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The Effects of Financial Inclusion of Rural Population in Teachers Savings and Credits Co-Operatives (SACCOS) In Kenya: A Case Study of Trans Nation Sacco, Meru County

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Abstract
The purpose of the study was to investigate factors affecting financial inclusion of SACCOS in Kenya with specific focus on mobile banking, agency banking, financial awareness, and products diversification as an instrument in financial inclusion in Kenya. The research was supported by theory of financial innovation, modern development theory and agency theory. The populationof the study was 29 respondents who comprised 14 branch managers, 14 operation managers and the C.E.O and since the sample was very small, the research applied census owing to the fact that sample size is less than 200. The research used primary data. Primary data was collected using a questionnaire that was filled by the Trans Nation, operation managers, branch managers and the CEO. The study adopted a descriptive research design. Data was analyzed using descriptive statistics. The data was presented in tables and results disseminated in percentages. The study established that the four factors; mobile banking (80%), agency banking (64%), instant credit facility (100%) and promotion of SACCO products (100%) were significant factors influencing financial inclusion for SACCOs in Meru County. The study recommends that financial education should be regularly provided to the residents from all corners of the study area, there is need for the SACCO to consider agency outlets as some said that branches are far from them thus holding cash in hand, the SACCO management to improve on their lending policies particularly in adopting simplified loan application procedures and advancing instant credit facilities to enable its members execute their businesses and investments with efficiency, and leverage on new technology such as mobile banking to break physical barrier and achieve efficiency in service delivery. The study findings were significant to SACCOs in improving their financial inclusion, and future researchers.

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I. INTRODUCTION TO THE STUDY

1.1 Introduction

This chapter covers the background of the study, the concept of financial inclusion and technological innovations in the financial sector, and the statement of the problem. Additionally, the chapter also looked at the purpose of the study, research objectives, the research questions, hypothesis, and delimitations of the study. Further, this chapter covered the limitations, significance of the study, assumptions, and the operation definitions of terms of the study.

1.2 Background of the Study

According to World Bank's Global Findex survey, 2014, it is estimated that about 2 billion people across the globe do not have formal access to financial services and products including but not limited to ownership of bank accounts a situation that is described as financial exclusion.

It should be worth noting that in Sub-Saharan Africa, an estimated 47% of its population live below US$ 1.25 in a day. Going by these statistics it is clear that majority of people are financially excluded, thus implying that this population mostly relies on informal avenues to access financial services which turn out to be so costly. This goes a long way to adversely affecting the way formal access to financial services and products.

Due to adverse effect of the poor being financially excluded, SACCOS were established worldwide with an aim of filling the gap left by Formal Financial Institutions (FFIs) including banks which had excluded financially the poor people (Zikalala, 2016). These FFIs posit that poor people are risk borrowers who do not

own collaterals such as houses, land in surveyed areas with title deeds, and other fixed assets. On the establishment of SACCOS, it has become possible for the poor people to access credit with reasonable rates of interest and conditions that favor themselves. Ahimbisibwe (2007) noted that without SACCOS and other types of MFIs, the poor would permanently remain poor. This fact is also supported by the International Finance Corporation (IFC) which found that about 60% to 69% of populations in many African countries had no access to financial services from FFIs (Kariuki and Rai, 2010; Chijoriga and Cassimon, 1999). Access to financial services enables poor people to establish and manage their own small enterprises which create profits, increase working capital, and generate employment opportunities (Chandler, 2009). With access to these couple of financial services, financial inclusion is attained.

A study done by Kenya Bankers Association, 2014 indicates that in Kenya, an estimated 46% of its population lives below the national poverty line and traditionally, banking institutions could not serve these low-income individuals (the so called unbanked) because of the costs involved in providing of the financial services and products. This eventually resulted to formation of Savings and Credit Cooperatives (SACCOs) that could in most efficient and effective way help the low-income individuals and micro entrepreneurs to develop a pool of financial resources hence financial inclusion. The key financial services that result into financial inclusion among the unbanked and the under banked include pension and insurance services and products, loans, savings and payment services. Most of these services are not offered by Deposit Taking SACCOs either individually or through collaboration with other financial institutions including commercial banks and insurance companies (Ndung'u, 2013).

The growing demand for households use of financial products (savings, credit, insurance, etc.) improves the possibilities of consumption, and can smooth the income cycles generated by unexpected shocks or discontinuous income flows, thus optimizing inter-temporal consumption and improving well-being. The use of financial products also helps enterprises to take investment decisions that would be difficult to achieve using only the funds generated by the economic activity itself. Investment or spending needs are not necessarily synchronized with the inflow and outflow of funds generated by the productive process and they may occur at a time when there are insufficient savings available to meet such needs. Dupas and Robinson (2009) show that financial inclusion has a positive impact on productive investment, while a positive and significant relationship has been demonstrated between the use of credit and the growth of enterprises, particularly for smaller companies (Carpenter and Petersen, 2002).

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections & low-income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players.

The discourse on financial inclusion revolves around three customer segments, these are the banked, the unbanked and the underbanked. The banked segment refers to consumers with bank accounts or digital wallets in deposit money (or microfinance) banks and mobile money operators respectively. The unbanked segment refers to consumers without a bank account or digital wallet who conduct all their financial transactions independently.

The underbankedsegment, refers to financial service consumers who use informal and unregulated financial services provided by savings groups (like chamas). It could also refer to consumers who may have a bank account to their name, but rarely if ever, use it, opting to empty their accounts once they receive any funds in them.

Additionally, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.

According to World Bank Group's Universal Financial Access 2021 initiative. Being able to have access to a transaction account is a first step toward broader financial inclusion since a transaction account allows people to store money, and send and receive payments. A transaction account serves as a gateway to other financial services, which is why ensuring that people worldwide can have access to a transaction account.

Financial access facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives.

Financial inclusion is an economic agent that facilitates the growth of the financial sector (Karmakar, 2007). In other words, access to financial services, that are well suited for low-income earners promote enormous capital accumulation, credit creation and investment boom. Usually, the low-income earners constitute the largest proportion of the population and so control an enormous chunk of the economies idle fund albeit held in small amounts in the hands of each of the several million members of this group (Nyandika, 2015).

According to FinAccess Household survey 2019 on financial inclusion found that 82.9% of Kenya"s adult population has an account with a formal financial institution, the second highest in the region after South Africa and Seychelles. In Uganda, the proportion of adult population with a formal account stood at 58 per cent,

Tanzania (65 per cent), Rwanda (68 per cent) and Namibia (73 per cent). The report says that the rapid uptake of M-Pesa, run by Safaricom, has been the main catalyst in getting Kenyans to open accounts with banks, SACCOs and other formal institutions. This success prompted development finance institutions (DFIs) to invest in the mobile banking sector and grasp the huge opportunity to improve financial inclusion throughout the continent.

From the reviewed background studies, 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). Financial services are provided more efficiently by the private sector and thus financial institutions are the main agents involved in these processes. However, since lack of use of financial services is mostly due to the presence of market failures, governments should try to mitigate these failures 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 population groups, low-income groups or those who have traditionally been more vulnerable, such as women, young people or people who live in rural areas, to use formal

According to Abernathy and Utterback, (2005) the primary role of technological innovation is to assure the survival of the entity, as well as the business ecosystem, which in turn is based on achieving sustainable financial performance. Innovation has been identified as an important factor in firm survival. This continuous innovation is difficult to achieve; to survive, the firm must meet customer demands for rapid incremental improvement.

Technological innovations in the Banking industry include mobile banking technologies, electronic money transfer, internet banking transactions, agency deposits and withdrawals, online account opening among others. All these technological innovations contribute heavily in building customer base, capital base as well as enhancing their profitability which results to influence on their financial performance (Hill, 2009).

Official statistics showed that Kenyans transferred Sh 2.87 trillion on their mobile phones in the period ended august last year up 10.3 per cent on the same period 2018, a new report by the Central Bank of Kenya (CBK) has shown. There were 810.9 million mobile phone transactions last year, which has replaced most transactions that were previously done in cash. As at last year the number of users subscribed on mobile money services was 25.1 million, far more than account holders in commercial banks. The number of agents contracted by telecommunication firms offering mobile money services increased by 20,852 last year to stand at 222,479. FinAccess indicates that mobile phone financial services have helped in widening financial inclusion, with the proportion of adults roped into the formal financial system rising to 66.7 per cent in 2013 from 27.4 per cent in 2006 (CBK report, 2010).

According to Boateng&Molla (2006), Banking operations have evolved from the mere exchange of cash, cheques and other negotiable instruments to the application of Information and Communications Technology (ICT) to banking transactions. Akuffo-Twum, (2011) added that, the Ghanaian Banking Industry has developed from traditional, “brick and mortar” to Electronic Banking. Acka&. Agboyi (2014) cited in their study that Barclays Bank (Gh.) and Standard Chartered Bank (Gh.) pioneered this very important electronic novelty, which changed the banking landscape in the country. Globalization and the need to upgrade services to an internationally accepted level have prompted Ghanaian banks to offer E-Banking services. With these findings, one can say that, e-banking is a method of banking in which the customer conducts transactions electronically via the internet. However, the Federal Trade Commission in 2012 also indicated that, for many people, E-Banking means 24 - hour access to cash through an automated teller machine (ATM). But E-Banking is not only limited to conducting electronic transactions or access to the ATM, it involves different types of transactions, rights, responsibilities and sometimes fees. The services provided by banks using electronic channels have evolved from simple consultation of account to a full range of banking services. These include viewing and verifying transactions on account, Checking Balances, Printing Statements, Monitor uncredited and unpaid cheques, and many more. The evolution of electronic banking has altered the nature of personal-customer banking 3 relationships and has many advantages over traditional banking delivery channels. These include increase in customer base, cost savings, mass customization and product innovation, marketing and communications, development of non-core businesses and the offering of services regardless of geographic area and time (Giannakoudi, 1999).

The use of the Internet is lowering entry costs and removing barriers to entry for many businesses. The lowering of barriers has led to a flood of banks entering the industry, ultimately increasing competition and providing increased value to potential customers. However, most of the traditional banking industry has been slow to join the Internet bandwagon’ (Smith, 2006:82).

Compared to the traditional form of banking, Jones et al (2004) in their study found that banks saved 107 times of total cost when E-Banking services were employed. Pennathur (2001) found that E-Banking decrease operational, legal, reputation risks, and increase competition thus promoting better services amongst

competing banks. E-Banking also allow customers to interact more intensively than before with the front office of the bank and, at the same time allow banks to centralize back office operations and increase their efficiency. It's day and night availability makes it so convenient for the banks' clients.

Objectives of the Study

General Objective
The general objective of this study sought to assess factors affecting financial inclusion of rural population in teachers SACCOs in Kenya with specific focus of Trans Nation SACCO in Meru County.

Specific Objectives
The specific objective was to:

i. To find out the effect of mobile banking on financial inclusion of rural population in teachers SACCOs in Kenya.
ii. To investigate the effect of agency banking on financial inclusion of rural population in teachers SACCOs in Kenya.
iii. To examine the effect of instant credit facility on financial inclusion of rural population in teachers SACCOs in Kenya.
iv. To determine the effect of promotion on financial inclusion of rural population in teachers SACCOs in Kenya.

Statement of the Problem

Financial sector has been one of the fastest growing sectors in Kenya and is still growing at a period at a rapid pace following a number of technological innovations and myriad of financial services that have attracted a galore of subscribers. However, very few studies have been done to examine the key drivers of financial inclusion for financial sectors in Kenya with particular interest in teachers SACCOs for rural population. This notwithstanding, it is important to note that the sector is one of the leading sectors in country when it comes to mobilizing savings and providing low interest credit to low income people.

The use of agency banking, financial awareness, offering of mobile money services and credit facilities which revealed a positive relationship between revenue generated by the banking institution particularly on commercial banks that are specifically listed by NSE and this has ignored teachers SACCOs in the rural population.

Teachers SACCOs have not adequately adopted technological innovations as their counterparts the commercial banks have done. In commercial banks adoption of technological innovations have depicted increased sales and competitive positioning. This therefore calls for teachers SACCOs in rural population to adopt the same to improve on its financial inclusion.

Lack of financial services have also shown that they could lead to poverty trap and an increase in the inequality gap. Social objectives of poverty eradication is considered to be the main objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances which in turn leads to sustainable livelihood because weaker section of society got some money in loan which they can start up their own business or they can support their education. Financial inclusion is important for improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups.

Notwithstanding, on several studies done only one has made an attempt to explore financial inclusion as means of poverty reduction without being specific f on factors affecting financial inclusion of rural population in teachers SACCOs in Kenya. This study therefore sought to fill this gap in knowledge by finding the effects of financial inclusion of rural population in teachers SACCOs in Kenya. To address this, the study sought to answer the question; what are the factors.

II. LITERATURE REVIEW

2.1 Introduction

This chapter commends previous research conducted by researchers towards the effects of mobile banking, agency banking, promotion, and instant credit on financial inclusion in Kenya. A literature review is a body of text that aims to review the critical points of current knowledge on a particular topic. This section therefore outlined theoretical literature review, focusing on theory of financial innovations, modern development theory and agency theory adopted by the financial institutions in particular banking sector in deepening financial inclusion, within the empirical literature review plus the summary of the review.

2.2 Theoretical Literature Review

The study was guided by the theory of financial innovation, modern development theory, and Agency theory

2.2.1 Theory of Financial Innovations

This theory was proposed by Silber (1983) assumed on the idea that benefit expansion of money related foundations is the key reason of financial inclusion (Li and Zeng, 2010). The theory demonstrates that the primary thoughts behind the new innovations are the defects of the money related business sector, mostly the deviated data, office expenses and exchange costs (Błach, 2011). According to the theory, financial related innovations can be very new resolutions or simply customary means whereby latest component of development has been offered, enhancing firms' liquidity as well as expanding quantity new applicants, due to their qualifications on the situation (Ionescu, 2012).

According to this theory, financial innovation is a critical motivating force of the financial system, which leads to better economic competence and enhanced economic advantage derived from the new and frequent changes (Sekhar, 2013). Financial innovations define financial developments by coming up with new ways of production, technological solutions, creating better return rates hence boosting the country's economy in general. The theory posits that the innovativeness improves the firms' competitive edge of a corporate and generates more earnings to the investors (Błach, 2011). Innovation is a tool used to solve, manage and transfer the entire extra burden. The application of innovations promotes growth of financial entities through improved allocation, efficiency and a reduction of financial and administration costs (Sekhar, 2013).

Financial innovations enhance financial markets liquidity; ensure the allocation of resources to insufficient areas as well as improving the accessibility to emerging prospects (Błach, 2011) hence deepening financial inclusion. The theory of financial innovations postulates that some restrictions including external handicaps helps corporations in their pursuit of their objective which is maximization of revenues (Li &Zeng, 2010) hence commercial banks come up with innovative ways to reach more people to improve their profits. The emerging innovative financial inclusion models through mobile and other digital financial services especially in many African countries which are assisting in closing the gap of financial instruments which exists in these countries (Omwansa&Waema, 2014). .

2.2.2 Agency Theory

This theory was proposed by Jensen and Meckling (1986). Agency theory occurs where the financial institution fails to observes rules and regulation laid down by the banks. According to agency theory, intermediation places financial institutions (banks and their agents) as the link between money and the market or households. A study by Aduda, Kiragu&Ndwiga, (2013) revealed the money allocation based on perfect and complete markets is hindered by frictions such as transaction costs and asymmetric information.

This theory therefore ensures that the relationship between clients and policy makers is well maintained. Market mechanisms are measured to ensure that the utility is maximized whereas the control are separated. Though problems may rarely emerge due to lack of written agreement among the principle, the laws are costless enacted and formulated (Jensen &Meckling, 1986). The management level may lack to enact the laws to the agent due to diversified mode of transaction among the agents.

Engagement of financial services by different financial service providers has led to successful implementation of service provisions. This service has penetrated the market which was not previously reached by the banking services. Services provided by agents in areas where banks feared to exploit have led to increased volume of transactions and increased number of customers thus stepping up level of financial inclusion. The agents have increased services to low income earners hence increasing the level of inclusion in terms of financial services. Agent services of different financial service providers have exploited different markets leading to increased number of customers including the low-income earners. This agent has covered a wide area in Kenya with the main aim of reaching the majority of the respondents. This study will be carried out to establish the existence of a link between increments in banking agency outlets and realized increments in SACCO deposit customers as a measure of financial inclusion in Kenya. Therefore, this theory supports the agency banking variable and how it affects financial inclusion.

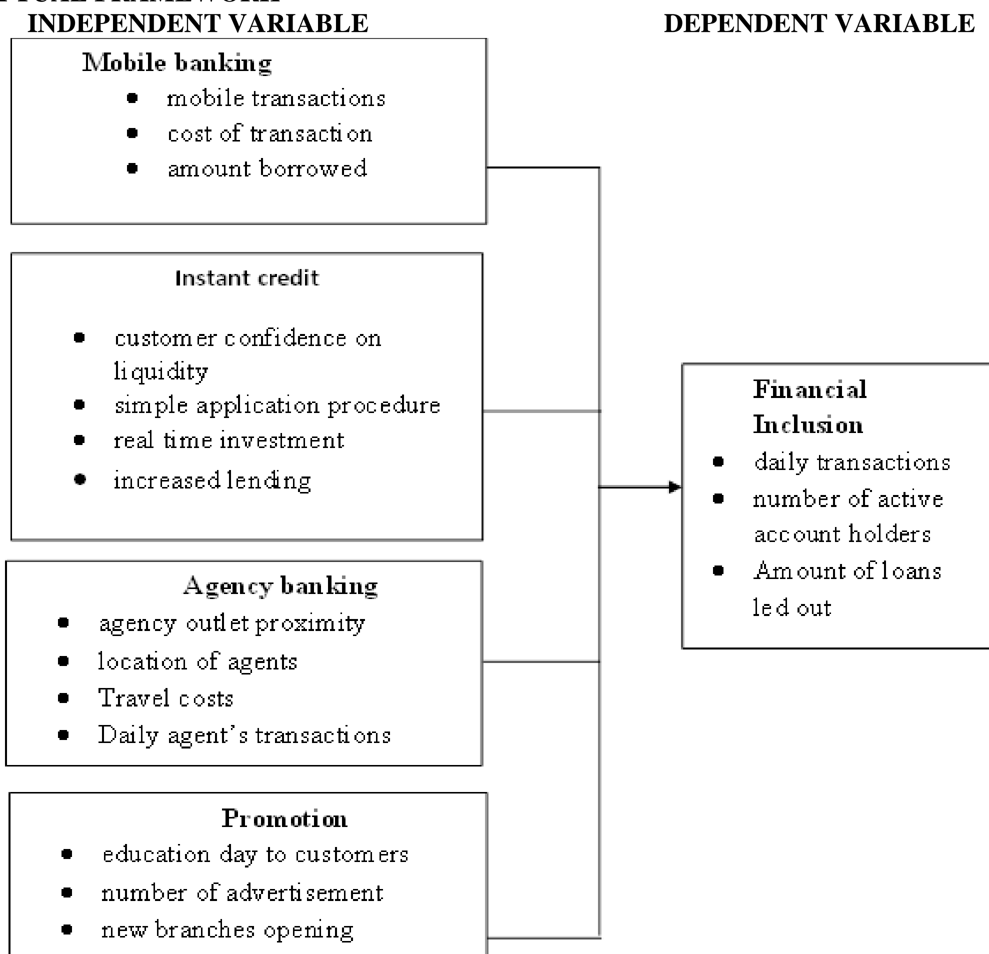
2.2.3. Modern Development Theory

Hoff and Stiglitz (2001) developed this theory. It's main emphasis is that lack of financial access causes income inequalities and stunted economic growth in a society. In a economy that is not developed, the poor have no access to financial services hence they end up sourcing or finances from the not formal service providers which are very expensive.

In addition, the lack of access of financial services from the formal service providers leads the population to rely on their own minimal savings to invest in income generating activities and the available investment opportunities, which is not effective (World Bank, 2011).

The theory is relevant to the study since it emphasizes the fact that the poor population requires loans that are affordable thereby enabling them take advantage of the investment opportunities available hence reducing the income inequalities (Seibel, 2006).Microfinance institutions are able to provide these properly designed products and hence increase on their uptake by the financially excluded

CONCEPTUAL FRAMEWORK



Source: Author (2022)

Mobile Banking

Mobile Banking refers to provision and availing of banking and financial services with the help of mobile telecommunication devices. The scope of offered services may include facilities to conduct bank transactions, to administer accounts and to access customized information

Agency Banking

Agency banking can be defined as a retail outlet contracted by a financial institution to process clients‟ transactions.Also, an agency bank is a company/organization that acts in some capacity on behalf of another bank, it, thus, cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank.

Instant Credit Facility

Instant credit facility refers to a credit facility disbursed immediately guarantors sign the loan form and when all other loan conditions are met by the clients.

Promotion

This refers to any type of marketing communication used to inform target customers of the relative merits of a product, service, brand or issue.

Research methodology

The study employed descriptive research design that made use of questionnaires which were distributed to various managers at the selected branches as it sought to establish how mobile banking, promotion, agency banking, and instant credit facility affects financial inclusion of rural population in teachers SACCOs in Kenya. This type of design attempts to describe such things as possible behavior, attitudes, values and characteristics

(Mugenda&Mugenda, 2003). According to Meyer (1999) this kind of survey (descriptive survey) is appropriate when a study is collecting first hand data using either interviews or questionnaires and from respondents.

III. Research Findings

The study found that mobile banking, agency banking, promotion and instant credit facilities have a significant effect on the financial inclusion of SACCOs in Kenya.
The studyfindingsestablished that 80% of the respondents believe that mobile banking affects financial inclusion greatly.
The study findings indicated that majority of the respondents (64%) confirmed that agency banking had greatest impact on financial inclusion of SACCOs in Kenya.
The study findings revealed that 100% of the respondents confirmed that instant credit facilities had a greatly affected financial inclusion of SACCOs in Kenya.
The study findings also revealed that 100% of the respondent's i.e 4% great effect, 16% greater effect and 80% greatest effect confirmed that promotion of SACCO services promotes financial inclusion to a great, greater and greatest extent.

IV. Conclusions

Mobile Banking
The study revealed that mobile banking has a significant effect on financial inclusion. Mobile banking reduces the transaction costs, increases deposits from customers, reduces the transaction time, increases SACCO membership, and increases credit mobilization by SACCOs.
Agency Banking
The study also found that agency banking greatly affects financial inclusion. Specifically, the study finds that agency banking increases SACCO membership and promotes proximity of financial services to the customers.
Instant Credit Facilities
Moreover, the study established that instant credit facilities affect the financial inclusion of SACCOs. It has noted that instant credit facilities have a significant effect on loan lending and increased SACCO revenues/deposits.
Promotion
In addition, the study found that advertisement and training do have significant effect on promotion of financial inclusion amongst SACCOs in Kenya.

5.4. Recommendations

5.4.1 Recommendations on the Research Findings

The researcher recommends that the management of SACCOs should lay more emphasis on mobile banking, instant credit facilities, agency banking and promotion of SACCO products and services for increased financial inclusion.
Based on the study findings that mobile affects financial inclusion of Rural Population in Teachers SACCOS, the study recommends that management of SACCOs adopt mobile banking as a way of increasing their membership, mobilizing more credit, and making their services more accessible.
The study recommends that SACCOs should increase their physical network coverage by having more agency banking services in remote areas to reach more customers and take close some of their services to customers.
It is also recommended that SACCOs develop policies that improve on their lending particularly in adopting simplified loan application procedures and advancing instant credit facilities to enable its members execute their businesses and investments with efficiency.
Further, the study recommends that the management of the SACCO lay more emphasis on promoting its services through advertisement and members training to lure more customers.

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