A STUDY ON THE NEW APPROACHES OF FINANCIAL INCLUSION AND THE IMPACT THEY HAVE ON SMALL BUSINESSES IN KIKUYU TOWN

By

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UNITED STATES INTERNATIONAL UNIVERSITY

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NDUNG’U WAMBUI

A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY
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STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ___________________________  Date: ___________________________

Wambui Ndung'u (ID No: 627388)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________  Date: ___________________________

Mr. Samuel Wainaina

Signed: ___________________________  Date: ___________________________

Dean, Chandaria School of Business
A B S T R A C T

The general objective of this study was to determine the role of the new approaches of financial inclusion and the impact they have on small businesses. The study was guided by the following objectives: To evaluate the new approaches of financial inclusion to small businesses, to evaluate the role of the new approaches in financial inclusion to the small businesses, and to determine the challenges faced by small businesses when adopting the new approaches.

A descriptive research design was adopted into this study. According to Kikuyu Sub-County, there were 1,500 SMEs in Kikuyu town in 2014. The sampling frame was made up of all 1,500 SMEs in Kikuyu town. The study used stratified sampling technique. A 95% confidence level was used to determine a sample size of 316 respondents from a target population of 1,500 SMEs. Questionnaires were used to collect primary data after a pilot test. The data was described using conducted using mean, frequency distribution, and percentages. Inferential statistics such as correlation analysis was used to discover if two variables are related. The data was presented in tables and figures.

The findings revealed that most of the respondents suggested that Mpesa was one of the most popular new approaches to financial inclusion among small businesses adopted in a great extent. This was followed by agent banking as this made it the second popular financial inclusion. M-Shwari was the third revolution of financial inclusion. Internet banking was the fourth used financial inclusion. Payback also provided banking solution in the eyes of the platform. e-Pay also offered fast, reliable money transfers from the convenience of the customers and the best popular financial inclusion was the newly introduced bank@smart which no one used at all.

The findings on the role of new approaches in financial inclusion suggest that agent banking helps facilitate business savings and build their financial assets. The use of M-PESA reduced the cost in accessing financial services. This can attract poor small businesses adopt the financial services. e-Pay reduced the cost of doing business cost in accessing financial services. This means that lower transaction cost using e-Pay facilitates business savings critical for emergencies. The findings revealed that internet banking has...
made business transactions to be faster and efficient. M-Shwari helps facilitate business savings. On the other hand, PesaMob has made business transactions to be faster and efficient to a great extent. This indicates that PesaMob technology can take new financial products and services to a new scale by making business transactions to be faster and efficient.

On the challenges faced by small businesses in adopting new approaches, the high cost of conducting small transactions and inadequate in agent banking make entrepreneurs shun away from using new financial approaches. The challenge presented in using M-PESA revealed that there was lack of clear information and adequate cash to meet the customer needs. M-Pesa was also affected by inadequate cash to meet customer requests. The cost of conducting small transactions in internet banking made the entrepreneurs shun away from using the services. The lack of credible information and inadequate cash to meet customer requests and the lack of credible information, is using the financial services. The challenge of PesaMob also led to the lack of credible information and the costs of conducting small transactions made entrepreneurs shun away from using the new financial approaches.

The general objective of the study was to determine the role of new approaches of financial inclusion and new financial services to small businesses. The specific objectives of this study were to evaluate the new approaches of financial inclusion to small businesses and evaluate the role of new financial services to small businesses and determine the challenges faced by small businesses in adopting new approaches.

The study adopted a descriptive approach of new approaches to financial inclusion to small businesses. According to CBS, ICEG and KRA Baseline surveys, the average number of SMEs in Kikuyu town in 2014 is 1,500. Using a sample size of 316, the study aimed at investigating challenges faced by small businesses in adopting new approaches.

The study used a descriptive approach of new approaches to financial inclusion in small businesses. According to CBS, ICEG and KRA Baseline surveys, the average number of SMEs in Kikuyu town in 2014 is 1,500. Using a sample size of 316, the study aimed at investigating challenges faced by small businesses in adopting new approaches. The general objective of the study was to determine the role of new approaches of financial inclusion and the costs of conducting small transactions made entrepreneurs shun away from using the new financial approaches.
Presented in the form of tables and figures based on the research questions, and was analyzed using Statistical Package for Social Sciences (SPSS).

M-PESA is one of the first and most famous new approaches in Kenya. The new financial approach also has a diverse network of agents. Agent banking was the second popular financial inclusion. A number of individuals and businesses located in remote and rural areas of Kikuyu sub-county have adopted agent banking where there is lack of traditional networks. M-Sheria was the third revolution of financial inclusion. Grants were among the least popular financial inclusion. On the other hand, the least popular financial inclusion was the newly introduced biashar@smart. This platform is yet to be utilized by the small business entrepreneurs in Kikuyu sub-county as it is aimed to meet the needs of SMEs.

Savings can ensure enough financing for capital accumulation, help to balance books of accounts and expand investment. Agent banking and M-Sheria help facilitate business savings. For low income individuals, savings can allow people to grow businesses, build assets and reduce their likelihood of suffering from shocks such as natural disasters, droughts or sickness. Financial and non-financial seek to invest in innovative financial linkages that help to lower the risk for businesses. M-PESA and e-Pesa reduce the cost in accessing financial services. Reduced cost of transacting also acts as a customer protection initiative. Reducing the cost of transacting using the innovative financial products and services significantly encourages people to continue and increase the amount of money that they save. Technology can take new financial products and services to a new scale. Internet banking and Pesant Mobile made business transactions to be faster and efficient.

Untrained financial providers is a challenge for small businesses adopting new approaches. Lack of proper training, efficient guidance, proper people in processing fraud and challenges for new financial approaches indicate that fraud is a major concern for M-PESA users. Evidence also
shows that poor financial literacy represents a significant barrier to accessing and properly using formal financial services. Poor financial literacy also limits people’s capacity to be aware of financial opportunities, make informed choices, and take effective action to improve their financial well-being.

In conclusion, M-PESA is one of the first and the most famous new approaches of financial inclusion in Kenya. Most of the new approaches in financial inclusion (M-PESA, agent banking, M-Shwari, PayMob and ePay) enabled the small business enterprises in Kikuyu sub County to save for capital accumulation. Untrained financial providers was a challenge for small businesses in adapting new financial approaches. Financial approaches that enabled enough financing for capital accumulation for individuals and business. Financial approaches were a challenge for small businesses in adopting new financial approaches.

Based the recommendation of this study, the study recommends other new financial approach such as kashfeed smart can have a diverse network of agents to serve needy individuals and businesses for the market under served by traditional banks. All financial inclusion approaches should help facilitate business savings for growth, build assets and reduce their likelihood of suffering from shocks such as natural disasters, droughts or sickness from the owners.

The study recommends that the government should support the development of new financial approach and channel funding to individuals and businesses through formal financial savings for the market under served by traditional banks. The study recommends that financial savings should facilitate business savings for growth, build assets and reduce their likelihood of suffering from shocks such as natural disasters, droughts or sickness from the owners.

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I wish to express my heartfelt appreciation and gratitude to all the many people that contributed to the completion of this project, including those that provided responses but have preferred to remain anonymous. First, I had a great fortune to study under inspiration of the entire faculty in their respective fields, and on the research component under the supervision of Mr. Samuel Wainaina. I am grateful for their guidance and encouragement. Your shared knowledge and interaction gave me the opportunity to broaden my knowledge and to make progress. Special thanks are due to my family for their ever-present love, understanding and support, as I ventured into this academic adventure. Thank you for bearing with me, without the above, it is debatable how much of this would ever have happened.
DEDICATION

I dedicate this piece of work to my beloved family members.
# TABLE OF CONTENTS

**STUDENT'S DECLARATION**

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**DEDICATION**

**LIST OF TABLES**

**LIST OF FIGURES**

## CHAPTER ONE

1. **INTRODUCTION**
   1.1 Background of the Study
   1.2 Statement of the Problem
   1.3 General Objectives
   1.4 Specific Objectives
   1.5 Finalization of the Study
   1.6 Scope of the Study
   1.7 Definition of Terms
   1.8 Chapter Summary

## CHAPTER TWO

2. **LITERATURE REVIEW**
   2.1 Introduction
   2.2 Role of New Approaches in Financial Inclusion in Small Businesses
   2.3 Challenges faced by Small Businesses when Adopting the New Approaches
   2.4 Chapter Summary

## CHAPTER THREE

3. **RESEARCH METHODOLOGY**
   3.1 Introduction
   3.2 Research Design
   3.3 Population and Sampling Design
   3.4 Data Collection Method
   3.5 Data Analysis Method
   3.6 Chapter Summary

## CHAPTER FOUR

4. **RESULTS AND FINDINGS**
   4.1 Introduction
   4.2 General Information
   4.3 New Approaches of Financial Inclusion in Small Businesses
   4.4 Challenges Faced by Small Businesses in Adoption of the New Approaches
   4.5 Chapter Summary


<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Chapter Summary</td>
</tr>
<tr>
<td>4</td>
<td>Results and Findings</td>
</tr>
<tr>
<td>4.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>4.2</td>
<td>General Information</td>
</tr>
<tr>
<td>4.3</td>
<td>New Approaches to Financial Inclusion to SMEs</td>
</tr>
<tr>
<td>4.4</td>
<td>Role of New Approaches in Financial Inclusion</td>
</tr>
<tr>
<td>4.5</td>
<td>Challenges Faced by SMEs in Adopting New Approaches</td>
</tr>
<tr>
<td>4.6</td>
<td>Chapter Summary</td>
</tr>
<tr>
<td>5</td>
<td>Discussion, Conclusion and Recommendations</td>
</tr>
<tr>
<td>5.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>5.2</td>
<td>Summary</td>
</tr>
<tr>
<td>5.3</td>
<td>Discussion</td>
</tr>
<tr>
<td>5.4</td>
<td>Conclusion</td>
</tr>
<tr>
<td>5.5</td>
<td>Recommendations</td>
</tr>
</tbody>
</table>

References

Appendix A: Introductory Letter

Appendix B: Survey Questionnaire
Table 4.19: Challenges Faced by Small Businesses in Adopting M-Shwari

Table 4.20: Challenges Faced by Small Businesses in Adopting PesaMobi

Table 4.21: Correlation between Financial Inclusion and its Challenges
LIST OF FIGURES

Figure 4.1: Gender ..............................................
Figure 4.2: Level of Education ................................
Figure 4.3: Business Income Level per Month ...........
Figure 4.4: Business Asset Level per Month ...............
Figure 4.5: Business Ownership Status ...................
Figure 4.6: Current Situation of Enterprise ...............
Figure 4.7: Sector of the Industry ...........................
Figure 4.8: Source of Business Capital Start-Up .........

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24
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Ayagari, Demirguc-Kunt, and Maksimovic (2006) indicate that small business financing is a major hindrance for the growth and survival of the enterprises. A finance gap exists where there is demand for finance but no supply. This implies that a viable business proposition may exist which are never developed because they are considered to be unbankable business propositions. This shows that there is a significant gap in the provision of financial services to the small businesses. Financial institutions offer products and services to consumers that perceive to meet their needs and other consumers may not be aware of the availability of the financial services. Access to financial services is a powerful means of reducing poverty by reaching the un-banked and under-banked population as a core objective of financial policy. In order to attain this goal, there has to be a link between formal and informal financial sectors to enhance financial service delivery.

According to the United Nations, approximately three billion people around the globe lack access to formal financial services, such as bank account, credit, insurance, a safe place to keep saving and a secure and efficient means to receive social benefit payments, through a registered financial institution (Chibba, 2008). This sizeable population of the world particularly poor, low income and vulnerable group remain excluded from the most basic financial services provided by financial sector. It has been universally accepted that developing financial sector and improving access to financial services accelerate economic growth and helps to achieve inclusive growth. In this case, financial services need to have specific strategies to expand the outreach of their services in order to promote financial inclusion.

Joshi (2010) describes financial inclusion as the process of provision and ensuring timely access to a range of financial products and services at affordable costs by sound institutions in a fair and transparent manner to all sections of the society especially to the vulnerable groups such as weaker sections (SMEs) and low income groups (Individuals). SMEs can be defined as a formal registered enterprise that have employed between 5 to 150 employees, the turnover is below US $ 5 million, the net assets are below US $
100,000 and financial requirements are between US$ 5,000 and US$ 500,000 (FSD, 2007). Financial services play an important role in small business development and economic growth. An inclusive financial system allows small business to have a smooth business operation and secure against economic fluctuations brought about by uncertain market environment, theft, competition or accidents. It enables small businesses to save and borrow to build their assets and improve their entrepreneurial investments for survival. Inclusive finance is particularly important to disadvantaged small businesses. For these reasons, financial inclusion has gained prominence in recent years as a policy objective to improve the performance, growth and survival of small businesses (Ndubbio, 2004).

According to Kempton, Atkinson and Pilleteri (2004), financial inclusion can be measured through three basic dimensions: banking penetration, and availability of the banking services and usage of banking system. The variables include the size of the banked population in terms of the proportion number of people having a bank account which is a measure of the banking penetration of the system; number of branch per 1,000 km²; number of bank ATM per 1,000 km²; average size of loan to GDP per capita; number of deposits per 1000 people; average size of deposits to GDP per capita and total deposits as a percentage of GDP. Financial inclusion is also measured by the number of bank accounts held by the weaker sections such as SMEs and the amounts borrowed by them.

It is widely believed that financial inclusion provides formal identity, access to payments system and deposit insurance, and many other financial services. Universally, it is accepted that the objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its range the people with low incomes (Cohen, 2002). Inclusive financial systems allow producers and households to smooth their production and consumption of goods and services through which income is generated in an economy. Thus, financial inclusion drives income generation through increasing productive capacity especially among those without assets to start with and facilitates inclusive growth. The ever-reaching and cross-cutting nature of financial inclusion has made it one of the main pillars of the development agenda (Wainaina Kandie, 2011). In this regard, the financial sector is expected to play a
vital role in mobilizing the substantial resources required to finance the development of
small businesses.
Financial inclusion has a number of benefits. Financial inclusion contributes to new
knowledge in the field of finance (Levine, 2005) and this leads to the development of an
effective financial system that may lead to economic development as well as the
alleviation of poverty alleviation (Beck, Demirgüç-Kunt, and Levine 2000 and Honohan,
2004). Poor financial market imperfections that are composed of informational
asymmetries, high transactional costs are associated with small entrepreneurs who have
poor access to finance due to poor collateral, credit histories and network (Golec and
Rajan, 1995). Second, financial inclusion may lead to economic growth and development
of new enterprises with creative destruction (Klepper, Laeven and Rajan, 2004).

The importance of financial inclusion has been recognized in several ways. The first
argument builds on the theoretical and empirical research on the role of
entrepreneurial finance in productivity growth (Baker, Bloom, and Davis 2016). Second,
entrepreneurial finance is a critical component of economic development as
observed by Galor and Zeira 1993 and Galor, Levine and Zingales 2002. Competition
among enterprises, particularly small ones, is particularly binding on poor or
small entrepreneurs who lack collateral, credit histories, and connections. Without
broad access, such credit constraints make it difficult for poor households or small
entrepreneurs to finance high-return investment projects, reducing the efficiency of
resource allocation and having adverse implications for growth and poverty
reduction (Golec and Rajan 1995).

Several channels through which financial development fosters economic
growth are important to consider. First, it provides access to the necessary financial
services, including external finance. Access to finance for large parts of the population
is thus seen as important in expand opportunities and assure a thriving private sector with
efficient distribution of resources (Rajan and Zingales 2003). Financial inclusion has
disproportionately adverse consequences for the poor, who have credit requirements but
few assets that can serve as collateral. They are thus shut out of formal finance markets.
Poorest households depend mainly on expensive informal or non-institutional sources.
The government of Kenya through CBK is among the most active in the developing countries in efforts to enhance financial inclusion. In Africa, Kenya is second after South Africa in terms of financial inclusion (National Financial Access Survey, 2009). The financial system in Kenya has grown rapidly over the years. Though Kenya is the largest in East Africa, it has failed to provide adequate access to banking services to the majority of her population and lending is skewed in favour 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 (Bek, Cull, Fuchs, Getenga, Gatere, Randa and Trandafir, 2010). This data demonstrates that there is exclusion and that the poorer section and weaker sector of the society, who are found in rural and arid and semi-arid areas have not been able to access adequately financial services.

Another study in Western Province of Kenya by Dupas, Green, Kates 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 entered, 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. Mutua and Oyugi (2007) also indicated that Kenya rural financing programmes have a positive impact on poverty reduction among the poor. The study also revealed that the saving mobilization of the rural poor, utilization potential and their unique banking needs have not been exploited and catered for adequately.

Financial inclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counselling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with microfinance institutions and local communities. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas. Various initiatives have also been undertaken to enhance financial inclusion through agent banking and licensing of
deposits taking microfinance institutions. In addition, the central bank of Kenya has been working on getting the formal and informal financial sector to support savings and investment growth of small businesses (Vision, 2030).

1.2 Statement of the Problem
There are various researches which have been carried out on financial inclusion. However, most documentation of finance gaps for SMEs has been carried out in advanced economies (Ratt, 2005; BOE, 2008, 2006; Bolton, 1971; Cole et al., 2006). These reports indicate that small businesses have problems accessing capital as they experience market failures or credit rationing (Stenoy, 1994). If SMEs cannot access business finance, then personal finance may be used in the form of credit cards, mortgages and personal loans.

The existence of a finance gap suggests that mainstream financial institutions are reluctant to lend to small businesses that do not have the right business track record, lack collateral or are considered high risk from the perspective of lenders trying to minimize risk and maximize profit. As none of these studies has given due consideration on the role of the new approaches of financial inclusion and the impact they have on small businesses in Kenya, the current study aimed to pursue the same.

Many viable firms experience problems in accessing finance from mainstream financial institutions as potential lenders may not expect them to produce the expected return on investment associated with the level of risk involved (Siiduk, 2007). One of the main obstacles to financial inclusion is cost; both the cost to banks involved in servicing low-value accounts and extending physical infrastructure to remote rural areas and the cost (in money and time) incurred by customers to remote areas to reach bank branches (CGAP, 2016). Regulators are required to strike a balance between promoting financial inclusion through profitable, lower cost delivery models, and protecting consumers and the integrity of the financial system (Siiduk, 2007). Thus, it was on this basis that the study aimed to investigate on financial inclusion as a new approach of financing and its implication on small businesses.

1.3 General Objective
The general objective of this study was to determine the role of the new approaches of financial inclusion and the impact they have on small businesses.
1.4 Specific Objectives

The specific objectives of this study were:

1.4.1 To evaluate the new approaches of financial inclusion to small businesses.
1.4.2 To evaluate the role of the new approaches in financial inclusion to the small businesses.
1.4.3 To determine the challenges faced by small businesses when adopting the new approaches.
1.5 Justification of the Study

1.5.1 Small and Medium Enterprises

The findings from the study will raise awareness on various financial products and services available to SME owners, challenges faced by small businesses when adopting the new financial inclusion approaches, and present the owner of SMEs the sustainability of new approaches in financial inclusion to the small businesses.
1.5.2 Financial Institution

The findings from the study will help financial institutions understand why SMEs have been shying away from seeking financial services from the lending institutions. In addition, the findings will help lending institutions come up with innovative ways to ease lending to SMEs.

1.5.3 Government

The findings from the study will assist the government in coming up with alternative ways to provide SMEs with access to finance through various inclusive financial products and services. Moreover, the study will help the government come up with policies in regards to the challenges faced by small businesses when adopting to the new approaches of financial inclusion. Further, the information obtained can help policy makers to better identify perceived difficulties in obtaining financial services and barriers that small businesses in Kikuyu town have encountered.

1.5.4 Researchers

The academia can benefit from this study, since it will add knowledge on financial inclusion in terms of evaluating the new approaches of financial inclusion, the challenges faced by small businesses when adopting the new approaches, to evaluate the role and sustainability of the new approaches to the small businesses. The study can also provide data for use in academic research into the impact of new approaches of financial inclusion on small business owners.

1.6 Scope of the Study

The study was carried out in Kenya, with a focus on Kikuyu Town. The study focused on small businesses which had less than ten employees. Data was collected on a one-month period between February and March 2014. A few problems were encountered when collecting data. They included availability of data as some of the respondents felt it was not in their place to answer certain questions. Poor cooperation from respondents as many of them felt as if their time was being wasted. Sensitivity of data some of the respondents felt that some of the questions in the questionnaire were very personal.
However, the researcher overcame this by assuring the respondents of confidentiality in the collection of data.

1.6 Scope and Limitation of the Study
The study was carried out in Kenya, with a focus on Kikuyu Town. The study focused on small businesses that had less than ten employees. Data was collected on a one-month period between February and March 2014. A few problems were encountered when collecting data. They included: availability of data as some of the respondents felt it was not in their place to answer certain questions. Poor cooperation from respondents, as many of them felt as if their time was being wasted. Sensitivity of some of the respondents.

1.7 Definition of Terms

1.7.1 Financial Innovation
Financial innovation is the evolution in form of more new financial instruments, and efficient methods of offering financial services (Misati, Njeriga, Kamau and Ouma, 2010).

1.7.2 Financial Inclusion
Financial inclusion is the process of ensuring the accessibility, availability, and usage of the formal financial system for all members of an economy (Kumar & Mohanty, 2011).

1.7.3 Financial Institutions
These are companies that collect money from either individuals or companies and subsequently, use these funds in activities like purchasing financial assets such as deposits, loans, and securities as opposed to tangible property (Fischer, 1985).

1.7.4 SMEs
SMEs can be defined as a formal registered enterprise that have employed between 5 to 150 employees, the turnover in below US$ 5 million, the net assets are below US$ 100,000 and financial requirements are between US$ 5,000 and US$ 500,000 (FSD, 2007).
1.8 Chapter Summary

This chapter presents the background information of SMEs in relation to financial inclusion. The first chapter was divided into seven main sections. Section one gives the detailed background of the collateral constraints. The second section describes the problem in the context of SMEs. Section three defines the general and specific objectives of this research; section four describes the significance of the study. Section five highlights research objectives; section six provides the scope of the study and section seven provides working definitions of specific terms used in the project.

Chapters two, three, and four discuss the literature review of the research questions. Chapters three, four, and five discuss the findings, while chapter six presents a discussion of the findings, conclusions, and recommendations for improvement as well as those for further research.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This section reviews literature on the following research objectives: the first section explores the new approaches of financial inclusion to small businesses. The second section explores the role of new approaches in financial inclusion to the small businesses. The third section identifies the challenges faced by small businesses when adopting the new approaches.

2.2 New Approaches of Financial Inclusion to Small Businesses

2.2.1 Agent Banking

A number of developing countries are adopting agent banking to provide financial services to low-income individuals and businesses which have not been reached by traditional bank networks, especially those that are located in remote and rural areas (Prodhan, 2008). In recent years, agent banking has been adopted and implemented with varying degrees of success by a number of developing countries, particularly in Latin America (Kumar, Nair, Parsons and Urdapilleta, 2006). Brazil is often recognized as a global pioneer in this area since it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country's municipalities. Other countries in Latin America have followed suit, including Mexico (2008), Peru (2005), Colombia (2008), Ecuador (2008), Venezuela (2008), Argentina (2018), and Bolivia (2006). Other countries around the world have also utilized the agent banking model to expand financial services, including Pakistan, Philippines, India, South Africa, Uganda and Kenya (Prodhan, 2008).

Banking agents are retail vendors, lottery outlets and post offices that can double as a kind of bank branch for their customers, processing everything from bill and pension payments to deposits, withdrawals, and money transfers (Prodhan, 2009). Agent banking has made an important contribution to enhancing financial inclusion by reaching people that traditional, branch-based structures would have been unable to reach. The agent banking model is one in which banks provide financial services through non-bank agents, such as grocery stores, retail outlets, post offices, pharmacies, or lottery outlets. This model allows banks to expand services into areas where they do not have sufficient
incentive or capacity to establish a formal branch, which is particularly true in rural and
poor areas where as a result a high percentage of people are unbanked (Lyman, Postmoore
and Pickens, 2008).

Banking agents’ lower set-up and running costs promise to help banks and microfinance
institutions reach more and poorer people living far from the nearest branch, with more
financial products, at lower cost, than traditional microfinance or banking channels.

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financial products, at lower cost, than traditional microfinance or banking channels.

2.2.2 M-Pesa

M-PESA is one of the first and the most famous non-bank models in Kenya. The platform
was launched in 2007 by Safaricom with M-PESA, a mobile money transfer system. It
was the first Mobile Money Transfer System in Africa. In exchange for their
deposits, users are issued “e-dollar” or “e-money” that is held in the user’s electronic
account. The e-money issued is a shilling-per-shilling representation of actual deposited
cash, which is held in trust. E-money can then be transferred, used to pay for goods and
services, or withdrawn (Busu and Meredith, 2013).

After its launch in 2007, the M-Pesa program grew rapidly to more than 14 million users
and 27,948 agent outlets (Safaricom, 2011). Since the launch of M-Pesa, three other
Mobile Network Operators (MNOs) started offering mobile payments services. Zain
Kenya launched its mobile money service Zap in March 2009. By January 2010, it
reported a customer base of approximately 400,000 and a network of 6,000 agents. From
its launch in March 2009 to January 2010, its total person-to-person transaction volume
was around KSh 1 billion (US$9.8 million). In January 2010, Zain announced its
intention to partner with mortgage lender Housing Finance. Zap customers will be able to
withdraw and deposit at Housing Finance’s ten branch locations, while Housing Finance benefits from an income stream from an increasingly diversified range of business activities as well as the opportunity to cross-sell its existing products (CGAP, 2010).

Essar Telecom Kenya Limited launched its yu mobile phone service in mid-2009 and its yuCash mobile money transfer service in December 2009. Essar implemented yuCash through its agent partnerships with Equity Bank. The infrastructure was provided by O/pey, which is active globally in mobile banking and payments technology. Prior to the launch of the money transfer services, Kenyans had a number of options for local remittance services. These services included commercial banks, post offices, forex bureaus, bus companies, and friends and family. Almost all of these options, however, were either unavailable to the majority of Kenya’s consumers or were extremely unreliable and insecure. Mobile money transfer service seeks to improve and formalise fund-transfer system for the poor and businesses which have been marginalized by other traditional approaches of financial inclusion that limit their ability to build their financial assets and skills through savings, rather than debt.

2.2.3 Grants

Start-up grants particularly aim to promote the establishment of new enterprises. Grants act as financial inclusion in securing the livelihood of emerging business operators during start-up and stabilising the business. Though grants are perceived by loan schemes, they are still common in stimulating small business for economic growth and prosperity. However, as White and Kenyon (2001) point out, the issue of grant finance for the financing of small business ventures is a new one. On the one hand, it can be an important aid for people who have been rejected from other conventional forms of finance. On the other hand, it is widely believed that such programmes may help business operators’ deal more directly with the problem of access to finance, rather than providing them with non-reimbursable funds or free money (White and Kenyon, 2001).

Grants-based schemes are also increasingly bound to need eligibility criteria, approved business plans, and funding approval mechanisms. The encouraging effect on the entire entrepreneurship ecosystem has increased the demand for small business loans.
Enterprise competitions, generally financed by companies or NGOs, are more and more used as a source of "free" start-up capital. Besides financial assistance, these competitions often offer other services, including assistance in business development, counseling and mentoring. Also, such services increase the likelihood of small businesses to access finance and be successful in obtaining other sources of funding (Stiglitz and Weiss, 2001). On the other hand, grants may constrain businesses (BOE, 2003). Project based grants may be problematic as they create short-term funds and instability especially when projects are paid in arrears. Grant funding does not motivate social enterprises to look beyond the immediate objectives of the projects.

2.2.4 Internet Banking

Internet banking refers to the use of the internet as a delivery channel for banking services, which includes all traditional services such as balance enquiry, printing statement, fund transfer to other accounts, bills payment and new banking services such as electronic bill presentation and payment (Frust, Lang and Neville, 2000) without visiting a bank (Mukherjee and Nath, 2003). According to channel (Chau and Lai, 2003), the rapid growth and popularity of the internet has created great opportunities as well as threats to companies in various business sectors, to endorse and deliver their products and services using internet as a distribution channel.

Although there is a significant growth of internet users in Kenya, the number of financial transactions carried out over the internet remains very low. This trend however is the same globally and it has been observed that potential users either do not adopt internet banking or do not use it continually after adoption. Marian (2001) indicated that huge number of customers in USA is accessing most of the banks’ websites but only a minority of customers has made online financial transactions. Gartner expressed that out of 61% online users, only 20% of customers carry out online banking in the USA (Brown, 2001).

Internet banking offers a new value to customers. It makes available to customers a full range of services including some services not offered at branches. The greatest benefit of Internet banking is that it is cheap or even free to customers. However, price seemed to be
One factor mitigating against Internet banking (Satthy, 1999). Two important factors in the price debate are on the one hand geographical differences and on the other hand disparities between the costs of such as internet connections and telephone call pricing. Internet banking in general is not tied to time or place. It has also been argued that the banks are more likely to change in response to customers' demands (Brogden, 1999). To summarize, electronic banking in general and Internet banking in particular offer many benefits to both service providers (whether they are traditional banks or other financial institutions) and their customers. The following table provides the various features and functions on internet banking.

| Table 2.1: Features and Functions on Internet Banking |
|---------------------------------|-----------------|
| Features                        | Telephone banking | Self-service Terminal | ATM | Internet banking |
| Withdrawals                     |                 |                     |     |
| Deposits                        |                 |                     |     |
| Balance inquiries               | V               |                     | V   |
| Interim statement               | V               |                     |     |
| Transfer fund                   |                 |                     |     |
| Change bank orders              |                 |                     |     |
| Change ATM card PIN             |                 |                     |     |
| Stop payment of cheques         |                 |                     |     |
| Rates                           |                 |                     |     |
| Stop refunds                    |                 |                     |     |


The convenience is the most important factor in making the decision to bank using the Internet. They have obtained Internet access in the expectation that this internet service will provide more convenience and accessibility, and has a positive impact on customer satisfaction. Customers can manage their banking affairs when they want, and they can enjoy more privacy while interacting with their bank. It has been claimed that Internet banking offers the customer more benefits at lower costs, anywhere 24/7 (Mols, 1998).
Internet banking services are crucial for long term survival of banks in the work of electronic commerce (Burnham, 1996). From the consumer’s perspective, internet banking provide a very convenient and effective approach to manage one’s finances as it is easily accessible 24 hours a day and seven days a week. Besides, the information is current. For corporate customers, sophisticated cash management packages are offered through internet banking as it provides customers with up to the minute information, allowing timely funds management decisions (Sub and Hua, 2002). This service delivery is seen as powerful because it can retain current web-based customers who continue using banking services from any location. Moreover, internet banking provides opportunities for the bank to develop its market by attracting a new customer base from existing internet users. Therefore, the internet technology have the potential to enable banks to enhance their internet offerings, with features that will improve customer interactions and allow them with options for increasing control of their internet banking experience (Fox, 2005).

Bouncing a cheque (accidentally) is a thing of the past. But with internet banking customers can monitor their accounts online any time, day or night. Customers can also track their bank balance daily, see which cheque was cleared and know when deposits and payments are made. This is all possible by simply going online to the bank’s website and logging into their account. Internet banking customers can keep their accounts balanced using a computer and their monthly statement. A customer’s bank account information can be downloaded into software programs such as Microsoft Money or Quicken, making it easy to reconcile an account with a click of a mouse. The convenience of the data capture online makes it much easier to budget and track where their money goes. Internet banking may even allow customers to view copies of the cheques they have written each month (Edzen and Khan, 2007).

According to Emmanuel (2011), there are sound reasons why internet banking is growing. The economic advantages have encouraged banks to provide an increasing range of easy to use services via the internet. Customers have found doing business online simple and speedy and have become very comfortable with the arrangement. Internet banking gives people more control over their money in a very convenient way that they find enjoyable and reassuring (Adams and Lampney, 2009). Internet banking offers a great deal more
convenience than what a customer could get from conventional banking. With internet banking customers are not bound by the "banking hours" and don't have to go there physically. Time is not wasted when they have work to do because they can do their office's banking without leaving the office. No matter where they are or what time it is, customers can easily manage their money (Eden and Khan, 2007).

2.2.5 M-Shwari

Another revolution in banking in offering is M-Shwari. M-Shwari is the revolutionary new banking product for M-PESA customers that allow saving and borrowing money through their phone while earning the customer interest on money saved. With M-Shwari, the customer is entitled to affordable emergency loans (Safaricom, 2014).

PesaMobi is a virtual bank where a customer can open a mobile based account that allows them to conduct all their banking transactions (including account opening) via their mobile phone. The mobile based account allows customers to save, borrow and transact without ever visiting a branch (Family Bank, 2014). On the other hand, Pay also offers fast, reliable money transfers from the convenience of the customer's (Kenya Post Office Savings Bank, 2014). These innovation platforms offer mobile phone banking services in Kenya. The bank sends their customers information via their mobile phones. The users can also make deposits, withdrawals, payments and transfers of funds via their mobile phones.

2.2.6 Biashara@Smart

According to Mutegi (2014), Biashara@Smart was launched by KCB and Safaricom to meet the needs of SMEs. The platform offers a set of communication and financing products, capacity building initiatives and reward programs aimed at connecting, empowering and growing SMEs. Biashara@Smart is a business proposition that helps businesses run efficiently and professionally while offering the tools and financial access that helps SMEs to achieve their business goals. Since SMEs contribute significantly to economic growth through various employment opportunities, Biashara@Smart seeks to identify with, empower, connect and grow SMEs in Kenya through partnerships building propositions and empowerment, the platform also promises to open up networking and new business opportunities for SMEs. Real life challenges faced by growing businesses...
will be addressed. This will improve the efficiency of SMEs as well as boost their credibility among their customers.

In addition, the Biashara@Smart club will offer capacity building opportunities through partnerships targeted at delivering practical knowledge and skills in business planning, finance and marketing. KCB, who are Safaricom’s financial partners, will provide Biashara@Smart members with preferential interest rates on loans. Also, members of the club will have access to a rich business portal Biashara@Smart Connect. To join the Biashara@Smart Club, members simply Dial *484# on the mobile phones and choose the desired product including accounts, loans, early invoice payment, mobile internet banking, cards, Zidisha Biashara, Lipa na M-PESA, Biashara@Smart payroll and more.

The benefits of the Biashara@Smart Club range from offering preferential business loans, capacity building training, and loyalty reward programmes to legal and audit advisory packages, dedicated business support lines and rich networking opportunities to help members connect and grow their businesses. Further, Biashara@Smart also comes with Starter Pack offers which include an unsecured loan package from KCB, KCB M-Bank a self-registration mobile based transactional account and a web hosting package that delivers five professional e-mails, a .ke domain and a website builder. The two starter pack offers are Biashara@Lite and Biashara@Pro 1. Biashara@Smart Pro 2. Biashara@Smart Pro 3. As a result, all these led to a strategic partnership between Safaricom and KCB that is expected to reshape how entrepreneurs in Kenya access financial and telecommunication services (Mutugi, 2014).
2.3 Role of New Approaches in Financial Inclusion to the Small Businesses

2.3.1 Facilitate Domestic Savings

Savings can ensure enough financing for capital expenditure, help to balance national books and expand investment. For low income individuals, savings can allow people to grow businesses, build assets and reduce their likelihood of suffering from shocks such as drought. It is a missed opportunity that there are an estimated 3.5 billion people globally who do not have access to formal financial services. This represents a huge pool of potential savers who are not depositing in savings accounts or passing through other formal financial channels (Mas and Redcliffe, 2011).

In South Africa, Barclays, through their subsidiary ABSA, are reaching out to provide young people with financial services in the townships and rural areas. For instance, the Banking on Change partnership between Barclays, CARE International UK and Plan UK, is addressing the global challenge of financial exclusion. It is the first partnership between a global bank and NGOs to link informal Village Savings and Loans Associations to formal banking services (Hess, 2004). Building bridges between big banking and remote village communities is proving to be a model for development whereby NGOs and the private sector together improve the lives of poor people and have positive results for business.

The initiative aims to break down some of the barriers that prevent poor people from accessing formal financial services and in doing so, proves that no one is too poor to save.

The Banking on Change partnership has reached 513,000 people in just three years. On average, each member has saved $55 per year. Multiplying this figure by the 2.5 billion unbanked, people could represent a total of $145 billion that could be pumped into the formal economy each year (Woodman, McKillop, Ferguson and Oyelere, 2002).

The initiative also busts the myth that banks have no interest in meeting poor customers’ needs. Barclays is exploring the boundaries of financial viability by designing and allowing new products and technologies to encourage poor people to benefit from the services a formal bank provides. The establishment of group accounts, which enable community savings groups to deposit larger amounts than they could as individuals, is just one example. Reaching more potential customers in remote areas through mobile platforms is also now being explored. Banking on Change should inspire and catalyse
Further action by governments, banks and donors alike to break down the barriers to financial inclusion for poor people (Palmer and Conaty, 2002). The partnership also provides additional services in the form of income-generating training and business management skills to teach people how to effectively manage businesses and utilise credit. Furthermore, Banking on Change has taken a gradual approach to supporting people to move up the financial ladder and has emphasised giving an access to basic community-managed savings groups as a stepping stone to accessing formal financial products and services (Parcell and Cobb, 2004).

Savings can ensure lending for capital accumulation help to lower economic costs and expand operations. For the poorest individuals, savings can offer security for future businesses, health services and reduce their likelihood of falling into debt. As a missed opportunity, there are an estimated 2.5 billion people globally who do not have access to formal financial services. This represents a huge pool of potential savings that are currently being eroded through other less financial demand and lack of access.

In South Africa, Barclays through their subsidiary ABSA are reaching out to provide young people with financial services in township and rural areas. By supporting the Banking on Change partnership between Barclays, CARE International UK and Plan UK, 513,000 people in South Africa have accessed formal financial services at Barclays who now offer services through local branch banks and NGOs in over 500 informal Village Savings and Loans Associations (VSLAs).

Building on local experience of project to build capacity and develop NGOs and the private sector in informal savings groups, the Bank of Baroda has run this initiative in India. Remittances have been continued to the setting up of NGOs to ensure proper savings services. Furthermore, formal financial services have been extended to over 120,000 people who now have direct access to formal bank accounts.

The Banking on Change partnership has demonstrated the power of getting the poor involved in the savings process has raised 4.5 billion. Multiplying this figure by the 2.5 billion people who would represent a pool of formal banks that could be pumped into the informal savings sector (CARE, Morgan, Conaty and Oyelere, 2002).
The initiative also busts the myth that banks have no interest in meeting poor customers’ needs. Barclays is exploring the boundaries of financial viability by designing and piloting new products and technologies to encourage poor people to benefit from the security a formal bank provides. The establishment of group accounts, which enable community saving groups to deposit larger amounts than they could as individuals, is just one example. Reaching more potential customers in remote areas through mobile platforms is also now being explored. Banking on Change should inspire and catalyse further action by governments, banks and donors alike to break down the barriers to financial inclusion for poor people (Palmer and Conaty, 2002). The partnership also provides a model of how governments and donors can work together to improve access and management of financial services. This is an opportunity to experimenting with supporting people to set up the formal banking sector by imparting skills and knowledge, creating management and business opportunities in the rural areas. Extending Breakthrough Banking to China has the potential to offer a compelling example of how poor communities can be empowered to participate in the formal financial sector and bring about transformative change.
Financial gap exists when poor people are not aware of the financial opportunities that are available and this hinders them to avail being served by formal financial institutions. A study by Burns, Williams and Windenbank (2004) revealed that although banks had the products, their suitability to the target customers was unknown. Failure to understand the use of the product was also seen to be a significant barrier to using formal financial services. However, financial education may overcome these challenges (Gardeva and Bhaya, 2011).

The contribution of VSLAs training helps in addressing these issues systematically over time. Through the financial literacy training, the members of the beneficiary group are able to handle financial transactions effectively, make wise financial decisions on how to take the next loan and calculations of interest rates and repayment schedules. Knowledge on proper financial evaluation can assist poor entrepreneurs understand the basics of finance acquisition and management. VSLAs training help to transform small informal groups to larger formal groups that can raise funds from formal financial institutions in the form of savings, effective deployment of funds among the members and on the payment of loans utilized in the business. This type of training is offered by Village Agents to the members of the local community at a fee which leads to the creation of incomes and jobs in financial institutions (IFC, 2010).

In Peru, a women’s program known as Juntos has promoted financial literacy among women members. Through financial education, the women’s savings increased from 37 to 79 per cent. This increased the interest by the Ministry of Agriculture in the country to launch initiatives focused on increasing financial literacy on a national scale. The same applied to India, where there is increased financial education to the members of the communities in an attempt to benefit from the financial products and services offered to them. This led to an increase in savings from 33 to 54 in at least one year. This has a significant impact in encouraging people to save their small business income for future business expansion (May and Radcliffe, 2011). Barclays Bank has also forged similar
relationship with their clients in Kenya, Uganda, Ghana and Tanzania through additional training (IFC, 2010). Purcell and Cobb (1998) suggest that wider and deeper financial education must be implemented for poor entrepreneurs in the future.

The financial education of poor people does enable them to understand which financial tools are suitable. However, interventions in Ghana and Uganda (apo 2010; Guitierrez, 2003) show that although people had some knowledge about financial transactions and basic legal rights (Jarrett, 2005), studies also show that poor financial literacy impedes people to take informed decisions. Even in developed countries, people do not understand how banks protect them against fraud or how to protect themselves. Adolescents get it particularly hard as they have financial decisions to make beyond their influence. Evidence shows that people's understanding of financial services is limited and people are not able to assess financial products properly or to engage in informal financial institutions. Financial literacy reduces the barriers to accessing and properly using formal financial services. Poor financial literacy limits people's capacity to be aware of financial opportunities, make informed choices, and take effective actions to improve their financial well-being. (Gardenva and Rhyn, 2011)

Using VSLO methodology is one way to help address the barriers to reaping the benefits of financial literacy. Financial literacy helps people to make better informed decisions about their financial situations. Financial education can improve people's knowledge about financial products and decrease their financial isolation. Financial education helps people understand the importance and benefits of financial products. By using VSLO methodology, people are able to identify the appropriate financial product for their needs and take effective actions to improve their financial well-being. (Budlender et al., 2001)

In addition to receiving support from VSLO agents, women also receive support from their local community. The VSLO agents exert efforts to ensure that VSLO agents are well-supported by their local communities. This is achieved through the dissemination of information about financial literacy and the importance of saving. The VSLO agents ensure that people understand the importance of saving. (Budlender et al., 2001)

In summary, the study shows that VSLO methodology accelerates financial literacy among poor women in Tanzania. The training empowers women, enabling them to make better-informed financial decisions. The study also highlights the need for ongoing support to ensure that women continue to benefit from the financial literacy training.
In Peru, the Banking on Change partnership implemented a financial literacy programme with women beneficiaries of a national social protection programme called Juntos. Greater financial education saw the number of women who were keeping their savings in a bank increase from 27 to 71 per cent. Building on this success, several departments within the Peruvian government, including the Ministry of Agriculture, have expressed an interest in adopting and rolling out financial education at a national level. Similarly in India, with increased financial education, communities are able to better understand the financial products and services available to them, and see the benefits of the return on savings. One year of this type of training resulted in some groups managing to double their weekly savings from $2 to $4 over one year. This significantly encourages people to continue increasing the amounts that they save (Mas and Radcliffe, 2011).

Financial literacy is particularly important as it is intrinsically linked to consumer protection. With greater knowledge people are less likely to fall prey to unscrupulous money lenders, or financial service providers who might be offering inappropriate products without transparency and high interest rates. Increased financial education is also in the interest of banks and other providers, as people who are financially educated are more likely to use formal financial services (Buku and Meredith, 2013). The groups who were part of the Banking on Change linkage pilots in Uganda, Ghana, Kenya and Tanzania all received additional training in the role of banks and the types of products they offer before deciding whether to bank at Barclays. Those who choose to open a savings account at Barclays receive further training on the process and procedures (IFC, 2010).

Building financial education into the school curriculum, or running awareness campaigns for young people, can increase understanding and inculcate financial habits from an early age. Mass awareness campaigns on financial education in a focused way, followed by training by banks and other stakeholders, show a demonstrable impact. With regard to consumer protection, some initiatives are emerging, for example the global Smart Campaign. This aims to improve the protection of clients using MFI by encouraging the adoption and implementation of certain principles. However, broader and deeper financial education and protection will be necessary.
Technology can take products to scale, but it is not currently spreading at the same speed in all countries. In Kenya for example, 89 per cent of the population is familiar with Payment to Person (P2P) services, especially M-Pesa, of whom 68 per cent are frequent users, making the east African nation the top scorer on the Consumer Readiness Component (Raku and Meredith, 2013). Uganda is also becoming more connected but these two countries remain the exceptions rather than the norm. In addition, as suggested earlier in this report, whilst technology can take banking to scale it will be important to ensure that it reaches the very poorest members of society. In addition to seeking technological solutions, greater linkage between informal savings groups and formal banks could be facilitated through the ‘business correspondent model’ where an individual from a savings group becomes an agent for the bank, and can then deliver services in the community. These individuals are paid a fee. In India, some savings groups or ‘Self-Help Groups’, as they are known, are linked to Bank Correspondents (BCs). They are generally local individuals, such as a shopkeeper, who will offer most of the services a group needs (such as deposits, withdrawals and transfers) (Palmer and Cowan, 2002).

Mobile banking also offers the potential not only to address the distance barrier, but also to reduce the overall cost of banking and must be considered. Barclays is already exploring possible technology solutions in Kenya and Uganda that cater to poor people. It sees mobile banking as a key opportunity to be able to reach the poorest people in the future, and is consequently working collaboratively with the Gramene Foundation AppLab in Uganda to develop new, innovative products that provide mobile financial services to poor households in a sustainable manner. In Kenya, the first VIHA group has received the required information on the use of money transfer for deposits using a mobile phone and successfully managed to transfer money to their group account in November 2012 (Parcell and Cobb, 2014). This is a very first promising step for financial inclusion of poor people in the next phase of the partnership. The Consultative Group to Assist the Poor (CGAP) warns, however, that the average use of mobile money transfers for all developing countries is only five per cent, suggesting that this possible solution to overcoming the distance barrier is still a long way from being fully realised. Furthermore, weak and unclear regulation is another reason for the low usage of mobile...
money transfers, and national governments therefore have a role to play in providing an enabling regulatory framework around mobile banking (Palmer and Coeery, 2002).

2.3.4 Recognise Savings Groups as a Springboard to Financial Inclusion

Governments and financial service providers should recognise that savings groups offer a suitable springboard from which entrepreneurs can begin their journey towards formal financial inclusion. Saving in this way can lead to a graduation towards individual savings, which is a platform for financial inclusion (Mas and Rudcliffe, 2011). Governments, donors and financial service providers should support the scale-up of savings groups, for example by working with mobile companies to develop enabling technologies such as group pin codes (Shak, 2008). Governments should recognise, rather than regulate community savings groups and incorporate them into long-term national financial inclusion strategies. Partnerships between governments and financial service providers should ensure that savings groups can access formal financial institutions, as has happened in India where banks are mandated to open accounts for community savings groups (Gardeva and Rhyne, 2011).
2.3.5 Build Bridges in Formal Financial Sectors

Banks and microfinance specialists should use Banking on Change as an example of how to design a viable ‘financial linkage’ model that can be replicated by other banks and informal savings communities (Hess, 2004). This should be supported and promoted by donors and international financial institutions. Donors seek to invest in innovative financial linkage models to help lower the risk for business. Banks need to invest in products and services that can meaningfully reach unbanked people, including women and young people in the poorest communities (Palmer and Creamer, 2002). Banks adopt a set of suggested linkage principles that protect customers and do no harm. While mobile companies, banks and governments should work together to increase the use of mobile technology to increase outreach of banking transaction points through mobile operator kiosks, rural ATMs and banking agents using point-of-sale devices (Mox and Radcliffe, 2011).

2.4 Challenges faced by Small Businesses when Adopting the New Approaches

2.4.1 Erratic Cash Flows

Low income people are on the whole not considered viable clients for formal financial service providers. Thus, most of the banking processes and products today have been designed specifically for the middle-income or high-income segment of the population. This has led to banks becoming overweighted in higher-income segments of the economy and low-income areas neglected, which in turn leads to the geophysical distance barrier (Shah, 2009). The challenge is to market formal financial services to the poor. The potential offered by poorer segments of the population is huge, with more than 7.5 billion people who have no bank accounts or insurance services. These are the ‘missing’ people where the linkage model and strategy challenge and marketplace problems.

Low income people are on the whole not considered viable clients for formal financial service providers. Thus, most of the banking processes and products today have been designed specifically for the middle-income or high-income segment of the population. This has led to banks becoming overweighted in higher-income areas, leaving remote and low-income areas neglected, which in turn leads to the geophysical distance barrier.
The challenge is that mainstream financial institutions, governments and regulators are not to take formal notice of the potential offered by poor savers. In fact, there are more than 2.5 billion people who have no bank accounts or insurance services. We can make the difference between surviving and thriving (Williams and Windtbank, 2002).

Many unbanked consumers do not access the banking system because of institutional constraints or because they voluntarily choose not to. The 2011 FDIC National Survey of Unbanked and Underbanked Households (FDIC household survey) finds that the largest share of unbanked households report not having an account primarily because they feel they lack sufficient funds (32.5 percent of unbanked households) or because they “do not need or want an account” (25 percent). Fewer than 10 percent of unbanked individuals report identification requirements, credit issues, or banking history issues as a primary obstacle to opening an account, although this was more of a concern among Hispanic households (3 percent; Applied, 2003).

This isolation of poor people from formal banking means that they do not have the opportunity to understand how banks operate. This in turn fuels misconceptions among poor communities about financial systems which can result in them excluding themselves from banking services (Bachman, Osaki and Homer, 2014). Furthermore, many banking programs such as complicated paperwork, a preference for banking with individuals over collectives, a debt repayment culture centered around Equal Monthly Installments, and the requirement for physical collateral are designed for clients who can produce identity documents and carry installment and demonstrable stable and regular incomes. Banks do not structure banking products around unstable or seasonal cash flows and there are very few alternatives designed to identify incomes from non-formal sources or to replace physical collateral when a client has none to offer (Buxby, 2003).

In response to this challenge, over the last three years, Barclays, CARE and Plan have developed an innovative partnership to extend financial services to poor members of societies. The majority of savings group members live on less than 2 dollars a day. By supporting the establishment of more savings groups and exploring how to link them with formal banks, the initiative is proving that it is possible for a global financial
Institution to reach the poorest people with formal financial services (EBA, 2006). For example, Barclays Bank on Change is encouraging savings group members to invest more in their productive assets, and teach them business skills; the group increased the amount of money spent on their businesses by 28 per cent in three years. If even 10 per cent of existing Banking on Change savings group members started or grew their businesses, with the help of savings and additional business training, economic activity would increase by tens of billions of US dollars. Hence, this challenges the government, the private sector, NGOs and donors to work together to further break down those barriers and open the door to both formal and informal financial services that poor people and the weak sectors in the economy both want and deserve (Palmer and Govett, 2002).

Many unbanked consumers move to the capital markets, for example, to purchase financial products on credit. The 2011 FDIC National Survey of Unbanked and Underbanked Households (FDIC Household Survey) finds that the important issue of unbanked households wanting to use bank services but not having traditional bank accounts is likely quite prevalent, and is the single biggest obstacle to opening a traditional bank account; 49 per cent of adults report identification requirement, credit history, or having a bank account in their top four obstacles to opening an account, although this was particularly true among Hispanic households and at younger ages (2007).

This isolation of poor people from the capital markets may prevent them from taking advantage of opportunities provided by the market. In turn, lack of access to financial services prevents the poor from taking advantage of financial innovations such as the expanded availability of mobile money services (Bhattacharya and Sturzenegger, 2009). In Bangladesh, microfinance consumers can now use mobile money services to transfer money between accounts, make payments, and purchase goods and services. The increase in mobile money usage is especially prevalent among women and the elderly, who can now access accounts, which they previously did not have access to (Chowdhary et al., 2010).
In response to this challenge, over the last three years, Barclays, CARE and Plan have developed an innovative partnership to extend financial services to poor members of society (the majority of savings group members live on less than $2 a day). By supporting the establishment of more savings groups and exploring how to link them with formal banks, the initiative is proving that it is possible for a global financial institution to reach the poorest people with formal financial services (FSA, 2004). For instance, Barclays Bank on Change is encouraging savings group members to invest more money in their productive assets and train them in business skills. The group increased the amount of money spent on their businesses by 28 per cent in three years. If even 10 per cent of existing Banking on Change savings group members were to increase their transactions with the help of savings and additional business training, economic activity would increase by tens of millions of U.S. dollars. Hence, the challenge is to encourage non-profits, NGOs and donors to work together to further break down these barriers and open the door to both formal and informal financial services for poor people and the weak sectors of the economy that need formal and informal financial services (Palmer and Conaty, 2002).

2.4.2 Lack of Suitable Products from Formal Financial Institutions

Experience shows that low-income people do have the capacity to save and are highly creditworthy, repayment rates on the loans provided to each other in the savings groups in Banking on Change countries and more generally in Village Savings and Loan Associations (VSLA) groups, in the absence of formal banks in most parts of the developing world. MFIs have emerged as credible alternatives and have grown substantially over the last two decades (Ruhu and Meredith, 2013). However, MFIs tend to focus on a segment of the population who, though excluded from formal financial services and far from wealthy, are surely the very poorest. And in recent years, an over-reliance on private capital, emphasis on increasing profit margins and commissions, and client-protection principles have also demonstrated the limitations of these institutions. There is clearly a need for further investment in an approach which can simplify banking processes, invest in compassionate capacity and acknowledge the strengths of local institutions while still developing a sustainable business model for offering financial services to poor people (Purcell and Cobb, 2004).

Importance of having the capacity to invest and use banking services...
In this regard, retaining and deepening banking relationships with these consumers is a challenge for many financial institutions. However, further engaging consumers with appropriate banking products can be difficult. Effective product marketing is also reported as a common challenge (Bukh and Meredith, 2013). Lack of awareness can lead to low take-up rates and the institution’s inability to maintain the product offering. In addition to not knowing about available products, financial institutions also reported that underserved consumers’ lack of understanding of products and services is commonly a major obstacle to serving them (Purcell and Cobb, 2006). These findings are consistent with prior FDIC studies in which banks participated in pilot programs to offer low-cost accounts; the banks in the FDIC’s Safe Accounts Pilot, for example, noted challenges with traditional marketing and outreach strategies, in part because of resource constraints. In addition, some banks found it difficult to reach the intended population without being too broad as to lower overall applicant quality. The pilot banks noted that using frontline staff, tellers, or customer service agents to provide information and education about the accounts was a more effective strategy. These findings suggest that increasing underserved consumers’ financial education, as well as, increasing their awareness of available banking product options, are both important in creating financial inclusion among the consumers (Appleyard, 2007).

2.4.3 Institution Barriers

Other reports highlight the importance of transparency and predictability of financial services among the underserved. Clear communication of fees and terms including processing timesframes and confirmation that a transaction has been successfully processed, are valuable to underserved consumers (Brehm, Osaki and Homer, 2014). In a study of low-income families in Los Angeles, the Pew Charitable Trust study found that many banked families that use AFIs “continue to use check cashers and other nonbank financial services because of concerns over transparency and liquidity.” Transparency and predictability of services and fees are important to all consumers, but even more so for underserved consumers who often cannot afford unexpected financial transaction delays or fees. A payment or deposit that is not completed timely or successfully could result in a serious penalty, such as phone or electrical service being shut off. In some cases, underserved consumers that have credit needs rely on alternatives such as payday lenders or pawn shop loans. The main reason these consumers report
using credit AFS instead of a bank loan is that it is "easier or faster to qualify" for an AFS loan or because they perceive that "banks do not make small dollar loans" (FDIC 2011). Having a banking relationship could help some of these consumers learn about available credit alternatives, or build credit histories to qualify for a loan.

2.4.4 Regulatory Environment

From the perspective of financial institutions, a number of challenges may impede their ability to serve underserved consumers. According to the FDIC (2011)’s Survey of Banks’ Efforts to Serve the Unbanked and Underbanked, financial institutions view the regulatory environment, fraud, consumers’ lack of understanding about financial products and services, underwriting concerns, and lack of profitability as major obstacles to serving unbanked and under-banked consumers (Baku and Meredith, 2013). More than one-third of banks cited the regulatory environment as a major obstacle to serving underserved consumers. Among these institutions, “customer identification-related requirements” were cited by 40 percent of institutions; while “Bank Secrecy Act (BSA) or Anti-Money Laundering” requirements and “Fair Lending or Compliance” risk were mentioned by 35 percent. Fraud concerns, lack of underserved consumers’ understanding of financial products and services, and difficulties with underwriting for unbanked and under-banked populations were cited by about 30 percent of institutions. Profitability was mentioned as a major obstacle by one in five institutions (Buttle, 2005).

Some bank policies implemented to mitigate risk can also impede banks’ ability to meet the financial needs of underserved consumers, particularly the unbanked. For example, credit checks that are part of the account opening process may disqualify consumers with negative credit histories from opening an account (Baku and Meredith, 2013). Also, holding funds from deposited checks for a period of time before clearing to mitigate fraud risk can result in challenges for consumers who need more immediate access to funds. Profitability concerns can also deter financial institutions from marketing to underserved populations, offering accounts with certain features attractive to the underserved (such as low cost, low balance requirements), or engaging in more resource-intensive account opening processes for consumers who lack traditional forms of identification (ID) or credit scores (Purcell and Cobb, 2004).
Another major barrier to financial inclusion is the transaction cost. For banks, the cost of dealing with people with low income is high because they have to maintain a high number of accounts with a low volume of financial transactions. This generally makes having an outlet in poor areas unviable. Instead, banks have tended to focus on serving middle- to high-income earners, and international banks in particular are viewed as 'the rich man's bank' (Buk & Meredith, 2013). For poor people, banking is relatively expensive as they find bank charges high in proportion to their volume of transactions. Furthermore, due to the distance of the community from the bank, the expense of travel adds to the overall transaction cost. Another expense is in the form of a day's labour that they may need to forgo (Purcell & Cobb, 2004). Globally, 20 per cent of unbanked people have identified distance as a key barrier to financial inclusion, and this rises to 31 per cent in sub-Saharan Africa. Overall, the reach of financial infrastructure has been very limited in countries. More often than not, poor people have to travel considerable distances of up to 100 km, the equivalent of a week or more of travel for 10 per cent of households in Africa.

Chapter Summary

This chapter reviewed literature on the following research objectives: the first section explores the new approaches of financial inclusion to small businesses. The second section identifies the challenges faced by small businesses when adopting the new approaches. The third section explores sustainability of new approaches in financial inclusion to the small businesses. The next chapter deals with the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The study aimed to determine the role of the new approaches of financial inclusion and the impact they have on small businesses. This chapter begins with the research approaches and associated studies used for analyzing research data such as descriptive research design, followed by the population of the study, the description of appropriate sampling technique, the estimation of the sample size, how the data was collected and measurement scales, the process of collecting data using questionnaires and the analysis of the data through the research methods and procedures to answer questions raised in the research.

The chapter was organized in the following seven sections: research design, population and sampling design, data collection methods, measurement scales, data analysis methods, and finally the chapter summary.

3.2 Research Design

This study adopted a descriptive design. A descriptive research design is defined as an approach that describes what is, describing, recording, analyzing, and interpreting conditions that exist. It involves some type of comparison or contrast and attempts to discover relationships between existing non-manipulated variables (Makolta, 2007).

Descriptive research includes collecting data by the use of data from surveys, questionnaires, or observations. It facilitates the discovery of new ideas and possibilities (Lichtliner and Van Wyk, 2003). According to Makolta (2007), descriptive research deals with the studies that simply describe the factual situation but do not attempt much analysis of the causes.

Therefore, a descriptive design was therefore justified for this study as the researcher sought to establish the role of the new approaches of financial inclusion and the impact they have on small businesses, and to highlight the effects of these approaches on the growth of SMEs.

Therefore, a descriptive design was therefore justified for this study as the researcher sought to make inferences on the role of the new approaches of financial inclusion and
The impact they have on small businesses. The data collected assisted the researcher to draw conclusions relevant to the research. The independent variables included the new approaches of financial inclusion to small businesses, the role of new approaches in financial inclusion to the small businesses and the effect of challenges faced by small businesses when adopting the new approaches and while the dependent variable was the implication of financial inclusion in assisting small businesses such as in meeting their financial obligations and survival.

3.3 Population and Sampling Design

3.3.1 Population

Cooper and Schindler (2003) describe a population as the total collection of elements whereby references have to be made. In this study, the population consisted of all SMEs in Kikuyu town. According to Kikuyu Sub-County, there were 1,500 SMEs in Kikuyu town in 2014. According to CBS, ICEG and K-R BASELINE survey, the results established that there were 1,500 SMEs in Kikuyu town. In Kenya, the definition of SMEs is based on the number of employees, annual turnover, investment in plant, machinery, equipment and registered capital. An enterprise with more than 50 but less than 100 employees and with a turnover between Ksh. 5 million to Ksh. 500 million is classified as a small medium enterprise (Mwangi et al., 2013).

<table>
<thead>
<tr>
<th>SME Category</th>
<th>Population</th>
<th>Percentage of Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical and Health</td>
<td>55</td>
<td>3.67</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>15</td>
<td>1.00</td>
</tr>
<tr>
<td>Transportation</td>
<td>100</td>
<td>6.67</td>
</tr>
<tr>
<td>Agriculture</td>
<td>150</td>
<td>9.90</td>
</tr>
<tr>
<td>Food industry</td>
<td>250</td>
<td>16.00</td>
</tr>
<tr>
<td>Education</td>
<td>250</td>
<td>16.00</td>
</tr>
<tr>
<td>Agriculture</td>
<td>150</td>
<td>9.90</td>
</tr>
<tr>
<td>Engineering and Technical</td>
<td>10</td>
<td>0.67</td>
</tr>
<tr>
<td>Information and Communication</td>
<td>250</td>
<td>16.00</td>
</tr>
<tr>
<td>Other</td>
<td>63</td>
<td>4.20</td>
</tr>
</tbody>
</table>

Table 3.1: Total Population Distribution
3.3.2 Sampling Design and Sample Size

3.3.2.1 Sampling Frame

According to [Dencombe, 2007], a sampling frame is an objective list of the population from which the researcher can make a selection. The sampling frame was obtained from Kikuyu Sub-County Authorities and made up of all 100 SMEs in Kikuyu town.
3.3.2 Sampling Techniques

The study used stratified sampling technique. In stratified sampling, the population is first divided into disjoint groups. These subgroups, called strata, are together they comprise the whole population. From each stratum, a sample of pre-specified size is drawn independently in different strata (Maholtra, 2007). The researcher conducted a survey on SMEs that accessed new approaches of financial inclusion from formal financial institutions. Then the names of the 1,500 SMEs were written down in each industry on a separate piece of paper, put in a container and thoroughly mixed. Then a blindfolded researcher selected the SMEs from various categories groups also known as from each stratum a sample, of pre-specified size, was drawn independently in different strata. This technique ensured that the selection of SMEs under each category and strata was equal and unbiased (Yates, Daniel; Moore and Sarness, 2008).

The study used convenient sampling technique. Convenient sampling technique is a non-probability sample which can be taken from part or the population which is easy to access. (Maholtra, 2007). The researcher conducted a survey on SMEs that accessed new approaches of financial inclusion from formal financial institutions. The names of the SMEs were written down on each industry on a separate piece of paper, put in a container and thoroughly mixed. Then a blindfolded researcher selected the SMEs from various categories groups also known as from each stratum a sample, of pre-specified size, was drawn independently in different strata. This technique ensured that the selection of SMEs under each category and strata was equal and unbiased (Yates, Daniel; Moore and Sarness, 2008).

3.3.2.3 Sample Size

Lightelm and Van Wyk (2005) describe the sample size as a smaller set of the larger population for collecting an accurate result within a quantitative survey design. Lighel and Van Wyk (2005) describe the sample size as a smaller set of the larger population for collecting an accurate result within a quantitative survey design. Lighel and Van Wyk (2005) describe the sample size as a smaller set of the larger population for collecting an accurate result within a quantitative survey design. Lighel and Van Wyk (2005) describe the sample size as a smaller set of the larger population for collecting an accurate result within a quantitative survey design. Lighel and Van Wyk (2005) describe the sample size as a smaller set of the larger population for collecting an accurate result within a quantitative survey design. Lighel and Van Wyk (2005) describe the sample size as a smaller set of the larger population for collecting an accurate result within a quantitative survey design.

The mathematical approach to determine the sample size for survey is as follows:

\[ n = \frac{N \cdot (1 + N \cdot \alpha)}{2} \]

Where \( n \) is the sample size.
Using a confidence level of 95% and a total population of 1,500 SMEs, the sample size was calculated as follows:

\[ \frac{N}{n} = \text{Population} \quad \alpha = \text{margin of error} \]

[-]
\[
\begin{align*}
1 + 1 \times 500 (0.05)^2 &= 316 \\
&= \frac{1.500}{1 + 1}\frac{316}{1} = 316
\end{align*}
\]
### Table 3.2: Sample Size Distribution

<table>
<thead>
<tr>
<th>SME Category</th>
<th>Population</th>
<th>Sample Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical and Health</td>
<td>316</td>
<td>316</td>
<td>21%</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>316</td>
<td>316</td>
<td>21%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>316</td>
<td>316</td>
<td>21%</td>
</tr>
<tr>
<td>New Enterprises and Communication</td>
<td>316</td>
<td>316</td>
<td>21%</td>
</tr>
<tr>
<td>Education and Employment</td>
<td>316</td>
<td>316</td>
<td>21%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>316</td>
<td>316</td>
<td>21%</td>
</tr>
<tr>
<td>Engineering and Technology</td>
<td>316</td>
<td>316</td>
<td>21%</td>
</tr>
<tr>
<td>Others</td>
<td>316</td>
<td>316</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,500</strong></td>
<td><strong>316</strong></td>
<td><strong>21%</strong></td>
</tr>
</tbody>
</table>

#### 3.4 Data Collection Method

The study used primary data collection. The primary data collection method was carried out by the use of questionnaires. The use of questionnaires was justified because they provided an effective and efficient way of gathering information within a very short time. Glasser and Strauss (2007) explains that questionnaires facilitate easier coding and analysis of data collected. The questionnaires administered were subdivided into four sections: the first section looked at the population demographics, the second section explored the new approaches of financial inclusion to small businesses, the third section identifies the role of the new approaches in small businesses and the fourth section explores sustainability of new approaches in financial inclusion to small businesses. Some of the questions on the questionnaire were based on a 5 point Likert scale which was useful in data coding and analysis.

#### 3.5 Research Procedure

The questionnaires were developed by the researcher and a pilot test done thereafter. A pilot test involving 5 SME respondents was carried out to evaluate the completeness, precision, accuracy and clarity of the questionnaires. This ensured the reliability of the
data collection instruments used. Piloted firms did not participate in the final data collection. In data collection, the researcher explained the purpose of the research and sought permission from the institution for the research to be carried out. The questionnaires were self-administered to the entrepreneurs. The questionnaires were dropped and picked later. Follow-up of the questionnaires as well as incentives such as swag were used to ensure high response rate.
3.6 Data Analysis Method

Data analysis was conducted using descriptive statistics and inferential statistics. According to Dodge (1998) descriptive analysis involves a process of transforming a mass of raw data into means, tables, and figures with frequency distribution and percentages, which are a vital part of making sense of the data. Inferential statistics such as correlation analysis was used to discover if two variables are related. It aimed to make research predictions but not cause and effect relationships (Maholtra, 2007). The data was presented in the form of tables and figures based on the research questions, and was analyzed using Statistical Package for Social Sciences (SPSS).

3.7 Chapter Summary

This study adopted a descriptive research design. The sampling frame was obtained from Baseline survey. The selection was applied to SMEs in Kikuyu town. The study used stratified sampling technique and a sample population of 316 SMEs respondents were targeted for the study. The study used primary data collection through a questionnaire. The questionnaire was developed by the researcher and a pilot test carried out to evaluate the completeness, precision, accuracy and clarity of the data collection instrument. All responses were coded and entered into Statistical Package for Social Sciences (SPSS) for analysis. Chapter four presents the results and findings of the study.
4.0 RESULTS AND FINDINGS

4.1 INTRODUCTION

This chapter addresses the results and findings on the role of the new approaches of financial inclusion and the impact they have on small businesses. The findings are outlined according to specific objectives of the study. The findings are based on the responses from the questionnaires filled and information gathered on the specific objectives. The first specific objective was to evaluate the new approaches of financial inclusion to small businesses. The second section evaluated the role of the new approaches in financial inclusion to the small businesses. The third section determined the challenges faced by small businesses when adopting the new approaches. Three hundred and sixteen (316) questionnaires were administered to the target respondents but two hundred and four (204) questionnaires were filled and collected. The feedback from the questionnaires was 65% of the targeted respondents.

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Respondents</th>
<th>Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kikuyu SMEs</td>
<td>316</td>
<td>204</td>
<td>65%</td>
</tr>
<tr>
<td>Total</td>
<td>316</td>
<td>204</td>
<td>65%</td>
</tr>
</tbody>
</table>

4.2 GENERAL INFORMATION

The general information is organized in the following areas: gender, level of education, business income level per month, business sales level per month, legal status of the enterprise, the current asset position of the business, the business industry and the source of capital.

4.2.1 GENDER

The study intended to investigate the gender of the respondents. The findings in Table 4.1 shows that 58% of the respondents were male compared to 42% of the respondents being female. The findings may suggest that there were more female operators of small businesses as compared to male entrepreneurs.
4.2.2 Level of Education

The study investigated the highest education level attained among the entrepreneurs of small businesses. The findings in Figure 4.2 revealed that the majority of the SME entrepreneurs had high school level of education (41%), those with college level education were 31%, those who attained a university level of education were 13% and with primary school education were 15% of the total responses. The respondents were relatively educated to have knowledge of the new financial approaches.
4.2.3 Business Income Level per Month

On the investigation to the amount the business income level per month, it was revealed in Figure 4.3 that 44% of the majority of the respondents had incomes below Ksh. 100,000 per month, 15% earned between Ksh. 100,001 to Ksh. 200,000, 12% earned between Ksh. 300,001 and above while 9% of the respondents earned between Ksh. 200,001 to Ksh. 300,000 per month.

![Business Income Level per Month](attachment:pie_chart_income.png)

4.2.4 Business Assets Level per Month

Investigations on the level of business assets per month revealed that 44% of the majority of the respondents had assets between Ksh. 100,001 to Ksh. 200,000 per month. 16% had assets more than Ksh. 400,001, 14% had assets between Ksh. 100,001 to Ksh. 200,000, 14% had assets between Ksh. 200,001 to Ksh. 300,000 and 7% of the respondents had less that Ksh. 100,000 in assets per month.
4.2.5 Business Ownership Status

The study aimed to determine the structure of the business ownership from the entrepreneurs who participated in the study. Figure 4.5 established that majority of the SME entrepreneurs operated family owned businesses as well as private limited businesses each by 27%, partnership businesses were 26% and sole proprietor businesses were 20% in Kikuyu constituency.
4.2.6 Current Situation of the Business Assets

The study intended to determine the performance of the business assets from the entrepreneurs who participated in the study. The study established that most of the enterprises were struggling to survive (44%); the business assets that were declining was 32%, maturing (11%), completely new to the business were 9% and the remaining 4% of the respondents suggested that their business assets were growing. This means that the assets of most small businesses were struggling to survive. The results are presented in Figure 4.6.

![Figure 4.6: Current Situation of Enterprise](image)

4.2.8 Sector of the Industry

The researcher intended to determine the sector of the business industry from the entrepreneurs who participated in the study. The findings from the field established that most of the SME entrepreneurs were in the agriculture sector (28%); a number of the small businesses were in the food industry (23%); transport industry (20%), education and employment (9%), computer and communication (8%), building and construction (6%); entertainment (3%) and another 3% in medical and health. The findings are presented on Table 4.7.
4.2.9 Source of Business Capital Start-Up

The researcher aimed to determine the source of business capital start-up from the entrepreneurs who participated in the study. The findings established that the main source of the entrepreneurs’ start-up capital was from their own equity (63%), another portion came from family (20%), banks (9%) and friends (8%). The findings indicated that the owner’s equity was the main source of business start-up capital.
4.3 New Approaches of Financial Inclusion to Small Businesses

This section determined the new approaches of financial inclusion to small businesses. The responses were measured using a 3-point Likert scale whereby 3 indicated a greater extent, 2 showed a moderate extent and 1 implied no extent at all. The findings in Table 4.2 revealed that most of the respondents agreed that Mpesa was one of the most popular new approaches to financial inclusion among small businesses adopted to a great extent (mean score = 3.63). This was followed by agent banking (mean score = 3.22) as this made it the second popular financial inclusion. M-Shwari (mean score = 3.15) was the third popular means of financial inclusion, Internet Banking (mean score = 3.00) was the fourth used financial inclusion. PayMobi (mean score = 2.77) also provided banking solutions to the users of the platform. ePay (mean score = 2.53) also offered fast reliable money transfers from the convenience of the customers. Pesabazaar (mean score = 2.47) was the least popular means of financial inclusion and the newly introduced business@smart which no one used at all (mean score = 1.87). Therefore, Mpesa and agent banking were the most popular financial inclusion and provided majority of the financial products and services. This could also be attributed to the strong network of agents.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent Banking</td>
<td>3.63</td>
<td>2</td>
</tr>
<tr>
<td>M-Pesa</td>
<td>3.22</td>
<td>3</td>
</tr>
<tr>
<td>PayMobi</td>
<td>3.15</td>
<td>4</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>3.00</td>
<td>5</td>
</tr>
<tr>
<td>M-Shwari</td>
<td>2.92</td>
<td>6</td>
</tr>
<tr>
<td>ePay</td>
<td>2.77</td>
<td>7</td>
</tr>
<tr>
<td>Business@Smart</td>
<td>2.53</td>
<td>8</td>
</tr>
</tbody>
</table>

Table 4.2: New Approaches of Financial Inclusion to Small Businesses
4.3.3 Nature of the Financial Products and Services

This section determined the new approaches of financial inclusion to small businesses. The responses were measured using a 3-point likert scale whereby 1 indicated a great extent, 2 showed a moderate extent and 3 implied no extent at all. The findings in Table 4.3 revealed that most of the respondents suggested that to a great extent that the most popular financial products and services that the SME entrepreneurs participated in was cash out (withdrawals) was adopted to a great extent (mean score = 1.88). This was followed by salary payments (mean score = 1.95), making transfer of funds to someone else’s account (mean score = 2.87), cash in (deposits) (mean score = 2.88), kill payment (mean score = 2.79), balance inquiry (mean score = 2.64), access to loans (mean score = 2.63), repayments of loans (mean score = 2.55), document collection for debit and credit cards, loan applications (mean score = 2.79) and document collection for account opening forms (mean score = 2.76). In addition, MPesa and agent banking provided most of the financial products and services to a small extent. The new financial products and services make important contribution to enhancing financial inclusion by small businesses that traditional have been unable to be reached by formal financial institutions.
Table 4: Nature of the Financial Products and Services

<table>
<thead>
<tr>
<th>Statement</th>
<th>Agent</th>
<th>Banking</th>
<th>M-Pesa</th>
<th>PesaMob</th>
<th>Internet Banking</th>
<th>M-Shwari</th>
<th>ePay</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash In (Deposits)</td>
<td>2.46</td>
<td>2.40</td>
<td>2.43</td>
<td>2.04</td>
<td>2.72</td>
<td>2.94</td>
<td></td>
<td>2.80</td>
</tr>
<tr>
<td>Cash Out (Withdrawals)</td>
<td>2.86</td>
<td>2.46</td>
<td>2.36</td>
<td>2.68</td>
<td>2.68</td>
<td>2.93</td>
<td></td>
<td>2.90</td>
</tr>
<tr>
<td>Document collection for</td>
<td>1.31</td>
<td>2.37</td>
<td></td>
<td></td>
<td>2.37</td>
<td>0.76</td>
<td></td>
<td>0.76</td>
</tr>
<tr>
<td>Account Opening forms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayments of loans</td>
<td>1.85</td>
<td>2.87</td>
<td>2.23</td>
<td>2.44</td>
<td>2.03</td>
<td>1.84</td>
<td></td>
<td>1.84</td>
</tr>
<tr>
<td>Access to forms</td>
<td>1.72</td>
<td>2.31</td>
<td>2.13</td>
<td>2.36</td>
<td>2.12</td>
<td>1.83</td>
<td></td>
<td>1.83</td>
</tr>
<tr>
<td>Bills payment</td>
<td>2.32</td>
<td>2.49</td>
<td>2.32</td>
<td>2.22</td>
<td>2.46</td>
<td>2.69</td>
<td></td>
<td>2.79</td>
</tr>
<tr>
<td>Salary payments</td>
<td>3.55</td>
<td>2.46</td>
<td>2.27</td>
<td>2.21</td>
<td>2.67</td>
<td>2.44</td>
<td></td>
<td>2.44</td>
</tr>
<tr>
<td>Balance enquiry</td>
<td>1.16</td>
<td>2.55</td>
<td>2.72</td>
<td>2.24</td>
<td>2.72</td>
<td>2.15</td>
<td></td>
<td>2.15</td>
</tr>
<tr>
<td>Make a transfer to someone else’s account</td>
<td>2.22</td>
<td>2.86</td>
<td>2.86</td>
<td>2.63</td>
<td>2.53</td>
<td>2.84</td>
<td></td>
<td>2.84</td>
</tr>
<tr>
<td>Average</td>
<td>1.74</td>
<td>1.98</td>
<td>1.65</td>
<td>2.87</td>
<td>1.74</td>
<td>2.37</td>
<td></td>
<td>2.37</td>
</tr>
</tbody>
</table>

4.3.2 Correlation between Financial Inclusion and Products and Services

The aim of this section was to determine the correlation between financial inclusion and products and services. The correlation was significant at the 0.01 level. The findings indicated that there was a weak relationship between agent banking and cash in (deposits) at (r = 0.356, p < 0.01). The relationship was extended to cash out (withdrawals) at (r = 0.249, p < 0.01), bills payment (r = 0.315, p < 0.01), salary payments (r = 0.209, p < 0.01) and transfer to someone else’s account (r = 0.209, p < 0.01). The findings indicated that there was a weak relationship between M-Pesa and cash in (deposits) at (r = 0.246, p < 0.01). The relationship was extended to cash out (withdrawals) at (r = 0.264, p < 0.01) and transfer of funds to someone else’s account at (r = 0.156, p < 0.01). There was also a weak correlation between PesaM and balance enquiry at (r = 0.173, p < 0.01). Internet banking and cash in (deposits) were weakly correlated at (r = 0.356, p < 0.01). The same applied to ePay and transfer of funds to someone else’s account at (r = 0.228, p < 0.01) as indicated in Table 4.
Table 4.4: Correlation between Financial Inclusion and Products and Services

<table>
<thead>
<tr>
<th>Field Code</th>
<th>Cash In</th>
<th>Cash Out</th>
<th>Access to Loans</th>
<th>Bills Payment</th>
<th>Salary Payment</th>
<th>Balance Enquiry</th>
<th>Make a Transfer to Someone Else’s Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent Banking</td>
<td>Pearson Correlation: 0.65 **</td>
<td>0.64 **</td>
<td>0.67 **</td>
<td>0.65 **</td>
<td>0.64 **</td>
<td>0.65 **</td>
<td>0.64 **</td>
</tr>
<tr>
<td>M-Pesa</td>
<td>Pearson Correlation: 0.29 **</td>
<td>0.26 **</td>
<td>0.22 **</td>
<td>0.23 **</td>
<td>0.22 **</td>
<td>0.23 **</td>
<td></td>
</tr>
<tr>
<td>Pay</td>
<td>Pearson Correlation: -0.107</td>
<td>0.225</td>
<td>0.227</td>
<td>-0.026</td>
<td>0.104</td>
<td>0.175</td>
<td>0.218</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>Pearson Correlation: -0.123</td>
<td>0.193</td>
<td>0.194</td>
<td>-0.120</td>
<td>0.218</td>
<td>0.203</td>
<td>0.205</td>
</tr>
<tr>
<td>Merchant Banking</td>
<td>Pearson Correlation: 0.050</td>
<td>0.123</td>
<td>0.125</td>
<td>0.120</td>
<td>0.218</td>
<td>0.215</td>
<td>0.216</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

The findings indicate that there is a significant correlation between the two variables, M-Pesa and the nature of the financial products and services ($r = 0.158, p = 0.000$). R square is 0.75 which implies that only 75% of the new financial products and services are determined by M-Pesa services as this translates in 0.015 units in cash deposits, 0.054 units in cash withdrawal, 0.170 units in payment of bills and 0.038 units in transfer of cash to someone else’s account as indicated in Table 4.4.
The equation of regression line is:

$$MPESA = 1.938 + 0.015 CashIn (Deposits) + 0.054 CashOut (Withdrawals) + 0.170 BillPayments + 0.038 Make a transfer to someone else's account$$

Table 4.5: Regression of Mpesa and the Nature of the Financial Products

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CashIn</td>
<td>CashOut</td>
<td>BillPayments</td>
<td>Make a transfer to someone else's account</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4 Role of New Approaches in Financial Inclusion

4.4.1 Role of Agent Banking in Financial Inclusion

This section explored the role of agent banking in financial inclusion to small businesses.

The responses were measured using a 5-point Likert scale whereby 1 indicated a great extent, 2 showed a moderate extent, and 1 implied no extent at all. The findings in Table 4.6 revealed that most of the respondents agreed that to a great extent that agent banking helps facilitate business savings to a large extent (mean score = 4.07). Savings enable small businesses to build their financial assets. Second, a large proportion of the respondents agreed that agent banking is fairly convenient (mean score = 3.64). The issue of convenience is an important attribute of financial inclusion that enables small businesses to fulfill their financial affairs. Third, a large number of the respondents suggested that agent banking services...
are useful for emergencies (mean score = 2.64). Fourth, a number of the respondents suggested that agent banking help host the business (mean score = 2.49). Fifth, a number of the respondents suggested that agent banking has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs (mean score = 2.38). On the other hand, a small proportion of the respondents suggested that agent banking has made the business transactions to be faster and efficient (mean score = 2.07). Few respondents suggested that agent banking has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs to a small extent (mean score = 1.89). Few respondents suggested that agent banking has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs (mean score = 1.89). Very few respondents suggested that agent banking has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs (mean score = 1.89).

**Table 4.5:** Role of Agent Banking in Financial Inclusion

<table>
<thead>
<tr>
<th><strong>Agent Banking</strong></th>
<th><strong>Mean Score</strong></th>
<th><strong>Ranking</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent Banking is fairly convenient</td>
<td>2.88</td>
<td>2</td>
</tr>
<tr>
<td>There is reduced cost in accessing financial services through Agent Banking</td>
<td>2.38</td>
<td>6</td>
</tr>
<tr>
<td>Agent banking has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs</td>
<td>1.89</td>
<td>9</td>
</tr>
<tr>
<td>Agent banking helps facilitate business savings</td>
<td>2.07</td>
<td>1</td>
</tr>
<tr>
<td>There is reduced business cost in accessing financial services through Agent Banking</td>
<td>2.38</td>
<td>5</td>
</tr>
<tr>
<td>Agent banking has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs</td>
<td>2.38</td>
<td>5</td>
</tr>
<tr>
<td>Agent banking services are useful for emergencies</td>
<td>2.07</td>
<td>7</td>
</tr>
<tr>
<td>Agent banking has made business transactions to be faster and efficient</td>
<td>2.49</td>
<td>4</td>
</tr>
<tr>
<td>Agent banking help boost business</td>
<td>2.10</td>
<td></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td>2.39</td>
</tr>
</tbody>
</table>
4.4.2 Role of MPESA in Financial Inclusion

This section explored the role of MPESA in financial inclusion in small businesses. The responses were measured using a 3-point likert scale whereby 1 indicated a greater extent, 2 showed a moderate extent and 3 implied no extent at all. The findings in Table 4.4 revealed that most of the respondents suggested that there was reduced cost in accessing financial services through MPESA (a mean score of 3.48). Lower running costs in MPESA can attract poor small businesses adopt the financial service. Second, a large proportion of the respondents suggested that MPESA is fairly convenient (mean score = 3.31). Third, a large number of the respondents suggested that MPESA has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs (mean score = 3.07). Fourth, a number of the respondents suggested that MPESA has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs (mean score = 3.64). On the other hand, a small proportion of the respondents suggested that agent banking has made business transactions to be faster and efficient (mean score = 3.35). Saving breaks down some of the barriers that prevent poor people from accessing formal financial services and in doing so, proves that no one is too poor to save. Also, a few respondents suggested that MPESA helps facilitate business savings (mean score = 2.15). Fewer respondents suggested that MPESA services are useful for emergencies (mean score = 1.98) and very few respondents suggested that there is reduced business cost in accessing financial services through MPESA (mean score = 1.89).
### Table 4: Role of MPESA in Financial Inclusion

<table>
<thead>
<tr>
<th>MPESA</th>
<th>Mean Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPESA is fairly convenient</td>
<td>3.31</td>
</tr>
<tr>
<td>There is reduced cost in accessing financial services through MPESA</td>
<td>3.48</td>
</tr>
<tr>
<td>MPESA has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs</td>
<td>2.84</td>
</tr>
<tr>
<td>MPESA help facilitate business savings</td>
<td>2.15</td>
</tr>
<tr>
<td>There is reduced business cost in accessing financial services through MPESA</td>
<td>1.89</td>
</tr>
<tr>
<td>MPESA has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs</td>
<td>2.07</td>
</tr>
<tr>
<td>MPESA services are ideal for emergencies</td>
<td>1.90</td>
</tr>
<tr>
<td>Agent banking has made business transactions to be faster and efficient</td>
<td>1.18</td>
</tr>
<tr>
<td>MPESA help boost business</td>
<td>2.44</td>
</tr>
<tr>
<td>Average</td>
<td>2.94</td>
</tr>
</tbody>
</table>

This section explored the role of grants in financial inclusion to small businesses. The findings in Table 4 revealed that most of the respondents agreed that grants have helped in increasing financial literacy as the agents interact on a one on one basis with the entrepreneurs. Second, a large proportion of the respondents agreed that grants help boost business. Third, a large number of the respondents suggested that there is reduced cost in accessing financial services through grants, and fourth, a number of the respondents agreed that grants have helped in increasing financial literacy as the agents interact on a one on one basis with the entrepreneurs. These findings indicated that grants were useful for small businesses, and a number of the respondents agreed that grants helped to make business transactions faster and more efficient.
4.4 Role of ePay in Financial Inclusion

This section explored the role of ePay in financial inclusion in small businesses. The responses were measured using a 3-point Likert scale whereby 3 indicated a greater extent, 2 showed a moderate extent and 1 implied no extent at all. The findings in Table 4 revealed that most of the respondents suggested that to a great extent that there is reduced business cost in accessing financial services through ePay (mean score = 2.56). Third, a large number of the respondents suggested that there is reduced cost in accessing financial services through ePay (mean score = 2.55). Fourth, a number of the respondents suggested to an extent that ePay helps facilitate business savings (mean score = 2.44) and fifth, a number of the respondents suggested that ePay is fairly convenient (mean score = 2.25). This implies that ePay offered fast, reliable money transfers from the convenience of the customers. On the other hand, a small proportion of the respondents suggested that ePay help boost the business (mean score = 1.42). Few respondents suggested that ePay has helped increase financial literacy as agents interact on a one-on-one basis with the entrepreneurs (mean score = 1.76) and fewer respondents suggested that ePay services are useful for emergencies to a small extent (mean score = 1.42).
This means that lower transaction cost using ePay facilitates business savings critical for emergencies.
Table 4: Role of ePay in Financial Inclusion

<table>
<thead>
<tr>
<th>Role of ePay</th>
<th>Mean Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>ePay is fairly convenient</td>
<td>2.13</td>
</tr>
<tr>
<td>There is reduced cost in accessing financial services through ePay</td>
<td>2.55</td>
</tr>
<tr>
<td>ePay has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs</td>
<td>1.76</td>
</tr>
<tr>
<td>ePay helps facilitate business savings</td>
<td>2.66</td>
</tr>
<tr>
<td>There is reduced business cost in accessing financial services through ePay</td>
<td>2.45</td>
</tr>
<tr>
<td>ePay services are useful for entrepreneurs</td>
<td>1.82</td>
</tr>
<tr>
<td>ePay has made business transactions to be faster and efficient</td>
<td>2.36</td>
</tr>
<tr>
<td>ePay helps boost my business</td>
<td>2.04</td>
</tr>
<tr>
<td>Average</td>
<td>2.20</td>
</tr>
</tbody>
</table>

4.4 Role of Internet Banking in Financial Inclusion

This section sought to determine the role of internet banking in financial inclusion to small businesses. The responses were measured using a 3-point likert scale whereby 3 indicated a great extent, 2 showed a moderate extent and 1 implied to no extent at all. The findings in Table 4 revealed that most of the respondents suggested that to a great extent internet banking has made business transactions to be faster and efficient (mean score = 2.74). The findings imply that with internet banking, businesses can run efficiently while offering the tools and financial services that help the enterprises to achieve their goals. Second, a large proportion of the respondents suggested that internet banking services are useful for emergencies (mean score = 2.66). Third, a large number of the respondents suggested that there was reduced business cost in accessing financial services through Internet Banking (mean score = 2.56) and fourth, a number of the respondents suggested that Internet Banking helps facilitate the business savings (mean score = 2.45). On the other hand, a small proportion of the respondents suggested that there was reduced cost in accessing financial services through internet banking (mean score = 1.73). Few respondents suggested that internet banking has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs (mean score = 1.27) and fewer respondents suggested that internet banking is fairly convenient (mean score = 1.25).
banking solution to the users from the comfort of their location. It seems that internet banking does not meet the expectations of many users in terms of fulfilling their need for convenience through its use. This contradicts Mols (1998) argument that internet banking brings along the joy of someone enjoying the benefits of privacy while interacting from financial institutions in their own convenience.
### Table 4: Role of Internet Banking in Financial Inclusion

<table>
<thead>
<tr>
<th>Internet Banking</th>
<th>Mean</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet Banking is fairly convenient</td>
<td>6.25</td>
<td>8</td>
</tr>
<tr>
<td>There is reduced cost in accessing financial services through Internet Banking</td>
<td>6.30</td>
<td>6</td>
</tr>
<tr>
<td>Internet Banking has helped increase financial literacy as the agents interact on a one-on-one basis with the entrepreneurs.</td>
<td>6.27</td>
<td>7</td>
</tr>
<tr>
<td>Internet Banking helps facilitate business savings</td>
<td>6.63</td>
<td>4</td>
</tr>
<tr>
<td>There is reduced business cost in accessing financial services through Internet Banking</td>
<td>5.56</td>
<td>3</td>
</tr>
<tr>
<td>Internet Banking services are useful for my separation</td>
<td>5.88</td>
<td>2</td>
</tr>
<tr>
<td>Internet Banking has made business transactions to be faster and efficient</td>
<td>5.74</td>
<td>1</td>
</tr>
<tr>
<td>Internet Banking helps boost my business</td>
<td>5.38</td>
<td>5</td>
</tr>
<tr>
<td>Average</td>
<td>5.24</td>
<td></td>
</tr>
</tbody>
</table>

#### 4.4 Role of M-Shwari in Financial Inclusion

This section explored the role of M-Shwari in financial inclusion to small businesses. The responses were measured using a 3-point Likert scale whereby 3 indicated a greater extent, 2 showed a moderate extent and 1 implied no extent at all. The findings in Table 5 revealed that most of the respondents suggested that to a great extent that M-Shwari helps facilitate business savings (mean score = 3.03). This means that M-Shwari seeks to improve and formalize funds-transfer systems for the poor and businesses which have been marginalized by other traditional approaches of financial inclusion that limit their ability to build their financial assets and skills through savings.

Second, a large proportion of the respondents suggested that M-Shwari has helped increase financial literacy as the agents interact on a one-on-one basis with the entrepreneurs (mean score = 2.96). Third, a large number of the respondents suggested that M-Shwari has made business transactions to be faster and efficient (mean score = 2.88). Fourth, a number of the respondents suggested to an extent that there is reduced business cost in accessing financial services through M-Shwari (mean score = 2.63). Fifth, a number of the respondents suggested to an extent that there is reduced cost in accessing financial services through M-Shwari (mean score = 2.44). On the other hand, a small proportion of the respondents suggested...
agreed that M-Shwari is fairly convenient (mean score = 2.43). Few respondents suggested that M-Shwari services are useful for emergencies to a small extent (mean score = 2.42) and few respondents agreed that M-Shwari helps boost my business at a mean of 2.32.
Table 4.2: Role of M-Shwari in Financial Inclusion

<table>
<thead>
<tr>
<th>M-Shwari</th>
<th>Field Code</th>
<th>Change</th>
<th>Field Code</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>M-Shwari is fairly convenient</td>
<td>2.43</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is reduced cost in accessing financial services through M-Shwari</td>
<td>2.44</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-Shwari has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs</td>
<td>2.46</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-Shwari helps facilitate business savings</td>
<td>2.45</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is reduced business cost in accessing financial services through M-Shwari</td>
<td>2.43</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-Shwari services are useful for emergencies</td>
<td>2.42</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-Shwari has made business transactions to be faster and efficient</td>
<td>2.48</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-Shwari help boost business</td>
<td>2.32</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>2.44</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 4.4.2 Role of PesaMob in Financial Inclusion

This section intended to investigate the role of PesaMob in financial inclusion to small businesses. The responses were measured using a 3-point likert scale whereby 1 indicated a greater extent, 2 showed a moderate extent and 3 to an extent at all. The findings in Table 4.1 revealed that most of the respondents suggested that to a great extent that PesaMob has made business transactions to be faster and efficient (mean score = 2.84). This indicates that PesaMob technology can take financial products and services to a new scale by making business transactions to be faster and efficient. Second, a large proportion of the respondents suggested that PesaMob services are useful for emergencies (mean score = 2.36). Third, a large number of the respondents suggested that PesaMob helps facilitate business savings (mean score = 2.34). Fourth, a number of the respondents suggested that to an extent that agent there is reduced cost in accessing financial services through PesaMob (mean score = 2.22). Fifth, a number of the respondents suggested that to an extent that there is reduced business cost in accessing financial services through PesaMob (mean score = 2.17). On the other hand, a small proportion of the respondents suggested that PesaMob has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs (mean score = 2.13). Few respondents suggested that PesaMob help boost business (mean score = 2.36).
A low and very few respondents suggested that PesahMob is fairly convenient, a small extent (mean score = 1.43).

Table 4.10: Role of PesahMob in Financial Inclusion

Tabled in the Likert scale used and allow for discussion in the whole of this chapter. Evaluation by respondents indicated that PesahMob has been positively rated for convenience.
### Table 4.1: Role of Pesamob in Financial Inclusion

<table>
<thead>
<tr>
<th>Pesamob</th>
<th>Mean Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pesamob is fairly convenient</td>
<td>1.43</td>
</tr>
<tr>
<td>There is reduced cost in accessing financial services through Pesamob</td>
<td>2.22</td>
</tr>
<tr>
<td>Pesamob has helped increase financial literacy as the agents interact on a one on one basis with the entrepreneurs</td>
<td>2.35</td>
</tr>
<tr>
<td>Pesamob helps facilitate business savings</td>
<td>3.16</td>
</tr>
<tr>
<td>There is reduced business cost in accessing financial services through Pesamob</td>
<td>2.17</td>
</tr>
<tr>
<td>Pesamob services are useful for emergencies</td>
<td>2.56</td>
</tr>
<tr>
<td>Pesamob has made business transactions to be faster and efficient</td>
<td>2.84</td>
</tr>
<tr>
<td>Pesamob helps boost business</td>
<td>2.47</td>
</tr>
<tr>
<td>Average</td>
<td>2.21</td>
</tr>
</tbody>
</table>

**Correlation between Financial Inclusion and its Role in Financial Inclusion**

The correlation was significant at the 0.01 level. The findings indicated that there was a strong relationship between Pesamob and changes in financial inclusion, as well as a strong relationship between Pesamob and business savings. The correlation between Pesamob and business transactions were also significant, indicating a strong relationship. The results of the correlation analysis are presented in Table 4.1. The significance level of the correlation was set at 0.01, as indicated by the asterisk (*) symbol next to the correlation coefficient in the table.
<table>
<thead>
<tr>
<th></th>
<th>Agent Banking Pearson Correlation</th>
<th>M-Pesa Pearson Correlation</th>
<th>Pesa Mob Pearson Correlation</th>
<th>Internet Banking Pearson Correlation</th>
<th>M-Swar Pearson Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.217 **</td>
<td>.096</td>
<td>.230</td>
<td>.010</td>
<td>.010</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.002</td>
<td>.216</td>
<td>.232</td>
<td>.894</td>
<td>.894</td>
</tr>
<tr>
<td>N</td>
<td>190</td>
<td>168</td>
<td>179</td>
<td>179</td>
<td>165</td>
</tr>
<tr>
<td></td>
<td>.096</td>
<td>.117</td>
<td>.210</td>
<td>.045</td>
<td>.045</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.216</td>
<td>.032</td>
<td>.546</td>
<td>.045</td>
<td>.002</td>
</tr>
<tr>
<td>N</td>
<td>168</td>
<td>181</td>
<td>171</td>
<td>170</td>
<td>159</td>
</tr>
<tr>
<td></td>
<td>.010</td>
<td>.045</td>
<td>.404**</td>
<td>.010</td>
<td>.045</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.894</td>
<td>.564</td>
<td>.045</td>
<td>.894</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>179</td>
<td>170</td>
<td>188</td>
<td>197</td>
<td>176</td>
</tr>
<tr>
<td></td>
<td>.010</td>
<td>.017</td>
<td>.369**</td>
<td>.010</td>
<td>.045</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.894</td>
<td>.832</td>
<td>.045</td>
<td>.002</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>165</td>
<td>159</td>
<td>176</td>
<td>176</td>
<td>183</td>
</tr>
</tbody>
</table>
* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
4.5 Challenges Faced by Small Businesses in Adopting the New Approaches

4.5.1 Challenges Faced by Small Businesses in Adopting Agent Banking

This section explored the challenges faced by small businesses in adopting the new approaches. The responses were measured using a 3-point likert scale whereby 3 indicated a great extent, 2 showed a moderate extent and 1 implied to no extent at all. The findings in Table 4.1 revealed on the lack of clear information on agent banking, most of the respondents mentioned it as a challenge to a great extent (45%) followed by to no extent at all (29%) and 26% to a moderate extent. On the cost of conducting small transactions in agent banking made entrepreneurs shun away from using such services. Most of the respondents mentioned it as a great extent (49%) followed by a moderate extent (27%) and 23% to no extent at all. On whether the transactions of agent banking were restrictive, the findings showed that most of the respondents suggested it as a great extent (45%), not extent at all (30%) and 24% mentioned it to a moderate extent. On untrained financial providers of agent banking, majority of the respondents mentioned it as a challenge to a great extent (43%), 34% mentioned it to an extent of all and 23% mentioned it to a moderate extent. On the inadequate cash to meet customer requests especially in agent banking, most of the respondents mentioned it as a challenge to a great extent (53%), 26% mentioned it to a moderate extent and 21% to no extent at all. On the lack of credible information on agent banking that best suits the entrepreneur, most of the respondents mentioned that 40% of the respondents mentioned it as an extent of all. 14% mentioned it to a moderate extent and 46% mentioned it as great extent. On the increase in fraudulent activities in agent banking, most of the respondents mentioned it as a great extent (48%), 33% in a moderate extent and 21% to no extent at all as presented in Table 4.1.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Not at all</th>
<th>Moderate</th>
<th>Great</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of clear information on agent banking</td>
<td>58</td>
<td>29</td>
<td>51</td>
</tr>
<tr>
<td>Cost of conducting small transactions in agent banking</td>
<td>58</td>
<td>29</td>
<td>51</td>
</tr>
<tr>
<td>Restrictive nature of transactions in agent banking</td>
<td>58</td>
<td>29</td>
<td>51</td>
</tr>
<tr>
<td>Untrained financial providers of agent banking</td>
<td>58</td>
<td>29</td>
<td>51</td>
</tr>
<tr>
<td>Inadequate cash to meet customer requests</td>
<td>58</td>
<td>29</td>
<td>51</td>
</tr>
<tr>
<td>Lack of credible information on agent banking</td>
<td>58</td>
<td>29</td>
<td>51</td>
</tr>
</tbody>
</table>
the financial information.

The costs of conducting small transactions using agent banking are too restrictive.

Many respondents agreed that most of the entrepreneurs shun away from using such services. Fourth, a number of the respondents agreed that the untrained financial transactions using agent banking were not credible information.
4.3.2 Challenges Faced by Small Businesses in Adopting M-Pesa

This section was interested in knowing the challenges faced by small businesses in adopting M-Pesa. The responses were measured using a 1-point likert scale whereby 1 indicated a greater extent, 2 showed a moderate extent and 3 implied to no extent at all.

This section explored the challenges faced by small businesses in adopting M-Pesa from the respondents who were surveyed in the study. On the lack of clear information on agent banking, most of the respondents mentioned it was a challenge to a great extent (62% followed by to a moderate extent to extent at all; 14% and 15% to no extent at all. On the issue of conducting small transactions in agent banking made the entrepreneurs shy away from using such services, most of the respondents mentioned to a great extent (66%) followed by to a moderate extent (28%) and 6% to no extent at all. On the restriction of the transactions of agent banking where the restrictions, the findings showed that most of the respondents suggested to a great extent (43%), vast extent at all (21%) and 23% mentioned to a moderate extent. On untrained financial providers of agent banking, majority of the respondents mentioned it was a challenge to a great extent (65%); 22% mentioned to no extent at all and 13% mentioned to a moderate extent. On the inadequate cash to meet customer request especially in agent banking, most of the respondents mentioned it was a challenge to a great extent (56%); 15% to no extent at all and 29% to a moderate extent. On the lack of credible information on agent banking that have come the development, most of the respondents (48%) mentioned to no extent at all; 17% to a great extent and 35% to a moderate extent. On the increase in fraudulent activities in M-Pesa, most of the respondents mentioned to a great extent (43%); 15% to a moderate extent and 35% to no extent at all as presented in Table 4.12.
The findings in Table 4 reveal that a large proportion of the respondents agreed that there was an increase in fraudulent activities in M-Pesa at a mean of (2.44). Second, a large proportion of the respondents agreed that there was inadequate cash to meet customer requests especially in M-Pesa (m = 2.09). Third, a large number of the respondents suggested that there are untrained financial providers of M-Pesa (m = 1.99). Fourth, a number of the respondents agreed to an extent that the costs of conducting small transactions in M-Pesa make entrepreneurs shun away from using such services (m = 1.92). On the other hand, a small proportion of the respondents agreed that there was lack of credible information on M-Pesa that best suits the entrepreneur at a mean of 1.88. Few respondents agreed that the transactions using M-Pesa are too restrictive at a mean of 1.28 and very few respondents agreed that there was lack of clear information on M-Pesa at a mean of 1.08.

<table>
<thead>
<tr>
<th>Table 4: Challenges Faced by Small Businesses in Adopting M-Pesa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Lack of clear information on M-Pesa</td>
</tr>
<tr>
<td>Lack of credible information on M-Pesa</td>
</tr>
<tr>
<td>Increase in fraudulent activities in M-Pesa</td>
</tr>
<tr>
<td>Inadequate cash to meet customer requests especially in M-Pesa</td>
</tr>
<tr>
<td>Untrained financial providers of M-Pesa</td>
</tr>
</tbody>
</table>

### TABLE 4 CHALLENGES FACED BY SMALL BUSINESSES IN ADOPTING M-PESA

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Field</th>
<th>Code</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of clear information on M-Pesa</td>
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<td>10</td>
<td></td>
</tr>
<tr>
<td>Lack of credible information on M-Pesa</td>
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<td>15</td>
<td></td>
</tr>
<tr>
<td>Increase in fraudulent activities in M-Pesa</td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Inadequate cash to meet customer requests especially in M-Pesa</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Untrained financial providers of M-Pesa</td>
<td>30</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>
The costs of conducting small transactions in M-PESA make entrepreneurs shy away from using such services.

Transactions using M-PESA are too restrictive.

There are untrained financial providers of M-PESA.

Inadequate cash to meet customer requests especially in M-PESA.

There is lack of credible information on M-PESA that best suits the entrepreneur.

There is increase in fraudulent activities in M-PESA.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Field Code</th>
<th>Changed</th>
</tr>
</thead>
<tbody>
<tr>
<td>The costs of conducting small transactions in M-PESA make entrepreneurs shy away from using such services.</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Transactions using M-PESA are too restrictive.</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>There are untrained financial providers of M-PESA.</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Inadequate cash to meet customer requests especially in M-PESA.</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>There is lack of credible information on M-PESA that best suits the entrepreneur.</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>There is increase in fraudulent activities in M-PESA.</td>
<td>10</td>
<td>1</td>
</tr>
</tbody>
</table>
The lack of credible information on grants that best suit the entrepreneur.

There is an increase in fraudulent activities in grants.

Challenges Faced by Small Businesses in adopting ePay

This section aimed to explore the challenges faced by small businesses in adopting ePay.

The responses were measured using a 3-point Likert scale whereby 1 indicated a greater extent, 2 showed a moderate extent, and 3 implied to no extent at all. On the lack of clear information on ePay, most of the respondents mentioned it was a challenge to a great extent (48%) followed by moderate extent (38%) and 24% to no extent at all. On the costs of conducting small transactions in ePay make entrepreneurs stay away from using such services, most of the respondents mentioned it to a great extent (55%), followed by moderate extent (12%) and 31% to no extent at all. On whether the transactions of ePay were too restrictive, the findings showed that most of the respondents agreed to a great extent (49%), moderate extent (30%) and 21% to no extent at all. On untrained financial providers of ePay, majority of the respondents mentioned it was a challenge to no extent at all (40%), moderate extent (36%) and 21% to no extent at all. On the inadequate cash to meet customer requests especially in ePay, most of the respondents mentioned it was a challenge to a great extent (52%), moderate extent (29%) and 18% to no extent at all. On the lack of credible information on ePay that best suits the entrepreneur, most of the respondents mentioned that 52% of the respondents mentioned it to a great extent (49%), moderate extent (12%), and 18% to no extent at all. On the increase in fraudulent activities in ePay, most of the respondents mentioned that 44% mentioned it to a great extent and 39% to no extent at all and 27% to a moderate extent as presented in Table 4.1.

The findings in Table 4.1 revealed that most of the respondents agreed that in ePay, there is a lack of clear information on how to adopt ePay, 48% of the respondents mentioned it was a challenge to a great extent. Financial providers of ePay are not a number of the respondents agreed that there is a lack of credibility in ePay, most of the respondents mentioned that 52% of the respondents mentioned it to a great extent, 29% to moderate extent and 18% to no extent at all. On the increase in fraudulent activities in ePay, most of the respondents mentioned that 44% mentioned it to a great extent and 39% to no extent at all and 27% to a moderate extent as presented in Table 4.1.
agreed that there were costs of conducting small transactions in Pay that make entrepreneurs shun away from using such services at a mean of 1.22 and very few respondents agreed that there was inadequate cash to meet customer requests especially in Pay at a mean of 1.16.
### Challenges Faced by Small Businesses in Adopting ePay

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Field Code</th>
<th>Changed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of clear information on ePay</td>
<td>Moderate</td>
<td>85</td>
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<tr>
<td>Costs of conducting small transactions in ePay</td>
<td>Great extent</td>
<td>21</td>
</tr>
<tr>
<td>Transactions using ePay are too restrictive</td>
<td>Great extent</td>
<td>45</td>
</tr>
<tr>
<td>There are untrained financial providers of ePay</td>
<td>Great extent</td>
<td>49</td>
</tr>
<tr>
<td>Inadequate cash to meet customer requests, especially in ePay</td>
<td>Great extent</td>
<td>51</td>
</tr>
<tr>
<td>Lack of credit for small or medium-sized businesses using ePay</td>
<td>Great extent</td>
<td>44</td>
</tr>
<tr>
<td>There is increase in fraudulent activities in ePay</td>
<td>Great extent</td>
<td>48</td>
</tr>
</tbody>
</table>

#### Table 4

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of clear information on ePay</td>
<td>46</td>
<td>24</td>
</tr>
<tr>
<td>Costs of conducting small transactions in ePay</td>
<td>66</td>
<td>35</td>
</tr>
<tr>
<td>Transactions using ePay are too restrictive</td>
<td>39</td>
<td>21</td>
</tr>
<tr>
<td>There are untrained financial providers of ePay</td>
<td>74</td>
<td>40</td>
</tr>
<tr>
<td>Inadequate cash to meet customer requests, especially in ePay</td>
<td>38</td>
<td>20</td>
</tr>
<tr>
<td>Lack of credit for small or medium-sized businesses using ePay</td>
<td>65</td>
<td>37</td>
</tr>
<tr>
<td>There is increase in fraudulent activities in ePay</td>
<td>54</td>
<td>28</td>
</tr>
</tbody>
</table>
4.5.5 Challenges Faced by Small Businesses in Adopting Internet Banking

This section aimed to examine the challenges faced by small businesses in adopting Internet Banking. The responses were measured using a 3-point likert scale where 3 indicated a great extent, 2 showed a moderate extent and 1 implied to no extent at all.

On the lack of clear information on Internet banking, most of the respondents mentioned it was a challenge to a great extent (43%) followed by to no extent at all (31%) and 26% to a moderate extent. On the costs of conducting small transactions in agent banking make entrepreneurs shy away from using such services most of the respondents mentioned to a great extent (35%) followed by to no extent at all (29%) and moderate extent (36%). On whether the transactions of Internet banking were too restrictive, the findings showed that most of the respondents suggested to a great extent (66%), not extent at all (26%), and moderate extent (7%). On the need for financial providers of Internet banking majority of the respondents mentioned it was a challenge to a great extent (33%), 34% mentioned to a great extent and 33% mentioned to a moderate extent. On the inadequate cash to meet customer requests especially on Internet banking, most of the respondents mentioned it was a challenge to a great extent (47%), 31% mentioned to a moderate extent and 27% to no extent at all. On the lack of credible information on Internet banking that best suits the entrepreneur most of the respondents mentioned that 56% of the respondents mentioned to a great extent, 34% mentioned to a moderate extent and 10% mentioned to a great extent. On the increase in fraudulent
activities on internet banking, most of the respondents mentioned to a great extent (35%…
15% to a moderate extent and 24% to no extent at all as presented in Table 4.14.

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### Table 4.4: Challenges Faced by Small Businesses in Adopting Internet Banking

<table>
<thead>
<tr>
<th>Challenge Description</th>
<th>Field Code</th>
<th>Changed Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is lack of clear information on Internet banking</td>
<td>28</td>
<td>15</td>
</tr>
<tr>
<td>The costs of conducting small transactions in Internet banking are too high from using such systems</td>
<td>52</td>
<td>28</td>
</tr>
<tr>
<td>Transactions using Internet banking are too restrictive</td>
<td>65</td>
<td>34</td>
</tr>
<tr>
<td>There are untrained financial providers on Internet banking</td>
<td>74</td>
<td>38</td>
</tr>
<tr>
<td>Untrained staff in most customers represent especially in Internet banking</td>
<td>50</td>
<td>27</td>
</tr>
<tr>
<td>There is lack of credible information on Internet banking that best suits the requirements</td>
<td>78</td>
<td>44</td>
</tr>
<tr>
<td>There is increase in fraudulent activities in Internet banking</td>
<td>76</td>
<td>44</td>
</tr>
</tbody>
</table>

#### 4.5.4 Challenges Faced by Small Businesses in Adopting M-Shwari
This section explored the challenges faced by small businesses in adopting M-Shwari.

The responses were measured using a 5-point Likert scale, whereby 5 indicated a great extent, 4 indicated a moderate extent, and 1 implied to no extent at all. The findings revealed that

- The responses were measured using a 3-point Likert scale, whereby 3 indicated a greater extent, 2 showed a moderate extent and 1 implied to no extent at all.
- The findings in Table 4.1 revealed that most of the respondents agreed that there was lack of credible information on M-Shwari that best suits the entrepreneur (mean = 2.74). Second, a large proportion of the respondents agreed that there were untrained financial providers of M-Shwari (mean = 2.08). Third, a large number of the respondents suggested that the costs of conducting small transactions in M-Shwari make entrepreneurs shut away from using such services (mean = 2.04) and fourth, a number of the respondents agreed to an extent that the transactions using M-Shwari are too restrictive (mean = 1.98). On the other hand, a small proportion of the respondents agreed that there was increase in fraudulent activities in M-Shwari (mean = 1.52) and few respondents agreed that there was inadequate cash to meet customer requests especially in M-Shwari (mean = 1.16). On the lack of clear information on agent banking, most of the respondents mentioned it was a challenge to a great extent (42%) followed by equally no extent at all (29%) and 29% to a moderate extent. On the costs of conducting small transactions in agent banking make entrepreneurs shut away from using such services, most of the respondents mentioned in a great extent (49%) followed by no extent at all (30%) and 21% to a moderate extent. On whether the transactions of M-Shwari were too restrictive, the findings showed that most of the respondents suggested that there was lack of credible information on M-Shwari that best suits the entrepreneur, most of the respondents mentioned that 63% of the respondents mentioned to a great extent, 27% to a moderate extent and 11% to no extent at all. On the increase in fraudulent activities in M-Shwari, most of the respondents mentioned to a great extent (46%), 32% to a moderate extent and 22% to no extent at all as presented in Table 4.1.
<table>
<thead>
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</table>

**Table 4:** Challenges Faced by Small Businesses in Adopting M-Swari

<table>
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<tr>
<th>Challenge</th>
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<tbody>
<tr>
<td>There is lack of clear information on M-Swari</td>
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</tr>
<tr>
<td>The costs of conducting small transactions in M-Swari make entrepreneurs shy away from using such services</td>
<td>58</td>
</tr>
<tr>
<td>There are untrained financial providers on M-Swari</td>
<td>78</td>
</tr>
<tr>
<td>Inadequate cash to meet customer requests especially in M-Swari</td>
<td>40</td>
</tr>
<tr>
<td>There is lack of credible information on M-Swari that best suits the entrepreneur</td>
<td>22</td>
</tr>
<tr>
<td>There is increase in fraudulent activities on M-Swari</td>
<td>57</td>
</tr>
</tbody>
</table>
4.5.7 Challenges Faced by Small Businesses in AdoptingPesamob

This section intended to investigate the challenges faced by small businesses in adopting Pesamob. The responses were measured using a 3-point likert scale whereby 1 indicated a greater extent, 2 showed a moderate extent and 3 implied to an extent not at all. On the lack of clear information on Pesamob, most of the respondents mentioned it was a challenge in a great extent (41%) followed by an extent at all (30%) and 29% in a moderate extent.

On the costs of conducting small transactions in agent banking make entrepreneurs shun away from using such services, most of the respondents mentioned in a great extent (54%) followed by an extent at all (27%) and 20% in a moderate extent.

On whether the transactions of Pesamob were too restrictive, the findings showed that most of the respondents suggested in a great extent (46%), not extent at all (34%) and 21% mentioned in a moderate extent. On untrained financial providers of Pesamob, majority of the respondents mentioned it was a challenge in not extent at all (46%), 31% mentioned in a great extent and 23% mentioned in a moderate extent. On the inadequate cash to meet customer requests especially in Pesamob, most of the respondents mentioned it was a challenge in a great extent (44%), 34% mentioned in a moderate extent, and 21% to no extent at all. On the lack of credit information on Pesamob that hampers the entrepreneurs, most of the respondents mentioned that 40% of the respondents mentioned in a moderate extent (30%) and 31% mentioned in an extent at all. On the increase in fraudulent activities in Pesamob, most of the respondents mentioned in a great extent (42%), 31% in a moderate extent and 27% to not extent at all as presented in Table 4.16.
The findings in Table 4. revealed that most of the respondents agreed to a great extent that there was lack of clear information on Pesamob at a mean of (2.72). Second, a large proportion of the respondents agreed that the transactions using Pesamob are too restrictive (m = 2.04). Third, a large number of the respondents suggested that there was an increase in fraudulent activities in Pesamob (m = 1.38) and fourth, a number of the respondents agreed to an extent that the costs of conducting small transactions in Pesamob make entrepreneurs shun away from using such services (m = 1.22). On the other hand, a small proportion of the respondents agreed that there were untrained financial providers of Pesamob at a mean of 1.12 and fewer respondents agreed that there was lack of credible information on Pesamob that best suits the entrepreneur at a mean of 1.03.
### Challenges Faced by Small Businesses in Adopting Pesah Mobi

<table>
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<th>Field Code</th>
<th>Changed</th>
<th>Field Code</th>
<th>Changed</th>
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<td></td>
<td>2</td>
<td></td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

#### Table 4

#### 4.5.3 Correlation between Financial Inclusion and its Challenges

The aim of this section was to determine the correlation between financial inclusion and its challenges in providing financial service. The correlation was significant at the 0.01 level.
The correlation was significant at the 0.01 level. The findings indicated that there was a strong relationship between agent banking and untrained financial providers of agent banking at ($r = 0.696$, $p < 0.01$) and the relationship was extended to the lack of clear information on grants at ($r = 0.230$, $p > 0.01$). The findings also indicated that there was a strong relationship between M-Pesa and there increase in fraudulent activities in M-Pesa at ($r = 0.596$, $p < 0.01$) and this was extended to the lack of clear information on grants ($0.523$, $p < 0.01$) and the lack of clear information on internet banking at ($r = 0.481$, $p > 0.01$) as presented in Table 4.
There are untrained financial providers of agent banking.

There is lack of information on MPESA.

There is lack of clear information on grants.

There is lack of clear information on internet banking.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Financial Inclusion</th>
<th>Agent Banking</th>
<th>M-Pesa Correlation</th>
<th>Pesamob Correlation</th>
<th>Internet Banking</th>
<th>M-Swari Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>There is increase in fraudulent activities on MPESA</td>
<td>Correlation</td>
<td>There is lack of clear information on MPESA</td>
<td>Correlation</td>
<td>There is lack of clear information on Pesamob</td>
<td>Correlation</td>
</tr>
<tr>
<td></td>
<td>There is lack of credible information on M-Swari that best suits the entrepreneur</td>
<td>Correlation</td>
<td>There is lack of clear information on internet banking</td>
<td>Correlation</td>
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<td></td>
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<td>Pearson Correlation</td>
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<td>N</td>
<td></td>
<td>N</td>
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</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed).

**Correlation is significant at the 0.01 level (2-tailed).

### 4.6 Chapter Summary

MPESA is one of the first and the most famous new approaches of financial inclusion in Kenya. Most of the new approaches of financial inclusion (MPESA, agent banking, M-Swari, Pesamob and ePay) enabled small business enterprises in Kitui sub-county to save for capital accumulation. Untrained financial providers was a challenge to small businesses in adopting new financial approaches.

A.M. is one of the first and the main new approach of financial inclusion in Kenya. The new financial approach...
has a diverse network of agents. Agent banking was the second popular financial inclusion. Savings can ensure enough financing for capital accumulation, help to balance books of accounts and expand investment. Agent banking and M-Swari help facilitate business savings. Untrained financial providers is a challenge for small businesses in adopting new financial approaches. Lack of untrained financial providers may inhibit financial and non-financial institutions from engaging and training poor people in participating in new financial inclusion.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a discussion on the findings of the research as compared to the findings in the literature review, the summary of the study and recommendations for further improvement on the role of the new approaches of financial inclusion and the impact they have on small businesses. The research is concluded on the basis of the conclusions drawn from the research questions.

5.2 Summary

M-PESA is one of the first and the most famous approaches of financial inclusion, however, the second most popular financial approach is agent banking where there is a diverse network of agents, some of them are members of individuals and organizations. To understand the financial inclusion process, we need to understand the structure and the way in which it works. There are many factors contributing to the success of financial inclusion, one of these factors is the cost of accessing financial services. For low-income individuals, savings can allow people to grow businesses, build assets and reduce their likelihood of suffering from shocks such as natural disasters, droughts or sickness. Financial and non-financial seek to invest in innovative financial linkage models that help to connect the need for businesses with the potential of creating wealth. These linkage models are a part of the broader agenda of financial inclusion, which aims to help people to access financial services and to improve their financial status. However, the amount of money that people save depends on the financial products available.
services to a new scale. Internet banking and M-Pesa made financial transactions be

Innovative financial products and services have challenged the traditional banking methods.

Internet banking and M-Pesa made business transactions to be faster and efficient.

Untrained financial service providers are a challenge for small businesses.

Lack of untrained financial service providers may inhibit financial institutions from engaging and training poor people in participating in financial services.

Financial training can help people understand financial concepts.

Financial training can help small business owners understand the importance of financial inclusion.

Financial training can help small businesses understand the importance of financial inclusion.

Financial training can help small businesses understand the importance of financial inclusion.

5.2 Summary of the Study

The general objective of this study was to determine the role of the new approaches of financial inclusion and the impact they have on small businesses. The specific objectives of this study were: To evaluate the new approaches of financial inclusion to small businesses, to evaluate the role of the new approaches in financial inclusion to the small businesses, and to determine the challenges faced by small businesses when adopting the new approaches.

A descriptive research design was accorded in this study. According to Kiburu Sub County, there were 1,500 SMEs in Kiburu town in 2014. The sampling frame was made up of all 1,500 SMEs in Kiburu town. The study used stratified sampling techniques. At 95% confidence level, it was used to determine a sample size of 316 respondents from a target population of 1,500 SMEs. Questionnaires were used to collect primary data after a pilot test. The data was described using descriptive statistics and frequency distribution and percentage. Inferential statistics such as correlation analysis was used to discover if two variables are related. The data was presented in tables and figures.
The findings revealed that most of the respondents suggested that M-Pesa was one of the most popular new approaches to financial inclusion among small businesses adopted to a great extent. This was followed by agent banking as this made in the second approach. Financial inclusion, M-Shwari was the third revolution of financial inclusion. Internet banking was the fourth new financial inclusion. PayMk also provided banking solution to the needs of the platform. ePay also offered fast, reliable money transfers from the convenience of the customers. And the least popular financial inclusion was the newly introduced bhuag@ which no one used at all.

The findings on the role of new approaches in financial inclusion suggest that agent banking helps facilitate business savings and build their financial assets. The use of M-Pesa reduced the cost in accessing financial services. This can attract poor small businesses adopt the financial service. ePay reduced the cost of doing business cost in accessing financial services. This means that lower transaction cost using ePay facilitates business savings critical for all organizations. The findings revealed that Internet banking has made business transactions to be faster and efficient. M-Shwari helps facilitate business savings. On the other hand, PayMk has made business transactions to be faster and efficient in a great extent. This indicates that PayMk technology can take some financial products and services to a new scale by making business transactions to be faster and efficient.

On the challenges faced by small businesses in adopting new approaches, the high cost of conducting small transactions and inadequate in agent banking made entrepreneurs shun away from using new financial approaches. The challenge presented in using M-Pesa revealed that there was lack of clear information and adequate cash to meet the customer needs. ePay was also affected by inadequate cash to meet customer requests. The cost of conducting small transactions in Internet banking made the entrepreneurs shun away from using the services. The lack of clear information in using the services. M-Shwari experienced inadequate cash to meet customer requests and lacked credible information in using the financial services. The challenge of PayMk also led to the lack of credible information and the costs of conducting small transactions made entrepreneurs shun away from using the new financial approaches.
5.3 Discussion
5.3.1 New Approaches of Financial Inclusion to Small Businesses
M-PESA is one of the first and the most famous new approaches of financial inclusion in Kenya. The findings confirmed that most of the respondents suggested that in a great extent Mpesa was one of the most popular new approaches to financial inclusion among small businesses (mean score 5.6). M-PESA is the most popular program that has grown rapidly because it was started off a long time (2007) than the other approaches in financial inclusion that have been introduced recently (Safaricom, 2011). The new financial approach also has a diverse network of agents. CGAP (2010) survey supports the findings by suggesting M-PESA seeks to improve and formalize fund-transfer system for the poor and businesses which have been marginalized by other traditional approaches of financial inclusion.

Agent banking (mean score 3.22) was the second popular financial inclusion. A number of individuals and businesses located in remote and rural areas of Kikuyu sub-county have adopted agent banking where there is lack of traditional bank network. Agent banking has made an important contribution in enhancing financial inclusion by reaching people that traditional branch-based structures would have been unable to reach. The agent banking model is one in which banks provide financial services through non-bank agents such as grocery stores, retail outlets, post offices, pharmacies, or lottery outlets. Similarly, Lumar, Porteous, and Pokuaa (2008) argue that the agent bank model allows banks to expand services into areas where they do not have sufficient incentive or capacity to establish a formal branch. In Kikuyu sub-county, the majority of agent banking and its implementation contact agents M-PESA agents. However, Proctor (2008) study points out that at the global level the adoption of agent banking model in Kenya still lags behind other countries such as Brazil, Philippines, India, South Africa and Canada.

M-Shwari (mean score 3.11) was the third revolution of financial inclusion. This contradicts Volen (2012) findings that the financial product that is offered to most Kenyans exist ranks on the same level as the use of M-PESA. It seems that the platform applies to a segment of the market but not among most of the business entrepreneurs. Despite of this, Volen (2012) also observes that M-Shwari provides a much needed platform in providing financial service to meet all the customer needs through...
commercial bank of Africa. This depicts that financial access of low income businesses was substantially increased by the services of M-Shwari. Similarly, Imboden (2005) argue that there is convincing evidence that indicates that there is a positive relationship between financial inclusion and the growth of small enterprises. M-Shwari is also similar to PesaMobi (mean score 2.46). The findings indicate that PesaMobi also provide banking solution on the user mobile phone. Similarly, Prokoph (2006) points out that the system allows both existing and non-Family Bank customers to open accounts, transfer funds or borrow loans via their handsets. On the other hand, Mwangi (2014) as well observes that the users of ePesa provide banking solution to the users from the comfort of their location.

On the other hand, the least popular financial inclusion was the newly introduced, Biashara@smart. This platform is yet to be utilized by the small business entrepreneurs in Kibara sub-county as it is aimed to meet the needs of SMEs. This contradicts Mwangi (2014) study that Biashara@smart aim to credible and efficiently empower small businesses to advance their businesses in opening up networking and new business opportunities for SMEs. In the view of all the mobile money transfer plan, they all represent a new type of financial inclusion among small businesses that seek to empower the entrepreneurs in the provision of financial services anywhere and at anytime.

5.3.2 Role of New Approaches in Financial Inclusion

The findings revealed that most of the respondents suggested that to a great extent that agent banking helps facilitate business savings (mean score 3.07). Also, a large proportion of the respondents suggested that to a great extent that M-Shwari helps facilitate the business savings (mean score 3.05). Purcell and Cobb (2004) also suggest that savings enable people to climb up the financial ladder through the access of formal financial products and services.

Innovative financial services help to lower the risk of doing businesses among small enterprises. The findings revealed that most of the respondents suggested that MPESA (mean score 3.48) and ePesa (mean score 3.82) reduced the cost in accessing financial services. Similarly, Palmer and Coveny (2002) points out banks have invested in innovative financial products and services that can meaningfully reach unbanked people at a very low cost in the poorest communities. Elsewhere, Purcell and Cobb (2004),
observed that mobile banking platforms (MPESA and ePay) offer the potential to not only address the distance barrier but also to reduce the overall cost of banking which is a critical component found in the new financial inclusion.

Reduced cost of transactions also acts as a customer protection initiative. Mas and Radcliffe (2011) suggest that reducing the cost of transactions using the innovative financial products and services significantly encourages people to continue and increase the amount of money that they save. This enables the people to make informed choices and take effective action to improve their financial well-being as well as positive results for the improvement of business performance.

Internet banking can enhance business transactions to a new scale of opportunities. The findings revealed that most of the respondents suggested that it is a great option since banking has made the business transactions to be faster and efficient (mean score 2.74). The same applied to PosMobile where it made business transactions to be faster and efficient (mean score 2.84). Mas and Radcliffe (2011) also notes that the mobile money transfer platform contributes to 56 per cent of new financial products and services among small enterprises. Similarly, Makele and Meredith (2013) suggest that the mobile money transfer platform can take banking to a different scale. This is important in ensuring that it reaches the very poorest members in the society. With all these potential of technology, the adoption of internet banking especially among SMEs entrepreneurs in Kibera sub-county, still lags behind due to limited technology infrastructure. But the other mobile money transfer services display an important promising role for financial inclusion of most people and businesses in Kibera sub-county.

5.3.3 Challenges Faced by Small Businesses in Adopting the New Approaches

Untrained financial providers is a challenge for small businesses in adopting new financial approaches. The findings revealed that the most challenging factor of the new financial approach is untrained financial providers of agent banking (mean score 2.42) and the same applied to agent banking (mean score 2.42). The lack of trained financial providers may inhibit financial and non-financial institutions from engaging and training most people in participating in new financial inclusion. Similarly, Hess (2008) suggests that handling the experience of the mobile money transfer agents through training can...
lead to enhanced business management skills in teaching people how to effectively manage and utilise the new financial approaches. The training of money transfer agents, led to the understanding of the basic mechanisms of new financial approaches and financial inclusion of businesses in Kikuyu sub-county.

Fraudulent risk can result in challenges for consumers in trusting new financial approaches when in need to transfer business funds. The findings revealed that fraudulent activities posed a challenge in the use of MPESA (mean score 3.44) in conducting business transactions. This implies that fraud is a concern among MPESA users. Similarly, Purcell and Cobb (2004) report that fraud limits the use of new financial approaches among the underserved business operators, especially in the provision of low-cost and low balance requirements of the banking model. Battle (2005) adds that fraud also accounts 30 percent of most institutions that offer the financial approaches making it difficult for unbanked and under-banked populations to be served well and adequately.

The findings revealed that most of the respondents suggested that to a great extent that there was lack of clear information on Internet Banking (mean score 2.58), PassMash (mean score 2.72) and ePay (mean score 3.44). This is a common problem with underserved consumers who have difficulties in understanding of the new financial products and services. Buk and Meredith (2013) suggest that lack of financial products and services awareness impedes the ability of financial and non-financial institutions in meeting the financial needs of business operators in remote areas where there are no banking services.

The financial isolation of poor business people often results in their lack of financial understanding of credible information associated with the new financial approaches. The findings revealed that most of the respondents suggested that to a great extent that there was lack of credible information on Mshwari that best suits the entrepreneur (mean score 2.74). Lack of credible financial information that is suitable for the needs of poor people, the same people will have incorrect understanding of the new financial products and services hence reluctance to use the new financial approaches. Through the provision of credible information to financial inclusion users may quickly to new financial approaches (Buk and Meredith, 2013).
5.4 Conclusion

Chapter 2 provides an overview of financial inclusion and the main challenges faced by small businesses in accessing financial services. The discussion in this chapter emphasizes the importance of financial inclusion for economic growth and development.

The findings confirm that most of the respondents believe that M-Pesa has been one of the most popular approaches to financial inclusion among small businesses, with a mean score of 3.63. M-Pesa is the most popular program that has grown rapidly because it was started off a longer time (2007), whereas other approaches have been started only recently (2011). M-Pesa approach also has a diverse network of agents. This is because the program has had a broad range of financial products and services that meet the requirements of small businesses. M-Pesa is the most popular service that has reached people who were previously excluded from the financial system due to the poor and businesses which have been marginalized by other traditional approaches of financial inclusion that limit their ability to build financial assets and skills through savings, rather than debt (CGAP, 2010).

Another finding is that agent banking (m = 3.22) was the second popular financial inclusion approach. A number of individuals and businesses located in remote and rural areas of Kikuyu sub-county have adopted this approach because the lack of traditional bank branches is outweighed by offering many important services that are not available in other approaches. Agent banking also has the advantage of reaching people who are located in areas where it is difficult to access financial services. However, the adoption of agent banking has not been uniform across all areas, as some areas have not adopted this approach yet. In Kikuyu sub-county, the maturity of agent banking and its implementation cannot be compared to other countries such as Brazil, Philippines, India, South Africa, Uganda and Kenya (Prolan, 2009).

M-Shwari (m = 3.15) is the third revolution of financial inclusion. M-Shwari is a revolutionary new banking product for M-Pesa customers that allows saving and borrowing money through their phone while earning customer interest on money.
SafariCOM, 2014). M-Shwari is also similar to PesaMOB (m = 2.46) and ePay
Grants (m = 2.22) were among the least popular financial inclusion. Grants are financed by companies or NGOs to promote the establishment of new enterprises. Though grants are succeeded by other new approaches to financial inclusion such as Mpesa, MShwari, Pesamo, and ePay, they are still common in stimulating small businesses for economic growth and prosperity in Kikuyu sub-county. Similarly, White and Kenyon (2001) suggest that such programs may help business operators deal more directly with the problem of access to finance rather than providing them with unsecured revolving credit. Moreover, these programs offer other support services including assistance in business plan development, counseling, and mentoring. Also, these services increase the likelihood of small businesses to access finance and be successful in obtaining other sources of funding (Stiglitz and Weiss, 2001). On the other hand, the least popular financial inclusion was the newly introduced biashe@smart. This platform is yet to be utilized by the small business entrepreneurs in Kikuyu sub-county as it is aimed at meeting the needs of SMEs. The platform offers a set of communication and financing products, capacity building initiatives, and reward programs to connect, empower, and grow SMEs in Kikuyu sub-county. As biashe@smart is a business proposition that helps businesses grow efficiently and profitably through access to business development, technical assistance, and new business opportunities, it is expected to contribute significantly to the growth and development of SMEs in Kikuyu sub-county. Therefore, the platform is expected to provide a unique and valuable service to business operators in the region. Additionally, the platform is expected to improve the efficiency of the SMEs in the region and contribute to the overall economic growth of the county.
Role of New Approaches in Financial Inclusion
5.4 Conclusion

Savings can ensure enough financing for capital accumulation, help to balance books of accounts and expand investment.

The findings revealed that most of the respondents agreed to a great extent that agent banking helps facilitate business savings at a mean of (3.07). Also, a large proportion of the respondents agreed to a great extent that M-Shwari helps facilitate my business savings at a mean of (3.03). For low income individuals, savings allow people to grow businesses, build assets and reduce their likelihood of suffering from shocks such as natural disasters, droughts or sickness.

Similarly, Hyndman et al. (2002) suggests that savings breaks down some of the barriers that prevent poor people from accessing formal financial services and doing so, proves that no one is too poor to save. Purcell and Cobb (2004) also suggest that savings enable people to climb up the financial ladder through access of formal financial products.

Financial and non-financial what/who seek to invest in innovative financial linkage models that help to lower the risk for businesses. The findings revealed that most of the respondents agreed that MPESA (3.48) and ePay (2.62) reduced the cost in accessing financial services. Banks have invested in innovative financial products and services that can meaningfully reach unbanked people at a very low cost in the poorest communities (Palmer and Conaty, 2002).

Reduced cost of transacting also acts as a customer protection initiative. Purcell and Cobb (2004) add that far broader and deeper financial protection is necessary for poor customers in future. Reducing the cost of transacting using the innovative financial products and services significantly encourages people to continue and increase the amount of money that they save (Mas and Radcliffe, 2011). Similarly, IFC (2010) suggests that with the new financial inclusion people are able to raise funds in the form of savings, take decisions on the effective deployment of funds across members, ensure timely recovery and share the dividends at the end of the savings cycle. The savings also enable people to make informed choices and take effective actions to improve their
Financial well-being as well as positive results for the improvement of business.
5.4 Conclusion

Technology can take new financial products and services to a new scale.

The findings revealed that most of the respondents agreed to a great extent that internet banking has made my transactions to be faster and efficient at a mean of (2.74). The same applied to M-Pesa where it made business transactions to be faster and efficient at a mean of (2.84).

Technology contributes to 68 percent of using new financial products and services. Buk and Meredith (2013) suggest that if technology can take banking to a different scale, then it is important to ensure that it reaches the poorest members in the society.

Palmer and Conaty (2002) also suggest that mobile banking offers the potential to address the distance barrier as well as reduce the overall cost of banking. With all these potentials of technology, the adoption of Internet banking especially among SME entrepreneurs is slowly and only a few have embraced it. The deployment of mobile money transfer has created the potential for financial inclusion of poor people in Kikuyu sub-county.

5.3.3 Challenges faced by Small Businesses in adopting the New Approaches

Untrained financial providers are a challenge for small businesses in adopting new approaches. This is because the expansion of the new approaches is limited to the upper class.

Lack of skills among employees to handle new money services.

Fraudulent risks can result to challenges for consumers who need immediate access to funds.
that there was an increase in fraudulent activities in Mpesa at a mean of (2.44).
5.4 Conclusion

Evidence also shows that poor financial literacy represents a significant barrier to accessing and properly using formal financial services (Buttle, 2005). The findings revealed that most of the respondents agreed to a great extent that there was lack of information on Internet Banking (2.69), Pesamob (2.72), grants (2.81) and ePay (2.84). This is the common problem with underserved consumers who have difficulties in understanding and using financial products and services. Imposing the ability of financial and non-financial institutions to meet the financial needs of particular groups, especially the unbanked. Bukus and Meredith (2013) suggest that lack of financial products and services impedes the ability of financial and non-financial institutions to meet the financial needs of particular groups, especially the unbanked. Similarly, Purcell and Cobb (2004) also show that poor financial literacy represents a significant barrier to accessing and properly using formal financial services.

The democratization of financial services necessitated their lack of financial understanding, and public awareness. The findings revealed that the respondents didn’t understand the different aspects of financial literacy. They couldn’t identify the most appropriate financial instruments tailored to their needs. As a result, the unbanked people will have incorrect understanding of the new financial products and services, which will make them reluctant to use the new financial approaches (Bukus and Meredith, 2013).
5.4 Conclusion

5.4.1 New Approaches of Financial Inclusion to Small Businesses

M-pesa was one of the most popular new approaches to financial inclusion among small businesses adopted to a great extent. This was followed by agent banking as this made it the second popular financial inclusion. M-Shwari was the third revolution of financial inclusion. Internet banking was the fourth used financial inclusion. PesaWeb also provided banking solutions in the absence of the platforms. Pay also offered fast reliable money transfers from the convenience of the customers and was the least popular financial inclusion. M-Pesa is one of the first and the most famous new approaches of financial inclusion in Kenya. The new financial approach has a large network of agents. Agent banking was the second popular financial inclusion. A number of individuals and businesses located in suburbs and rural areas of Kenya also have adopted agent banking, whereas those located in urban areas such as M-Shwari and the third revolution of financial inclusion. Government among the least popular financial innovation. The urban market is the most popular financial innovation due to the many traditional banks with access. This problem is not evident in the rural areas of Kenya.
4. Role of New Approaches in Financial Inclusion

New approaches in financial inclusion suggest that agent banking helps facilitate business savings and build their financial assets. The use of MPESA reduced the cost in accessing financial services. This can assist poor small businesses adopt the financial service, ePay, reduce the cost of doing business cost in accessing financial services. This means that lower transaction costs using ePay facilitate business savings critical for emergencies. The findings revealed that internet banking has made business transactions to be faster and efficient. M-Shwari helps facilitate business savings. On the other hand, PesaMob has made business transactions to be faster and efficient to a great extent. This indicates that PesaMob technology can take new financial products and services to a new scale, making business transactions to be faster and efficient.

5. Challenges Faced by Small Businesses in Adopting the New Approaches

The high cost of conducting small transactions and inadequate in agent banking make entrepreneurs shun away from using new financial approaches. The challenge presented in using MPESA revealed that there was lack of clear information and adequate cash to meet the customer needs. ePay was also affected by inadequate cash to meet customer requests. The costs of conducting small transactions in internet banking made the entrepreneurs shun away from using the services and the lack of credible information in using the services. M-Shwari experienced inadequate cash to meet customer requests and lacked credible information in using the financial services. The challenge of PesaMob also led to the lack of credible information and the costs of conducting small transactions make entrepreneurs shun away from using the new financial approaches.

Evidence also shows that fraud risk can result to challenges for consumers who need more immediate access to funds. This indicates that fraud is a major concern for MPESA users.
5.5.1 Recommendation for Improvement

5.5.1.1 New Approaches of Financial Inclusion to Small Businesses

The study recommends other new financial approach can have a diverse network of agents to serve needy individuals and businesses for the market under served by traditional banks. New approaches of financial inclusion are essential for individuals and businesses located in remote and rural areas of Kikuyu sub-county. M-Shwari should be considered as part of financial inclusion. Entrepreneurs should fully utilize M-Shwari as part of the new financial inclusion. This small business entrepreneurs in Kikuyu sub-county as it is aimed to meet the needs of SMEs.

5.5.1.2 Role of New Approaches in Financial Inclusion

The study recommends that savings can encouraged to ensure adequate financing for individual and small businesses. All financial inclusion approaches should help facilitate business saving, build assets and reduce their likelihood of suffering from shocks such as natural disasters, droughts or sickness from the owners. Financial and non-financial institutions can partner to invest in innovative financial linkages to help small enterprises grow. All financial inclusions should aim at reducing the cost in accessing financial services and enhance protection of the business entrepreneurs. Innovative financial products and services should encourage entrepreneurs to continue and increase the amount of money that they save. The new financial approach platforms can be made better boost financial transactions to be faster and efficient.

5.5.1.3 Challenges Faced by Small Businesses in Adopting the New Approaches

The study recommends that understanding can help poor people and business understand the importance of having a bank account to help them to manage their money. Entrepreneurs can understand the new financial approach to enhance financial and non-financial inclusion. Accessing of the new financial approach is need to meet the need of the entrepreneurs.
services that can encourage small businesses to participate in new financial inclusion.
Training the agents on the new approaches can teach people how to effectively manage businesses and utilize new financial approaches. Training can help poor people and businesses in Kikuyu sub-county to understand the importance and basic mechanics of new financial approaches.

5.5.2 Recommendations for Further Studies

The study recommends that future researchers can investigate on the factors influencing the adoption of new financial approaches using TAM model. It is also critical that future researchers can investigate on the adoption of new financial approaches, retention and expansion of relationships in regards to the traditional banking system. Also, this study can be extended to corporate customers as well.
REFERENCES


REFERENCES


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Despite growth in online usage, banks urged not to forget their roots.


APPENDICES

APPENDIX A: INTRODUCTORY LETTER

Dear Respondent,

Attached is a questionnaire that collects data on the new approaches of financial inclusion and the impact they have on small businesses. You are kindly requested to provide the required information and opinion to enable an analysis of the study results and to facilitate the study conclusions.

This questionnaire is being used as a part of the partial fulfillment of the degree of Master of Business Administration from the United States International University. The questionnaire consists of both structured and unstructured questions. Kindly fill in the answers to the questions below as concisely and accurately as possible.

Results from this study will be of importance to current and future university students as well as lecturers and anyone interested in this area in understanding the key issues or researchers are interested in. Should you require a summary of the results please do not hesitate to contact the researcher on the email provided. Once again thank you for your cooperation and time.

Kind Regards,

Wambui Ndung’u
## APPENDIX B: SURVEY QUESTIONNAIRE

### PART A: SMEs and BUSINESS INFORMATION

1. **Gender**: Male  Female  
2. **Highest Level of Education**  
   - Primary School  
   - High School  
   - College Level  
   - Bachelor Degree  
   - Master's Degree  
   - PhD  
3. **Business Income Level (in Kenya Shillings) per Month**  
   - 0 - 100,000  
   - 100,001 - 200,000  
   - 200,001 - 300,000  
   - 300,001 and above  
4. **Business Sales Level (Per Month)**  
   - Less than 100,000  
   - 100,001 - 200,000  
   - 200,001 - 300,000  
   - 300,001 and above  
5. **Business Ownership Status**  
   - Family-Owned  
   - Sole Business  
   - Private Limited  
   - Partnership  
   - Other: Explain  
6. **Current Situation of the Business in terms of Assets**  
   - Declining  
   - Struggling to Survive  
   - Mature  
   - Complex New Business  
   - Growing  
   - Continuing
7. What is the sector of your business?

- Medical and health
- Building and Construction
- Entertainment
- Transportation
- Food industry
- Other

- Art and Crafts
- Computers and Communication
- Engineering and Technology
- Finance and Insurance
- Travel and Tourism
- Agriculture

8. What is the source of your business start-up capital?

- Banks
- Family
- Friends
- Owner’s Equity
- Other (Kindly Specify)

PART B: New Approaches of Financial Inclusion to Small Businesses

9. In relation to the new approaches of accessing financial services by small businesses, please indicate the source used to access the financial services accessed (Use a scale of 1-3 where 3 = Great extent, 2 = Moderate extent and 1 = Not at all)

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
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</thead>
<tbody>
<tr>
<td>a. Agent Banking</td>
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<tr>
<td>b. M-Pesa</td>
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<td>c. M-Pesa+</td>
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<tr>
<td>d. Internet Banking</td>
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<td>e. M-Angel</td>
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<td>f. Banker@Smart</td>
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<td>g. Fasmo-</td>
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</table>

10. Kindly specify other financial services offered not mentioned above?

__________________________________________________
11. In relation to the above, to what extent were the nature of the products and services accessed?

<table>
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<tr>
<th>Statement</th>
<th>Not at all</th>
<th>Minimal</th>
<th>Moderate</th>
<th>Great extent</th>
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<tbody>
<tr>
<td>1. Cash In (Deposits)</td>
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<td>2. Cash Out (Withdrawals)</td>
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<td>3. Document collection for Account Opening forms</td>
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<td>4. Document collection for debit and credit cards, loan applications</td>
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<td>5. Repayments of loans</td>
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<td>6. Access to loans</td>
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<td>7. Bill payment</td>
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<td>8. Salary payments</td>
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<td>9. Balance inquiry</td>
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<td>10. Making a transfer to someone else’s account</td>
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</table>

12. What other features of the new products and services are associated with new financial services among small businesses?

PART C: Role of New Approaches in Financial Inclusion

13. In relation to the new approaches, please indicate the role of Financial Inclusion among small businesses (Use a scale of 1-3 where 1 = Great extent, 2 = Moderate extent and 3 = Not at all)

<table>
<thead>
<tr>
<th>Agent Banking</th>
<th>Not at all</th>
<th>Minimal</th>
<th>Moderate</th>
<th>Great extent</th>
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<tbody>
<tr>
<td>1. Agent Banking is fairly convenient</td>
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<tr>
<td>2. There is reduced cost in accessing financial services through Agent Banking</td>
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<tr>
<td>3. Agent banking has helped increase financial literacy as the agent interacts on a one-on-one basis with the entrepreneur</td>
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<tr>
<td>4. Agent Banking helps facilitate my business savings</td>
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<tr>
<td>5. There is reduced business cost in accessing financial services</td>
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<tr>
<td><strong>Through Agent Banking</strong></td>
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<tr>
<td>1. Agent banking has helped increase financial literacy as the agents interact on a one-on-one basis with the entrepreneurs.</td>
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<td>2. Agent banking services are useful for emergencies.</td>
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<td>3. Agent banking has made my business transactions to be faster and efficient.</td>
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<tr>
<td>Agent banking helps boost my business.</td>
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<table>
<thead>
<tr>
<th><strong>MPESA</strong></th>
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<tbody>
<tr>
<td>1. MPESA is fairly convenient.</td>
<td>▶ ▶ ▶</td>
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<tr>
<td>2. There is reduced cost in accessing financial services through MPESA.</td>
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<tr>
<td>3. MPESA has helped increase financial literacy as the agents interact on a one-on-one basis with the entrepreneurs.</td>
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<tr>
<td>4. MPESA helps facilitate my business savings.</td>
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<tr>
<td>5. There is reduced business cost in accessing financial services through MPESA.</td>
<td>▶ ▶ ▶</td>
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<tr>
<td>6. MPESA has helped increase financial literacy as the agents interact on a one-on-one basis with the entrepreneurs.</td>
<td>▶ ▶ ▶</td>
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<td>7. MPESA services are useful for emergencies.</td>
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7. Internet Banking has made my business transactions to be faster and efficient.
8. Internet Banking help boost my business.

M-Shardware
9. M-Shardware is fairly convenient.
10. There is reduced cost in accessing financial services through M-Shardware.
11. M-Shardware has helped increase financial literacy as the agent interact on a one on one basis with the entrepreneur.
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13. There is reduced business cost in accessing financial services through M-Shardware.
14. M-Shardware services are useful for emergencies.
15. M-Shardware has made my business transactions to be faster and efficient.

PesaMob
17. PesaMob is fairly convenient.
18. There is reduced cost in accessing financial services through PesaMob.
19. PesaMob has helped increase financial literacy as the agent interact on a one on one basis with the entrepreneur.
20. PesaMob helps facilitate my business savings.
21. There is reduced business cost in accessing financial services through PesaMob.
22. PesaMob services are useful for emergencies.
23. PesaMob has made my business transactions to be faster and efficient.

14. What other advantages not mentioned above, are associated with new financial inclusion among small businesses?
In relation to the new approaches, please extent of the challenges faced by small businesses (Use a scale of 1-3 where 3 = Great extent, 2 = Moderate extent and 1 = Not at all)

### Agent Banking

- There is lack of clear information on agent banking: 1 1 1
- The costs of conducting small transactions in agent banking make entrepreneurs shun away from using such services: 1 1 1
- Transactions using agent banking are too restrictive: 1 1 1
- There are untrained financial providers of agent banking: 1 1 1
- Inadequate path to meet customer requests especially in agent banking: 1 1 1
- There is lack of credible information on agent banking that best suits the entrepreneur: 1 1 1
- There is increase in fraudulent activities in agent banking: 1 1 1

### MPesa

- There is lack of clear information on MPesa: 1 1 1
- The costs of conducting small transactions in MPesa make entrepreneurs shun away from using such services: 1 1 1
- Transactions using MPesa are too restrictive: 1 1 1
- There are untrained financial providers of MPesa: 1 1 1
- Inadequate path to meet customer requests especially in MPesa: 1 1 1
- There is lack of credible information on MPesa that best suits the entrepreneur: 1 1 1
- There is increase in fraudulent activities in MPesa: 1 1 1

### Grants

- There is lack of clear information on grants: 1 1 1
- The costs of conducting small transactions in grants make entrepreneurs shun away from using such services: 1 1 1
- Transactions using grants are too restrictive: 1 1 1
- There are untrained financial providers of grants: 1 1 1
- Inadequate path to meet customer requests especially in grants: 1 1 1
- There is lack of credible information on grants that best suits the entrepreneur: 1 1 1
- There is increase in fraudulent activities in grants: 1 1 1

### ePay

- There is lack of clear information on ePay: 1 1 1
- The costs of conducting small transactions in ePay make entrepreneurs shun away from using such services: 1 1 1
- Transactions using ePay are too restrictive: 1 1 1
1. There are untrained financial providers of ePay.
2. Inadequate cash to meet customer requests especially in ePay.
3. There is lack of credible information on ePay that best suits the entrepreneur.
4. There is increase in fraudulent activities in ePay.

Internet Banking
5. There is lack of clear information on internet banking.
6. The costs of conducting small transactions in internet banking make entrepreneurs shun away from using such services.
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8. There are untrained financial providers of internet banking.
9. Inadequate cash to meet customer requests especially in internet banking.
10. There is lack of credible information on internet banking that best suits the entrepreneur.
11. There is increase in fraudulent activities in internet banking.

M-Swari
12. There is lack of clear information on M-Swari.
13. The costs of conducting small transactions in M-Swari make entrepreneurs shun away from using such services.
14. Transactions using M-Swari are too restrictive.
15. There are untrained financial providers of M-Swari.
16. Inadequate cash to meet customer requests especially in M-Swari.
17. There is lack of credible information on M-Swari that best suits the entrepreneur.
18. There is increase in fraudulent activities in M-Swari.

PesaMob
19. There is lack of clear information on PesaMob.
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21. Transactions using PesaMob are too restrictive.
22. There are untrained financial providers of PesaMob.
23. Inadequate cash to meet customer requests especially in PesaMob.
24. There is lack of credible information on PesaMob that best suits the entrepreneur.
25. There is increase in fraudulent activities in PesaMob.

16. What other challenges not mentioned above, hinder access to financial services among small businesses?