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Financial Inclusion and Financial Sector Stability With Reference To Kenya: A Review of Literature

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Abstract

Financial inclusion is a prerequisite to economic development. This has been echoed by international as well as national bodies. Studies have shown that financial exclusion has its roots in social exclusion. This indicates the depth and importance of financial inclusion in creating inclusive development. Numerous studies have revealed levels of financial inclusion with limited studies performed on the impact of financial inclusion initiatives on financial stability. This paper concludes that enhanced measures of financial inclusion which include both access and usage should be applied, since access and usage are not the same but supplementary. Informal financial services should also be included as they play a big role in developing countries.

JEL classification numbers: G20, G21, G28
Key words: Financial inclusion, social exclusion, financial stability, Kenya

1 Introduction

This chapter presents literature on financial inclusion and financial sector stability in the world and in Kenya.

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1.1 Background of the study

Poverty is a humiliation to humanity and efforts globally have been put in place to eradicate it. This can be demonstrated by country specific policy interventions and by international bodies' interventions. The United Nations', Millennium Development Goals (MDG's) initiative is an example of international intervention while Kenya's Economic Recovery Strategy of 2003 and Vision 2030 examples of country specific intervention. Studies have shown that one way of eradicating poverty is through developing the financial sector and making it financial services and products available and accessible to all. Thus financial services are of immense importance in any economy.

Schumpeter (1911) established that financial institutions play an important role in the resource allocation process. Diamond and Dybvig (1983) hypothesized that the primary role the banking sector plays is the provision of liquidity which enables more investments in productive assets and in so doing enhances the efficiency of capital accumulation and economic growth. Financial services are capable of distributing opportunities more evenly to poorer households and economically disadvantaged geographical regions. Consequently, as the major players in the financial system, financial institutions occupy a significant place in the economy of every nation as revealed by Olugbenga and Olankunle (1998) and deliberate effort is needed to facilitate access to financial services by all. This deliberate effort is done through financial inclusion initiatives.

Financial Inclusion is an intervention strategy that seeks to overcome the market friction that hinders the markets from operating in favour of the poor and underprivileged. Financial inclusion offers incremental and complementary solutions to tackle poverty, to promote inclusive development and to address MDGs (Chibba, 2009). It aims at drawing the unbanked population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance.

Financial inclusion or banking sector outreach can be defined broadly 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. The objective of financial inclusion should be advantaging the poor majority of who do not use formal 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 accessible to all reduces information and transaction costs, influences saving rates, investment decisions, technological innovation, and the long-run growth rates (Beck et al. 2009 as cited by Kumar and Mishra (n.d). This may be contested on the basis of the numerous customers with opaque information characteristics under flexible rules, who are the financial inclusion initiative target.

1.2 Social Exclusion and Financial Exclusion

According to the United Nations, 2.7 billion people around the world do not have access to formal financial services like savings accounts, credit, insurance, and payment services (UN, 2007; Ehrbeck, Pickens and Tarazi, 2012). Although this problem is universal, the financially excluded person is more often than not the average citizen in a developing

country as noted by Chibba (2009). Research furthers confirms that more than 80 percent of households in most of Africa are financially excluded. In Sub-Saharan Africa 80 percent of the adult population, 325 million people, remains financially excluded (Chaia, Dalal, Goland, Gonzalez, Morduch and Schiff, 2009). Even for those with access, the distribution to the products varies with some having marginal financial services encompassing merely a bank account. The people who lack access to financial services are frequently also excluded in other ways, and financial exclusion often reinforces other aspects of social exclusion (Kempson, Whyley, Caskey and Collard, 2000; Sarma and Pias, 2011).

Those lacking financial services comprise of certain exclusive groups of people and thus form an important component of a much wider social exclusion. According to Kempton et. al (2000) social exclusion has clear links with poverty, disadvantage and deprivation and is a much broader concept which, is a shorthand term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health, poverty and family breakdown. Social exclusion brings about social classes and divisions. The included become fearful and distrustful of the excluded and vice versa culminating to polarized societies that are unhealthy for the economy. In such cases the rich areas and people tend to get richer and poor areas and people poorer. Therefore financial inclusion can be instrumental in bridging the gap between the included and excluded and the rich and the poor. This means that financial inclusion should not be dealt with in isolation but in line with other socioeconomic, cultural and geographic aspects. Despite this knowledge on the effects of financial exclusion, financial inclusion has not been fully realized as evidenced by the size of the financially excluded, that is, those lacking access to formal financial services.

Financial inclusion entails institutions designing products, processes and training staff to think, plan and deliver tailor made financial services and products. The institutions should have an appropriate collective mindset and back it up with a set of practices that look at the customer as a valuable person who has to be nurtured and sustained. If the institution level initiative on products and services that are effective, appropriate and purposeful, then industry-level initiatives become easier to implement.

To be able to achieve progress, flexibilities in policy and regulatory aspects where rigidities would deter the creation of markets for the previously financially excluded are necessary. New delivery channels such as agent banking, mobile phone money transfer services, microfinance banks and relaxed Know-Your-Customer (KYC) requirements are needed to reach out the unbanked and underserved. With all of the above initiatives and changes, a question that arises is whether financial inclusion impinges upon financial stability. In any case, inclusion requires specialized rules for a specialized market constituency. Thus policies to encourage increased access for the previously unbanked must, however, take into consideration the objectives of financial stability, especially in light of the current economic and financial crisis. They should create opportunities for sustainable development that is able to withstand the various economic shocks.

Another issue of concern is that when the markets are too fragmented and their constituents are effectively segmented, instead of offering a venue for disinterested counterparties to come together, market failures could arise. This scenario is likely to be encountered through financial inclusion initiatives where many small markets, with tailor-made products and tailored rules exist. The relationship between stability of the financial system and the expansion and development of financial inclusion should be carefully

examined. Efforts to improve inclusion should also make business sense by being profitable for the providers of these services, and therefore have a lasting and sustainable effect.

1.3 Kenya

The financial system in Kenya has grown rapidly in the last decade. Though the largest in East Africa, it 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 (Beck, Cull, Fuchs, Getenga, Gatere, Randa, Trandafir, 2010). This data demonstrates that there is exclusion and that the poorer section of the society, who are found in rural and arid and semi arid areas have not been able to access adequately financial services. This is despite the laudable reports on the state of financial inclusion in Kenya.

Levels of financial inclusion have increased in Kenya though marginally as revealed by FinAccess (2006), and Ndii (2009). FinAccess (2006) revealed that the level of financial exclusion has fallen from 38.4 percent to 32.7 percent of the population. The study found that the usage of banking services had increased markedly, from 18.9 percent to 22.6 percent. The study further revealed that the total proportion of people formally included, that is, able to access a service from formal sources: banks, Savings and Credit Cooperative Organizations (SACCOs), Micro Finance Institutions (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. Ndii (2009) revealed further that increase in access, with a quarter of the adult population registered as M-PESA users. The MFI customer base grew by 117 percent, while commercial banks registered 92 percent growth in customer numbers. SACCOs and the Postbank lost customers.

This 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. Additionally the exact distribution of access should be analyzed at the household level. Caution should be taken to so as to address the subject of financial inclusion in the context of it dynamism as it includes people for whom financial exclusion is a temporary state, and others for whom it seems likely to be long-lasting, if not lifelong (Kempton, 1999) and others opt for voluntary self exclusion.

It is with this background that this paper is founded and developed.

1.4 Statement of the problem

Financial sector development is recognized as a prerequisite to growth and poverty reduction (Chibba, 2009). The approach to this development nonetheless, is not clearly identifiable as the general approach of broad based development of the sector while ignoring the specific dynamics of financial inclusion issues has not yielded expected outcomes. This calls for a need to study financial inclusion on a narrower base as opposed to the broader base. This paper attempts to gather broad based information and identify the narrower areas that have not been analyzed that can be used as foundation for successful financial inclusion which is an indicator of financial sector development.

According to Hannig and Jansen (2010), reliable and comprehensive data that capture various dimensions of financial inclusion is a critical condition for evidence-based

policymaking. This presents several challenges ranging from the basics of what financial inclusion is and what it entails especially because it is a concept that varies with level of countries economic development and geographical regions. The definition of financial inclusion and its components is important for setting a clear direction for policymaking by translating the concept of financial inclusion into operational terms but also allowing tracking progress and measuring outcomes of policy reforms. This paper will attempt to articulate the definition of financial inclusion and its components in the context of Kenya, a developing country.

An economy cannot thrive on a fraction of its citizens while excluding the others. In many developing countries economic development is skewed towards a few rich people and regions while the larger population and regions are left out. With a huge rural population, that is economically challenged financial inclusion is indispensible for the sustainable growth of Kenya. Financial Inclusion is needed for rural and downtrodden masses that are the future growth engine of the economy (Agarwal, 2010). But despite the recorded progress made by financial institutions the majority of the world's poor remain unserved by formal financial intermediaries that can safely manage cash and intermediate between net savers and net borrowers (Hannig and Jansen, 2011). This is also the case in Kenya. In the current dynamic world those not having access to key financial products will suffer much more serious consequences now than it was in the past as articulated by Kempson and Whyley (1999). This demonstrates the urgent need to bring them into the financial services play ground.

Kempson and Whyley (1999) opined that there is a high degree of turnover where about a third of the households lacking a current account had had one in the past, but had closed it down. This implies the difficulty in determining levels of financial inclusion. This study will aim at finding out the instances and numbers of the turnover in Kenya and reasons for secondary exclusion with a view of addressing and recommending policies for corrections. This brings out the question on whether full inclusion is a reality, substitutional or an over ambitious unreality.

Existing studies on financial inclusion have not focused on the relationship between financial inclusion and financial stability. This study aims at finding out the relationship with an attempt to find out if the two are complementary, supplementary or contrary. In doing so, it attempts to identify empirically and theoretically the relationship between financial inclusion and financial stability as a component of financial stability. Arguments have been brought forward as to whether financial sector development should be a goal or is an automatic outcome of the level of development and the needs of the economy at any state of development (Thugge, Ndung'u and Otieno) or is a cause of financial instability.

1.5 Objectives of the Study

The main objective of this paper is to explore the literature on financial inclusion in the world and in Kenya.

The study will aim to:

a) Find out the degree of financial inclusion in Kenya.
b) Find out the essential components of financial inclusion
c) Find out the relationship between financial inclusion and financial stability.

1.6 Organization of the Paper

This paper is be organized in four parts: part one deals with introduction of the study, part two theoretical literature review, part three empirical literature review and the conceptual concept and finally part four will comprise of the summary and conclusion of the study.

2 Theoretical Literature Review

2.1 Introduction

This chapter presents the theoretical literature review on financial inclusion. It starts by definitions of financial inclusion and the origin of financial inclusion which is social exclusion. It also collects literature on financial development and economic growth: and financial stability. This forms the basis for the conceptual framework model derived at the end of the chapter. The review is not exhaustive but nonetheless summarizes some of the major theories in the area.

2.2 Definitions

There is no universal agreement over what financial inclusion is and there are different views on what it means and entails as evidenced in available literature. The differences in definition emanate from the context in which it is used, geographical location and state of economic development of the area. Various scholars have attempted to define it and it components as detailed in the paragraphs below. Other scholars define it by stating what it is not, that is, financial exclusion.

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 and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players (Chakrabarty, 2010). A committee on financial inclusion in India, under the chairmanship of Dr. Rangarajan, defined financial inclusion 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 (Agarwal, 2010). Hannig and Jansen (2011) defined financial inclusion as the absence of price or non-price barriers in the use of financial services. They further add that it aims at improving access of financial services, which entails improving the degree to which financial services are available to all at a fair price. These three definitions emphasize the issue of affordability in terms of cost. The target group is defined by the first two definitions while the first definition mentions the players. All these three definitions though different mean almost one and the same thing.

Financial inclusion is defined as *"access for individuals to appropriate financial products and services"* (as cited by Hayton, Percy and Latimer, 2007 from Scottish Executive (2005). This includes having the capacity, skills, knowledge and understanding to make best use of those products and services. Financial inclusion is the provision of affordable financial services, namely, access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded (Thorat, 2006). These definitions agree on the scope of financial inclusion with the *Scottish Executive* adding the issue of knowledge of the products. Sahrawat (2010) Scope of financial inclusion agrees with Thorats' scope (figure 1) but includes financial counseling and a variety of bank accountings suiting the specific needs of the consumer.

Figure 1: Scope of Financial Inclusion

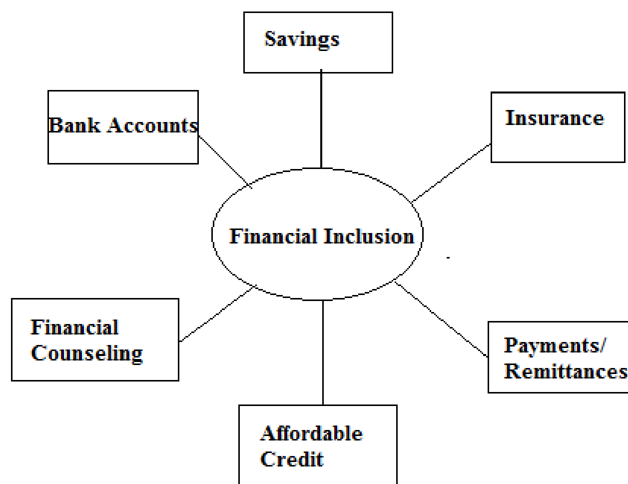


Figure 2: Scope of Financial Inclusion
Source: Sahrawat, 2010.

Full financial inclusion means providing every household with access to a suite of modern financial services, including savings, credit, insurance, and payments, as well as sufficient education and support to help customers make good decisions for themselves (Goland , Bays and Chaia, 2010). On the converse the denial of financial services and the conditions that lead to depriving an individual or a group from the benefits of these services is called financial exclusion (Kumar and Mishra, n.d).

2.3 Poverty and Financial Inclusion

Financial inclusion is a necessary condition for financial deepening, which helps to address the basic issue of growth with equity. Financial inclusion is mainly concerned with eradication of poverty. Financial inclusion is a step toward inclusive development. This concept of inclusive involvement of all dates back to Adams Smith (1776): "*What improves the circumstances of the greater part can never be regarded as inconveniency to the whole. No society can surely be flourishing and happy, of which by far the greater part of the numbers are poor and miserable*". This was further recently supported by Prof Yunus, the 2006 Nobel laureate, who originated the idea of eradicating poverty thirty years ago through his novel idea of banking the unbanked. Yunus is quoted stating that *"…things are going wrong not because of market failures. The problem is much deeper than that. The mainstream free-market theory suffers from a conceptualisation failure, a failure to capture the essence of what it is to be human*." –Creating a World Without Poverty (Yunus, 2007, New York: Public Affairs).

Financial exclusion has its roots on social exclusion. Social exclusion is a concept that characterizes contemporary forms of social disadvantage. The term, first originated in Europe and it refers to the processes in which individuals and entire communities of people are systematically blocked from rights, opportunities and resources that are

normally available to members of society and which are key to social integration. Social exclusion has been defined by the Department of International Development as “a process by which certain groups are systematically disadvantaged because they are discriminated against on the basis of their ethnicity, race, religion, sexual orientation, caste, descent, gender, age, disability, HIV status, migrant status or where they live (DFID, 2005).
DFID (2005) further contends that social exclusion is multidimensional, dynamic and relational. It encompasses social, political, cultural and economic dimensions, and operates at different social levels. It is also dynamic, in that it impacts people in various ways and to differing degrees over time. Furthermore it is relational, that is, it is the product of social interactions which are characterized by unequal power relations, and it can produce ruptures in relationships between people and society, which result in a lack of social participation, social protection, social integration and power (figure 2).

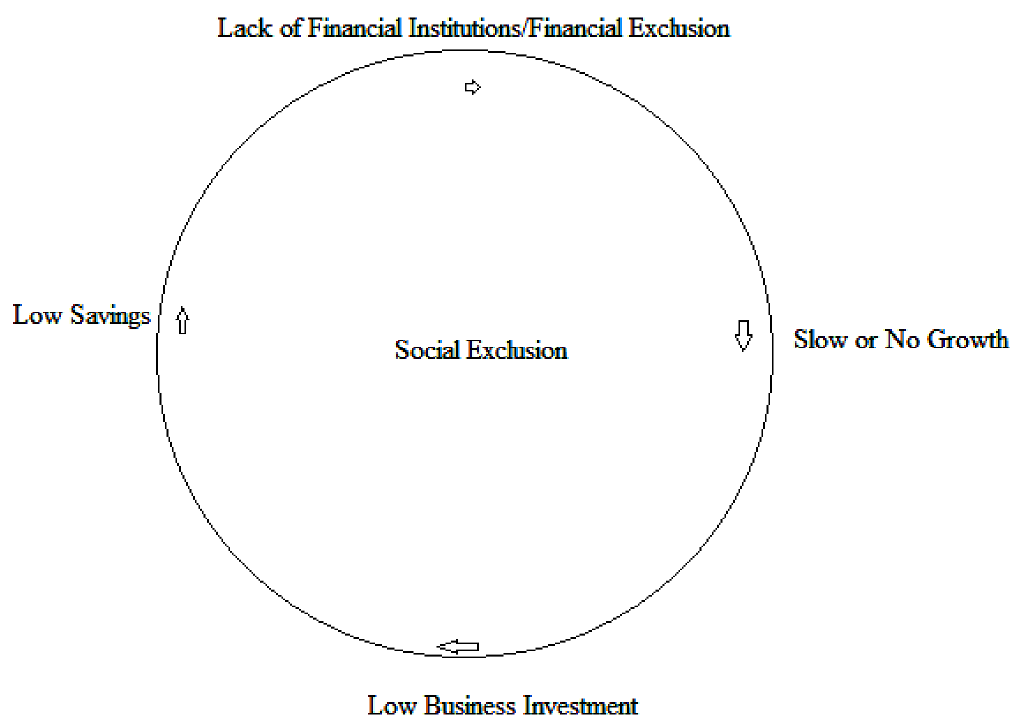


Figure 3 Relationship between financial inclusion and social exclusion
Source: Author (2012)

Social exclusion is a socially constructed concept, and can depend on an idea of what is considered ‘normal’. What is normal in one region or country may not be normal in another. This brings about the diverse definitions of what social exclusion is. Types of social exclusion are political, economic, social and cultural exclusion. For financial inclusion to succeed the intricate and multifaceted issues of social exclusion must be addressed to avoid further exclusion.
The problem of financial exclusion, ironically, has resulted from increased inclusion that has left a small minority of individuals and households behind (Kempson et. al. 2000). According to Kempson and Whyley (1999) there are six types of financial exclusions

namely physical access exclusion, access exclusion, condition exclusion, price exclusion, marketing exclusion and self exclusion. Access exclusion refers to the restriction of access through the processes of risk assessment; condition exclusion is where the conditions attached to financial products make them inappropriate for the needs of some people while price exclusion occurs where some people can only gain access to financial products at prices they cannot afford. Conversely marketing exclusion is whereby some people are effectively excluded by targeting marketing and sales and finally self-exclusion refers to people deciding that there is little point applying for a financial product because they believe they would be refused. Sometimes this is a result of having been refused personally in the past, sometimes because they know someone else who has been refused, or because of a belief that 'they don't accept people who live round here'.

There is no clearly no incongruity among researchers that many people across the globe are excluded from mainstream banking but the reasons for exclusion differ. The main reasons behind exclusion according to Agarwal (2010) are six and include lack of information about the role and function of banks, banking services and products, interest rates (Dupas and Jonathan, 2012: Kempson et al, 1999). Secondly, insufficient documentation whereby many people are unable to show their self identification documents during the opening of a bank account or during taking a loan (Ellis et. al., 2010).

Thirdly, lack of awareness of the banking terms and conditions, fourthly, high transaction charges (Dupas and Jonathan, 2012: Ellis, Lemma and Rud ,2010) and fifthly lack of access mainly for those people who live in geopolitically isolated regions (Ellis et. al., 2010). Last but not least, illiteracy, which renders a substantial number of people unable to take recourse to banking services.

Financial exclusion according to Sinclair, McHard, Dobbie, Lindsay and Gillespie (2009) can result from a range of five barriers namely, access exclusion which is caused by limited availability of or difficulty in securing appropriate services secondly condition exclusion resulting from conditions such as deposit or balance levels requirements (Ellis et. al., 2010) and identify requirements and thirdly price exclusion caused by unaffordable charges for services or penalties. Fourthly, marketing exclusion occasioned by the way in which products are promoted, their image or mode of delivery and finally self-exclusion resulting from disengagement as a result of negative experiences or discouragement. This agrees with Kempson's and Whyley's, 1999, types of financial exclusions as previously cited.

The importance of financial inclusion cannot be overemphasized. It enables the included to manage their money on a day-to-day basis, effectively, securely and confidently, plan for the future and cope with financial pressure, by managing their finances to protect against short-term variations in income and expenditure, and to take advantage of longer term opportunities; and deal effectively with financial distress, should unexpected events lead to serious financial difficulty (HM Treasury, 2007).

Financial inclusion will provide poor individuals with the opportunity to improve their standard of living; it can enable companies, especially financial-services providers, to do good while gaining access to many profitable new customers in dynamic and high-growth markets. For countries, it has the potential to stimulate economic activity and improve the overall quality of life of their citizens. The potential for positive social and economic impact is tremendous. For countries, it has the potential to stimulate economic activity and improve the overall quality of life of their citizens (Goland , Bays and Chaia J, 2010).

Yunus (2011) states that poverty, is not created by poor people but is an external imposition created by the theoretical framework and concepts we have formulated and by deficiencies in the system we have built and the institutions and policies we have designed. He gives this example of financial institutions – "they refuse to provide financial services to nearly two-thirds of the world's population. For generations, they claimed that it could not be done because the poor are not creditworthy, and everybody accepted that explanation". Thus our thinking, models and policies have to be redesigned to get to a new paradigm in thinking.

Benefits of financial inclusion according to the Deputy Governor of the Reserve Bank of India are: Establishment of an account relationship can pave the way to the customer availing of a variety of savings products, loan products for consumption livelihood and housing. The account can be used for making small value remittances at low cost and making purchases on credit. The same banking account can also be used by State Governments to provide social security services like health and calamity insurance under various schemes for the disadvantaged. It is often felt that some contribution should be made by the beneficiary so that he has some stake. However, the deterrent is that the cost of collection of the premium that can be more than the premium itself. If however it is collected through a no frills account, the cost is practically nil. From the bank's point of view, having such social security cover makes the financing of such persons less risky and hence can be covered by the loan component. Reduced risk means more flow of funds at better rates. Furthermore there is a complete audit trail and transparency. In other words the single gateway of a banking account can be used for several purposes and represents a win-win situation (Thorat, 2006).

Lower-income individuals are perceived as difficult to serve in an economically sustainable way, available products often fail to meet their needs, the risks associated with serving them can be difficult to manage, and existing regulations often impede progress (Goland, Bays and Chaia, 2010). There are three camps of thought on the issue of financial services for the poorest. The first camp rejects the hypothesis that the poorest can be reached with financial services on a sustainable basis. The second camp advocates that the poorest of the poor can be reached not only on a sustainable basis but also on a large scale. The third camp recognizes that the potential for reaching the poorest on a sustainable and a large-scale basis is limited but that the search for innovative approaches to expand the outreach to the poorest must be continued."

Diverse literature has shown that caution should be taken not to look at the issues of financial inclusion in isolation but in relation to other facets of development. It is widely recognized in economic literature that there are at least five different types of capital namely physical, natural, human, social and financial. Physical capital includes roads, buildings, plant and machinery and infrastructure whereas natural includes land, water, forests, livestock and weather. Human capital entails nutrition, health, education, skills and competencies while social encompasses kinship groups, associations, trust, norms, institutions and finally financial. One of the causes as well as consequences of poverty and backwardness is inadequate access to all these forms of capital. Thus to look at financial inclusion in an isolated way is problematic (Agarwal, 2010). According to Chibba (2009), financial inclusion, poverty reduction and MDGs (FI-PR-MDG) nexus requires four pillars namely private sector (including financial and non financial) development, financial literacy, microfinance and public sector support. This further supports the holistic approach to financial inclusion, though with different variables.

Despite the challenges, many factors are now coming together to allow organizations to pursue full financial inclusion. Organizations are gaining an increasingly sophisticated understanding of lower-income customers' needs and of how best to organize themselves to meet those needs. Technological advances are improving data transmission, collection, and analysis, enabling organizations to develop low-cost distribution models and scalable risk-management practices. More governments are supporting financial inclusion through regulatory and public-policy reforms that protect consumers while enabling providers (Goland, Bays and Chaia, 2010). Despite these impressive achievements, half of the world's population is still without access to savings accounts, insurance, and other financial services, and about 95 percent of the unbanked are in developing countries (Hannig and Jansen, 2010).

2.4 Measuring Financial Inclusion

According to Hannig and Jansen (2010) and Serrao, Sequeira and Hans (2012), financial inclusion can be measured through four lenses in order of complexity (Figure 3). Firstly, access which refers to the ability to use available financial services and products from formal institutions. Secondly, quality which relates to the relevance of the financial service or product to the lifestyle needs of the consumer. Thirdly, usage which should go beyond the basic adoption of banking services and focus more on the permanence and depth of financial service and product use. Finally, impact which includes measuring changes in the lives of consumers that can be attributed to the usage of a financial device or service. This information can be sourced either from the demand side, that is, at the individual, household, or firm level, or from the supply side, that is, at the level of a financial institution, or from a combination of both.

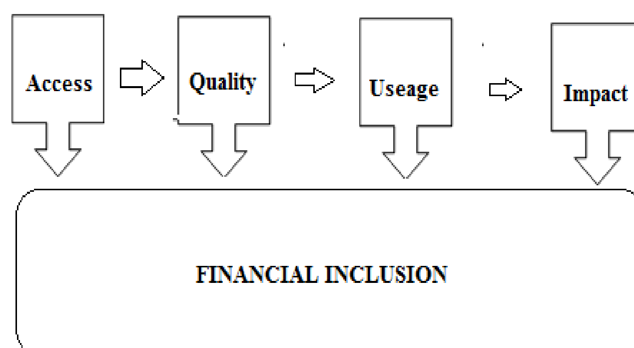


Figure 4Measures of Financial Inclusion

Source: Author adopted from Hannig and Jansen, (2010).

Thus several indicators have been used to assess the extent of financial inclusion known as index of financial inclusion (IFI). They include Bank accounts per adult, Geographic branch penetration, Demographic branch penetration, Geographic ATM penetration, Demographic ATM penetration, Demographic Loan penetration, Loan-income ratio, Demographic deposit *penetration, Deposit-income ratio (or deposit-GDP Ratio) and Cash-Deposit Ratio according to* Conrad, et al. (2008). However, some indicators, while used individually, provide only partial information on the inclusiveness of the financial system of an economy (Chattopadhyay, 2011). Chattopadhyay (2011) opines that IFI

must satisfy the following criteria (i) It should incorporate information on as many aspects (dimensions) of inclusion as possible. (ii) It should be easy and simple to compute. (iii) It should be comparable across countries/states.

Hannig and Jansen (2010) further opined that measurement of financial inclusion serves two primary objectives implying different data needs: first, measuring and monitoring levels of financial inclusion, and second, deepening understanding about factors that correlate with financial inclusion and, subsequently, the impact of policies (Figure 4). These primary objectives can be broken down to more basic levels Measurement data can be used to approximate the number of people who have access to or are currently using some type of financial service or product and their characteristics. If collected repeatedly, these data can also be used to monitor progress over time. The data also deepens understanding of the problem of financial inclusion. This is typically entails a more complex method of design and collection. This type of data is more appropriate to support solution building and impact measurement of policies put in place.

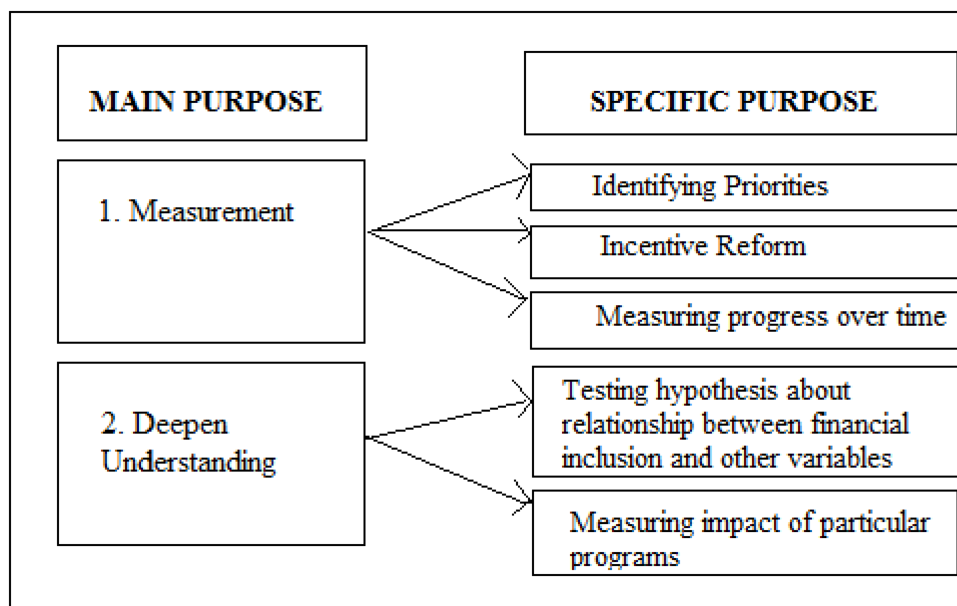


Figure 5 Measurement Objectives

Source: Porteous (2009) as cited by Hannig and Jansen (2010)

According to Sahrawat (2010), it should be emphasized that mere ownership of a financial product does not result in financial inclusion rather it is the usage of the financial product for economic self-reliance and growth which ultimately leads to financial inclusion. For example, opening a bank account by an individual is often treated as an indicator of financial inclusion. But a better indicator of financial inclusion would be the usage intensity of the bank account by the individual as it is ultimately the quantum of transactions and interaction variety between the individual and the financial institutions(s) which reflects the value derived by the individual from participating in the mainstream financial system. The quality of the service and products should also be evaluated when measuring FI as majority of the low-income population are left dependant on non-performing, unsustainable institutions, which in-turn are themselves dependant on Government subsidies. Thus measuring FI should be done in light of these views.

2.5 Theoretical foundation

Finance-Growth Theories

Theories on the finance growth nexus advocate that financial development creates a productive environment for growth through ‘supply leading’ or ‘demand-following’ effect. 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.(Serrao et al, 2012).

Theoretical disagreements do exist about the role of financial systems in economic growth. Some economists see the role as minor or negligible while others see it as significant. The demand following view is supported argues that the financial system does not spur economic growth; rather the financial system simply responds to development in the real sector. The supply leading proponents contrasts the former view. The origin of the finance-led growth hypothesis can be traced back to Bagehot (1873). Those who favor the finance-led growth hypothesis argue that the existence of an energetic financial sector has growth-enhancing effects. Schumpeter in 1911 posited that banks enable an economy to grow by providing efficient markets for funds. Goldsmith (1969), McKinnon (1973), Levine and Zervos (1996), and others also emphasized the positive role of financial systems in economic growth as cited by 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.

In conclusion, majority of the theories have established a positive link between financial development and economic growth.

Financial Intermediation Theories

Financial intermediation is seen as the extent to which financial institutions bring deficit spending units and surplus spending units together (Ndebbio, 2004). 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 (Diamond, 1984). Diamond shows that reduced monitoring costs are a source of this comparative advantage. Diamond posits that 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.

Financial market frictions can be the critical mechanism for generating persistent income inequality or poverty traps. These market frictions include information asymmetry and transaction costs and play a central role, influencing key decisions regarding human and physical capital accumulation and occupational choices. For example according to (Demirgüç-Kunt, Asli, Beck, and Honohan. 2008) in theories stressing capital accumulation, financial market imperfections determine the extent to which the poor can borrow to invest in schooling or physical capital. In theories stressing entrepreneurship, financial market imperfections determine the extent to which talented but poor individuals

can raise external funds to initiate projects. Thus, the evolution of financial development, growth, and intergenerational income dynamics are closely intertwined. Finance influences not only the efficiency of resource allocation throughout the economy but also the comparative economic opportunities of individuals from relatively rich or poor households.
Financial inclusion attempts to reduce these market frictions. Information asymmetry is a situation where by the one party has more or better information than the other. Information asymmetry causes markets to become inefficient, since all the market participants do not have access to the information they need for their decision making processes. Examples of this problem are adverse selection, moral hazard, and information monopoly. In adverse selection models, the ignorant party lacks information while negotiating an agreed understanding of or contract to the transaction, whereas in moral hazard the ignorant party lacks information about performance of the agreed-upon transaction or lacks the ability to retaliate for a breach of the agreement. Transaction costs if too high lead to higher pricing of products, which is one reason why financial exclusion exists. Financial inclusion initiatives are geared towards reducing the transaction costs. Thus reducing financial market imperfections to expand individual opportunities creates positive, not negative, incentive effects as these theoretical models indicate.
Demirguc Kunt and Levine (2007) argue that reducing financial market imperfections to expand individual opportunities creates positive, not negative, incentive effects. These models show that lack of access to finance can be the critical mechanism for generating persistent income inequality or poverty traps, as well as lower growth
In summary the theoretical models cited above point out five main roles that financial intermediaries play namely: acquisition of information on borrowers, provision of risk reduced agreements, accumulating capital, improve corporate governance and ease the transaction process.
These arguments are on the direction of the causality and also on final growth and development effects and studies should be conducted to determine the relationships and directions. The array of diverse results of empirical studies nonetheless bring forth the important question which financial inclusion tries to address of embracing good financial development as opposed to potentially harmful financial deepening which leads to financial sector instability.

2.6 Financial Stability

As financial inclusion increasingly continues to become a focus of governments and monetary authorities an issue that needs to be explored is its effect on financial stability. Theory suggests that the opportunity to deal with financial risks depends on the particular properties of the financial systems especially the financial structure. The financial structure of an economy influences the competition among financial markets and banks, which provides different incentives and opportunities for risk management. Therefore, it is very likely that banking performance, and the likelihood of crises, may depend on the structure and degree of development of the financial systems which is one of the focal point in financial inclusion. According to the theory on comparative financial systems, such relationship can be explained in terms of financial competition which erodes the opportunities to engage in inter-temporal risk smoothing activities (Allen and Gale, 2000 and 2004 as cited by Ruiz-Porras, 2009).However, the relationship between financial systems and banking crises may not be a straightforward one and theoretical works have

not dealt enough with issues regarding how risks may influence intermediaries´ behavior (Ruiz-Porras, 2009).

Financial stability is a pre-requisite for the optimal allocation of resources (Dyk, 2010) and is evidenced by well functioning markets, key institutions operating without major difficulty and asset prices that are not significantly removed from fundamental values (Nelson and Perli, 2005 as cited by Dyk,2010). Banks or deposit takers are the key institutions in the financial system as thus most measures on financial stability are based on them (Geršl and Heřmánek, 2006 and Dyk,2010).

Financial stability has no established definition neither does it have an aggregate indicator that can be used as a measure of financial instability (Geršl and Heřmánek, 2006). Financial stability is the condition where the financial intermediation process functions smoothly. Financial instability on the other hand is characterized by financial system shocks interfering with information flows, deviation from optimal saving, financial markets bubbles and volatility in financial markets (Dyk, 2010).One of the measures of financial stability is bank profitability. Some banks argue that while the benefits of financial inclusion can be easily understood the costs of serving the poor can be significant in the short-term, thereby, impacting profitability (Raj, 2011) and thus creating instability. Bankers should, therefore, change their mindsets, view financial inclusion as a viable business proposition and adopt innovative methods and low-cost delivery models to reach out to the poor.

Financial stability requires an effective regulatory infrastructure, effective financial markets and effective and sound financial institutions as reported in the South African Reserve Bank, Financial stability review of March, 2004. The issue of financial stability requires an explicit central bank focus over and above the pillars of prudential soundness, stable monetary policy and an efficient payment and settlement system (Hawkins, 2006). According to Hawkins (2006) the central bank can enhance both financial inclusion and financial stability through five approaches as discussed below.

Firstly there is tiered banking where several tiers are created, with each tier having different permissible activities, so as to facilitate new banking entrance and harness these benefits without exacerbating risk in the system. A lower tier of banks that are small in operations such as village banks, community banks and cooperative banks should be introduced. The possible bankruptcy of a lower-tier bank will pose no systemic risk whatsoever for the financial sector at large. The tiered banking does not compromise regulatory standards, but recognizes that not all banks provide the full range of services. Through tiered banking, central banks can facilitate new bank entry to supplement the services offered by other tier commercial banks, extend access and enhance financial stability through the extension of regulatory and supervisory reach.

Secondly, competition in the banking industry should be viewed in terms of the ease of entry and exit together with the number of suppliers. A market can be competitive when measured in traditional ways but competition may nevertheless not be effective. Competition is only effective in practice if the consumer is able to make a rational choice between competitors, and exercise choice at low transaction costs. Central banks can play a role in ensuring that there is sufficient contestability. This involves ease in licensing, allowing for tiered banks and foreign bank entry, privatization of state owned banks, regional integration and disclosure of prices to consumers in a consumer-friendly way.

Thirdly, national payment system is required for efficient settlement between buyers and sellers. This system should be well designed from a risk management point of view and can be done through innovative ways. It should be noted that access or supply is not the

same as use or demand, but the central bank can play a role in ensuring public confidence in new instruments.

Deposit insurance is another important in boosting of confidence and stability in the financial system and in the provision of protection for unsophisticated and small depositors especially in the lower tier banks.

Foreign-owned banks existence, finally, usually helps to improve financial sector efficiency and risk management, including capital allocation based on risk-adjusted profitability and corporate governance based on widely dispersed ownership. In certain circumstances, foreign bank presence may lead to rapid extension of credit, enhance competitiveness, encourage innovation and they prove to be more resilient than local banks at times of crisis.

It should be noted that Hawkins' approach though important especially for developing countries like Kenya ignores risks emanating outside the financial system itself, which is implied by Knight's definition on a stable financial system. These external risks have significant effects as evidenced in the global financial crisis of 2007. Hawkins's views are in agreement with Dyk's, 2010. Besides, the recent financial crises showed that financial markets or systems are more interconnected and that financial stability, in both a micro and macro dimension.

Financial stability is measured by indicators. The objective of the financial stability indicators is to provide users with a rough idea of the soundness of the financial sector as a whole. To assess the stability of the financial system and its most important part, i.e. the banking sector, it is appropriate to use a number of quantitative indicators and combine various approaches, including the calculation of financial soundness indicators, stress testing and some aggregate view of the development of the financial or banking sector based on a simple aggregate indicator (Geršl and Heřmánek, 2006).

The core FSIs relate to five basic areas relevant from the point of view of banking business and are compatible with the Capital adequacy, Asset quality, Management soundness, Earnings, Liquidity, Sensitivity to market risk (CAMELS) methodology for the assessment of the soundness of individual financial institutions. The Basel III Accord has also been instrumental in strengthening the resilience of the banking sector by improving its ability to absorb shocks arising from financial and economic stress.

2.7 Overview of Financial Sector in Kenya

The Kenyan financial sector is composed of the banking sector, microfinance institutions (MFIs), Savings and Credit Cooperatives (SACCOs), money transfer services and the informal financial services sector comprising of Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs). This can be divided into three elements: formal, other formal and informal (table 1). The demarcation between these categories is primarily an institutional one: the formal are prudentially regulated, while the other formal are simply registered under law and the informal are unregistered (FSD, 2010). The main regulator is the Central Bank of Kenya (CBK).

Table 1 Classification of Institutions

Formal	Other formal	Informal
Commercial banks	Unregulated MFIs	ASCAs
Deposit taking MFIs	Unregulated SACCOs	ROSCAs
Deposit taking SACCOs	Mobile payment services	FSAs
Post Bank		Shopkeepers
Insurance companies		Moneylenders

Source: FSD (2010)

Technological innovations such as automated teller machines (ATMs) and Mobile telephone money transfer services have transformed the Kenyan financial sector landscape in the years since 2002. It is worth noting that Mobile telephony in Kenya has allowed expansion and access to financial services to previously underserved by improving access to credit and deposit facilities, allowing more efficient allocation of credit, facilitating financial transfers, and boosting financial inclusion. Agency Banking, MFI's, DTM's and mobile banks have also gone a long way in extending financial services to millions of poor people at relatively low cost.

Financial sector development in Kenya has been characterized by various policy reforms initiated for changes in the macro-economic environment and institutions for provision of financial services to the previously unbanked populace. In the context of Kenya a developing country, the concept of financial inclusion have been fused with the goals of poverty alleviation and general economic growth as envisaged in the Vision 2030.
Vision 2030 in its sixth priority sector on financial services acknowledges the critical role of financial services in the economy. It envisions a financial services sector that is vibrant and globally competitive and driving high-levels of savings and financing. The financial sector long-term objectives are improved access and deepening of financial services; mobilizing additional savings to support higher investment rates; greater efficiency in the delivery of financial services; enhanced stability in the system; a better financial environment that will encourage stakeholder involvement and to make Kenya one of the ranked financial centers in emerging markets by 2030. The medium term goal aims to raise savings and investment rates from 17 to 30 percent of GDP through among other activities increasing bank deposits from 44percent to 80 percent of GDP and reducing the cost of capital and reducing the share of population without access to finance from 85 to 70 percent (Thugge, Ndung'u and Otieno, 2010).
Despite all these Kenya's financial market still remains thin in the rural areas, as most financial institutions are concentrated in urban, peri-urban areas, and cash crop growing areas (Mutua and Oyugi, 2007). Most self-employed individuals in rural Kenya do not have a formal bank account and instead, save in the form of animals or durable goods, in cash at their homes, or through Rotating Savings and Credit Associations (ROSCAs), which are commonly referred to as merry-go-rounds (Dupas and Jonathan, 2012).
Providing financial services in rural areas of Kenya on a sustainable basis remains a challenging goal mainly due to the rural environment that is characterized by poor

communications infrastructure, relatively low population density, low levels of literacy, relatively undiversified economies, low profitability and/or high risk of many economic activities (Johnson, Malkamaki, Wanjau, 2005). However, despite the presence of both the formal and informal institutions in the rural areas, a significant percentage of the rural people do not have access to financial services (Mutua and Oyugi, 2007). This makes the goal of financial inclusion challenging as this unbanked sector is unattractive to financial services providers, despite evidence that that the poor can also save, borrow and promptly repay their loans at market rates (Halwe, 2010).

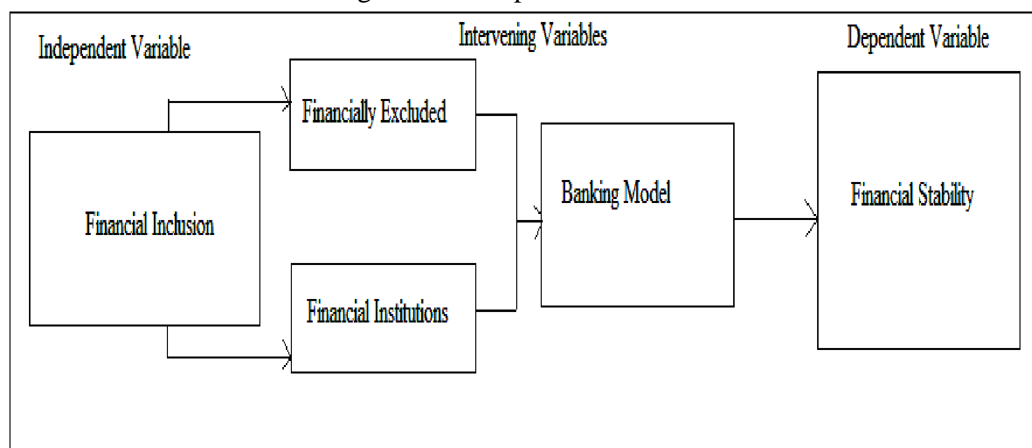
Provision of private credit in Sub Saharan Africa is very low with average ratio for private credit, scaled by GDP, was only 17percent, whereas the average for the other developing countries ranged from 32-43percent (Allen, Otchere and Senbet, 2010). In Kenya private credit to GDP, a standard indicator of financial development, was 23.7percent in 2008, compared to a median of 12.3percent for Sub-Saharan Africa which was lower than in 2005, though the quality of lending had significantly improved (Beck et al, 2010). This does not mean that Kenyans do not borrow but borrow from unrecorded informal and non formal sources.

The dynamic revolutionalization in Financial services sector in Kenya such as shift from the tradition banking model of brick and mortar to the mobile platform: outsourcing of financial services by mainstream banks and financiers to NGO's: conversion of community banks into commercial banks and growth of micro finance institutions and Deposit taking Microfinance Institutions (DTM) is anticipated to yield positive strides toward financial inclusion.

In view of the fact that there is a clear demand for financial services across the population, but semi-formal and informal financial services and mechanisms are used more commonly than formal financial services (Ellis, Lemma and Rud, 2010), all efforts must be put in place to realize full financial inclusion.

2.8 Conceptual Model

Figure 6 Conceptual Framework



Source: Author (2012)

2.9 Explanation of Variables

Financial Inclusion
This generally refers to providing every household with access to a suite of modern and affordable financial services, including savings, credit, insurance, and payments, as well as sufficient education and support to help customers make good decisions for themselves.

Financially Excluded
This refers to those from the mainstream populace who cannot access financial products, either voluntarily or involuntarily. These are the targets of financial inclusion initiatives and potential financial institutions customers.

Financial Institutions
Financial institutions are formal financial intermediaries that offer financial intermediation services to the populace.

Banking Model
This refers to a model that will be used by financial institutions to offer palatable products to consumers and at the same time yielding desired and sustainable profits.

Financial Stability
Financial stability is the condition where the financial intermediation process functions smoothly and all economic agents, households, business firms, financial services firms and government, can confidently hold and transfer financial assets without experiencing serious risks of economic shocks.

2.10 Summary

Financial inclusion neither implies that everybody should make use of the supply, nor that providers should disregard risks and other costs when deciding to offer services. But it refers to a situation where financial services are available to all those needing them at affordable costs and in a sustainable way.

3 Empirical Literature Review

This chapter critically reviews various empirical studies that have been conducted in the area of financial inclusion. The chapter discusses the conceptual framework under which the study has been completed. It concludes with a summary of the studies conducted.

Empirical studies have provided conflicting evidence on the relationship between financial inclusion and effects on individual or household poverty and generally on financial stability. The experimental methods also differ. Randomized controlled trials (RCT) conducted in Kenya found that there is a highly positive relationship between saving account and poverty reduction (Dupas and Jonathan, 2009). The study revealed that there was no evidence that savings accounts crowd out other investments, and neither was there evidence that the savings accounts allowed for more efficient smoothing over bad shocks, particularly sickness. This study demonstrated a more significant positive impact of savings accounts for women than for men.

Another RCT study as cited by Hannig and Jansen (2010) conducted in India provides evidence that the effect of microcredit depends on household characteristics with business owners using credit to expand their businesses, those initially identified as having a low propensity to start a business do not increase investment but rather increase consumption, while those households with a high propensity to start a business reduce nondurable spending, increase durable spending, and reduce temptation spending. The study further revealed that there were no significant effects on education, health, or women's empowerment which is a contrast of the Kenyan study. This is in agreement with a study they conducted in a number of countries in the world that revealed that the relationship between poverty and financial exclusion is not very strong, indicating that many other factors play a role determining the amount of people without access to formal financial services. In India, Bugress and Pande (2005) argue that financial inclusion has led to reduction in poverty. These conflicting findings suggest need for more research to analyze effect of financial inclusion on poverty eradication.

Burgess and Pandey (2007) provide further evidence that financial inclusion by opening branches of commercial banks through state-led policies was associated with poverty reduction in rural unbanked locations of India. This study despite being insightful did not look at the usage of the products or services but merely the presence of bank branches which studies have shown does not give a complete picture of financial inclusion. The study does not depict the channel through which increased bank presence reduced poverty. Currently other models of financial inclusion like nongovernmental organizations (NGOs) and private financial institutions are applied. Studies can be done to establish their efficacy so as to know the best model.

Another study using RCT method in Western Province of Kenya by Dupas, Green, Keats and Robinson (2012) revealed that simply expanding banking services is not likely to massively increase formal banking use among the majority of the poor unless quality can be ensured, fees can be made affordable, and trust issues are addressed. The study focused on the demand side and ignored the supply side. Studies should be conducted on the supply side to find out how they address the inhibiting factors mentioned and any other relevant factors.

Given the difficulty with drawing generalized conclusions from RCTs, new tools will be needed to deepen understanding about which services matter most for low-income households and microenterprises, how they impact welfare metrics, and how policy tools can help relax binding constraints on the access frontier. These studies do not reveal the overwhelming effect of financial inclusion as has been expected. Additional research to produce more empirical evidence in support of the need to pursue financial inclusion as a policy objective is needed.

The findings of a study by Mutua and Oyugi (2007) indicate that Kenya rural financing programmes have a positive impact on poverty reduction among the poor. The study also reveals that the saving mobilization of the rural poor, utilisation potential and their unique banking needs have not been exploited and catered for adequately. In addition, in spite of the fact that formal banking institutions have come in to try and bridge the gap between the service provision and service requirements in this market by extending branches in the rural areas, their 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 of the link between access to financial services and poverty reduction by using outreach levels and financial sustainability indicators. The study also deduced impact of enhanced financial services by reviewing of available

literature from other countries where surveys have been conducted. The study was based on the assumption that if an individual has been able to access financial services and repay loans on a continuous then high levels of outreach and sustainability have been attained impling that the individual's well being has been improved which may not be the case.

Another study conducted in Kenya by Ellis, Lemma and Rud (2010) revealed that many people save and borrow for household investment purposes. The most common reasons given for saving and borrowing were for consumption purposes however, with meeting day to day expenses and providing for household needs given as the most important reasons. Other reasons for saving were to invest in education for themselves, their children, or others, purchase livestock and to start a business. Savings tend to be used more than borrowing for all purposes. Men and women exhibit very similar patterns of behaviour in terms of saving and borrowing for investment purposes. A substantial number of people even in the poorest groups borrow and save for a range of investment purposes. Individuals with a better education are more likely to borrow and save to invest than those with less education. The study revealed that both semi formal and informal instruments were used. The most common reasons for not borrowing or saving relate to a lack of money, but many supply side access barriers are also cited, such as high charges. This study confirms that there is a need to financial services and a gap in the supply of the services by formal lenders is supplements by informal lenders.

A study by Halwe (2010) to understand the saving pattern and credit needs of the tribal families of Maharashtra and Gujarat State of India revealed that indeed the poor take financial intermediation seriously and devote considerable effort to finding workable solutions. The study revealed that the poor persistently engage in number of multifaceted financial transactions mostly outside the formal financial system which offers convenience and flexibility in terms of service and products unmatched by formal intermediaries. This study concentrated on the demand side of financial inclusion and did not look at the supply side. The study also did not explain effects of efforts to use formal services and constraints encountered.

A study on role of micro finance interventions in financial inclusion in a rural district in India by Barman, Mathur and Kaira (2009) revealed that as much as financial inclusion is seen as a strategy to poverty eradication it leads to increased indebtedness to non institutional or informal sources. This was seen to threaten financial sustainability and the overall financial stability. The study revealed the importance of credit information before issue on credit facilities. This study brings up the question on why moneylenders with their high interest rates are still able to attract clients, the poor, who are the target group in financial inclusion initiatives. The limitation of the study is the small sample size of fifty nine households. Another study can be replicated with a higher sample size to see if the results will agree. The study raises the question of the effectiveness of financial inclusion models in an environment of thriving informal sources.

A study on financial inclusion in the state of Bengal in India by Chattopadhyay (2011) is credited for using a multidimensional approach for constructing an index of financial inclusion (IFI). The IFI used had three basic dimensions namely banking penetration, availability of the banking services and usage of the banking system. The study also focused, inter alia, on some socio-economic indicators like occupation, literacy,land holding pattern in rural areas, rural indebtedness and peoples' opinion about banking services. The study revealed that there although various measures have been undertaken for financial inclusion, the success is not found to be noteworthy with only one out of

eighteen districts having a high IFI value using the three dimension and the rest of the districts belonging to the low level of IFI value. It revealed that supply and demand side factors are also equally responsible for financial exclusion. The study revealed the persistence in use of informal institutions and moneylenders. The study tells us nothing on the quality of the service and products as this could be a factor for the low IFI results. This study brings out the question on the continued existence of moneylenders despite their high interest rates and in an environment of financial inclusion initiatives. This calls for a need to study critically the money lenders model and try to adopt its appealing features in financial inclusion models.

Sarma and Pias (2011) using the index of financial inclusion developed in Sarma, focused on identifying the factors that were significantly associated with financial inclusion in cross country levl. The study found that levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Going beyond income, inequality, literacy and urbanisation are other important factors. The study revealed that physical infrastructure was significantly associated with financial inclusion. Banking sector variables, nonperforming assets and capital asset ratio were negatively associated with financial inclusion. Government ownership of banks was not significantly associated with financial inclusion while foreign ownership is found to be negatively associated. Interest rate does not seem to be significantly associated with financial inclusion. The findings of their study strengthen the assertion that financial exclusion is indeed a reflection of social exclusion, as countries having low GDP per capita, relatively higher levels of income inequality, low rates of literacy, low urbanisation and poor connectivity seem to be less financially inclusive. This study used IFI, a multidimensional index developed to measure the inclusiveness of a country's financial system though it did not specify the models used.

The arguments on the finance-growth nexus are vital with regards to the role of financial inclusion. The direction of the causality and also on final growth and development effects demands for studies to be conducted to determine the relationships and directions. The array of diverse results of empirical studies on the finance –growth nexus, nonetheless should be able try to answer the question on the goals of financial inclusion since it is affected directly by the finance-growth nexus. A study by Ruiz and Porras (2009) found that financial development is associated with market-based financial systems and that such association is magnified during episodes of banking crises, concluding that financial structure, development and banking crises are interrelated.

3.1 Summary

The empirical studies below reveal that indeed financial inclusion is important and has significant positive effect on the population and their development. The studies imply that for the issue of exclusion to be eradicated clear measures and components of financial inclusion need to be identified. A banking model that is specific to regions in a country is needed as there is no one fit all model.

4. Summary, Conclusion and Recommendations

This chapter provides a summary of the study and gives conclusion and recommendations.

4.1 Summary

It is clear from the theoretical and empirical literature that majority of the words population is financially excluded. This financial exclusion is a subset of social exclusion. Those financially excluded cannot participate in social and economic activities of the country leading to inequality which breeds many other vices. It is only through deliberate effort on social inclusion like financial inclusion that all can be brought to the economic playground of the country.
Care though should be taken to address the issue of financial inclusion expeditiously to avoid creating financial instability. The role of the government should also be carefully defined as studies show excess intervention from government can yield more harm than good. Proper banking models should be designed with appropriate products as the benefits of financial inclusion are immense.

4.2 Conclusion

The study concludes that financial inclusion intervention measure should continue, the array of products that make up financial inclusion should be identified and provided. Proper measures of financial inclusion which include both access and usage should be applied, since access and usage are not the same but supplementary.

4.3 Recommendations

This study recommends that more studies should be conducted to measure the impact of financial inclusion interventions in Kenya as currently what is there are different studies with different results. The study to be conducted should analyze the banking models used so that the best models can be applied to achieve full financial inclusion in Kenya by the year 2030.
Studies on informal financial services should be done as they continue to thrive despite the financial inclusion initiatives and their exorbitant costs.

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