FINANCIAL INCLUSION AND PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN MERU COUNTY, KENYA

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ABSTRACT

It has been widely acknowledged that financial exclusion is strongly related with poverty conditions in an economic system translating into poor financial performance among financial institutions. On the other hand, financial inclusion through agency banking, mobile money services and credit facilities act as alternative channels of revenue generation which improve performance of these institutions. Despite this, most Deposit Taking SACCOs seems not to have clearly understood the benefits that would accrue in consideration of financial inclusion. This is seen from the fact that majority of Deposit Taking SACCOs have concentrated their branch networks in urban centers which means that adults living in most rural areas do not access formal financial services at a cost-effective way. The main objective of the study was to determine the effect of financial inclusion on performance of Deposit Taking Deposit Taking SACCOs in Meru County. The study was guided by the following objectives; to determine the effect of financial literacy on performance of Deposit Taking SACCOs in Meru County, Kenya, to examine the effect of diversified credit facilities on performance of Deposit Taking SACCOs in Meru County, Kenya, to establish the effect of mobile money transfer services on performance of Deposit Taking Deposit Taking SACCOs in Meru County, Kenya and to investigate the effect of agency banking services on performance of Deposit Taking SACCOs in Meru County, Kenya. The study was supported by the following theories; technological acceptance model, financial intermediation theory and agency theory. The study adopted descriptive research design. The study targeted 186 staffs from the top management level of the 10 Deposit Taking SACCOs in Meru County. The staffs was drawn from the following departments; finance, marketing, operations and human resource. Since the population was small, a census was adopted. Data was collected using semi-structured self-administered questionnaires that will be administered through drop and pick later method. The data collected was analyzed using both descriptive and inferential statistics with the aid of SPSS. The study was important to the senior management team of the Deposit Taking SACCOs in Meru County, SASRA, the Central Bank of Kenya, future scholars and academicians. For the management of SACCOs, the study will offer recommendations on how best to improve on financial inclusion and thus increasing their performance. SASRA is a regulator of deposit taking Deposit Taking SACCOs in Kenya and thus it will rely on the findings of the study to formulate sound and effective policies that encourage financial inclusion and thus overall performance of the SACCO subsector. The study established that financial literacy services, diversified credit facilities, mobile money transfer services and agency banking services had a positive effect on the performance of DT SACCOs. It was concluded that the SACCOs had to a significant extent embraced financial inclusion which led to improved client base and financial resources management and substantially offered diverse credit facilities which had improved their income, volume of loans and variety. It was further concluded that most of the SACCOs have embraced mobile money transfer services and also agency banking services were to a high extent embraced by Deposit Taking SACCOs in Meru County and contributed significantly to financial inclusion and performance. The study recommends that the Deposit Taking SACCOs in Meru County need to enhance stakeholders in rolling out financial literacy programs to increase access and appreciation of the services.

Key Words: *financial inclusion, performance, deposit taking savings and credit cooperative societies, Meru County, Kenya*

INTRODUCTION

It is estimated that about 2 billion people across the world do not have formal access to financial services and products including ownership of bank accounts a situation that is described as financial exclusion (World Bank's Global Findex survey, 2014). A significant proportion of these financially excluded populations are characterized by high level of poverty, with an average income of $2.00 on a daily basis (Hommes, Ardic & Stein, 2013). In Sub-Saharan Africa, an estimated 47% of people live below US$ 1.25 in a day. By being financially excluded, it implies that this population mostly relies on informal avenues to access financial services which are so costly. This goes a long way to adversely affecting the way formal financial institutions perform.

It is confirmed that financial inclusion is among the ways used to reduce poverty and thus positively contributing towards the growth of the economy. Several researchers (Bharti & Pallavi, 2013; Sibert & Stephen, 2014) have identified financial inclusion as a policy instrument used to solve the development and subsequent performance of financial institutions on a global scale. An increase in financial inclusion would mean a rise in customer base of financial institution which contributes towards performance.

In Kenya, an estimated 46% of the population lives below the national poverty line (Kenya Bankers Association, 2014) and traditionally, banking institutions could not serve these low-income individuals (the unbanked) because of the costs involved. This has resulted formation of Savings and Credit Cooperatives (SACCOs) that can effectively help the low-income individuals and micro entrepreneurs to develop hence financial inclusion. The key financial services that result into financial inclusion among the unbanked and the under banked include pension and insurance services and products, loans, savings and payment services. Most of these services are not offered by Deposit Taking SACCOs either individually or through collaboration with other financial institutions including commercial banks and insurance companies (Ndung'u, 2013). This study seeks to determine how financial inclusion has influenced performance of Deposit Taking SACCOs with specific reference to Meru County.

STATEMENT OF RESEARCH PROBLEM

Deposit Taking SACCOs have performed poorly over the last 10 years due to the increased competition from other financial institutions like banks and MFIs. The SACCOs have not embraced financial inclusion sufficiently to increase their client base. It has been widely acknowledged that financial exclusion is strongly related with poverty conditions in an economic system (Oruo, 2013) translating into poor financial performance among financial institutions. On the other hand, financial inclusion through agency banking, mobile money services and credit facilities act as alternative channels of revenue generation which improve performance of these institutions (Mwaniki, 2014). Despite this, most Deposit Taking SACCOs seems not to have clearly understood the benefits that would accrue in consideration of financial inclusion. This is seen from the fact that majority of Deposit Taking SACCOs have concentrated their branch networks in urban centers which means that adults living in most rural areas do not access formal financial services at a cost-effective way (Otieno, 2016). For instance, according to FSD (2018), the period 2006 and 2016 saw only an increase in adults accessing formal banking services in rural areas from 14.9% to 17.6% respectively compared to an increase of 31% to 40.3% for adults in urban centers (FSD, 2018). This financial exclusion of people living in rural areas means that they have no option but to access credit facilities from shylocks that charge exorbitant interest rates. This has significantly increased poverty conditions among people living in rural areas. Most financial institutions are reluctant to serve rural areas because of the huge costs to be incurred compared with the expected income to be generated (given the fact that majority of inhabitants of rural areas are poor living below US$ 1.25 in a day) (World Bank, 2014). This situation is not different in Meru where the existing commercial banks charge a higher interest rate that discourages adults to open up bank accounts or take up loans. The available Deposit Taking SACCOs (which charge a relatively lower interest rates) in the county have also been limited in urban centers thus financially excluding those in rural areas (Monica, 2015). Studies on financial inclusion and performance of financial institutions have been widely conducted. In Jordan, Shihadeh, Hannon, Guan, Haq and Wang (2018) sought to determine whether financial inclusion resulted into improved performance while focusing on commercial banks. The findings of the study showed that banks have realized the need of increasing access to financial services among the poor as a way of increasing performance. This study however focused on commercial banks and not SACCOs. The study was also done in Jordan and not in Kenya. While focusing on China, Chen, Feng and Wang (2018) evaluated how financial inclusion impacted on non-performing loans from commercial banks and revealed a positive link. The study was however in China and not in Kenya and that it focused on NPLs and not financial performance. In Kenya, Ondabu and Oranga (2018) looked at how financial inclusion influenced performance of listed banks at the Nairobi Security Exchange (NSE). The study noted that financial inclusion entailed use of agent, financial literacy, offering mobile money services and credit facilities which positively increased revenue generated by the banking institution. This study however focused in commercial banks, specifically those listed by NSE and thus ignored SACCOs. Omwansa and Waema (2014) analyzed how to deepen financial inclusion by collaborating with partners for creation of appropriate and innovative financial services and products to those living in poverty. The study noted that the government has put in place several measures including licensing of agency and mobile money transfer services. Most of the above reviewed studies however focused on commercial banks while others related financial inclusion and non-performing loans. Limited research has been done on SACCOs, especially those operating in Meru County. This creates research gaps which the current study sought to fill by examining the effect of financial inclusion on performance of Deposit Taking SACCOs in Meru County.

GENERAL OBJECTIVE

The main objective of the study was to determine the effect of financial inclusion on performance of Deposit Taking SACCOs in Meru County.

SPECIFIC OBJECTIVES

1. To determine the effect of financial literacy on performance of Deposit Taking SACCOs in Meru County, Kenya
2. To examine the effect of diversified credit facilities on performance of Deposit Taking SACCOs in Meru County, Kenya
3. To establish the effect of mobile money transfer services on performance of Deposit Taking SACCOs in Meru County, Kenya
4. To investigate the effect of agency banking services on performance of Deposit Taking SACCOs in Meru County, Kenya

THEORETICAL REVIEW

Technology Acceptance Model (TAM)

The Technology Acceptance Model (TAM) was introduced by Davis, Bagozzi, and Warshaw (1989). The primary goal of the model is to give a detailed explanation of the various factors that have an effect on the general acceptance of computer applications. Davis suggested that the usage of computer information system is attributable to the behaviors of the persons who are intended to use the system (Chooprayoon, Fung & Depickere, 2007). This due to the fact that these behaviors influence the attitudes that system users have towards using the system. The perceived usefulness and attitude by the intended users are also affected by how they perceive the new technology in terms of ease use. Technology acceptance model is used to explain how banks adopt electronic banking.

According to Davis et al. (1989), two factors specifically perceived ease and usefulness are relevant to determine computer use behaviors by intended users. The theorists further defined perceived usefulness to be the probability that the usage of specific computer application systems will consequently enhance job performance. Perceived ease of use on the other hand is the degree with which the target application systems can be operated free of effort (Chooprayoon *et* al., 2007). According to the theory, perceived usefulness and ease of use are the most critical determinants that determine the success of actual system use. Important to note is that these two factors are subjected to certain effects due to the influence of external variables. Various examples of these external factors are; cultural, social and political factors. Social factors include; skills and language. Political factors basically entail the usage of technology in politics.

The model explains how various determining factors are imperative with regards to user's decisions to adopt technological solutions. These decisions in turn lead to actual usage behavior that is acceptance or rejection. This theory supports technology-based variables including mobile banking, internet banking and ATM banking. The study therefore sought to determine how acceptance of mobile and internet banking platforms affects inclusion of financial services in Kenya.

Financial Intermediation Theory

The financial intermediation theory was developed by Gurley and Shaw (1960). They argued that financial intermediation involves the actions of depositing surplus units with the available financial institutions so that they can consequently lend the same funds to deficit units in the economy. Bisignano (1998) opine that financial intermediaries are further divided into four categories: the first encompasses deposits that are for a fixed term, the second category entails deposits meant for the short-term in comparison to their equivalent assets. The third category entails a high portion of liabilities which can be withdrawn without delay on demand and the last are assets and liabilities which to a great degree cannot be readily transferred. The major contribution of financial intermediaries therefore is to ensure that funds flows in a steady manner from the deficits to the surplus units that exists.

The main purpose of financial intermediaries is to ensure the creation of financial related commodities which are highly specialized. These financial commodities can be optimally created if the financial intermediaries are able to make sales on these commodities at a higher price that wholly covers all production costs (Scholtens & Wensveen, 2003). Information asymmetries are more pronounced in financial markets since borrowers know the required industriousness, moral integrity and collateral. Also, to note is that, entrepreneurs also have inside information concerning their individual projects that they seek financing for from financial intermediaries (Ranjani, 2012). Financial intermediaries serve to lessen existing market imperfections. Imperative to note is that financial intermediaries do not exist in a perfect market since information and transaction costs are non-existent. In the modern financial markets, even borrowers know the required moral integrity and collateral as required by their lenders.

In the modern theories of financial intermediation, financial intermediaries for instance depository institutions exist to provide liquidity and monitoring services (Ramakrishnan & Thakor, 1984). Commercial banks have been and will continue to be the most significant financial intermediary across all economies. This is attributed to the role they play being the providers of monitoring services and liquidity insurance as well as being information producers. When banks issue demand deposits, they improve on the competitive market since the issued deposits allows them to foster better risk-sharing among households owing to the shocks they suffer as a result of their consumption needs (Gorton & Pennacchi, 1990). Banks are indeed valuable since they monitor service providers owing to the fact that they act as monitors to investors by avoiding duplication of monitoring costs. It is imperative to note that firms have ready access to a lot of information in comparison to investors.

Agency Theory

The theory was proposed by Jensen and Meckling (1986) and view commercial bank as the principle and correspondent bank as the agent whereby problems arise owing to misunderstanding or incongruence of their interest. Agency theory occurs where the financial institution fails to observes rules and regulation laid down by the banks. Generally, according to agency theory, intermediation places financial institutions (banks and their agents) as intermediating between money and the market or households. Resource (money) allocation based on perfect and complete markets is hindered by frictions such as transaction costs and asymmetric information (Aduda, Kiragu & Ndwiga, 2013).

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

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

EMPIRICAL REVIEW

Financial Literacy and Performance of SACCOs

Fernandes, Lynch and Netemeyer (2014) define financial literacy as the mode in which people utilizes and uses financial resources in making informed decisions on financial choices, effective decisions are therefore applied on financial matter due to proper financial judgment. Good financial judgment entices the firm customers and investors to actively participate on the firm's stability. Lusardi and Mitchell (2014) states that financial literacy involves the management level of the organization, investors and customers to make informed financial decision making regarding their firm's risk involvement in investment and effective action with the aim of improvement of firm performance (Hastings, Madrian & Skimmyhorn, 2013).

Siekei, Wagoki and Kalio (2013) stated that vital financial issues such as performance index and behaviors can be achieved by good knowledge on financial trend. Financial literacy allows the firm's management to learn and to have precise knowledge on customers' interests, market trends, and different mode of diversification on investments, market risks and returns. Financial literacy equips the management with the best ideas and current market trends. Wise (2013) stated that management level with proper knowledge understands the important market trends and embraces the current financial products required by the clients and customers for effective stability in competitive market structure.

Financial literacy allows the firm to make effective decisions hence increasing it survival rate in the market (Babiarz & Robb, 2014). Financial literacy allows individuals to be on pace with the current fluctuating economy with the threat of rapid inflation. Financial literacy is required to make an effective financial system with little pitfalls and to effectively improve firm's performance and stability in the long run of the business cycle. The fundamental concepts of the financial literacy are the understanding of the basic concepts such as numeric calculations and proper knowledge of financial systems. Siekei et al. (2013) stated that financial literacy enhances the achievement of firm survival by adherence to firm specific objectives and mission.

Taft, Hosein and Mehrizi (2013) argued that the firm performance is measured by the management level of financial literacy; therefore, the set of knowledge applied by the firm's management in decision making has a positive influence on firms' stability. Persons with proper equipped financial literacy possess facilitating attitudes on the effective management of financial affairs. Lusardi (2015) established that the management with proper financial knowledge has the capability of analyzing the market structure and making well informed decision regarding the financial choices and issues which in turn influences better performance.

Mottola (2013) established that financial literacy has equipped the management and people with the role of effective decision making and ensuring that the firm's financial wellbeing is catered for. Due to the complexity of the market environment today, the firms have invested on staffs equipped with proper financial literacy for their capacity to understand the market trends.

Mitchell and Lusardi (2015) added that firms across the globe are interested in hiring high professionalism due to their equipped knowledge on the market trend. Staffs with high professionalism adopt strategies that are effective in business stability. Mehrotra, Aaron, and James Yetman (2015) on a study on effect of financial literacy on financial stability of firms established that poor financial literacy on individuals have a major effect on firms' performance and stability. The study further established that firms equipped with staffs with better knowledge management have a higher rate of stability in the market. According to Urban, Schmeiser, Collins and Brown (2015) firms need to possess financial literacy staffs to manage expected risk in the business and manage future returns. The findings also indicated that firms have also demonstrated a substantial link between financial literacy and firm's stability.

Chakravarty and Pal (2013) carried a study on effect of the financial inclusion on the performance; the findings established that individuals whose activities affect financial awareness had a higher financial literacy and tend to invest more. The individuals showed higher financial literacy in decision making and income generation ideas and were more risk takers. Hastings, Madrianand Skimmyhorn (2013) stated that financial literacy affects the overall financial performance of the firm. Financial literacy is gained through training of staffs in new innovative products in the market. Financial literacy in an organization is measured by how well the firm performs and survives in a competitive market.

According to Guiso and Viviano (2014) financial literacy cannot be measured directly, but the management levels have the obligation to measure how an individual staff performs. The findings showed that the manager has been obligated to measure the staff's individual financial literacy by how well they understand the market and their performance level. Financial literacy enables the management level to analyze and manage the market conditions hence implementing the right decisions that positively affect the firm performance.

Diversified Credit Facilities and Performance of SACCOs

SACCOs have introduced diversified credit facilities with the main aim of retaining and attracting customers (Larsen & Thomsen, 2015). Due to challenges faced by the SMEs in accessing loans in commercial banks, SACCOs have introduced diversified credit facilities that focus on the overall entrepreneurial class. SACCOs have diversified their credit facilities to reduce risk taking in finance; diversification takes care of unsystematic risks (Gwalani & Parkhi, 2014). In financial service prudence, diversification refers to the process in which development of different financial services either by marketing aims at improving financial inclusion of the of a specific financial service provider.

Diversified credit facilities aim at reducing unsystematic risk by eliminating products which has a lower correlation to each other while retaining those with a higher return turnover. Diversified credit facilities are aimed at increasing the rate of performance on a firm in different modes. Afroz, (2014) found out that firms that invest in divergent credit facilities inclusively catered for all of the customers and hence improved the performance index of the organization. The findings found out that divergent mode of reaching customers increased and improved the number of customers and increased the volume of transaction. The findings recommended that the firms to retain their market niche on the ever changing and fluctuating business environment ought to embrace divergence credit facilities with the aim of reaching and serving both the lower income earners and higher income earners (Schraten, 2014).

Hann, Ogneva and Ozbas (2013) added that diversification of credit facilities helps in lowering the discrepancies of the set of products offered by the firm. Diversification is used by the firm to ensure that the firm remains competitive and improves its performance. Diversification of products in a firm ensures that the firm remains being competitive and innovative hence acquiring a market niche. Firms with diversified credit products ensure that the firm increases their customers' base by offering them different varieties of products. Hann et al. (2013) found out that diversification ensured that there is a constant flow of cash throughout the year hence ensuring that the firm remained liquidated. The findings indicated that diversified credit facilities had a positive link with financial inclusion and the overall firm performance.

Lagat, Mugo and Otuya (2013) investigated the effect diversified credit facilities on performance, the findings found out that when the firm improved on its credit facilities and diversified them, more profits were achieved by the firm. Diversification allows the firm to fully utilize their resources which were previously not used and to attract more customers. Gatuhu (2013) states that the firm grows by fully diversifying their resources and by not fully utilizing the resources at hand and aiming at maximizing profits. Innovative management and staffs learn their market and creates diversified products, this therefore calls for the management to employ and train their staffs to be effective and competent.

Mobile Money Transfer Services and Performance of SACCOs

Mobile banking services helps in provisions of banking and financial services in a mobile telecommunication device to a customer on a specific financial institution. Due to the increasing level of technology indulgence, financial institutions have adopted mobile technology as a mode of financial transaction to inclusively embrace all criteria of customers. Mobile money transfers were adopted to complement the previously offered services in banking institutions such as ATMs. Mobile money transfer was considered more convenient and its accessibility was more affordable to customers (Mbiti and Weil 2015).

The role of mobile banking is to save, receive and send cash from different users. The statistics show that Kenya leads in the world in its adoption of mobile money transfers (Economist 2014). Mobile networks in Kenya offer mobile money services in the name of Mpesa by Safaricom, Orange money by Orange and Airtel Money by Airtel. Different banks have partnered with the banking sectors to offer the financial services to the unbanked users and to provide convenient transactions. Mbiti and Weil (2015) studied the relationship between mobile money transfer and financial inclusion in Kenya. The study findings revealed that mobile money provides convenience, reliability and flexibility. Further it was shown that mobile money has been on an increasing trend and so had financial inclusion. The study results further showed that increments in the number of the customers who have access to mobile phone services as well as their subsequent enrollment to mobile money transfer services and agencies impacts financial inclusion as it leads to increments in financial services reach to the people.

Kirui, Okello, Nyikal and Njiraini (2013) carried a study on the impact of mobile phone-based money transfer services in agriculture. A descriptive survey research design was adopted by the researcher. In addition, secondary data collected from KNBS, CBK, and Communications Authority of Kenya from 2004 to 2013 was used in the study. The study results showed that the usage of more sophisticated financial services for instance mobile banking and mobile payments and the presence of finance products that are education, gender and wealth sensitive determine the levels of financial inclusion. The study recommended the development of financial products as well as services that are sensitive to gender income levels so as to further enhance financial inclusion.

Wanyonyi and Bwisa (2013) state that mobile money transfer has a positive link with financial performance on financial services renders. Mobile money facilitates quick and reliable trade between the users, it is used as a mode of payment where transactions are quickly transferred and it’s also used as a mode of savings. Okiro and Ndungu (2013) state that mobile money provides a safe storage facility which is convenient and efficient. Mobile money saves on human capital and physical investment which in return brings to increased turnover. Mobile money services have led to increased volume transactions due to increased number of users; this has however contributed to increased level of performance.

Regulatory bodies such as central bank of Africa have introduced regulatory interventions with the main aim of increasing financial inclusion. Numerous services have been launched by the mobile operators and financial institutions to increase the level of conveniences to its subscribers. New programmes have been launched as a mechanism to increase the number of customers and the volume of transaction. Bar, Weber and Pisani (2016) states that mobile money transfer has mainly been embraced by the young generation due to their quest on technology embracement. The findings show that a much-perceived younger generation has embraced online banking hence improving the volume of transactions. The informal settlement where banks had perceived difficult to penetrate has now been inclusive of financial services.

Mbiti and Weil (2015) studied the effect of MPESA in Kenya’s mobile banking. The study found that while MPESA had been touted for banking the "unbanked", the study did not find direct effect of M-PESA on people adopting bank accounts. Further, analyzing data from two waves of individual data on financial access in Kenya, the study found that increased use of MPESA lowered the propensity of people to use informal savings mechanisms but raised the probability of them being banked. The findings also showed that the number of volume transaction by use of MPESA had increased over the period of the last five years.

Kumar (2013) on the effect of financial inclusion with the aim of creating an innovative and appropriate financial product for the poor. The study found out that mobile money was an easier, convenient and a flexible way of channeling funds from different users. The study found out that mobile money had a positive influence on financial inclusion. The study further established that mobile money lacked a set structure on positive restriction of excessive transactions. The study also found out that transaction cost was the major limitation of the low value transfer users as the transaction cost is high as compared to relatively sending a larger amount of volume (Asongu, 2015).

Agency Banking Services and Performance of SACCOs

Mwando (2013) on a study on impact of agency banking on financial performance of commercial banks in Kenya deduced that the bringing of the bank channel closer to client's benefits agents since transaction platforms gain from extra revenues that are attributed to transactions that are consequently acquired by the agents for instance face to face transactions and the conduct of bill payments. Even though customers can carry out these transactions in bank branches, the close proximity as offered by bank agents may serve to increase their readiness to pay more for the offered services and also consequently increase the total number of transactions made through the agents` channel. Ndungu and Njeru (2014) states that bank agents are very near to customers and this may serve as motivational tool for customers to carry out transactions for instance payments of bill such as; water bills, electricity bills and other bills and transactions.

Aduda, Kiragu and Ndwiga (2013) studied the effects of mobile banking on financial inclusion in Kenya. The study revealed that agency banking significantly increases financial inclusion. The study indicated that financial inclusion levels were low hence a notable gap exists which is not bridged by the formal banking sector. Agency banking however is faced with many challenges to further increase mobile penetration and the number of mobile money transactions to ensure more people has access to financial services. The conversion of non-bank outlets into bank agents' financial services providers would serve to ensure that banks readily offer innovative and inclusive financial services to all citizens irrespective of class (Murega, 2013).

Barasa and Mwirigi (2013) studied the role of agency banking in enhancing financial sector deepening in emerging markets. The researcher used a cross sectional survey research design. A population of six commercial banks which engages agency banking services was targeted. Secondary data was used for analysis since it was readily available. In order to make predictions concerning the dependent variable, inferential statistical methods were used. The research findings revealed that a strong and positive relationship was in existence between agency banking and financial inclusion. The study established that in order for more individuals to access financial services, the adoption of agency banking is inevitable. These agents are imperative to ensure that banks accept deposits at the local level conveniently without necessarily queuing. The strategic location of bank agents can serve to ensure that more customers are reached since convenience is of the utmost essence to bank customers (Kandie, 2013).

Ndungu and Njeru (2014) while assessing factors influencing adoption of agency banking in rural areas established that agents need to maintain adequate e-money and cash float balances so as to meet the customer cash-in/out requirements. The research results revealed various factors that influences agency banking adoption; enhancing revenue, increasing customer and coverage, high penetration and the diversion from crowded banking halls. The researcher found that commercial banks adopt agency banking so as to increase banks operational capacity and also to increase revenues. The banks therefore strive to achieve this but by reducing operational costs at the same time.

Rammal and Zurbruegg (2016) on a study on awareness of Islamic banking products deduced that agency banking has increased on the level of financial awareness thus leading to improvements in the number of bank accounts, deposits and savings. They have enabled customers to be more aware of various financial services providers as well as the offered unique products that can meet their diverse financial needs. In this perspective, rural customers are in a better position to open accounts that are relevant to their needs hence having ready and convenient access to diverse financial products than before the widespread adoption of agency banking (Dawar, 2014).

Musau (2013) on a study on utilization of agency banking on performance found that the adoption of agency banking enhances measures of financial enclosures that entail both usage and access ought to be applied. The researchers advocated for the development of informal financial services since they play a big role towards the provision of financial services that are inaccessible via mainstream commercial banks. Therefore, ready financial services access can be enhanced through the strategic increment of agents' bank services proximity to customers. Also, the provision of services at low prices, increments in the number of offered services and customer awareness among target population could positively impact the access to financial services through bank agent outlets nationwide.

RESEARCH METHODOLOGY

Research Design

Descriptive research design will be adopted by the researcher to establish how financial literacy, diversified credit facilities, mobile money transfer and agency banking influenced performance of Deposit Taking SACCOs in Meru County. Descriptive research design describes the subject of the study by defining the profile of the group and events and the mode in which the data will be collected and tabulated (Cooper and Schindler, 2003).

Target Population

The target population of the study is the entire set of groups of under study with the same characteristics or observations. The study target population will be the 10 Deposit Taking SACCOs in Meru County. The study respondents will be 186 staffs from the top management level of the SACCOs in Meru County. The staffs will be drawn from the following departments; finance, marketing, operations and human resource.

Sampling Design

Owing the small sample size of the study, the researcher will adopt census since the sample size is less than 200. Lohr (2009) stated that a sample size is the total number of the individuals to be selected from the entire set of groups. The researcher will ensure that the sample collected is an optimum sample to ensure that the sample fulfills the requirement of the sample by being efficient and sufficient for the study. The sample size of the study will therefore be 186 respondents.

Data Collection Instruments

The researcher will administer structured questionnaires which will be both open ended and close ended. The research instruments will answer both quantitative and qualitative data from the top management. The questionnaires will be self-administered due to their anonymity and well standardized formulated questionnaires to ease in understanding of the questions asked (Orodho, 2005). The research instruments will be divided into subsections consisting of both closed and open-ended questions.

Data Collection Procedure

The researcher made prior arrangements with the top management before the questionnaires are administered to ensure that the respondents understand their urgency. The study followed all the rules and procedures to ensure that all the research standards are followed and the data collected is reliable for the study. The researcher adopted drop and pick later method where the research instruments were dropped, filled and later collected after a period of two weeks.

Data Analysis and Presentation

After collecting the research instruments, the researcher sought for the data to ensure that the questionnaires are fully completed, the data is reasonable and accurate. The researcher then sorted the incomplete questionnaires before coding the data into SPSS Version 23.0 for analysis and presentation. The study employed descriptive and inferential statistics for quantitative data. The qualitative data was analyzed in form of content analysis. The descriptive statistics was carried in form of mean and standard deviation while inferential statistics was carried in form of multiple linear regressions to test whether the specific objectives were significant in influencing performance and to establish whether the overall regression model was significant for the study. The study adopted the following regression equation;

$$\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \mu it}$$

Where: **Y** = Financial Performance; $\mathbf{X_1}$ = Financial Literacy; $\mathbf{X_2}$= Diversified Credit Facilities; $\mathbf{X_3}$= Mobile banking; $\mathbf{X_4}$= Agency Banking; **µit** = Error Term

RESEARCH RESULTS

The study sought to establish the effect of financial inclusion on the performance f Deposit taking SACCOs in Meru County, Kenya. The study sought to establish the effect of financial literacy services, diversified credit facilities, mobile money transfer services and agency banking services on the performance of Deposit Taking SACCOs. Both descriptive and inferential statistics were used to analyze and present data.

Financial Literacy Services and Performance of DT SACCOs

The study established that financial literacy services as part of financial inclusion positively and significantly influenced performance of SACCOs in Meru County. The study indicated that SACCO customers have adequate knowledge on personal management of finances, their management are well versed with matching of short term and long term assets, their management is well informed on setting of dividend rates on members' savings, their management has used the knowledge of their customers on financial services to develop their products and that knowledge on management of finances has made the SACCOs competitive to a moderate extent. The respondents on the other hand significantly agreed that proper management of member resources has made the SACCOs competitive, proper management of member resources has attracted more members to the SACCOs. This indicates that the SACCOs had to a significant extent embraced financial inclusion which led to improved client base and financial resources management

Diversified Credit Facilities and Performance of DT SACCOs in Meru County

The study indicated that diversified credit facilities significantly influenced performance f SACCOs in Meru County. The study established that the SACCOs have a variety of credit financial services for their customers, the provision of diverse credit facility products has improved the uptake of their credit facilities, the amount taken in loans in the SACCOs has been on the increase over the last five years and that the interest income for the SACCCOs has been on the increase over the last five years. The respondents were neutral on whether the broad variety of credit facilities has improved the loan repayment in the SACCOs, the SACCOs charge different interest rates on the different credit facilities offered and that the interest expense of the SACCOs has been optimal in the last five years. This indicated that substantially, there were diverse credit facilities offered by the SACCOs which had improved their income, volume of loans and variety.

Mobile Money Transfer Services and Performance of DT SACCOs

The study pointed out mobile money transfer services positively influenced performance of Deposit Taking SACCOs in Meru County. The study established the SACCOs have launched mobile money transfer services and mobile money transfer services have increased the flexibility in customers transacting in the SACCO. The respondents were however indifferent on whether their customers have sufficiently adopted the mobile money transfer services, mobile money transfer services have increased the average deposits made by customers and that the reliability in mobile money transfer services has promoted the adoption of the service by SACCO customers. The study generally indicated that most of the SACCOs have embraced mobile money transfer services which have contributed positively to their performance

Agency Banking Services and Performance of DT SACCOs in Meru County

The study established that agency banking services significantly influenced performance of Deposit Taking SACCOs in Meru County, Kenya. The study established that the introduction of agency banking has improved convenience of SACCO customers, the penetration of agency banking services in rural areas has extended the reach of the SACCOs, flexibility offered by agency banking has improved the performance of the SACCOs and reliability of agency banking has improved the performance of the SACCOs. This indicates that agency banking services were to a high extent embraced by Deposit Taking SACCOs in Meru County and contributed significantly to financial inclusion and performance

INFERENTIAL STATISTICS

A multiple linear regression model was used to establish the influence of financial inclusion on the performance of Deposit Taking SACCOs in Meru County, Kenya. The findings of coefficient of correlation and coefficient of determination are as shown in Table 1.

Table 1: Model summary

Model	R	R square	Adjusted r square	Std. Error of the estimate
1	.847[a]	.801	.804	1.21175

a. Predictors: (constant), financial literacy, diversified credit facilities, mobile money transfer services, agency banking services

The study shows that coefficient of correlation R of 0.847 an indication of strong of correlation between the variables. Coefficient of adjusted R^2 was 0.804 which translates to 80.4%. This show that changes in dependent variable can be explained by independent variables (financial literacy, diversified credit facilities, mobile money transfer services and agency banking services). The residual of 19.6% can be explained by other variables not incorporated in the current study.

An ANOVA was conducted as 95% level of significance. The findings of $F_{Calculated}$ and $F_{Critical}$ are as shown in Table 2.

Table 2: ANOVA

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	719.143	10	71.9143	25.8712	.000[b]
Residual	389.162	140	2.7797		
Total	1108.305	150			

a. Dependent variable: Performance
b. Predictors: (constant), financial literacy services, diversified credit facilities, mobile money transfer services and agency banking services)

The study established that the study had $F_{Calculated}$ of 25.8712 and $F_{Critical}$ was 3.4469, this show that of $F_{Calculated} > F_{Critical}$ an indication that the overall regression model was significant for the study. The p value was 0.00<0.05 an indication that at least one independent variable significantly influenced the performance of Deposit Taking SACCOs in Meru County.

In order to establish the individual influence of each of the variables of financial inclusion among the SACCOs in Meru County on their performance, regression coefficient was used. The findings are indicated in Table 3.

Table 3: Regression Coefficient

	Unstandardized coefficients		Standardized coefficients		
Model	B	Std. Error	Beta	T	Sig.
(constant)	5.881	1.109		2.274	.000
Financial Literacy services	.791	.056	.321	2.532	.000
Diversified credit facilities	.809	.041	.242	3.261	.000
Mobile money transfer services	.811	.039	.352	2.617	.000
Agency banking services	.806	.057	.361	3.409	.000

a. Dependent variable: Performance

$$\mathbf{Y = 5.881 + 0.791X_1 + 0.809X_2 + 0.811X_3 + 0.806X_4}$$

Where: Y = Performance of Deposit Taking SACCOs in Meru County; X_1 = Financial Literacy Services; X_2 = Diversified Credit Facilities; X_3 = Mobile money transfer services; X_4 = Agency banking services

Table 3 indicates that all variables held constant, financial inclusion among the SACCOs would be at 5.881. A unit increase in financial literacy services while holding other variables constant translates to an increase in performance of the SACCOs by 0.791 A unit increase in diversified credit facilities while holding other factors constant, performance of the SACCOs would be at 0.809. A unit increase in mobile money transfer services while holding other factors constant, SACCO performance would be at 0.811. A unit increase in agency banking services while holding other factors constant, performance of the SACCOs would be at 0.806.

The study established that all the indicators of financial inclusion used had a p value of $0.001<0.05$ an indication that the variables significantly influenced performance of the SACCOs in Meru County. This is supported by Barasa and Mwirigi (2013) who in their study concluded that financial inclusion had a positive and significant effect on performance of financial sector players.

CONCLUSION

The study concluded that financial inclusion significantly and positively influenced the performance of Deposit Taking SACCOs in Meru County, Kenya. The study concluded that financial literacy services, diversified credit facilities, mobile money transfer services and agency banking services had a positive effect on the performance of DT SACCOs The SACCOs had to a significant extent embraced financial inclusion which led to improved client base and financial resources management and substantially offered diverse credit facilities which had improved their income, volume of loans and variety.

It was further concluded that most of the SACCOs have embraced mobile money transfer services and also agency banking services were to a high extent embraced by Deposit Taking SACCOs in Meru County and contributed significantly to financial inclusion and performance

RECOMMENDATIONS

The study recommends that the Deposit Taking SACCOs in Meru County need to enhance stakeholders in rolling out financial literacy programs to increase access and appreciation of the services. The study recommends that that SACCOs should reduce their interest rates on credit facilities and customize them to fit customer needs to improve their uptake. The study recommends that the SACCOs should improve the use of agency banking services and also ensure most of their services are available in this platform for improved financial inclusion.

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