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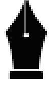

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DIVERSITY AND FINANCIAL INCLUSION: THE ROLE OF MICROFINANCE INSTITUTIONS IN THE GROWTH OF SMEs IN KENYA

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Abstract

Diversity and financial inclusion was viewed as a blended inclusion of commercial activities, values and value addition on enterprise's goals and mission. In this study diversity and financial were discussed as constant work in progress which needed to be maintained and nurtured for effectiveness. Microfinance institutions were found to be major component of diversity and financial inclusion. The study sought to assess the role of Microfinance institutions on the performance of small and medium enterprises. This was a secondary data study, which involved a review of more than 80 journal articles, government printing and e-books for the period between; 2012-2021. The study found that microfinance institution were a valuable components of diversity and financial inclusion. More findings indicated that microfinance institutions contributed greatly to the growth of microenterprises as well as to individual household needs. However, the benefits for microfinance institutions were not inclusive, in that some stakeholders suffered discrimination, hence, the findings of the study indicated mixed results. The study recommends that regulatory framework should be more observant when registering the microfinance institutions to protect the consumers of all levels.

Keywords: Diversity, Financial Inclusion, Microfinance Institutions, SMEs, Growth, Kenya

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INTRODUCTION

Financial inclusion is an important agent for economic growth in a nation. It is a model of delivering banking services to the unbanked and to the businesses with limited resources. Financial inclusion offers better life to the marginalized sect of a society (Rahming, 2012). Through financial inclusion the low income individual and businesses can easily access the available, affordable, adequate and convenient financial products to use for further investment (Sujlana & Kiran, 2018). It facilitates access to transaction account hence allowing for savings, money transfers and payments (Demirgüç-Kunt & Singer, 2017). Financial inclusion results from an inclusive environment, which ensures equitability, clout diversity and embraces a wide spectrum of inclusion ranging from business activities to human attributes, such as social, physiological, psychological predispositions and even gender (World Bank, 2018). Diversity in financial inclusion is effervescent due to services provided by microfinance institutions to the marginalized (Rakhimov, 2016).

Financial inclusion soars entrepreneurs to greater heights since microfinance institutions provide liquidity for a wide range of needs (Cull & Morduch, 2018). In some instances the institutions provide finance education, create awareness while harnessing Microentrpreneurs to start and grow their businesses (Sujlana & Kiran, 2018). The whole process empowers entrepreneurs in the low income sect especially those who operating SMEs and are often excluded from formal banking services. Integrative strategy boosts the economic growth and development, and expedite poverty alleviation (Sembene, 2015). Moreover, this also increases financial literacy and improves knowledge on financial access through banking and microfinance service providers (Hasan, Le & Hoque, 2021).

More benefits include jobs creation, crime reduction, honourable life standards and achievement of economic longer term expected world Global Goals of ending poverty in all its forms by 2030 (Klapper, 2016). The Microentrpreneurs who lack growth and expansion due to loans requirements, benefit from the reduced processes of microfinance institutions (Asamoah, Takieddine, & Amedofu, 2020). Despite a lot of benefits found in integration and financial inclusion, challenges such as cost of regulations, inadequate knowledge, inadequate staff, political influence, poor information dissemination, and uncertainties are among the limitations that affect operation to institutions such as microfinance (Boateng, 2015).

Statement of the Problem

As noted financial inclusion is a support framework which provides education, quality financial services, social or growth and development benefits, better infrastructure, access to finance and usages of finance, among many other growth benefits. Despite the noted paybacks

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of diversity and financial inclusion, Worldwide Findex database indicate that 1.7 billion adults are unbanked (Demirgüç-Kunt, Klapper, Singer & Van-Oudheusden, 2015). In Kenya loan accounts in microfinance institutions went down by 219 thousand compared to half a million in 2010, the records show a fluctuation trend every year after the year 2010 (Ngumo, Collins & David, 2020). The unstable situation of microfinance raises concerns to the growth of small business. Scholars note that microfinance has a strong association with growth of small businesses and individual households (Bin-Mohamad, 2013). Quartey and Asamoah (2017) and Okibo and Maknga (2014) show that, if a business acquires business loans, profits, stock and business assets increase significantly. This study assess the role of microfinance in the growth SMEs in Kenya.

Specific Study Objectives

i. To determine the effect of diversity on the growth of SMEs in Kenya
ii. To examine the effect of financial inclusion on the growth of SMEs in Kenya

LITERATURE REVIEW

To discuss the role of microfinance in growth of microenterprises, this study adapts Porter's Value Chain Analysis and how it integrates various activities within the firm for value addition. Inclusion of various activities in business is diversity which enhances innovation, collaboration leading excellent results. In this case, dissimilarity in business activities at every stage of growth is strength, resulting to a competitive advantage.

The study begins by exploring theoretical foundation of diversity in the context of inclusion and business growth. The background of diversity in business originates from the progress of the model of diversity within a workplace in 1960s. It is a concept which encompasses acceptance and respect of individuals with their unique characteristics, it is any "factor that distinguishes one individual from another" (Saxena, 2014, Inegbedion, Sunday, Asaleye, Lawal & Adebanji, 2020). The rational ideas, integration and inclusion of different thoughts and skills to achieve corporate goals (Hudson, 2014). Harrison & Klein (2007) conceptualize diversity in three ways separation, variety, and disparity. Whereby, separation is the difference found among members in a working environment, variety describes differences in categories reflecting access to uniqueness of knowledge and skills, and disparity is the differences in the accessibility of the valuable resources to members in that unit.

Diversity includes expertise, level of experience and thinking styles (Swartz, Palermo, and Masur & Aberg 2019). Diversity has a direct and indirect supply side effect whereby producers and consumers interact, enabling knowledge spillovers and idiosyncratic moves, in

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which commercial gains are realized, while strengthening entrepreneurs' resilience to economic shocks (Karlsson, Rickardsson & Wincent, 2019). In some cases diversity is positively associated economic prosperity and growth of GDP particularly where there are skilled immigrants in a given society (Alesina, Harnoss & Rapoport, 2016). This is noted due evidences on the demand-side impacts, where a diverse population will generate a demand for diverse goods and service to cater for diverse population. Due to rapid evolving financial industry diversity is inevitable owing to demand for innovative skills, basically through the international technology (Gálvez-Sánchez, Lara-Rubio, Verdú-Jóver & Meseguer-Sánchez, 2021).

Diversity allows a company to meet the needs of diverse clients and faster expansion of its market (Hajjar, & Hugonet, 2015). This is because diversity is internal, external or organisational and worldview affecting both work environment, financial returns, overall business strategies and other business stakeholders of the organization. A powerful diversity model is a digital platform, it's broader and faster in any business transactions (Ozili, 2018). Entrepreneurs who have embraced diversity serves diverse demands and increase competition while improving efficiency and more inclusive growth (Chandan, 2013).

Diversity in business operation imply that entrepreneurs embrace values of continuous utilization of human capital and investing in variety of securities to minimize systematic risks. A diverse society encourages exchange of competition between ideas which are useful to entrepreneurial activities (Nikolova & Simroth, 2013). Diversity enhance learning and viable strategy which are reflected directly on a corporate's financial performance (Swartz, Palermo, Masur, & Aberg, 2019). This happens as a result of financial inclusion which improve welfare and life standards to households (Chakrabarty& Mukherjee, 2021). Diversity and financial inclusion system ensures access, usage and availability of formal financial services to wider range of economy, hence it is a growth and development tool (Férez Blando, 2013), since it enhances huge investments and attraction of future higher income (Ellis, & Lemma, 2010).

Financial inclusion serve as a public good in that it is both non-excludable and non-rivalrous. An individual can be excluded from use and usage of a particular good, but this does not reduce availability of another (Vasile, Panait & Apostu, 2021). Increase of diversity in financial inclusion increases shift in consumption baskets (Chakrabarty & Mukherjee, 2021). This is also explained as increased dietary diversity and food consumption by a diverse population (Murendo, Murenje, Chivenge & Mtetwa, 2021). Furthermore, studies show that greater financial inclusion increases financial resilience (Hussain, Endut, Das, Chowdhury, Haque, Sultanan & Ahmed, 2019), while enhancing empowerment, protection, proportionality, innovation, and cooperation (Dangi, 2012).

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The system work effectively when number of transactions increases, expanding the scope to include the previous excluded population, while providing products that addresses the needs of the available consumer (Ledgerwood, Earne & Nelson, 2013). Financial inclusion affects the level of financial innovation, and is influenced by prevailing poverty or the stability of a financial sector around the world (Ozili, 2020). The most significant enabler of financial inclusion is the income, but also affected by education, income inequalities and regulatory framework (Nanda, 2018).

Research indicate that education and income are the main pillars for increasing inclusion, where higher level of inclusion leads to increased level of official savings and economic development (Girón, Kazemikhasragh, Cicchiello & Panetti, 2021). This also provide information on the usages and quality, as well as the access indicators, while exhibiting a positive relationship with growth of an economy (Nizam, Karim, Rahman, & Sarmidi, 2020). Apart from education and savings, other products for financial inclusion include; credit Microfinance, mobile money, cash transfers, digital payments self-help groups, insurance remittances and the automatic teller machine (ATM) (Gammage, Kes, Winograd, Sultana, Hiller & Bourgault, 2017). Financial inclusion provide finance to SMEs all over the world, for example 99% of European Union business are SMEs which are funded by financial inclusion (Gherghina, Botezatu, Hosszu & Simionescu, 2020).

In cases where there is informal intermediation, formal financial inclusion may achieve better results, since a robust financial system infrastructure such mobile phones can mobilize huge liquidity in an informal economy, enhance growth and development (Alhassan, Li, Reddy & Duppati, 2019). Digital finance in form of affordable internet connectivity often add value to financial accessibility, strengthening financial inclusion (Ozili, 2018). Often, internet users, inflation, income inequality or age dependency ratio, correlate with increased financial inclusion in developing countries (Omar & Inaba, 2020).

Also economic growth stimulated by literacy rate and unemployment in Africa and Asia, leads to financial inclusion (Cicchiello, Kazemikhasragh, Monferrá & Girón, 2021).On the other hand knowledge or literacy on various financial products has a great impact on accessing and benefiting from financial services (Hasan, Le & Hoque, 2021). Where poverty is acute especially in growing economies, financial inclusion is a key enabler to reducing poverty and boosting economic standards (Enisan & Akinwumi, 2019). In many countries such as India, South Africa and Australia, financial inclusion is placed as key agenda of governments for development (Arun & Kamath, 2015). The self-help groups and microfinance institutions widens financial inclusion scope, hence can be viewed as both business opportunity and social responsibility to the society (Ozili, 2018). Moreover, combined use of digital finance products together with use

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of formal account ownership led to financial sector efficiency and growth and reduced financial risks to the investor in developing countries (Ozili, 2021).

However, in rural areas where most of the people are poor and rely heavily on Agriculture, specifically in Africa and Asia, the population is less financial inclusive, the most affected category are the women (Cicchiello, Kazemikhasragh, Monferrá & Girón, 2021). The most popular and most current technology in form of digital finance platform does not favour poor people rather it benefits the high and medium income individual in the expense of the poor (Ozili, 2018). There is huge gap in access to finance between people in high income economies compared to those in developing economies and the demographic groups particularly in Africa (Arun & Kamath, 2015).

As noted earlier in the article, microfinance institution are known to lessen some of the economic problems by providing small loans for businesses star-ups, savings in order to build assets, insurance products for services such as medical care, money transfer and remittances (Watkins, 2018). These services are referred to as diversity in financial inclusion since they provide broader financial services to areas where the marginalized cannot access finance, they also deepen financial services to the unbanked population, while reducing financial illiteracy through training in simpler language and procedures for advancing loans/credits (Triki & Faye, 2013; Arun & Kamath, 2015).

However, caution must be taken on the side of effect of financial inefficiency associated with increased diversity and forms of financial inclusion (Le, Chuc & Taghizadeh-Hesary, 2019). While some results indicate an inclusive growth in Sub-Saharan Africa, there have been negative impact on the growth depending on the measure of informality and inclusiveness (Amponsah, Agbola & Mahmood, 2021). These results are also supported by Le, Chuc & Taghizadeh-Hesary (2019), their study indicated that, growing financial inclusion affects financial efficiency despite the fact that it enhances sustainability and increased income level in many countries. In Sub-Saharan Africa, high cost of bank accounts discourages low income investors from choosing formal financial services (Mengistu, & Perez-Saiz, 2021).

In some places overall efficiency of microfinance services were not up to standard mainly due to unregulated activities of microfinance finance institutions (Nourani, Malim & Mia, 2021). Where people borrowed money from microfinance in groups, the researchers found that in joint-liability, there was inefficiency for risk-averse borrowers, thus most the entrepreneurs preferred committing themselves in paying as individuals (Altinok, 2021).

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Diversity and Financial Inclusion in Kenya

The Small and Micro Enterprises in Kenya constitute 98 percent of all business in the country, creating 30 percent of the jobs annually. This also contributes to 3 percent of the growth domestic product of the Country (Muathe, 2010, Muathe, Wawire & Ofafa, 2013, Wairimu, 2015). However, about 400000 SMEs do not last for two years, while few last for five years, an indication that they lack sustainability. Some of the cited challenges include; the inadequate capital, limited market access, inadequate knowledge skills, poor infrastructure specifically in the rural areas and rapid changes in technology. A research by Mader and Duvendack (2019) indicate that "financial inclusion initiatives have no transformative effect" to either poverty indicators such as income, assets or spending and even women empowerment.

On the contrary, research show financial inclusion in Kenya has grown tremendously (Ndung'u, 2018), only that a question remains whether this progress has benefited all cadre in the country. More questions are, whether microfinance institutions have been in helm of this progress. Research indicate that in 2019 FinAcess household survey reported an increase of financial inclusion by 82.9 percent up from 26.7 percent in 2006, narrowing the exclusion gap to 11 percent from 41.3 percent. Triki and Faye (2013) reports a successful project report in Northern Kenya (BOMA) which provide savings and digital finance products. In most cases it has been noted that financial inclusion benefits both the providers, governments, the low income and the economy at large (Ozili, 2021).

Credit flow as part of financial inclusion increases earnings, sales, economic efficient transactions and economic growth (Hau, Huang, Shan & Sheng, 2021). However, credit performance in the financial sector experienced a large decline in credit flow at a tune of Kenya shilling 2.7billion (5%) in the year 2018, which may have a serious negative impact for on the economy in the country (Ochenge & Tiriongo, 2018). Evidence are that effect on credit and other services specifically on social status were small and inconsistent in Kenya (Mader& Duvendack, 2019). On the other hand interest rate cap, imposed by Central Bank of Kenya in 2016 froze credit flow to SMEs by 15% in in 2019 from 25% before the cap law came to effect. Implying that interest rate ceiling affects credit access leading to financial exclusion in Kenya (Koskei, 2020).

Financial literacy as a component of financial inclusion seem not to be strengthened in Kenya, this cause ignorance on financial knowledge, financial attitudes and financial behaviour (Fanta & Mutsonziwa, 2021). A study by Mwangi (2020) established that socioeconomic and house hold savings are the major causes for population increase and employment rate in urban areas, though other studies indicate that access to savings has a small effect to poor people (Mader & Duvendack, 2019), signaling inadequacy of cash flow. This raises more questions as

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to whether financial inclusion in Kenya provide inclusive growth and development to the whole population. Though some records show that financial inclusions created jobs and increased productivity in Kenya (Ndung'u, 2018), the researcher further suggests that, these finding need be tested in other future studies, suggesting that the results are not conclusive.

On other hand Microfinance impact on savings, expenditure, assets accumulation and social welfare showed mixed results, in that it had both positive and negative results to the users. This is because in some cases microfinance institutions improved health, nutrition, food security, job creation, women empowerment and education, while on contrary some children were subjected to casual labour-ship and wage discrimination (Van Rooyen, Stewart & De Wet, 2012). Moreover, range between demand and supply was still big, possibly due lack of collateral, skills shortage, poor management of funds which results to non-payment of loans, and poor education background among many other barriers (Gichuki, Njeru & Tirimba, 2014). Moreover, some institutional and regulatory framework resulted in unnecessary burden to the entrepreneurs. This was basically experienced where SMEs are required to pay high taxes to an extent of affecting business growth and sustainability.

Despite the fact that group lending is the best due assured security by the guarantors, microfinance institutions in Kenya prefer individual lending as opposed to group (Kodongo & Kendi, 2013). More studies indicated that most women are illiterate, unfamiliar with technology and innumeracy (Tiwari, Schaub & Sultana, 2019; Van Hove, & Dubus, 2019), and that some cultures specifically in the operational enterprises need be aligned with the prerequisites for the enterprise and needs of the customers in order to be a source of competitive advantage (Joseph & Kibera, 2019).

RESEARCH METHODOLOGY

This research was a desk review which involved summarizing and collating already existing data, write up, review and finally presentation of results as suggested by Snyder (2019). Data was basically obtained from various scholarly field surveys journals articles whose findings were reviewed, re-analysed and interpreted to inform the current research. Other sources include the online books and government publication. The main tool for data collection was through the internet using google search engine, which provided breadth information to the satisfaction of the researchers. This helped the researchers to re-generate new insight into diversity and financial inclusion in Kenya. In addition, most of the relevant for information this study, concerning the growth of microfinance was obtained from research carried out between the years 2012-2021. The said studies were screened systematically to ensure that the researches on financial inclusion were conducted in Kenya. The researchers also selected the

studies that assessed the role of microfinance on the growth of the SMEs specifically in Kenya. The researchers then summarized the findings of the studies which met the inclusion criteria.

FINDINGS AND DISCUSSION

The study found that SMEs are essential for delivering the country's economic growth, and that they play a key role toward achieving sustainable goals. Moreover, SMEs in Kenya have increased innovation resulting to income growth. Due to increased technology, some of them have developed niche markets, hence reaching more customers, while strengthening comparative advantage. Further since innovation by SMEs is mostly influenced by knowledge spillover, SMEs in the rule areas in the country have grown in slow pace due to poor network, and in some places the network is not accessible at all.

More findings indicate that SMEs in Kenya are highly diversified and are both formal and informal. Additionally, diversity is found on the institutions which are financial intermediaries such as microfinance institutions which are collaborative partnership with government partners through central bank of Kenya. The microfinance institutions enhance technology, mentors entrepreneurs, facilitate markets availability for women products among other valuable activities (Kiraka, Kobia, & Katwalo, 2015). Another institution among many, is the Business Environment Reform Facility (BERF) which provide expert advice, analysis of lessons learned, policy research basically to women and girls, as well as for young adults

More findings indicated that financial inclusion had undergone a lot of transformation hence increasing the number of adopters. Mobile money technology had also been fundamental in enhancing financial inclusion in Kenya to majority of the unbanked small entrepreneurs, even though most of the small entrepreneurs especially the women were illiterate and unfamiliar with technology.

Savings were found to be the major component of financial inclusion in Kenya and that microfinance entrepreneurs benefited from transactions, payments, savings, credit and insurance. Further the results showed that access to transaction account was the step toward broader financial inclusion since through this account an entrepreneur could undertake a lot of business operations which were necessary for the growth of the enterprise.

More findings indicated that entrepreneurs who had financial access through microfinance institutions could easily plan for long-term and short-term goals and emergencies, as well as starting or expanding their businesses, investing on education and improve life their standards. Microfinance institutions were found to be key funders for SMEs, and that they enhance growth and stability to businesses. They also provided income to entrepreneurs in form of credits while enhancing income accumulations, provide investment opportunities and savings.

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Through microfinance institutions the entrepreneurs created jobs in the country, food security, women empowerment and afforded for education. Additionally, microfinance institutions, impact on savings, expenditure, assets accumulation and social welfare showed mixed results. The figure below indicates some of benefits of mocrofinace.

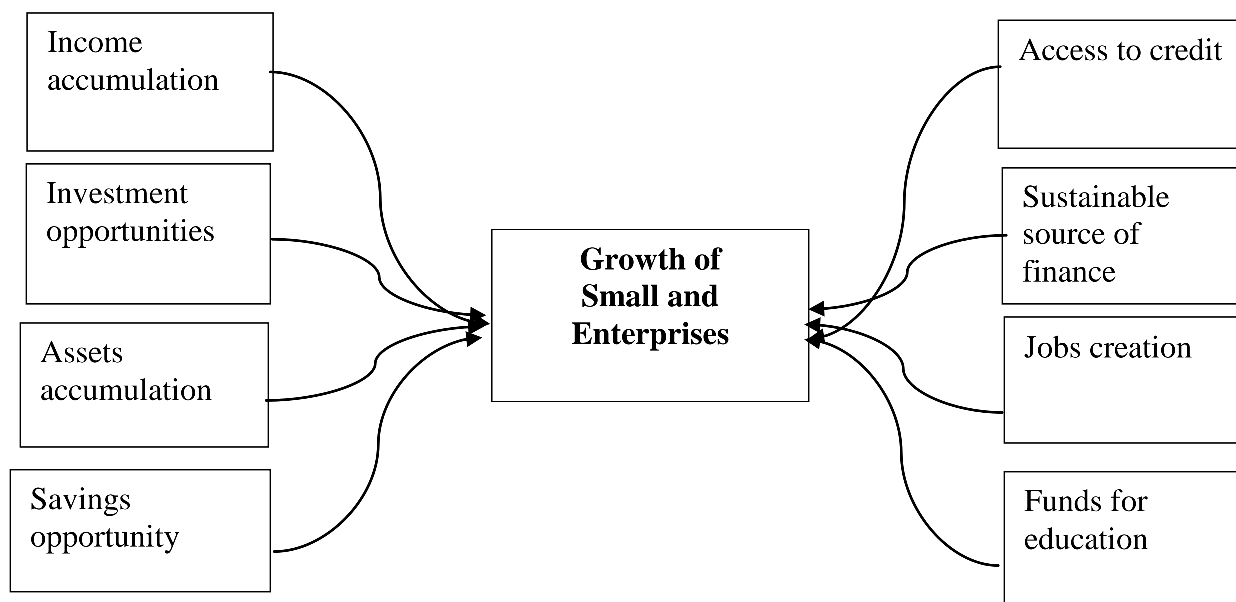

Figure 1 Conceptual framework

However, despite the efforts made by different microfinance institutions many start-ups suffered from accessing finance. The range between demand and supply of financial services was indicating short or exclusiveness. Other setbacks include the unfriendly terms of operation by some microfinance institutions where SMEs are required to pay high taxes or high interest rates which resulted to negative effect to some businesses. More findings indicated that Kenyans microfinance institutions faced numerous challenges such as funding problems, political issues, repayments default government regulations, corruption, poor or lack of infrastructure specifically in the rural areas. Other negative effect reported were on where children were subjected to causal labour-ship and wage discrimination.

CONCLUSION AND POLICY RECOMMENDATIONS

The study conclude that diversity is about bringing together expertise, experiences, thinking styles, hence impacting the working environment both internally, externally, organisational wide and the worldview. Diversity enables interaction between producers/suppliers and consumers while strengthening commercial gains and growth of enterprises. Moreover diversity allows the company to meet needs of diverse clients, basically

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through mobile platforms. A diverse environment is reflected in enterprise's' financial performance.

Diversity in financial inclusion enhances access, usage, and availability of formal financial services. Diversity and financial inclusion are the best practices toward achievement of competitive advantage. Moreover diversity and financial inclusion are one of the best strategy of inclusive business transaction and growth of SMEs, whereby, in such an environment there would be easy and equitable access to financial recourses among other opportunities.

Education and income are the main pillars for increasing inclusion and that savings increased investment. Availability of microcredits, mobile money, and cash transfers, digital payments, insurance remittances, other sources of finance in business circle, are elements of financial inclusions which defines equitable opportunities to access financial services. While too much and informal financial inclusions may lead to financial inefficiency,

As noted, microfinance institutions play a big role of providing loans to low income earners, jobs creation, and capacity building to bowers, training, savings, and insurance services, among other services to uplift the standards of the poor. Despite benefits, as mentioned, microfinance institutions face many challenges such as over-indebtedness, inadequate investment validation, financial illiteracy, regulatory stringent and choices of appropriate model among many problems.

To avoid challenges such as poor business models the microfinance institution management teams can consider preparing a well-researched and comprehensive business plan, citing the main issues such as financial status, analysis of competitive environment, marketing plans and the diversity inclusion element such financial inclusion and diverse human resources with diverse skills. Moreover, to avoid over-indebtedness, the manager can have a well scheduled training programmes on entrepreneurship to its clients in order to help them maximise profits and be able to service their loans.

Small and medium entrepreneurs can use balanced score card model to provide quality services and maximise profits. According to Llorach and Ottosson (2016) performance measures systems such balanced scorecard facilitates understanding of strategy and brings insights which are necessary for faster growth and maturity of the SMEs.

The regulatory reframe-work for supervision, should practice their primary role of protecting the depositors by ensuring registration and full licensing by central bank. They should be more strict on checking the capital adequacy requirements, loans repayment among other prudential regulations. This will reduce the corruption in the financial institutions such as microfinance institutions.

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LIMITATIONS AND FUTURE RESEARCH

This was a global desk review study which assessed diversity, financial inclusion and the role of microfinance institutions on the growth of medium and small enterprises in Kenya. The study was limited to secondary data which was obtained through internet sources (from journals and eBooks) which were published between the years 2012 – 2021. Though some records show that financial inclusions created jobs and increased productivity in Kenya the researchers suggested that, these finding need be tested in other future studies, suggesting that the results are not conclusive. Future studies can be conducted using primary data to obtain specific information, up to date and concrete from the original sources.

Competing Interests

The authors of this Manuscript declare that they have no competing interests.

Authors' Contributions

This journal was produced through effort by Blandina Kori and Stephen Muathe, specifically Blandina was responsible for introduction to the study, reviewed existing literature on Microfinance institutions in Kenya including the conceptualization of the study while Muathe was responsible for research design, conclusion and policy implication of the study. Moreover he was also responsible for reviewing the draft manuscript and providing valuable inputs and suggestions, both authors approved the final paper.

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