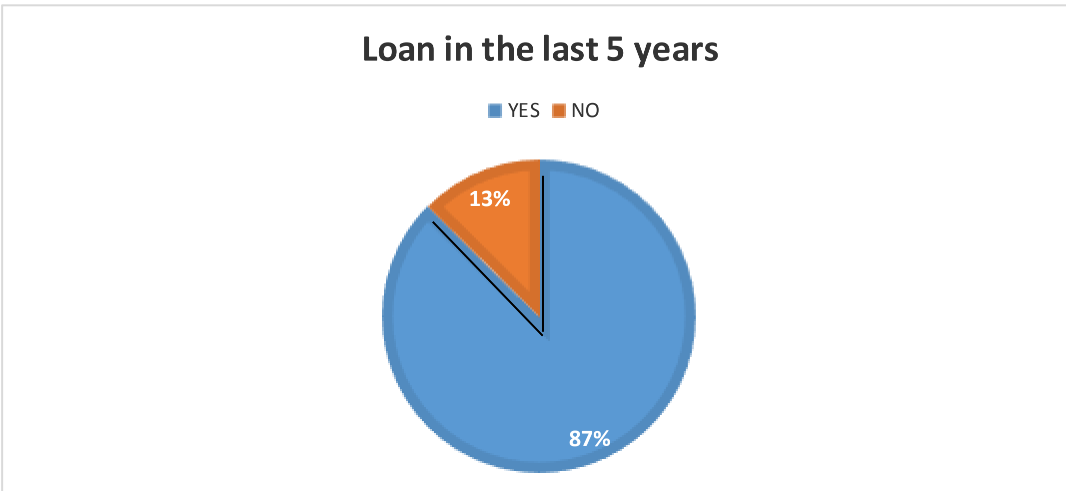


Source: Research Findings

The study sought to establish whether MFIs deposit policy met clients' expectations. Majority of the respondents as shown by 67% agreed that the MFIs deposit policy met their expectations whereas 33% of the respondents indicated that the MFIs deposit policy failed to meet their expectations.

4.4.3 Borrowing

Chart 4.10: Whether the respondent had obtained loan from the MFI in the last five years



Source: Research Findings

The study sought to establish whether the respondent had obtained any loan from the MFI in the last five years. From the research findings majority of the respondents as shown by 87.4% indicated that they had obtained loan from MFI in the last five years, whereas as 12.6% of the respondents indicated not to have taken any loan in the last five years. This implies that majority of the respondents had obtained MFI loans in the last five years. The study also established that majority of the respondents who had taken loan did not exceed Kshs 50,000 in a single loan.

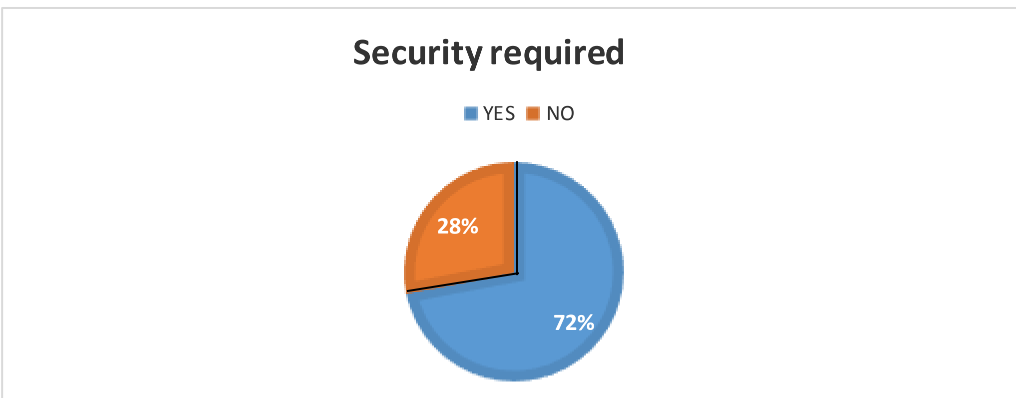
Table 4.42: Type of credit/loan obtained

Type of credit/loan	Frequency	Percentage
Housing	13	12.5
Business Loan	61	58.7
School Fees	30	28.8
Total	104	100

Source: Research Findings

Respondents were requested to indicate the type of credit/loan they obtained from their MFI. From the research findings, majority of the respondents as shown by 58.7% indicated that they had taken business development loans, 28.8% indicated school fees whereas 12.5% of the respondents indicated that they had taken loans for domestic use. This implies that majority of the respondents had obtained business loan.

Chart 4.11: Whether respondents were required to provide any security for the loan



Source: Research Findings

The study sought to establish whether respondents were required to provide any collateral. 72% of the respondents indicated that they were required to provide security while 28% indicated that their loans were not secured. Amongst the collaterals used include household items, vehicle log books and share certificates.

Table 4.43: Payment of any transaction fee for the loan(s) processing.

Transaction Fee	Frequency	Percentage
Yes	104	100
Total	100	100

Source: Research Findings

The study sought to establish whether the respondent paid any transaction fee for the loan(s). All the respondents indicated that they paid processing fees. This implies that all the MFIs charged loan processing fees.

Table 4.44: Period which the loan(s) took to be processed

Loan period of procession	Frequency	Percentage
Instant	2	1.9
Two days	38	36.5
One Week	44	42.3
More than one month	20	19.2
Total	104	100

Source: Research Findings

Respondents were requested to indicated the period which the loan took during proceeding, The research findings revealed that majority of the respondents as shown by 42.3% indicated that they got their loans in one week, 36.5% of the respondents indicated two days, 19.2% of the respondents indicated more than one month, whereas 1.9% of the respondents indicated instant. This implies that most of the loans took an approximation of one week to get fully processed.

Table 4.45: Procedure of loan application

Rate	Frequency	Percentage
Simple	43	41.3
Cumbersome	61	58.7
Total	104	100

Source: Research Findings

Respondents were requested to rate the procedure of loan application. From the research findings, majority of the respondents as shown by 58.7% indicated that the loan application procedure was cumbersome whereas 41.3% of the respondents indicated that the loan application procedure was simple implying that the loan application procedure was cumbersome in most of the MFIs. Among the difficulties cited in loan application process include, lengthy procedures, long wait, and low level of staff commitment.

Table 4.46: Whether the respondent had ever applied for a loan and denied

Opinion	Frequency	Percentage
Yes	15	12.6
No	104	87.4
Total	119	100.0

Source: Research Findings

The study sought to establish whether the respondent had ever applied for a loan and denied. From the research findings, majority of respondents as shown by 87.4% indicated that they had never applied for a loan and denied whereas only 12.6% of the respondents indicated to have been denied the opportunity. This implies that majority of the respondents managed to get the applied loan after meeting the entire policy requirement. The majority of the respondents turned down had failed to meet the policy requirements in obtaining a loan.

Table 4.47: Client level of satisfaction with MFI credit services

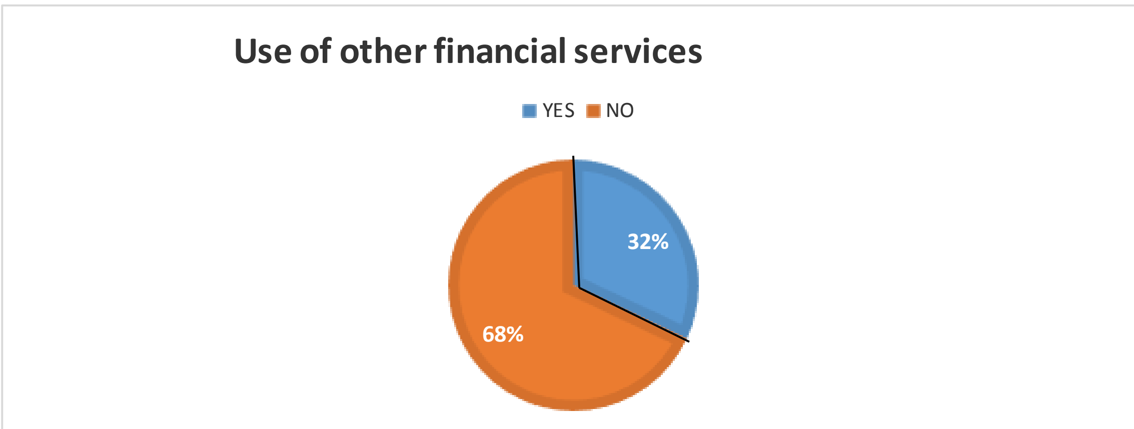
Client level of satisfaction	Frequency	Percentage
Satisfactory	38	31.9
Average	66	55.5
Below average	15	12.6
Total	119	100.0

Source: Research Findings

The study sought to establish client level of satisfaction with MFI credit services. From the research findings, majority of respondents as shown by 55 % indicated average, 31.9% of the respondents indicated satisfactory whereas only 12.6% of the respondents indicated below average. This implies that majority of the respondents were fairly satisfied with MFI services.

4.4.4 Financial Inclusion

Chart 4.12: Use of other forms of financial service from the MFI



Source: Research Findings

Respondents were requested to indicate whether they were using any other form of financial service from the MFI. 68% indicated yes while 32% indicated that they did not use any other financial service from their MFI. This implies that majority did not access or utilize other services offered by the MFIs. Among other forms of financial service from the MFIs include financial advisory services and insurance.

Table 4.48: Whether the respondent have an account with commercial bank

Account with commercial bank	Frequency	Percentage
Yes	78	65.5
No	41	34.5
Total	119	100

Source: Research Findings

The research sought to establish whether the respondent have an account with any commercial bank. From the research findings majority of the respondent's as shown 65.5% indicated as having accounts with other commercial bank, whereas 34.5% of the respondents indicated not having any account with other commercial banks. This implies that majority of the respondents have accounts with commercial banks. The study also established that clients choose to have a MFI account for reasons that MFIs were more available in the area compared to commercial bank networks. MFIs also had products that best suited the customer.

Table 4.49: Training on money matters over the past 5 years

Opinion	Frequency	Percentage
Yes	89	74.8
No	30	25.2
Total	119	100.0

Source: Research Findings

Respondents were requested to indicate whether over the past 5 years, they had received any form of training on money matters. From the research 74.8% of the respondents indicated to have received financial literacy training, whereas 25.2% of the respondents indicated not. This implies that majority of the respondents had received financial literacy training over that last five years.

Table 4.50: Source of financial literacy training

Source of financial literacy training	Frequency	Percentage
MFI	45	50.6
Bank	30	33.7
Social Workers	14	15.7
Total	89	100

Source: Research Findings

The respondents were requested to state their source of financial training. From the research findings majority of the respondents as shown by 50.6% indicated to have received financial literacy training from MFIs, 33.7% of the respondents indicated to have received financial literacy training from Banks, 15.7% of the respondents indicated to have received financial literacy training from a social worker or government official. This implies that majority of the respondents had received financial literacy training from MFIs.

Table 4.51: Whether the financial literacy training was helpful to the respondent

Opinion	**Frequency**	**Percentage**
Yes	89	100
Total	89	100

Source: Research Findings

The study sought to establish whether the financial literacy training received was helpful to the respondents. All the respondents responded affirmatively. This implies that found financial literacy training is very helpful.

Table 4.52: Respondent's Immediate Source of Income

Source	Frequency	Percentage
Ask friends	45	37.8
Take a loan from my MFI	20	16.8
Sell something	54	45.4
Total	119	100.0

Source: Research Findings

Respondents were requested to indicate their immediate source of funds in case they required money immediately. From the research findings, 45.4% of the respondents indicated they would consider selling something, 37.8% of the respondents indicated they would consider borrowing from a friend. Whereas 16.8% of the respondents indicated they would consider taking a loan from my MFI. This implies that majority of MFIs would not offer instant loans especially without collateral.

Table 4.53: Availability of potential clients

Opinion	Frequency	Percentage
Yes	119	100
Total	119	100

Source: Research Findings

The study requested the respondent to indicate whether they had met anyone who didn't have a bank account and in their opinion should be having one. From the research findings, all the respondents as shown by 100% indicated to have found potential clients whom in their opinion should have a bank account. The study also established that Commercial banks usually charged high account transaction fees, they lacked transparency by inducing some hidden cost on accounts, and most seemed to target higher class of social economic status and were absent in rural parts of the County thus discrimination the poor clients.

4.5 Inferential Statistics

The study used inferential statistics to make inferences based on probability.

4.5.1 Pearson Correlation Analysis

After the descriptive analysis, the researcher conducted Pearson Correlation Analysis to indicate a linear association between the predicted and explanatory variables or among the latter. It, thus, help in determining the strengths of association in the model, that is, which variable best explained the relationship between the various services offered by the Microfinance Institutions and financial inclusion in Kilifi County.

Table 4.54: Correlations Matrix

		Financial inclusion	Deposits.	Lending	Other services provided by MFIs	Level of income
Financial inclusion	Pearson Correlation	1	.417	.391	.450	.210*
	Sig. (2-tailed)		.006	.023	.011	.022
	N	139	139	139	139	139
Deposits	Pearson Correlation	.417	1	-.025	-.013	-.242**
	Sig. (2-tailed)	.006		.784	.889	.008
	N	139	139	139	139	139
Lending	Pearson Correlation	.391	-.025	1	.069	.152
	Sig. (2-tailed)	.023	.784		.457	.099
	N	139	139	139	139	139
Other services provided by MFIs	Pearson Correlation	.450	-.013	.069	1	-.260**
	Sig. (2-tailed)	.011	.889	.457		.004
	N	139	139	139	139	139
Level of income.	Pearson Correlation	.210*	-.242**	.152	-.260**	1
	Sig. (2-tailed)	.022	.008	.099	.004	
	N	139	139	139	139	139

Source: Research Findings

On the correlation of the study variable, the researcher conducted a Pearson moment correlation. From the finding in the table above, the study found a positive correlation between financial inclusion and deposits as shown by correlation factor of 0.417, this relationship was found to be statistically significant as the significant value was 0.006 which is less than 0.05, the study also found positive correlation between financial inclusion and Lending as shown by correlation coefficient of 0.391, this too was also found to be significant at 0.023 level. The study found positive correlation between financial inclusion and provision of other services provided by MFIs as shown by correlation coefficient of 0.450 at 0.011 level of confidence. The study also found positive correlation between financial inclusion and the level of income as shown by correlation coefficient of 0.210 at 0.022 level of confidence.

4.5.2 Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used Statistical Package for Social Sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions. The model summary are presented in the table below

4.5.2.1 Model Summary

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used Statistical Package for Social Sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions. The model summary are presented in the table below

Table 4.55: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.845[a]	.714	.693	.37290

Source: Research Findings

The study used coefficient of determination to evaluate the model fit. The adjusted $R^{2,}$ also called the coefficient of multiple determinations, is the percent of the variance in the dependent variable explained uniquely or jointly by the independent variables. The model had an average adjusted coefficient of determination (R^2) of 0.693 and which implied that 69.3% of the variations in financial inclusion are explained by the independent variables under study (deposits, lending, other services provided by MFIs and level of income).

4.5.3 Analysis Of Variance

The study further tested the significance of the model by use of Analysis of Variance (ANOVA) technique. The findings are tabulated in table below.

Table 4.56: Summary of One-Way ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	26.288	4	6.572	5.199	$.000^b$
1	Residual	169.376	134	1.264		
	Total	195.664	138			

Source: Research Findings

Critical value = 2.46

From the ANOVA statistic, the study established that the regression model had a significance level of 0.1% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (5.199 > 2.46) an indication that deposits, lending, other services provided by MFIs and level of income, all have a significant effects on financial inclusion. The significance value was less than 0.05 indicating that the model was significant.

4.5.4. Coefficients

The following tables gives the coefficients which helps in establishing the regression line

Table 4.57: Table of Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.921	0.129		-7.117	.000
	Deposits	0.376	0.071	0.236	5.296	.011
	Lending	0.390	0.104	0.294	3.750	.004

Other services provided by MFIs	0.564	0.098	0.486	5.755	.012
Level of income	0.486	0.074	0.463	6.568	.013

Source: Research Findings

The established regression equation was;

Y = -0.921**+** .376 X_1+ 0.390 X_2 + 0.564X_3+ 0.486X_4

The study revealed that a unit increases in deposits collection would cause an increase in financial inclusion by a factor of 0. 376, a unit increase in lending by MFIs would enhance financial inclusion by a factor of 0.390, a unit increase in provision of other services provided by MFIs would enhance financial inclusion by a factor of 0.564, and also a unit increase in level of income Ratio would enhance financial inclusion by a factor of 0.486 vice versa.

The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and α=0.05. If the probability value was less than α, then the predictor variable was significant otherwise it wasn't. All the predictor variables were significant in the model as their probability values were less than α=0.05

4.6 Interpretation of the Findings

The main objective of the study was to establish the effect of financial services offered by microfinance institutions on financial inclusion in Kilifi County. From the regression result above, all the explanatory variables are statistically significant ($P < 0.05$) at 5% in causing the variation in financial inclusion. On average, MFI in Kilifi will register financial inclusion of negative -0.921 units if the explanatory the variables were excluded in the estimation model. This implies there are other control variables that affect financial inclusion which were not considered in the study.

Despite the small number of MFIs mobilizing deposits, the study found a positive correlation between deposit collection by MFIs and financial inclusion (persons correlation value = 0.417, P value .006). The coefficient of variation between deposit collection by MFIs and financial inclusion was positive (Beta coefficient value = 0.376) implying that unit increase in deposit collection by MFIs would cause an increase in financial inclusion. The study also established that most of the customers were periodically forced to make deposits, there has been an increase in volume of members' savings in the last five years, members of the of the MFIs saved at least once a month, majority of the respondents saved an average of between Kshs 1,000 and 50,000 per month. Most of the MFIs' clients were not in a position to access their savings as and when needed and most of the MFIs safeguarded members' savings through insurance, liquidity ratio, and short-term security and with most of them being excellent in collecting the member's deposits.

The study found a positive correlation between lending by MFIs and financial inclusion (persons correlation value = 0.391, P value .023). The coefficient of variation between lending by MFIs and financial inclusion was positive (Beta coefficient value = 0.390) implying that a unit increase in lending by MFIs would enhance financial inclusion. The study also established that most of MFIs operating in Kilifi County provided business development loans, emergency loans, household supply loans and school fees loans. These products were found to be standardized. Most of the MFIs considered the ability to pay, cumulative savings, previous experience, guarantors and collateral before awarding loans to customers. Upon joining the MFI scheme, most members did not wait long borrowing funds because most MFIs were only credit oriented.

The maximum processing period for loan request was 1 Week though this depended on level of compliance with regulations. These loan products were repayable within short period of time with most of the MFIs offering a maximum of Kshs 10,000 to 50,000. Most of the MFIs calculated interest rate on a reducing balance basis and loans obtained from MFIs were charged processing/legal, insurance fee, late repayment penalties. The study noted increase in the amount of loan disbursed and loan paid up in the last five years. MFIs' loan products averagely satisfied customer's expectations and needs, the reasons for customer being unsatisfied with MFI' loan products include desire for more loans with less sorority, desire for loans with longer repayment periods and desire for unsecured loans.

The study established that other services available with the MFIs included financial training and to a small extent, insurance, cheque clearance and money transfers. The study found a positive correlation between provision of these services provided by MFIs and financial inclusion (persons correlation value = 0.450, P value 0.011). The coefficient of variation between provision of other services by MFIs and financial inclusion was positive (Beta coefficient value = 0.564) implying that a unit increase in provision of other services provided by MFIs would enhance financial inclusion.

The study also established that the number of clients/members registered by MFIs in the last five years had increased significantly. Most MFIs did not have branches in the remote areas of the County so as to render services effectively and therefore excluded a great number the poor. Among the reasons leading to difficulties in accessing financial services included proximity of the services, restricted withdrawals, minimum balance too high, lack of information, requirement to belong to a group, high charges, regular deposits required and regular meetings. MFIs were using electronic and print advertisement, door to door, social media, and community gatherings to reach out to the potential clients.

The study found a positive correlation between the level of income and financial inclusion (persons correlation value = 0.210, P value 0.022). The coefficient of variation between level of income and financial inclusion was positive (Beta coefficient value = 0. 486) implying that a unit increase in the level of income would enhance financial inclusion. The study also established that majority of the respondents were not in formal employment with most indicating self-employment as their key source of income which averaged between Kshs 36,000 and 360,000 per year for the last 5 years. A considerable number of the Kilifi residents had no bank accounts for reasons that they had no extra money to save. Most respondents joined MFIs in seeking to borrow and save money.

The findings of this study have echoed the finding of other previous studies in the field of microfinance that revealed positive correlation between microfinance and financial inclusion. Shankar (2013) found MFIs to break barriers to access in finance in India. World Bank (2013 and 2014) found MFIs crucial in fight against poverty and boosting inclusivity in financial services. Mutua and Uyugi (2007) found that microfinance programmes have positive impact on poverty reduction among the poor. FinAccess (2006) found a decrease in financial exclusion in Kenya. From the findings of this study, financial inclusion in Kilifi County has been on the increase over the years. This has been characterized by an increase in MFI membership, amount of deposits and amount of loans issued.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study findings, conclusion and recommendations. The objective of this study is to establish the effect of financial services by microfinance institutions on financial inclusion in Kilifi County.

5.2 Summary

The study investigated the relationship between deposit collection by MFIs and financial inclusion, the study found a positive correlation. Implying that financial inclusion would be enhanced if MFIs offered more avenues to save. However, there was noted to be an increase in the number of customers saving with MFIs in the last five years. MFIs safeguarded members' savings through insurance, liquidity ratio, and short-term security and most of the MFIs were excellent in collecting the member's deposits.

The relationship between lending by MFIs and financial inclusion was found to be positive implying that more credit facilities would improve the level of financial inclusion of the people of Kilifi, County. The study established that most of MFIs operating in Kilifi County provided standardized credit facilities under the categories of development loans, emergency loans, household supply loans and school fees payable in less than a year on a flat interest rate basis and with processing fees loaded. Ability to pay cumulated savings, previous loan experience and collateral were highly considered in awarding loans to clients. Since most MFIs were credit oriented, the majority of clients did not have to wait long before requesting for loans. Logically many became members when seeking loans. Customers did not have to wait for long periods to get their loans depending of their level of compliance to loan procedures and regulations.

MFIs calculated interest rate on a reducing balance basis and loans obtained were charged processing/legal, insurance fee, with options of late repayment penalties. The study noted increase in the amount of loan disbursed and paid up in the last five years with and reflective increase in number of clients who took loans and a clients who paid up loans. MFIs' loan products averagely satisfied customer's expectations and needs. However some customers were not satisfied with the MFIs' loan products citing include desire for more loans with less sorority, desire for loans with longer repayment periods and desire for unsecured loans.

MFIs in Kilifi were found to majorly offer credit facilities. About half of the MFIs also offered deposits channels due to government regulations while a few offered cheque clearance, insurance, debit/credit cards and money transfers. These services were found to be positively correlated with financial inclusion implying that the widening of the range of MFI services beyond deposits and lending would significantly improve the level financial inclusion. The study also established that the the number of clients/members registered by MFIs in the last five years had increased significantly but most MFIs had not opened branches in the remote areas of the County. This inherently excluded the poor population skewed to these marginalized areas. These potential customers may be facing difficulties in accessing financial services due to unavailability, restricted withdrawals, high minimum balances, lack of information, need to belong to a group, high charges, regular deposits requirements and regular meetings. MFIs in Kilifi County were found to be using electronic and print advertisement, word of mouth, social media, community gatherings and door to door campaigns to reach out to the potential clients.

The study investigated the relationship between the level of income by individuals and financial inclusion. The study found a positive correlation implying that the more one earned, the more likely they were to seek financial services. Those with low income felt that they did not need formal savings accounts. The study also established that majority of the respondents were in self-employment. Majority of the respondents joined MFI in order to borrow loans and accumulate savings.

5.3 Conclusion

The study established positive correlation between all the variables investigated. Deposit collection, lending and provision of other financial services had a positive impact on financial inclusion in Kilifi County. The increase in breadth and width of these services was found to increase the level of financial inclusion. There was an increase in the number of clients and this translated to an increase in the number and amounts of deposits attracted and loans disbursed by Kilifi MFIs in the last five years. This implies that the need for MFI services is increasing steadily.

On the level of income, financial inclusion was found to be positively dependent. The study established that an increase in the level of income among residents would enhance financial inclusion. Those who have little income feel that there is no need to of seeking financial services from MFIs. The study therefore concludes that high level of income had a positive effect on financial inclusion.

5.4 Recommendations for Policy and Practice

In order to enhance financial inclusion, the management of MFIs in Kenya needs to enhance therein deposit collection strategies, as this was found to be positively correlated with financial inclusion. Adjustments on minimum deposits, deposit time frames and restriction of access to deposits can made in order to make conditions more favorable to the clients and reduce defaults in deposit patterns. However, forced deposits/savings regime can be a good way of enhancing savings and saving discipline.

In order to enhance financial inclusion through lending, MFIs in Kilifi County can relook at their credit terms. This can be achieved by increasing the maximum amounts allowable as loans, lengthening the repayment period, and reducing cumbersome procedures in loan processing and offering more unsecured loans. While these strategies can give an edge to the MFIs over commercial banks, it will require careful and well informed strategies that will not put the MFIs and a risk of loss due to defaults.

Most MFIs in Kilifi County only offer credit services. About half of them offer saving facilities while only a handful offer other desirable financial services. While there are strict regulations by the Central Bank of Kenya on deposit taking, MFIs in Kilifi can strive to meet these standards or lobby with the regulator to be allowed to mobilize savings. It will be strategic for MFIs to consider widening their services' range to include other much needed services such as insurance, cheque clearance, money transfer, mobile banking and credit/debit cards among many more. There is great need to intensify on financial literacy training among the residents of Kilifi County, this will help the rural realize their full potential and maximize their little income thus improving economically. This study also recommends that MFIs should consider educating clients on other financial services they available with the institution, as knowledge on other MFIs services was found to be low amongst MFI customers. Kilifi County is majorly rural and ignoring marginalized areas of the County excluded a big number of poor people who would otherwise be on the road to financial inclusion. MFIs in Kilifi should increase their presence in these areas while amplifying their outreach to tap into this financially excluded group.

There is need for all the partners in financial sector to collaborate with County and National government in creating an enabling environment for self-employment in the County by creation of favorable policies and infrastructure that induce rural residents to self-employment. This will ultimately help to raise the social economic status of Kilifi residents.

5.5 Limitations of the Study

The research encountered several limitations. The low level of education with some of the respondents led to a communication barrier among the MFI customers. As such, some questions were not clearly and adequately responded to. Some were left unanswered. This may have affected the validity and reliability of the result though to an insignificant extent.

The other limitation of the study is that it did not limit itself to institutions registered with the Central Bank of Kenya as microfinance institutions but included others under the

Ministry of Cooperatives, the Ministry of Finance and others under donor regulations. These were institutions categorized as providing MFI services by these different agencies. Therefore the finding may be different it the research was to be done on MFIs under only one regulator.

The study results may be subject to the validity of the data used. The study employed the ordinary least square regression method of analysis which may have its own weaknesses compared to other methods which may limit the general applicability of the study results.

5.6 Recommendations for Further Research

The study sought to determine the effect of financial services by microfinance institutions on financial inclusion in Kilifi County, Kenya. The research recommends that similar researches be done on other Counties in Kenya to help policy makers and other players address disparities in financial inclusion. Further studies may also be done on the effectiveness of these microfinance institutions in tacking financial inclusion in the country.

There seems to be a gap in the services offered by these MFIs and the awareness of the public. It's therefore important to investigate the extent of awareness of MFI financial instruments on entire public and the extent of embracement. This study also recommends an investigation the effectiveness of various strategies available to MFIs in marketing their financial products. This will assist managers embrace the best, least expensive and most effective strategies to move drive out financial exclusion.

The literature available on Financial Inclusion reveals more gaps than harmony between theoretical and empirical studies with respect to the microfinance industry. There has been conflicting theories and findings by many various scholars. There is need to do more research on this subject to resolve and harmonise these issues. Various angles of financial inclusion or exclusion need to be revisited and theories created based of factual studies.

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APPENDICES

APPENDIX 1

LIST OF MICROFINANCE INSTITUTIONS IN KILIFI COUNTY	
1	Faulu Kenya
2	Kenya Women Finance Trust (KWFT)
3	Yehu MicroFinance Trust
4	SMEP
5	Remu Deposit Taking Microfinance Limited
6	Mahogany Investment Group
7	Milango Microfinance
8	Hazina Development Trust Ltd
9	Kenya Post Office Savings Bank
10	Kenya Enterpreneurship Empowerment Foundation (KEEF)
11	Kadet/Vision Fund Kenya
12	Platinum Credit Ltd
13	Kilifi Teachers Sacco, CAFOSA, Microfinance Unit
14	Stima Sacco, Microfinance
15	Kenya Marine & Fisheries Research Institute Sacco, Microfinance.
16	Jamii Bora Bank
17	Agha Khan Micro Finance Agency
18	Rafiki Deposit Taking Microfinance
19	Taifa Option Microfinance
20	Fursa Leo Microfinance
21	Mwangaza Enterprises
22	Smart Solutions
23	Affordable Ltd
24	Mwongozo Enterprises
25	Sky Bank Ltd
26	Fanisi Enterprises
27	Real People Enterprises
28	Fountain Enterprises

Source: Central Bank of Kenya, Association of Microfinance Institutions of Kenya (AMFI-K), Ministry of Cooperatives and Kilifi County Office.

APPENDIX 11

QUESTIONAIRE FOR MFI MANAGERS

This questionnaire is intended to collect information regarding the role of microfinance institutions in financial inclusion in Kilifi County, Kenya. The information you give will be treated confidentially, and you are advised not to write your name anywhere in the questionnaire. Please be as truthful as possible and respond to all relevant items.

Section A: Demographic Data

Name of MFI……. …..…………………………………………………………….
Address……………………………………Telephone………………………………….
Email address……………………………………………………………………………….

General Information on MFI

1. Which year did your institution commence its operations in Kilifi County? ....
2. Who are your target clients?

(a) Traders ( ) (b) Individuals ( ) (c) Government credit program ( )
(d) Farmers ( ) (e) Others (specify)…………………………………..…….

3. Which financial services do you offer as an MFI?

(a) Savings ( ) (b) Credit ( ) (c) Money transfers ( )
(d) Insurance ( ) (e) Others (specify)…………………………………

4. What is the nature of your MFI?

a) NGO ( ) b) Bank ( ) c) Government Programme ( )
d) Community initiative ( ) e) Private ( ) f) Sacco ( )
g) Others(Specify)……………………………......

Section B: Deposits (for deposit taking institutions only)

1. Please list the different kinds of deposits/savings products you offer.

…………………………………………………………………………………
…………………………………………………………………………………
…………………………………………………………………………………
…………………………………………………………………………………

2. What is the total current number of members/clients making deposits/savings with your MFI? …………………………………………….
3. What is the nature of these deposits? a) Voluntary ( ) b) Forced ( )

4. What is the volume of members' savings in the past five years?

YEAR	Cumulated Savings
2010	
2011	
2012	
2013	
2014	

5. How frequent do your clients save?
   (a) Don't save/Never ( )
   (b) At least once a week ( )
   (c) At least once a month ( )
   (d) As and when they can ( )
   (e) Others (specify)…………………………..

6. If forced in 3 above, are clients able to deposit on a timely basis?
(a) Yes ( ) (b) No ( ) (c) Not all ( )

7. Are clients able to access their savings as and when needed?
   a) Yes ( ) b) No ( )

8. If No, why?
   (a) They are often tied up in savings ( )
   (b) Savings act as collateral ( )
   (c) Amount only available at the end of saving cycle ( )
   (d)Others(specify)…………………………………………………………………
   ……………………………………………………………………………………

9. How are members' savings safeguarded?
   (a) Insurance ( ) (b) Liquidity ratio ( )
   (c) Short-term security ( ) (d) We have no mechanism ( )
   (e) Others(specify)…………………………………..

10. How would you rate your effectiveness in collecting the member's deposits?
   (a) Excellent ( ) (b) Good ( ) (c) Weak ( )

Section C: Lending

1. What credit products do you provide to your clients/members?

(a) Emergency ( ) (b) School fees ( )

(c) Household supply ( ) (d) Development ( )

(e) Other (specify)……………………………………………………

2. Are the credit products; a) Tailored ( ) or b) Standardized ( )?

3. What determines the amount to be awarded upon request?
(a) Collateral ( ) (b) Ability to pay ( )

(c) Previous loan experience ( ) (d) Guarantors ( )

(e) Cumulative savings ( ) (f) Others (specify)……..………………..

4. Upon joining the MFI scheme, what is the waiting period before one can borrow?
(a) Days ( ) (b) 1 Month ( ) (c) 3 Months ( )

(d) 6 months ( ) (e) Over 6 Months ( )

5. What is the maximum processing period for loan request?
(a) Instant ( ) (b) 1 Day ( ) (c) 3 Days ( )
(d) 1 Week ( ) (e) 1 Month ( )

6. What is the maximum repayment period for these loans?
(a) Emergency (………………………………………………)
(b) School fees (………………………………………………)
(c) Household supply (…………………………………………..)
(d) Investment (………………………………………………….)
(e) Other (specify) (……………………………………………)

7. What is the minimum and maximum loan allowable?

a) Minimum…………………. b) Maximum ………………………..

8. What is the interest rate(s) per annum do you charge on loans? ....

9. What is the nature of the interest charged on loans? a) Fixed ( ) b) Variable ( )

10. Is the interest calculated on (a) Flat ( ) or (b) Reducing balance basis ( )?

11. What other charges do you have on loans?

(a) None ( ) (b) Processing/legal fee ( )

(c) Late repayment Penalties ( ) (d) Insurance ( )

(e) Withdrawal fees ( ) (f) Combination ( )

(g) Other (specify)………………………………..

12. What is the amount in Kshs. of loans that were disbursed and paid up in the last five years?

YEAR	Loan (Kshs) Disbursed	Loan (Kshs) Paid up

2010		
2011		
2012		
2013		
2014		

13. What is the number of clients that took loans and paid up in the last five years?

YEAR	No. of clients who took loans	No. of clients who paid up loans
2010		
2011		
2012		
2013		
2014		

14. Would you rate your loan products as meeting meet customer's expectations and needs? a) Satisfactorily ( ) b) Averagely ( ) c) Below average ( ).

If not satisfactory, what would be the main reason?

(a) Want more with less sorority ( ) (b) Want loans for longer periods ( )
(c) Want unsecured loans ( ) (d) Other(specify)………………………

15. Does the seasonality of increase affect payment regime? (a) Yes ( ) (b) No ( )
If yes, how does it affect repayment?
(a) Able to pay during harvest time ( )
(b) Able to pay when business is booming ( )
(c) Other (specify)……………………………………….

16. What is the rate of default for the loans in the past five years?

……………………………………………………………………………..

17. What do you think is the reason for loans defaults?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
………………………………………………………

Section D: Other Services

1. What other financial service do you offer your clients?

   a) Insurance ( ) b). Money transfers ( ) c) Financial training ( )

2. How many clients/members have you served with the service in 1. above in the last five years?

Insurance	No. Of clients served	Total Volume in Kshs.
2010		
2011		
2012		
2013		
2014		

Money Transfers	No. Of clients served	Total Volume in Kshs.
2010		
2011		
2012		
2013		
2014		

Training	No. Of clients served
2010	
2011	
2012	
2013	
2014	

3. How would you rate your effectiveness in meeting customers expectation in these services?

a) Satisfactory ( ) b). Average ( ) c). Below average ( ).

<u>Section E. Financial Inclusion.</u>

1. How many offices or branches do you have within the County? ………………

Please list them
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………

2. If no branches how do you reach out to these clients in the remote parts of the county? Please explain.

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………

3. Have you come across a situation where a financially excluded member could not access your savings facilities? Yes ( ) No ( )

   If Yes, what could be the reason?

   (a) Lack of money to save ( ) (b) Minimum balance too high ( )
   (c) High charges ( ) (d) Lack of information ( )
   (e) Belong to group ( ) (f) Regular deposits required ( )
   (g) Regular meetings ( ) (h) Restricted withdrawals ( )
   (i) Others (specify) ……………………………………………………………

4. What media do you use to reach out to your potential clients in the County?
   (a) Door to Door ( )
   (b) Community gatherings ( )
   (c) Social media ( )
   (d) Electronic and print advertisement ( )
   (e) Work of mouth ( )
   (f) Others(specify)…………………............

5. What in your own assessment and opinion should the government do to ensure that financial services reach to all the poor in the remote areas of the County?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
………………………………………………

Thank you for your participation in this survey. I feel honored to receive your timely and accurate response.

APPENDIX III

QUESTIONAIRE FOR MEMBERS

This questionnaire is intended to collect information regarding role of microfinance institutions on financial inclusion in Kilifi County, Kenya. The information you give will be treated confidentially, and you are advised not to write your name anywhere in the questionnaire. Please be as truthful as possible and respond to all relevant items.

<u>Section A: Demographic Information</u>

1. Please mark the box that best describes you.

☐Male ☐Female

2. Please mark the box that best shows your age.

☐Under age 25 ☐Age 26-35
☐Age 36-45 ☐Age 46-55
☐Age 56 and above

3. Please mark your educational level.

☐ Primary School certificate
☐ Primary and Secondary school certificate
☐ Diploma or College Certificate
☐Bachelor's Degree and above

4. How long have you been a member of a Micro Finance Institution?

☐Below 1 year ☐1 – 5 years
☐6 – 10 years ☐Over 10 years

5. Please state your employment status.

☐ Employed ☐ Unemployed

6. What is your main source your income?

…………………………………………………………………………………………

7. What is your average income per year for the last 5 years?

A) Below Kshs 12,000 ☐
B) Between Kshs 12,000 and 60,000 ☐
C) Between Kshs 60,000 and 120,000 ☐
D) Over Kshs 120,000 ☐

8. Do you have a Bank Account?Yes ☐ No ☐

If No, what are the reasons?

I have no money/little money to put in ☐
No bank in this area ☐
No point - benefits received in cash ☐
Concerned there may be too many charges ☐
Tried to open but was refused ☐
Lengthy processes ☐

Not important to me ☐
If others, (please specify)
…………………………………………………………………………………………

9. What are the reasons why you joined your MFI?
    To deposit savings ☐
    To receive loan ☐
    To receive remittances ☐
    Other (specify)………………………………………………………………….

Section B: Deposits

1. Does your MFI collect deposits? Yes ☐ No ☐
If yes, how effective is the institution in collecting the member's deposits?
    Very effective ☐
    Fairly effective ☐
    Ineffective ☐
If No; please proceed to section C.

2. How frequent do you save with your MFI?
    Weekly ☐ Monthly ☐
    Quarterly ☐ Yearly ☐
    Others (Specify)…………………………………………………………

3. On average, how much have you been depositing with your MFI per month.
    (a) Below Kshs 1,000 ☐
    (b) Between Kshs 1,000 and 5,000 ☐
    (c) Between Kshs 5,000and 10000 ☐
    (d) Over Kshs 10,000 ☐

4. Are your savings easily available to you for withdrawal? Yes ☐ No ☐

5. Does your MFIs deposit policy meet your expectations? Yes ☐ No ☐
If No, why………………………………………………………………………………..
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

Section C: Borrowing

1. Have you taken any loan from your MFI in the last five years? Yes ☐ No ☐
If yes, how many times and how much? ....
……………………………………………………………………………..………………
…………………………………………………………………………………………

2. If borrowed, what type of credit/loan did you take?
Housing ☐ Business Loan ☐ School Fees ☐ Vehicle ☐
Personal use ☐

3. Were you required to provide any kind of security for the loan? Yes ☐ No☐

4..If Yes, what did you provide…………………………………………………………

5. Did you pay any transaction fee for the loan(s) to be processed? Yes ☐ No☐

6. How long did your loan(s) take to be processed?
Instant ☐
Two days ☐
One Week ☐
More than one week but less than one month ☐
More than one month ☐

7. How would you rate the procedure of loan application?
Simple ☐ Cumbersome☐

8. If the loan was provided, what difficulties did you face in the process?
………………………………………………………………………………………………
………………………………………………………………………………………………

9. Have you ever applied for a load and was denies? Yes ☐ No ☐

10. If Yes, do you know why you were turned down? Please provide details.
………………………………………………………………………………………………
……………………………………………………………………………………………….

Section D: Financial Inclusion

1. Are you using any other form of financial service from you MFI? Yes ☐ No ☐

If yes, which one? ....
……………………………………………………………………………………….....

2. How frequent do you use this service(s)……………………………………………….

3.What is the reason for using the above said service?..……………………………………
……………………………………..…………………..……………………………
………………………………………………………………………………………………
………………………………………………………………………………………………

…………………………………………………………………………………………
…………………………………………………………………………………………
………………………………………………………………………………………….

5. Over the past 5 years, have you received any training on money matters?

Yes ☐ No☐

If yes, by who? Family/Friend ☐ MFI☐ Bank☐ Financial Adviser ☐

School☐ Social Worker☐ Others (specify)………………………………

6. Would you say this advice was helpful? Yes ☐ No ☐

7. What would you do if you needed money in an emergency?

Ask friends ☐ Take a loan from my MFI ☐ Withdraw my savings ☐

Sell something ☐ I don't Know ☐

Others (specify)…………………………………………………………………

8. Have you met anyone who doesn't have a bank account and you feel they should?

Yes ☐ No☐

If yes, what do they give as the reasons for not having a bank account?
…………………………………………………………………………………………
…………………………………………………………………………………………
……………………………………………………………………

9. What do you think the government, MFIs, NGOs, Banks and other should do to further achieve bring financial services to all people
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
………………………………………………………………………………………….

Thank you for your participation for participating in this survey. I feel honored to receive your timely and accurate response.