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CHARACTERISTICS OF MICROFINANCE BANKING SERVICES AND FINANCIAL INCLUSION IN KENYA

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ABSTRACT

The objective of this study was to analyze characteristics of microfinance banking services and financial inclusion in Kenya. The research sought to explore two specific objectives which included; to determine how accessibility of microfinance banking services influences financial inclusion in Kenya and to establish how affordability of microfinance banking services influences financial inclusion in Kenya. The study was guided by 3 theories namely; Technology Acceptance Model, Financial Intermediation Theory and Agency Theory. To achieve the main objective of the study, the researcher used descriptive statistics. The target population will comprise of 59 MFIs who are listed as members of AMFI Kenya. The respondents were C.E.Os or general managers of the organizations. Due to the size of the population, a census survey was carried out. Primary data was collected through the use of questionnaires. The study used SPSS to aid in data analysis. The study revealed the microfinance banking services played a role in financial inclusion. Availability, convenience and proximity of branches to customers, impacts on the decisions made by customers hence accessibility was essential as per the study. The study also showed that financial institutions to aim at making services affordable with much regard given to decisions made on pricing of loans, transaction fees and ledger fees. The study findings would be useful to policy makers, researchers, MFIs, banks and individual consumers of financial services.

Keywords: *Accessibility, Affordability, Microfinance Banking Services, Financial Inclusion*

INTRODUCTION

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (Chithra & Selvam, 2013). Financial services have been redefined by the evolution of cash to digital form. This has improved areas where people have access to low-cost, convenient and broadly available financial services. According to Omwansa and Waema (2014), digital models can increase financial services for unbanked segments by reducing the cost- to- serve for providers and making services more available to consumers. Financial inclusion is also referred to as the banking sector outreach which can be described 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 (Muiyuro, 2014). The National Financial Access Survey of 2016 shows that 27% of Kenya's population that is able to bank remains totally outside the orbit of financial services and many more being served by the informal financial system (CBK, 2009). This is an indication that development agendas cannot be attained without including all people around the world in financial matters and this has made organizations and countries across the world advocate for financial inclusion of all. The United Nations report (2006) was a major contributor in bringing international attention on the issue of financial inclusion. It defines an inclusive financial system as one that provides credit to all bankable individuals and firms; insurance to all insurable individuals and firms; and savings and payment services for everyone. It is commonly argued that the economy as a whole benefits through financial inclusion (Mohan, 2006). First, it could be an important tool to reduce income inequality in the economy. Low-income individuals are often those not accessing financial services. Once access is provided, these individuals have greater potential to improve their income levels (World Bank, 2012).The objective of achieving universal financial access by 2020, expressed by the president of the World Bank, is another attempt to recognize the important role of financial inclusion for economic growth and alleviation of poverty. Financial inclusion has been an issue for a majority of developing countries. Countries such as India, Brazil, South Africa and Kenya have adopted mobile banking, to give banking access to the unbanked sector. In Kenya, a product called M-PESA was launched in 2007 (Mbiti & Weil, 2011). Siddik et al. (2014) inform that in Bangladesh, during last few years, the banking industry has experienced tremendous growth. However, there are concerns that banks and microfinance institutions have not been able, due to high operating costs, to include vast section of entire population into the fold of basic banking services, especially peoples from informal settlements and rural areas. Financial inclusion related issues are a subject of growing interest and one of the major socioeconomic challenges on the agendas of international institutions, policymakers, central banks, financial institutions and governments (Cihak et al., 2012). The private sector efficiently provides most of the financial services and thus financial institutions are the main agents involved in these processes. However, governments should try and mitigate market failures as is the cause of lack of use of financial services, by establishing adequate regulation and policies. It is desirable to ensure that financial services can reach the whole population with appropriate products and access channels. The problem of involuntary financial exclusion requires intervention to address market failures such as asymmetric information, lack of competition in the markets or insufficient infrastructure. These failures make it difficult for population groups, low-income groups or those who have traditionally been more vulnerable, such as women, young people or people who live in informal settlements to use formal financial services.

Financial inclusion is measured using an index, that is, a measure of inclusiveness of the financial sector of a country. It is multidimensional in that it captures the information on various aspects of financial inclusion such as market penetration, availability of services and usage of systems.

According to Satya and Rupayan (2010), the measurement of financial inclusion could be derived from the human development literature, the axiomatic measurement approach. The index allows the calculation of percentage contributions of different dimensions to the overall achievement. A study in the rural West Bengal, identified the obstacles faced in the process of financial inclusion, (Pravat & Arindam, 2011). Nitin Kumar (2012) analyzed the behaviour and determinants of financial inclusion in India. The study found out that the significant variables were factory proportion and employee base indicating that income and employment generating schemes lead the public to be more active, aware, interested with regard to banking activities, which contributes towards financial inclusion.

Financial inclusion can be viewed from a microeconomic perspective. Formal financial services are accessed through traditional channels that is, branches and ATMs, with a not yet defined incipient regulation on financial inclusion, unlike the situation in neighbouring countries. On the demand view, a person's level of income, education and age are all important variables which determine whether they have financial products such as accounts, credit and debit cards, formal credit and electronic payments (Tuesta et al., 2015). The study was done in Argentina aimed at analyzing the three dimensions which define financial inclusion, that is, access, use and barriers. According to Demirgüç-Kunt and Klapper, (2012), financial inclusion requires particular attention to specific portions of the population that have been historically excluded from the formal financial sector either because of their income level and volatility, gender, location, type of activity, or level of financial literacy. Hence the need to address areas that are financially excluded from formal financial services and enable capacity development, strengthen human and physical capital, engage in income generating activities, and manage associated livelihood risks. Financial inclusion goes beyond improved access to credit to encompass enhanced access to savings and risk mitigation products, a well-functioning financial infrastructure that allows individuals and companies to engage more actively in the economy, while protecting users' rights (Faye & Triki, 2013). FinAccess Household Survey report, 2016, shows that 75.3% of Kenyans are now formally included indicating a 50% increase in the last 10 years. Financial exclusion, which is now down to 17.4%, has more than halved since 2006. Formal inclusion for men has risen steadily since 2006 while for women, it leapt between 2009 and 2013 driven by mobile financial services (MFSs).This is an indication that women's exclusive reliance on the use of informal services has lessened. However, compared to men, women still have lower access to formal prudentially regulated services such as banks. MFIs provide small scale financial services to poor people who are otherwise excluded from the formal banking sector and standard financial systems. They operate mainly in developing countries, offering specialized loans of minor scale to enable individuals start small businesses and enhance entrepreneurship (Amelie, 2009). Microfinance institutions offer financial services for example banking and other related services targeting entrepreneurs and small businesses. According to CBK, there are 13 licensed microfinance banks in Kenya while AMFI-K has a total of 59 institutions listed as members of the association grouped in three categories. These include DTMs, Credit only MFIs, banks, SACCOs and Insurance companies. As per the 2013 Annual Report on the Microfinance Sector in Kenya, total assets of the sector register a stable growth over the last 3 years (+21.6% in 2012) amounting to KShs. 298.4bn as of December 2012.The sector remains dominated by banks, in particular, Equity

Bank which represents 72% of the sector's total assets. Chepkorem (2013) states that MFIs have played a major role in Kenya which includes moving from credit only to Deposit Taking Microfinance Institutions (DTM), adopting technology specifically mobile money, widening branch network to reach the unbanked and increasing financial education. Mobile payments are quick and enable repayment of loans.

Statement of the Problem

Financial inclusion is a major factor of financial deepening, which helps address the issue of growth with equity. The main purpose of financial inclusion is to eradicate poverty and promote income equality (Dermirguc-Kunt and Klapper, 2012). Evidence shows that financial inclusion lead to greater efficiency of financial intermediation, that is, intermediation of greater amounts of domestic savings and investment cycles and thereby greater stability (Prasad, 2010). The National Financial Access Survey of 2016 showed that 27% of Kenya's population that is able to bank remains totally outside the orbit of financial services and many more being served by the informal financial system (CBK, 2016). This is an indication that development agendas cannot be attained without including all people around the world in financial matters and this has made organizations and countries across the world advocate for financial inclusion of all. In a survey conducted by FinAccess (2016) in Kenya, income-related issues such as a lack of income, irregular income and the inability to pay for formal financial services accounted for most of the income-related challenges that resulted in financial exclusion. Access barriers such as a lack of proper documentation, complex financial products and services, illiteracy and the location of financial institutions were the main reasons why Kenyans were unable to use formal financial institutions. Microfinance institutions were mainly introduced to enhance financial intermediation and are a bridge in the financial sector that contributes to financial inclusion in Kenya (Omwansa, 2013). Archana (2013) indicates that MFIs play a significant role in facilitating micro finance as they are uniquely positioned to reach out the rural poor. Mainly operating in limited geographical areas and have better understanding of the issues specific to the people. They enjoy greater acceptability among the poor and have flexibility in operations providing a level of comfort to their clientele. Research on microfinance banking services and financial inclusion is limited. According to World Bank (2014), advancing financial inclusion levels in Mozambique will also require a more competitive and diverse financial sector to make products affordable to larger parts of the population. Ghosh (2013) established that microfinance institutions in India faced challenges of too much debt among their customers leading to an increase in the level of nonperforming loans. Ochieng (2012) researched on the effects of microfinance loans on poverty reduction with a specific study on K-Rep bank, while World Bank (2013) investigated microfinance and poverty reduction where it was concluded that the types of financial institutions being invested in matters and global examples of financial deepening through commercial banks, mobile banking, and cooperative models should be explored more deeply. Further, evidence suggests that credit alone is not enough, the poor need a more comprehensive package of financial services that includes savings, insurance, and payment mechanisms. Oruo (2013) studied the relationship between financial inclusion and GDP growth in Kenya and concluded that economic growth has a strong positive relationship with branch networks and a weak positive relationship with the number of mobile money users/accounts. Evidently, most of the studies on financial inclusion focused on commercial banks and other issues other than microfinance. Studies touching on microfinance have been done abroad and little focus on Kenya. This study sought to fill the gap that existed between access to modern financial services and

vulnerable groups through microfinance. This research study therefore, was aimed at exploring the characteristics of microfinance banking services and financial inclusion in Kenya.

Objectives of the Study

The overall objective was to analyze the relationship between characteristics of microfinance banking services and financial inclusion in Kenya. The study specific objectives were:-

- To determine the extent to which accessibility of microfinance banking services influences financial inclusion in Kenya.
- To establish how affordability of microfinance banking services influences financial inclusion in Kenya.

LITERATURE REVIEW

Theoretical Framework

Financial Intermediation Theory

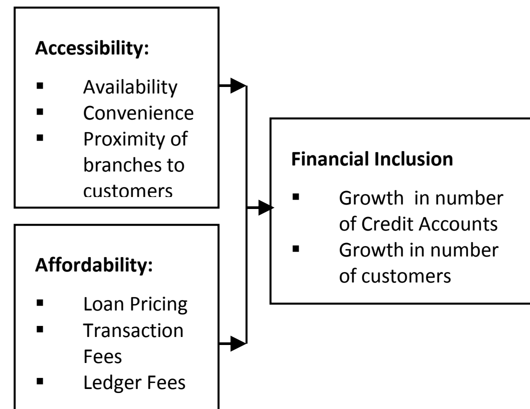
Financial intermediation is seen as the extent to which financial institutions bring deficit spending units and surplus spending units together (Ndebbio, 2004; Aduda & Kalunda, 2012). An important question that theories try to answer is why do investors first lend to banks who then lend to borrowers, instead of lending directly? Arguments point out to the fact that banks are able to effectively monitor borrowers and thus play the role of delegated monitoring (Aduda & Kalunda, 2012). The researchers show that reduced monitoring costs are a source of this comparative advantage. Intermediaries provide services by issuing secondary financial assets to buy primary financial assets. If an intermediary provided no services, investors who buy the secondary securities issued by the intermediary might as well purchase the primary securities directly and save the intermediary's costs (Aduda & Kalunda, 2012).

Bisignano (1998); Leland and Pyle (1977) identify that financial intermediaries can be distinguished by four criteria: first their main categories of liabilities (deposits) are specified for a fixed sum which is not related to the performance of a portfolio. Second the deposits are typically short-term and of a much shorter term than their assets. Third a high proportion of their liabilities are chequeable (can be withdrawn on demand).And fourth their liabilities and assets are largely not transferable. The most important contribution of intermediaries is a steady flow of funds from surplus to deficit units. Financial intermediation can affect economic growth by acting on the saving rate, on the fraction of saving channelled to investment or on the social marginal productivity of investment. In general, financial development will be positive for economic growth. Transaction cost is the primary factor explaining the presence of financial intermediaries. These costs present the reason for operating the intermediaries (Beston & Smith, 1976). The theory has been used as a basis of various studies. Oruo (2013) applied the theory in her study of the relationship between financial inclusion and GDP growth in Kenya. Muiyoro (2012) studied the effects of financial inclusion on the performance of commercial banks in Kenya. This theory was relevant to the study as the focus was on the relationship between the characteristics of microfinance banking services and financial inclusion which is an element of financial services hence financial intermediation. Specifically, it addressed the objective to determine the extent to which accessibility of microfinance banking services influences financial inclusion in Kenya and to assess the extent to which customization of microfinance banking services influences financial inclusion in Kenya

Agency Theory

According to Laudon and Laudon (1996), agency theory views the company as a link of contracts among self-interested individuals rather than a unified, profit-maximizing entity. It explains the relationship between principal and agent in business. Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals and agents of the principals. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing; and problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions. Therefore, agents need constant supervision and management to ensure success of their principals' objectives. Information technology, by reducing the costs of acquiring and analysing information, permits organizations to reduce overall management costs, and allows them to grow in revenues while shrinking the numbers of middle management and clerical workers. Research on agency theory has had several findings. Most notably, an agent is more likely to adopt the goals of the principal, and therefore behave in the interest of the principal, when the contract is outcome-based. Also, when the agent is aware of a mechanism in place that allows the principal to verify the behavior of the agent, he is more likely to comply with the goals of the principal. From inception, the main aim of MFIs was to alleviate poverty and make financial services more affordable to the poor and unbanked. The institutions have managers tasked with the responsibility of building sustainable firms and at the same time increase access. This creates an agency relationship between the firms, the managers and their stakeholders. The research seeks to highlight how managers of MFIs are able to build sustainable organisations as well as increase access to financial services hence enhancing financial inclusion. This addressed the variable to determine the extent to which accessibility of microfinance banking services influences financial inclusion in Kenya.

Conceptual Framework



Independent Variables Dependent Variable

Figure 1: Conceptual Framework

Accessibility

Accessibility refers to the level of penetration of the financial system through appropriate infrastructure for each type of population group, determined by the points of contact between people and institutions (AFI, 2013). It reflects the level of outreach of financial services, ability to use financial services with minimal barriers to get financial services. Access indicators show the extent of reach to financial services such as penetration of bank branches or point of sale devices in rural areas. It can also be measured based on how readily available services are to all include the weak regions and the convenience attached to a financial institution's services to existing and potential customers (Triki, 2013).

Affordability

According to UNCTAD (2014) this refers to a state in which all working age, adults, and groups with different income levels have effective access to credit, savings, payments and insurance from formal providers at sustainable costs. To achieve

financial inclusion, demand-side barriers that customers face to access financial services such as costs or information. Affordability in this study was measured through analysis of loan prices, transaction and ledger fees which represent the costs attached to financial services.

Empirical Literature

Global Partnership for Financial Inclusion (2012) provides four key things about financial inclusion. First, financial inclusion encompasses four basic financial services: savings, payment, credit, and insurance. Second, these services should be designed in a manner accessible to traditionally excluded groups, including to the poor, women, minority groups and those difficult to reach, for example, those who live in informal settlements. Third, provision of these services ought to meet adequate levels of quality, that is, should be affordable, available, and stable and follow minimum standards of consumer protection. This is a measure of the relevance of the financial services which encompasses the experience of the consumer, his attitudes and opinion towards the financial products available etc. This measure would be used to gauge the nature and depth of the relationship between the financial service provider and the consumer as well as the choices available and their implications. Lastly, these services should be provided by a range of institutions to allow for choice and competition (Global Partnership for Financial Inclusion, 2012).

Accessibility of Microfinance Banking Services

Verma & Aggarwal (2013) did a research on financial inclusion through MFIs in India. The research is based on the information collected from various secondary sources including journals, articles and various research based websites. The study revealed that the important challenge facing the banking sector is to extend financial services to all sections of society. Like others, the poor need a range of financial services that are convenient, flexible, and affordable and not just loans. Financial inclusion comes from the recognition that this can serve the interests of both society and the banking system. Musyoka (2011) did a study on the relationship between branch network spread and financial performance of commercial banks in Kenya. The research study adopted a descriptive research design in order to gather quantitative and qualitative data describing the relationship between branch network spread and financial performance of commercial banks in Kenya. The population for this study comprised of all commercial banks in Kenya, licensed and registered under the Banking Act. The study used secondary data by reviewing published financial statements from 2000 to 2010. It concluded that there was a positive relationship between bank branch network and financial performance of the banks. Waihenya (2012) utilized descriptive survey research method to investigate the relationship between agent banking and financial inclusion in Kenya. The target population included all agencies carrying out agency banking in Kenya whose data was readily available from CBK. The study relied on Secondary data that was available from CBK. To analyze the data, regression analysis and statistical tools (SPSS and R-statistics) were used. The study emphasized the factors contributing to financial exclusion, both natural barriers such as rough terrains and man-made barriers such as high charges on financial services and limited access due to limited bank branches. The study found out that agent banking is continuously improving and growing and as it grows, the level of financial inclusion is also growing proportionately. The study findings showed that increasing the area covered by agents within the country had the effect of increasing the scope of the financial services to the people thus raising the levels of financial inclusion. Chepkorom (2013) carried out a study on the role of MFIs in financial deepening in Kenya. The researcher used descriptive survey. The population comprised of MFIs who are members of AMFI-K of which a

census study was adopted. Secondary data was used and SPSS version 21 was used to analyze the data and findings presented using frequency tables and charts. The study concluded that there is positive relationship between growth of MFIs and financial deepening. It indicated that MFIs have promoted financial deepening based on the number of depositors. The research further concluded that the number of active borrowers and gross loan portfolio directly affect financial deepening.

Affordability of Microfinance Banking Services

Salman et.al. (2015) carried out a study on the influence of financial inclusion on SMEs in Nigeria. The study comprised of a quantitative survey of 625 Small scale businesses. The data was collected from the business organizations operating in all local governments of Oyo State, Nigeria through a closed ended self-administered questionnaire. In the study, SME referred to firms that have employed between 2 to 10 employees. Linear Regression Analysis was employed to analyze data collected. The study concluded that financial inclusion dimensions (mobile banking, banking services and banking penetration) have a positive and significant influence on SMEs growth and development. Further, it was concluded that access to little or no collateral based credit facilities, availability of ATMs, Point of Sale Terminals (POS) and Deposit Machines as well as increase of bank branches in rural areas will go a long way in SMEs growth and development.

Nandhi (2012) studied the effects of EKO mobile banking on the savings behaviour and practices of low income users in the metropolis of Delhi, India. A critical finding is that EKO mobile banking service is valued as a boon for small savers and users who depended on risky informal savings practices. In particular, a high percentage of users save in EKO mobile banking for emergencies. More importantly, it is considered as a robust substitute to many informal savings mechanisms as well as a bank account. Yet, savings behaviour indicated that EKO mobile banking accounts have not dispelled the need for some of the savings mechanisms used earlier because different savings methods were perceived as having their own usefulness and purpose. Contrary to expectations, in addition to making payments and deposits easier and more accessible, EKO mobile money accounts also seem to improve efficiency and regularity of other savings mechanisms.

RESEARCH METHODOLOGY

This study adopted a descriptive research design. Mugenda and Mugenda (2013) indicate that descriptive research designs are conducted to establish the extent of a range of issues. For the purpose of this study, the target population comprised of MFIs listed as members of AMFI-K. The total number was 59 institutions. The respondent shall be the C.E.O or general manager in the organization. A census study approach was adopted. The study comprised of the entire population, that is, 59 institutions as the size was small hence, manageable to carry out a census. This study relied on primary data although secondary data was useful in providing statistics of microfinance banking services. The primary data collection refers to the data collected direct from the field; it involves observation, questionnaires and interviews. The primary data enable to get the first hand data (Kothari, 2004). This study used SPSS software version 24 to facilitate empirical analysis of data.

FINDINGS AND DISCUSSION

Out of the 59 questionnaires distributed, 54 were completed and returned. This represented a questionnaire return rate of 91.5%. The remaining 5 questionnaires were never returned. According to Mugenda and Mugenda (2013) a 50% response rate is adequate, 60% is good and above 70% is very good. Hence, based on the assertions the response rate based on the correctly returned

questionnaires and used for the analysis of 91.5% was adequate for proceeding with the study. The study sought to determine how long the organizations of the respondents had been in existence. The results indicated that most organizations had been in existence for more than 10 years that is 46%, with 30% were between 6-10 years and 24% between 1-5years. This meant that majority of the organizations had been providing financial services for many years. The study sought to find out the working experience of the respondents, how many years they were involved in providing microfinance banking services. The results revealed that 30% had been working for less than 2years, 26% had been working for a period of 3-6 years and 44% for more than 6 years. This indicated that most respondents had enough experience knowledge and skills in microfinance banking services. The results also showed that the competence and skill increased with increase in years of performing the Job. The study tried to find out the number of personnel employed by the respondent. The results revealed that 13% had less than 30 employees, 31% between 30-100 employees, 41% between 100-200 employees and 15% had more than 200 employees. The results showed that most of the organizations had employed workers between 100 and 200, rate of 41% and least number of employees below 30 was at 13%. The study sought to find out the number of branches attached to the respondent. The study revealed that 31% had less than 5 branches, 22% had 12 branches and 46% have more than 10 branches. This showed that majority of the organizations had more than 10 branches.

Characteristics of Microfinance Banking Services

Accessibility of Microfinance Banking Services

This study aimed at determining how aspects of accessibility of microfinance banking services such as availability, convenience and proximity of branches to customers impacted on financial inclusion in Kenya. A Likert Scale of 1-5 was used to rate the responses where, 5 was to a very large extent, 4 was to a large extent, 3 was to a moderate extent 2, to a small extent and 1 to a very small extent.

The findings were that with regards to accessibility of microfinance banking services, to a moderate extent, partnerships with other financial institutions for use of their ATM network (mean of 3.8704) and ensuring that sufficient staff are available to reduce the amount of time spent by customers in the premises (mean of 3.6296) impacts on access to financial services.

It was also evident that accessibility was influenced to a large extent by an organization having a large branch network (mean of 4.4074), by easing access through branch location in residential areas (mean of 4.4815) and that the firm ensures minimum and simplified requirements for access to our facilities/products (mean of 4.2778).

The study found out that accessibility of microfinance banking services such as availability, convenience and proximity of branches to customers impacts on financial inclusion in Kenya through partnerships with other financial institutions for use of their ATM network and ensuring that sufficient staff are available to reduce the amount of time spent by customers in the premises impacts on access to financial services.

It was also evident that access is influenced to a large extent by an organization having a large branch network by easing access through branch location in residential areas and that the firm ensured minimum and simplified requirements for access to our facilities/products

Table 1: Accessibility of Microfinance Banking Services

Statement	5	4	3	2	1	Mean	Std. Dev
Our organization has a large branch network that enables ease of access to customers	46%	48%	6%			**4.4074**	**0.5993**
Our branches are located in residential areas for ease of access	48%	52%				**4.4815**	**0.5043**
We have partnered with other financial institutions for use of their ATM network	28%	41%	22%	9%		**3.8704**	**0.9326**
We ensure sufficient staff are available to reduce the amount of time spent by customers in our premises	20%	37%	30%	11%	2%	**3.6296**	**0.9961**
The firm has ensured minimum and simplified requirements for access to our facilities/products	37%	54%	9%			**4.2778**	**0.6270**
Overall						**4.1333**	**0.7319**

Affordability of Microfinance Banking Services

This study focused on how issues of affordability of microfinance banking services such as loan pricing, transaction fees and ledger fees impact on financial inclusion in Kenya. A Likert Scale of 1-5 was used to rate the responses where, 5 was to a very large extent, 4 was to a large extent, 3 was to a moderate extent 2, to a small extent and 1 to a very small extent.

The findings illustrated on the table below indicated that to a very large extent, low interest charged on loans by an organization compared to other financial institutions impacts on the use of banking services with a mean of 4.6296. To a large extent, low or no transaction fees required on deposits/ withdrawals (mean of 4.1481), no ledger fees charged on savings accounts (mean of 4.1111), low/no ledger fees charged on current accounts (mean of 4.1667) and no minimum balance requirement on accounts (mean of 4.1852). However, low or no collateral required when processing a loan (mean of 3.9815) and low or no transaction fees required on loan processing (mean of 3.8333) are to a moderate extent.

The study found out that affordability of microfinance banking services such as loan pricing, transaction fees and ledger fees impacted on financial inclusion in Kenya. The findings illustrated that to a very large extent, low interest charged on loans by an organization compared to other financial institutions impacts on the use of banking services. To a large extent, low or no transaction fees required on deposits/ withdrawals, no ledger fees charged on savings account, low/no ledger fees charged on current accounts and no minimum balance requirement on accounts. However, low or no collateral was required when processing a loan and low or no transaction fees required on loan processing are to a moderate extent.

Table 2: Affordability of Microfinance Banking Services

Statement	5	4	3	2	1	Mean	Std. Dev
Our organization has low interest charged on loans compared to other financial institutions	63%	37%				**4.6296**	**0.4874**
Our organization requires low or no collateral required when processing a loan	30%	43%	24%	4%		**3.9815**	**0.8353**
Our organization has low or no transaction fees required on deposits/ withdrawals	37%	41%	22%			**4.1481**	**0.7625**
Our organization has low or no transaction fees required on loan processing	24%	41%	30%	6%		**3.8333**	**0.8633**
Our organization has no ledger fees charged on savings accounts	31%	48%	20%			**4.1111**	**0.7181**
Our organization has low/no ledger fees charged on current accounts	37%	43%	20%			**4.1667**	**0.7461**
Our organization requires no minimum balance required on accounts	37%	44%	19%			**4.1852**	**0.7288**
Overall						**4.1508**	**0.7345**

Financial Inclusion in Kenya

This study focused on assessing the level of financial inclusion in Kenya based on the number of customers that microfinance institutions have had for the last three years as well as the number of credit accounts held by the institutions.

The findings in Table 3 showed that the number of customers had grown gradually within the period of analysis. The geometric mean showed an average growth in number of customers over the three years to be 3.15% whereas the number of credit accounts increased by 10.9%. This implied that more and more people were being included financially with much regard given to the microfinance banking services availed by various institutions. The findings further indicated that more individuals were able to access loan facilities or credit through microfinance banking services.

Table 3: Customers and Credit Accounts Growth Rate- Financial Inclusion in Kenya

Element	No. of Organizations	2014-2015	2015-2016	Geometric Mean
Growth in Number of customers	54	2.86%	3.48%	3.15%
Growth in Number of credit accounts	54	7.63%	15.76%	10.9%

FINDINGS, CONCLUSION AND RECOMMENDATION

The study found out that the characteristics of microfinance banking services played an intrinsic role in financial inclusion in Kenya. MFIs had increased the number of people who access financial services both depositors and borrowers. The study showed that affordability of

microfinance banking services plays a big role in determining the decisions made by customers to take up services. Consideration given to pricing of loans, transaction fees and ledger fees. The study found out that affordability of microfinance banking services such as loan pricing, transaction fees and ledger fees impacted on financial inclusion in Kenya. To a large extent, findings show that low interest charged on loans by an organization compared to other financial institutions impacts on the use of banking services achieving the highest mean of a mean of 4.6296. With questions touching on elimination or reduction of fees required on deposits/ withdrawals and ledger fees charged on savings accounts followed closely with a mean of 4.1481 and mean of 4.1111 respectively.

The findings showed that accessibility of microfinance banking services such as availability, convenience and proximity of branches to customers' impacted on financial inclusion in Kenya. Partnering with other financial institutions for use of their ATM network and ensuring that sufficient staffs were available to reduce the amount of time spent by customers in the premises impacts on access to financial services. The highest mean was achieved by questions touching on an organization having large branch networks (mean of 4.4074) and that easing access through branch location in residential areas (mean of 4.4815). Extensively, access is influenced by an organization having a large branch network by easing access through branch location in residential areas and that the firm ensures minimum and simplified requirements for access to our facilities/products.

Conclusions

From the study, it can be concluded that there was a positive relationship between the characteristics of microfinance banking services and financial inclusion. From the study findings, it was concluded that accessibility to microfinance banking services has a major implication on financial inclusion. Availability, convenience and proximity of branches to customers impacts on financial inclusion in Kenya through partnerships with other financial institutions for use of their ATM network and ensuring that sufficient staff are available to reduce the amount of time spent by customers in the premises impacts on access to financial services.

The study concludes that affordability of microfinance banking services plays a big role in determining the decisions made by customers to take up services. With much regard given to decisions made on pricing of loans, transaction fees and ledger fees. Further, the study concludes that customization of products in different ways such as product packaging, target pricing and product varieties impacts on financial inclusion in Kenya.

Recommendations

Several recommendations can be drawn from the conclusions highlighted in the study. Microfinance banking institutions should ensure that their services are improved to make them much more accessible and convenient to clients through partnerships and opening up of more branches.

Microfinance institutions should look for ways to bring down the cost of transactions and services offered so as to attract more clients, capping of interest rates and giving incentives with a view of including those who may have been financially excluded. There is need to further increase the level by which financial services, offered by microfinance banking services, are made more affordable to all.

Areas for Further Research

This study focused on the characteristics of microfinance banking services and financial inclusion in Kenya, based on the economic integration of African countries, especially East African countries, further studies can be done to establish how growth of microfinance banking services across the region impacts on financial

inclusion. Further studies ought to be carried out on key factors that drive the success of microfinance banking services, which translates to financial inclusion of the unbanked. Hence, research was required on the impacts of financial institutions adopting robust systems, processes and efficiency and productivity levels, maintenance of asset quality, prevention of credit losses/overdebtedness. Far and large, more studies should be done on MFIs with regards to capital erosion and remaining adequately capitalized to fund growth plans.

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