

Factors Affecting Equitable Access To Financial Services In Kwanza Division, Trans Nzoia County- Kenya

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ABSTRACT

An inclusive financial system should have as many users as possible which gives an indication of how much the financial system has penetrated among its users (Sarma, 2007). Financial inclusion is key to realization of economic goal not only in Kenya but also globally. Given that little study has been done on factors affecting equitable access to financial services in Kenya, the study sought to bridge the knowledge gap by undertaking a study on the same. The proposed study adopted a descriptive design. The study targeted 50 beneficiaries from the financial institution, 5 employees working with USAID, representative from PROFIT Programme and 131 employees who are currently working with 10 financial institution operating in Kwanza Division. Primary data was collected by administering a semi-structured questionnaire. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS (Version 22) and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs & pie charts and in prose-form. Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. The study established that the current interest rates charged on loans are high and this reduces the access of poor people to financial services. According to a respondent from Equity Bank, Commercial Banks benchmark interest rates on volume with applicants for higher volume capable of negotiating lower interest rates and micro credits attracting higher interest rates. The research established that lack of access to credit information on where to obtain credit and minimum requirements to qualify for credit by people living in poor rural households have a negative impact on agricultural output creation and for the benefit of family. The research revealed that loan processing had a negative effect on equitable access to financial services in kwanza division, Trans Nzoia County, Kenya. The study established that lenders and investors need a way of assessing how risky their loan might be, and a simple scale should be developed and communicated to borrowers highlighting key parameters of evaluation of loan application based on commercial banks criteria which focuses on; character, ability to repay based on transactions rather savings, purpose of the loan whether starter or continuing viable business, experience of the borrow on same business he/she is familiar with or potentials for expansion of on-going business.

Key Words: Equitable Access, Financial Services, Kwanza Division

Background of the study

The study was informed by the fact that limited research has been done on the underlying factors affecting access to financial services in Kenya, this notwithstanding, other studies using descriptive analysis for example on areas of financial inclusivity touching on thematic areas including; various types of financial inclusion in Nigeria (Ibeachu 2010). This study identified six dimensions of exclusivity which includes; physical access, access exclusion, price exclusion, marketing exclusion and self-exclusion. These characteristics corroborate the findings of the research to establish factors affecting equitable access to financial services in Kwanza Division, Trans Nzoia County in Kenya cutting across the four main independent variables under consideration.

The study focused on four main objectives including determining the effects of interest rates, accessibility, transaction costs and creditworthiness on access to financial services in Kwanza Division, Trans Nzoia County in Kenya. In order to establish the underlying factors that impede on equitable access to financial services, the research developed four main research questions which correspond to the specific objectives of the study. These included; determining the effects of interest rates, the extent of effects of accessibility, the effects of transaction cost and the extent to which creditworthiness affect equitable access to financial services in Kwanza Division, Trans Nzoia County.

The scope of the study was to establish fundamental factors that affect equitable Financial services in Kwanza Division, Trans Nzoia County in Kenya targeting all banks and financial intermediaries operating within the precincts of Kwanza Division in Kenya as well as other International Development Assistance Organization that have initiatives to broaden financial inclusivity in Kenya e.g. USAID and Programme for Rural Outreach for Financial Innovations & Technologies (PROFIT) spearheaded by Government of Kenya with financial support for International Fund for Agriculture Development (IFAD). The study also interviewed beneficiary farming community to validate the extent to which the coefficients contribute to their financial exclusivity.

The study accomplished excellent response despite the challenges in delays to reach the four locations where the farming communities operate from given the wet weather conditions and rough roads. Besides, given the workload by most of the Bank staff, the researcher team were forced to leave the questionnaires for filling and return for collection which was time consuming and meant double work. Even still, the study targeted at least three respondents from each Bank which also elicited resentment that a few respondents from each bank was sufficient to give the Banks approach on credit delivery within the region. These notwithstanding, the organized groups made it possible to access to farmers and the fact that all banks were located within Kitale made it possible to re-visit the banks easily covering shorted distance and saving on time.

Financial inclusion is defined as the ability of an individual, household, or group to access appropriate financial services or products. Without this ability, people are often referred to as financially exclude. It is estimated that about 2.5 billion adults, just over half the world's adult population lack bank accounts. If we are to realize the goal of extending banking and other financial services to this vast "unbanked" population, we need to consider not only product innovations as microfinance and mobile banking, but also embrace issues of data accuracy, impact assessment, risk mitigation, technology adaptation, financial literacy, and local context, (Schoombee, 2000). Since 2003, there has been increasing pressure exerted to assist the development of the disadvantaged majority of the community living in poverty. The formal financial sector has a highly

critical and important role to play in this process. According to Schoombee (2000), it must somehow open up traditional banking services - deposit and credit facilities - to the poor.

According to Sherbut (2009), Commercial Banks traditionally do not serve low-income earners, micro-entrepreneurs and the poor (collectively referred to as the unbanked), this is mainly because of the high costs involved which make it unattractive (Schoombee, 2004). Whether simply the consequence of material poverty, geographic isolation or as a result of being perceived as “non-creditworthy”, many of the world’s low-income earners (particularly in rural areas) find themselves “unbanked” and without any recourse to the benefits of credit or secure deposit-taking facilities.

On Savings and product development, demand for savings services has helped transform the bottom of the pyramid into a competitive market space open to a wide range of new and dynamic players. New savings products have been developed across the financial institutions. Over the last ten years, commercial banks have been moving down market for different reasons; either to capture the unbanked or respond to the level of competitiveness in the banking industry. In line with Technology utilization, Kenya has established itself as a global technology pioneer through innovations in mobile money and agent banking that has enabled greater access to the poor. The growth and utilization of these technologies have fundamentally changed the way financial institutions are able to provide access to their financial services. These notwithstanding, significant population in rural settings have remained largely out of reach with important financial services necessary for their livelihoods enhancement.

Statement of the Problem

An economy cannot thrive on a small fraction of its citizens while excluding the majority of the population. In many developing countries, economic development is skewed towards a few rich people and regions while the larger population and regions especially rural set-ups are left out. With a huge rural population that is economically challenged on financial inclusion, it is indispensable to achieve sustainable growth of Kenya. According to Agarwal (2010), financial inclusion is needed for rural and downtrodden masses that are significant to the future growth engine of the economy. 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 & Jansen, 2011).

According to Michael Fuchs, World Bank Advisor on Finance and Private Sector Development, Africa Region, Global experience shows that less endowed segments of the population are best serviced by specialized institutions with a cost structure and business model adapted to their needs. As such, there could be high payoff from introducing a tiered licensing system that opens the market to institutions that can service unbanked and under banked individuals and small and microenterprises. Furthermore, reports (reference please) argue that the entrance of new banks has demonstrated how greater competition can enhance product choice and reduce customer choice. It is impossible to understate the importance of access to financial services for population groups that lack the resources both to escape from poverty and to contribute to economic activity, social cohesion, and political stability, (Moreno, 2007).

Businesses now face the challenge of both creating profits and meeting social needs. If business fails to meet this challenge, one is condemned to living in islands of wealth while swimming in a sea of poverty. Corporate Social Responsibility (CSR) has emerged

from traditional concept of profit maxima to an embedded practice as management values in the organizations. According to Weiss (2007), if a business succeeds; it can help to build a world that works for all. The challenge for financial institutions is how to address the concerns of unbanked and under banked customers and provide them with products that meet their needs within the context of the structure of each financial institution and the regulatory environment (Jacob & Tescher, 2005). According to Prahalad & Hart (2002), there is need for new approaches to capture the market including new ways of thinking about product and service offerings. In this regard, formal financial institutions can turn this market into a profitable venture in the long term by claiming, constructing and demarcating boundaries as market niches within the County, (Filipe, Santos, Kathleen and Eisenhardt, 2003), Stanford University, Survey on Constructing Markets and Shaping Boundaries as a strategy to market leadership and defensible position.

A number of the studies on the role of financial innovations which enhances financial inclusions and the growth of commercial banks exist locally and globally; for instance, Gitau (2011) studied relationship between financial innovations and financial performance of commercial banks in Kenya. Githikwa (2011) studied relationships between financial innovations and profitability of commercial banks. Kinuthia (2010) analyzed financial innovations in the banking sector in Kenya. Shalakha (2012) studied relationship between financial innovation and growth of commercial Banks in Kenya.

Financial inclusion is key to realization of economic goals not only in Kenya but also globally and remains relevant to economic development at all levels cutting across the developing, emerging and developed economies. Given that very little study has been conducted on factors affecting equitable access to financial services in Kenya, the study seeks to bridge the knowledge-gap by undertaking research on fundamental factors that impede on access to financial services.

Purpose of the Study

The general objective of the study was to establish factors affecting equitable access to financial services in Kwanza Division, Trans Nzoia County, Kenya. The study was guided by the following specific objectives to;

- i. Determine the effects of interest rate on equitable access to financial services in kwanza division, Trans Nzoia County, Kenya
- ii. Examine the effects of accessibility on equitable access to financial services in kwanza division, Trans Nzoia County, Kenya
- iii. Establish the effects of transaction cost on equitable access to financial services in kwanza division, Trans Nzoia County, Kenya
- iv. Assess the effects of creditworthiness on equitable access to financial services in kwanza division, Trans Nzoia County, Kenya

Significance of the Study

This study will be of great benefit to banking institutions in Kenya since it will outline underlying factors affecting equitable access to financial services in Kenya. It will provide the banking institutions and financial intermediaries with credible information necessary to help mitigate against the factors that have previously hindered them from effective delivery of financial services to critical mass especially in the rural setup. In this respect, the beneficiaries from the banking services may benefit from improved access to equitable financial services. It may also enhance financing mechanism and cash-flow for

the industries involved in agro-enterprises and Small and Medium enterprises (SMEs) in the region and within Kenya where new models are up-scaled to meet their financing business needs. SMEs have higher potential of economic growth estimated at 20% and provide employment opportunities, wealth creation, poverty eradication and enhanced livelihoods consistent with Millennium Development Goals and Government Medium Term Development Plans.

The development of the banks depends on several factors of which financial deepening plays a major role in the current banking sector. This study will ascertain the benefits of financial inclusion to banking institutions in Kenya. This will help in developing more innovative strategies of financing the unbanked population to enhance equitable access to financial services in Kenya. On the other hand, it will enhance better understanding of the banks on how to better approach the emerging market opportunities in the lower income earners and enhance their opportunity for ease and increase access to affordable credit.

The study is important to the government in identifying policy gaps and guide on developing policy framework consistent with financial inclusion strategies. Due to knowledge gained by most applicants through the study, they will comfortably embrace financial inclusion and this will lead to high returns to most of banks and high tax return to the government. It will also be significant to the researchers and scholars as it will form a background reference for future studies and contribute to the existing knowledge of literature.

Scope of the study

The study sought to establish the factors affecting equitable access to financial services in Kwanza Division, Trans Nzoia County, Kenya. The study targeted employee of various financial institution in kwanza division, Trans Nzoia County, Kenya. The study sampled 60 employees from the representative financial institutions operating in Kwanza Division and 50 beneficiary community, interview 5 employees working with USAID, who support financial inclusion. The researcher also interviewed Programme Manager or representative of Kenyan microfinance flagship Programme, Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) mandated to enhance rural financial services to the unbanked in Kenya. The researcher believes the above provided adequate sample size for the study.

Conceptual Framework

According to Mugenda and Mugenda (2003), conceptual framework is a scheme of concept (variables) which the researcher operationalizes in order to achieve the set objectives. A variable is a measure characteristic that assumes different values among subject, Mugenda & Mugenda, (2003). Independent variables are variables that a researcher manipulates in order to determine its effect of influence on another variable, (Kombo & Tromp 2006), states that independent variable also called explanatory variables is the presumed change in the cause of changes in the dependent variable; the dependent variable attempts to indicate the total influence arising from the influence of the independent variable Mugenda & Mugenda, (2003). This is illustrated in figure 2.1 below showing the two types of the variables.

According to Wilkins (2007), Grameen Model a Microfinance initiative is founded on the premise that the poor have plenty of underutilized skills that are potential for community resources. There is need for the commercial banks and other financial intermediaries to transform their marketing strategies from product orientation to marketing orientation driven by customer knowledge and demands. On the same context, the commercial banks should adopt value chain approaches to enhance their competitiveness in the industry harnessing their resources integrating Firm infrastructure, inbound logistics, operational

efficiency, outbound logistics, marketing and services to claim, demarcate and control their niche market. Financial management constitutes a branch of economics that focuses on value or wealth maximization, cash-flows, risks, instruments for transfer of money and credit and mainly concerned with; links markets with sources of funds for investing and financing activities, healthy equity ratio balancing credit and shareholder capital and dividend decisions to give value for money to the shareholders.

Independent variables

Dependent variable

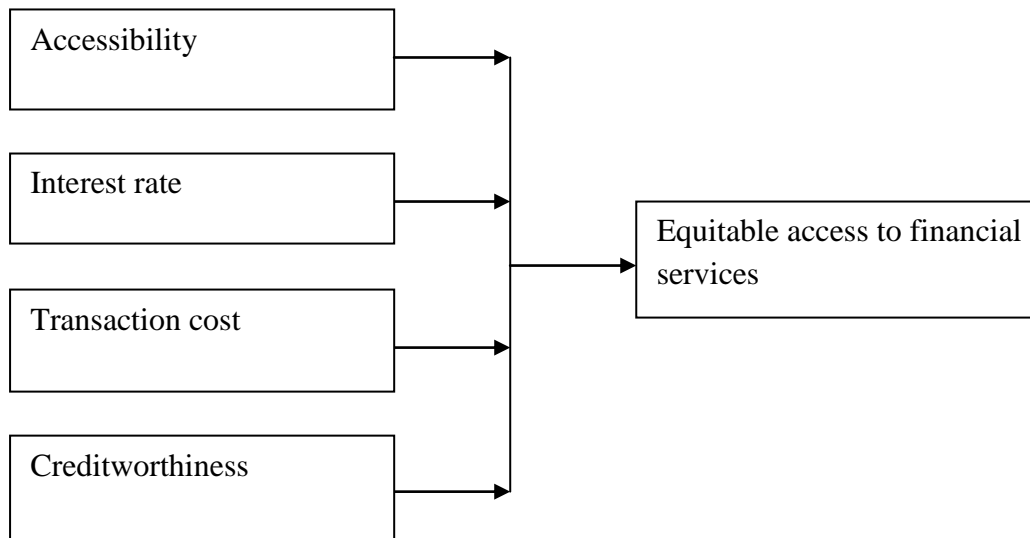


Figure 1: Diagram depicting relationship between theory, independent and dependent variable

Literature Review

This chapter elicited relevant literature required to find answers and connect to our research objective. First, a review of theories that guided this study presented to give the research a firm theoretical base. Based on the information gap, empirical study was conducted on this research topic making it easier to understand and build on the research area.

Theoretical Review

The Grameen Model

The Grameen Bank is a microfinance organization and community development bank that makes small loans to the poor without requiring collateral. The bank, which started in Bangladesh, is based on the idea that the poor have many underutilized skills that are potential community resources (Wilkins, 2007). According to Auwal (1996), The Grameen Bank is an organization of microenterprises for, of, and by the poor. The idea behind the Grameen model is that the poor obtain small loans to support income generating activities, from which they can generate sufficient income to repay the loan.

The lending is not collateral-based, but is based on the credit-worthiness of the group of co-borrowers. Prior to loans being granted, groups of borrowers are trained on the bank’s rules and regulations, as well as on making of key decisions. Borrowers are also taught how to sign their names and how to use the loans (Wahid & Hsu, 2000). The goal of Grameen Bank is to empower the poor, especially women, to “improve their socio-economic conditions in an environmentally sound, sustainable manner” (Auwal, 1996).

Empirical Review

Accessibility

Access to basic banking services in Sub-Saharan Africa remains limited, and lags far behind even other parts of the developing world. Chaia, Gardener and Molyneux (2009) combine a number of data sources to estimate that only about 20% of households in Sub-Saharan Africa were banked in the early 2000s. While there has been some progress in recent years, Kendall, Nair, Parsons and Urdapillet (2010) obtain similar results using more recent data. While developing countries have only 28% as many bank accounts per adult as do developed countries, the figure in Sub-Saharan Africa is far lower (only 16%). Lack of access is particularly acute in rural areas: representative household survey data collected between 2009 and 2011 suggest that only between 15 and 21 percent of households are banked in rural areas of Kenya, Malawi, and Uganda, respectively, (Crépon, Wahid and Hsu, 2011). Such limited access could potentially have important repercussions on people's lives.

Interest Rate

The interest rate on microfinance credit should be calculated at the base of these combinations of costs: Interest rate = Administration cost+ Cost of capital+ Cost of default (Johnson, 2007). Poor people and the females are oftenly more sensitive to price than other people. Decreasing the interest rate increases the demand of loan by the poor and the females (Karlan & Zinman, 2008). Policy makers expressed that caps in interest rate may reduce the access of poor people to financial services (Helms & Reille, 2004).

Transaction Cost

The transaction cost is another obstacle for the poorer to getting loans. The growth of sound microcredit or microfinance policies highlight the path of a better approach to solve the weakness of the poor in rural and poor areas to move out of deficiency. The high interest rate and the high transaction cost render it difficult task for the farmers in those areas where information cannot be conveyed immediately and appropriately, that's why the farmers and others are not receiving loans to support their work. The transaction cost includes the boring and lengthy paper work, practice loan process connected with formal loans (Foltz, 2004), securities risk (Boucher, Robbins and Contreras, 2007), incomplete information, the political reasons (Zander, 1994) and also the accessibility of formal credit institutions. (He, 2007) have recognized these as important obstacles for the demand of the formal credit markets. In Kwanza Division, Trans Nzoia County, all the Banks are location in Kitale, the County Headquarter.

Creditworthiness

Trustworthiness and creditworthiness are nearly synonyms. The purpose of financial intermediaries is not only providing the money but also establishing the confidence on the borrower's skill of using the money in effective way and also paying back the principle plus the interest to lender after the achievement of investment projects (Becchetti & Conzo, 2009). Derban et al. (2005) found that the demand of credit can be affected by the creditworthiness of borrower in such a way: first, inherent borrower's characteristic and his business may make it doubtful in repayment of loan.

Research Gaps

Empirical studies done in Kenya include; Gitau (2011) who studied relationship between financial innovations and financial performance of commercial banks in Kenya. Githikwa (2011) studied relationships between financial innovations and profitability of commercial banks. Kinuthia (2010) analyzed financial innovations in the banking sector in Kenya. Shalakha (2012) studied relationship between financial innovation and growth of commercial Banks in Kenya. Financial inclusion is key to realization of economic goals not only in Kenya but also globally. From the literature review, most of the studies conducted have focused on innovations, technology adaptation, and supply chain improvement to ensure improved performance of the commercial banks.

Research Methodology

Research Design

This study adopted a descriptive design. According to Bryman (2001), descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. It is designed to gain more information about variables within a particular field of study. Its purpose is to provide a picture of a situation as it naturally happens (Burns & Grove, 2007). This descriptive research design was adopted because the study is seeking to describe a one variable in a population. The objectives were stated clearly and a clear definition of the population is given. The instruments for data collection were tested for validity and reliability which is necessary for descriptive studies (Kothari, 2004).

Population

The population of interest of this study will be financial institution in Kwanza Division. Currently, there are 10 financial institutions operating in Kwanza Division, Trans Nzoia County in Kenya. The study being a survey implies that data will be collected from all the 10 financial institution operating in Kwanza Division, this therefore means that census method will be used. According to Ngechu (2004), a population is a well-defined or set of people, services, elements and events, group of things or households that are being investigated. This definition ensures that population of interest were not homogeneous. Population studies also called census are more representative because everyone has equal chance to be included in the final sample (Mugenda & Mugenda, 1999). The study also targeted 50 beneficiaries from the financial institution, 5 employees working with USAID, representative and from PROFIT Programme and 138 employees who are working with 10 financial institution operating in Kwanza Division as tabulated in the table below;

Table 3.1 :Target population

Bank	Managers	Staff	Target Population
Equity bank	3	17	20
KCB bank	3	15	18
Eco bank	2	6	8
Standard chartered	3	11	14
Barclays	3	14	17
Cooperative Bank	3	12	15
National Bank	3	13	16
Family Bank	2	7	9
CFC Stanbic	2	9	11
Kenya Women	2	8	10
Total	26	112	138

Source, Human Resource Department (2014)

Sampling Frame

A sampling frame is a complete list of all the members of the population that we wish to study (Kothari, 2004). The sampling frame for this study will be the list of employees working in all the departments and sections of the bank's branches in the region. The total number of financial institutions operating in Kwanza Division is 10. The study used purposive sampling to select all respondent from Finance and Operation departments of each financial institution operating in Kwanza Division, the study had 60 respondents from commercial banks, 50 beneficiaries, a representative from PROFIT Programme and 5 employee of United States Agency for International Development (USAID), Financial Sector Deepening (FSD) who consulted during data collection.

Table 3.2: Sample Population

Bank	Managers	Sample (100%)	Staff	Sample (30%)	Sample Population
Equity bank	3	3	17	5	8
KCB bank	3	3	15	5	8
Eco bank	2	2	6	2	4
Standard chartered	3	3	11	3	6
Barclays	3	3	14	4	7
Cooperative Bank	3	3	12	4	7
National Bank	3	3	13	4	7
Family Bank	2	2	7	2	4
CFC Stanbic	2	2	9	3	5
Kenya Women	2	2	8	2	4
Total	26	26	112	34	60

Source, Author (2014)

Data Analysis and Presentation

Before processing the responses, the completed questionnaires were edited for completeness, accuracy and consistency. Quantitative data collected were analyzed by the use of descriptive statistics using SPSS (Version, 22) and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS to communicate research findings.

Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. This study was keen to establish factors affecting equitable access to financial services in Kwanza Division, Trans Nzoia County, Kenya. The study also used one way ANOVA to test the level of significant of the variables on the dependent variable at 95% level of significance, the one way ANOVA was used to test whether or not there exist any significant difference between the study variable when testing the null hypothesis. In addition, the study conducted a multiple regression analysis. The multiple regression equation was

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where Y is the dependent variable (Equitable access to financial services), β_0 is the regression constant, β_1 , β_2 , β_3 , and β_4 are the coefficients of independent variables, X_1 is accessibility, X_2 is interest rate, X_3 is transaction cost and X_4 is credit worthiness.

Summary Of Findings Conclusion And Recommendations

Summary of the findings

Interest rate

Regarding the critical research question on the effect of Interest rates on access to financial services in Kwanza Division, Trans Nzoia County in Kenya, The study established that interest rate affect equitable access to financial services to a great extent. The interest rates charged on the microcredit loans is higher than other loans. This is because of fees and commission charged by the micro finance institutions, the effective rate of interest is high, capital in interest rate may reduce the access of poor people to financial services, if the interest rate is low, it increases the depth and range of accessibility of funds affordable for the poor households, the study also established that repayment frequency of loan, system used for collecting the repayment and the necessary deposit required for getting the loan raises the effective rate of interest.

On the other hand, Commercial Banks base their interest rates on volume of transactions and smallholder enterprises usually require low volumes of credit invariably attracting higher interest rates. While the majority of the respondents agreed that interest rates have significant effects on access to financial services, 25.6% of the respondents were of the contrary opinions. These are mostly the banks that are currently engaged with value chain financing mechanisms supported by International agencies and government initiatives that have reduced the interest rates for input supplies to between 13-18%. Equity Bank pioneered Kilimo Biashara Guarantee Loan Scheme which enabled equity to advance loans to smallholder farmers organized in groups at a guarantee scheme at interest rates of 13-18% which is lower than other traditional lending rates. To this end, they are of the opinion that interest rates moderately and to little extent affect access to financial services.

The study also established that there is sustained Government effort to spearhead financial sector deepening by instituting a National Flagship Programme for (PROFIT) which builds capacity and financial resources to Financial Intermediaries to better serve the unbanked as well as sustained effort to consolidate the SMEs into County commodity Enterprises producer and marketing groups to access market as a unit and to share cost of production to increase profitability. Some of the Enterprises that have been institutionalized and registered at County Levels are; Dairy, Local Poultry, Apiculture and other agro-enterprises. Government of Kenya through co-financing from the World Bank is implementing a five-year project Kenya Agricultural Productivity and Agribusiness Project in 20 Counties in Kenya promoting 110 agricultural commodities.

Trans Nzoia County is one of the beneficiary county promoting five commodity value chains and has since organized Community Interest Groups (CIGs) into a County registered Cooperatives. One of the Cooperatives, Kapsituet Ogilgei Farmers' Cooperative Society operating under the scheme initiated a new model of value chain financing with Trans National Bank where there is an arrangement between the Cooperative, The Bank and Milk Processor in Kitale. In this arrangement, the farmers consolidate the products; supply the processor as a unit and the Bank pays the farmers and demand payment from the processor. The paradigm shift is the geared towards ensuring sustainable cash-flow to the smallholder farmers to access farm inputs as well as mitigate against the risk of losses to the farmers as experience with the Kenya

Cooperative Creameries which failed to pay farmers millions for the milk delivered. The benefit is also derivable to the processor whose cash-flow is not affected by since the bank makes advance payment to the farmers on monthly basis for the products delivered to the processor.

Access to information

The study revealed that access to financial information affects equitable access to financial services to a great extent, the gap of incomplete information for credit is a main obstacle to providing social capital through its peer screening effects, peer monitoring effects and the peer security effects, the rural poor have usually little knowledge about from where to get credit for their output actions the rural poor have usually little knowledge about from where to get credit for their output actions as lack of access to credit by those areas where poor rural households are living have negative impact for agricultural and non-agricultural output creation and for the benefit of family circle, due to lack of entrance of credit information, the range of the scared market by existing financial institutions is large, the study also established that poor people in the rural areas, more often than not have minute knowledge regarding where to obtain credit for their farming activities.

Information on where to access credit, critical requirements which inform the Banks approval relating to character, ability to repay, purpose of the loan and business experience requires to be clearly articulated to potential borrowers in order to enhance their capacity to meet bank requirements as well as reduce the magnitude of loan denied which effectively discourage other potential borrowers as well as harmonize understanding on criteria for creditworthiness

Transaction cost

The research determined that transaction cost affects equitable access to financial services to a great extent, the accessibility of formal credit institutions may act as an obstacle for the demand of the formal credit markets. Other related cost are mostly less quantifiable but are my taken in consideration by the borrower while deciding where to obtain the loan, it is therefore necessary to give attention to other cost such as the borrower's transaction cost which encompass the transportation cost, time spent away from their own business and the impact of delay in getting the loans. The high interest rate and the high transaction cost have made it difficult for the farmers in those areas where credible information are not communicated promptly and appropriately to obtain loans for their investment needs especially the input supplies and pasteurizers for the dairy farmers and incubators for the poultry farmers. The study also established that high transaction cost give a tough task for the farmers in areas where information delays or does not reach properly, the transaction cost takes in boring as well as lengthy paper work, practice loan process associated with formal loans and that it is essential to give consideration to other costs such as the borrower's transaction cost, which includes the transportation cost and time

Creditworthiness

The study revealed that creditworthiness affects equitable access to financial services in Kenya to a great extent, a lender who has confidence in the long-term financial strength of the borrower, and in the ability and willingness to pay his obligations in full and on time, will regard that borrower as creditworthy, a good credit history in the last few days could get an organization in a more attractive interest rate on the loans whilst a bad one

would mean higher interest rates, lenders and investors need a way of assessing how risky their loan might be, and a simple scale be developed to indicate the relative creditworthiness of potential borrowers, demand of credit can be affected by the creditworthiness of borrower in such a way. Inherent borrower's characteristic and his business may make doubtful in repayment of loan; the purpose of financial intermediaries is not only providing the money but also establishing the confidence on the borrower's skill of using the money in effectively.

From the study, it can be deduced that access in terms of improved infrastructure and appropriate information is critical for reducing the gap between the borrower and the lender in terms of harmonized understanding on critical characteristics considered by the banks to grant credit as well as understanding the plight and aspirations of the borrowers. Majority of the farmers and SMEs have limited entrepreneurial skills, financial management skills, established institutional frameworks for prudent business management and therefore are not capable keeping proper records for which the banks may determine their historical growth upon which to grant credit, Most of the enterprises are household and lacks systems for prudent business management which portends a great risk for the commercial banks. The study established that there is a paradigm shift in which most of the enterprises especially agro-enterprises are being organized into Common Interest Groups and cooperative movements to consolidate production and marketing efforts demarcating and controlling their markets in order to cut costs and increase profit margins as well as manage brokerage which have been exploitative to smallholder farming communities over decades.

Conclusions

The study established that the current interest rates charged on loans are high and this reduces the access of poor people to financial services, thus the study concludes that high interest rates had a negative impact on equitable access to financial services in kwanza division, Trans Nzoia County, Kenya

The research established that lack of access to credit information by people living in poor rural households have a negative impact on agricultural output creation and for the benefit of family therefore the study concludes that limited access to financial information had a negative effect on equitable access to financial services in kwanza division, Trans Nzoia County, Kenya.

The research revealed that it is necessary to give attention to other costs such as the borrower's transaction cost which contain the transportation cost, time spend away from their own business and the badly impact of delay in getting the loans, thus the research concludes that the cost incurred by the applicant in loan processing had a negative effect on the equitable access to financial services in kwanza division, Trans Nzoia County, Kenya

The study established that lenders and investors need a way of assessing how risky their loan might be, and a simple scale should be developed to indicate the relative creditworthiness of potential borrowers, thus the study concludes that poor assessment of applicant's creditworthiness had a negative impact on equitable access to financial services in kwanza division, Trans Nzoia County, Kenya

Recommendations

Based on the findings above the study recommends that; there is need to implement low interest rates loans; this will facilitate smooth and orderly repayment of the loan without

subjecting the borrower to financial crises. The study recommend that there is need to adopt the use of technology, which will help to shorten the time taken to process the requested amount as well as other cost that the applicant may incur making follow-ups. The Banks may also contribute to group cohesiveness to consolidate Common Interest Groups (CIGs) and cooperatives in order to strengthen SMEs and smallholder agro-based enterprises as an institution rather than individual members. This will increase the volume and reduce interest rates.

All loan applications presented to the credits officer must undergo the required steps before approval is done. It is very important that credits manager gets to assess the application keenly in order to establish the substantiality of the reasons given for the requested amount. Proper verification process will also enable the bank clarify on the credit worthiness of the borrowers' and ability to repay. The initiative to consolidate into cooperatives is a positive move which will enable target the borrowers as a group rather than individuals, prompt and credit information will also be channelled through groups which will make it easier and cheaper for the Banks to assess more with limited efforts and lower costs which have ripple effect on interest rates and volume s of loans requested. The evaluation of loan requests should be based on Institution with members cushioned from individual character assessment but capacity built at institutional level. Cooperative Institutions have better institutional frameworks and supports the individuals to access credit facility as an institution while they maintain individual accounts with the banks. Over the period, some individuals will develop credibility with the banks and will be able to access individual loans based on success of their businesses and credit history.

It is also important that the bank start advisory services to clients seeking to get loans; this will help to equip the customers with relevant business ideas which can make them qualify for loans. Regarding transaction costs, the Banks should also adopt the approach targeting the groups and cooperative movements which will reach fewer cooperative representatives more promptly and reduce transaction costs for the members.

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