ACCESS TO MICROFINANCE SERVICES AMONG THE YOUTH IN KENYA: A CASE STUDY OF RAFIKI MICROFINANCE BANK

Dr. Peter N. Kiriri
United States International University Africa
Email: pnkiriri@usiu.ac.ke

ELI ROIMEN
Rafiki Microfinance Bank Limited
Email: eliroimen@gmail.com

ABSTRACT

Financial Inclusion is a state in which all people who can use them have access to a suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, to a financially capable clientele (Center of Financial Inclusion, 2013). One of the key provider of this financial services are Microfinance institutions. Microfinance generally involves the provision of financial services by various institutions such as credit, saving or insurance to poor or disadvantaged individuals. This is intended to improve the livelihoods of this segment of the market. The concept of microfinance has been in existence through savings and credit groups that have operated for centuries

More than half of the world's working adults are excluded from financial services. This is more so in low income populations in developing economies, where approximately 80% of poor people are excluded (United Nations, 2012). It is 33% harder for the youth to be able to have a savings account as opposed to adults and 44% less likely to save in a formal institutions. Saving-account penetration rates for youth vary by geographical region. In Africa, the rate is about 12%. Youth are often excluded from access to formal financial services. Reasons include legal restrictions such as age and identity documents, high transaction costs compared to their income base and negative stereotypes about youth where they are viewed as a "risky" lot. Regulatory frameworks and inclusive policies that are both youth friendly and protective of youth rights are needed to increase youth financial inclusion (UNCDF-YouthStart, 2012).

In Kenya, there has been a rapid growth in the population in the last four decades, with the population increasing from 10.9 million in 1969 to over 40 million as at year 2013. This growth is evident in the Kenyan Age Pyramid which indicates that over 56% of the Kenyan population lies under the age of 35 Years, with 23.7% being under 25 years (Financial Sector Deepening Trust, 2013). This creates a huge population on which to focus on not only for the present but for the future. Out of the youth aged 26 to 35 years, 26.1% don't have access to any formal financial services while 38.6% of those aged 18 to 25 years don't have access to any formal financial services (FinAccess, 2013). In addition, only 34.8% of the youth aged 35 Years do make use of the formal banking services with most of the Youth preferring to access mobile financial services providers or other informal service providers.

In an effort to promote financial inclusion, the Government of Kenya (GoK) has been instrumental in focusing on the Youth in an attempt to create employment and empower the youth to venture into more informal employment as opposed to formal employment. This has been done through the Youth Enterprise Development Fund (YEDF) and recently the Uwezo fund. However, the impact of this financing has been limited due to a number of factors including but not limited to; Mismatch in product development and associated roll out, weak funding bases and a low levels of Youth led enterprises that are growth oriented and scalable (Youth Enterprise Fund, 2013).

Rafiki MFB was established to actively engage in the under-banked and unbanked sector of the economy, with a specific bias among the Youth. Rafiki Microfinance Bank is a subsidiary of Chase Bank (K) limited and regulated by the Central Bank of Kenya. It was conceptualized in 2009, registered in 2010 and launched its operations in the Kenyan market in 2011 with a firm footing agenda for the microfinance industry and aims to be a conventional one stop microfinance institution with strong focus on youth agenda. Rafiki aims at being the premier relationship microfinance institution offering progressive youth-led microfinance services that

span business loans, asset finance, agricultural loans, guarantees, saving accounts, Chama supreme banking, micro-insurance and housing Microfinance, cutting across urban, peri-urban and rural Kenya. Rafiki Microfinance Bank strives to empower communities come out and live in dignity and for businesses to upscale through wealth creation to generate employment opportunities (Rafiki Microfinance Bank, 2014).

This research assessed the provision of microfinance services among the youth by Rafiki Microfinance Bank with a view of ensuring the Bank can develop effective strategies to serve the youth in a more efficient manner to grow the outreach and impact of the bank into market. The study addressed issues of demand and supply of microfinance services, risk mitigation and sustainability of microfinance services.

A descriptive quantitative research design was used. Data was collected using a pretested structured questionnaire that was administered to a convenient sample of 378 customers and an interview with 2 senior management respondents. All the completed questionnaires were entered into IBM SPSS 20.0 statistical software and data analyzed for descriptive statistics including measures of central tendency and Pearson Correlation. Results were presented in tables and graphs.

From the study findings, it was deduced that the youth seek services mainly based on the referrals that they obtain from their friends and due to the products being offered by the Bank. However, it was noted that this products do not necessary match the needs for the youths and they may need more refinement to suit them. The study did reveal that despite the products not fully matching the youth needs, they are effectively communicated to them when they visit the Banks branches and through other appropriate forums.

The youth have a higher affinity to save with the Bank as opposed to taking loans. This was a departure from our expectations. When it comes to the process of applying for loans, the Youth

find the loan application process to be fairly well defined and structured since they avoid most of the bottlenecks experienced in other institutions.

When it comes to accessing banking services, the Youth prefer making use of mobile banking as opposed to other traditional banking services such as ATM's and Banking halls. This is advised by the fact that the youth are very technology savvy and they require things fast and on the go to enable them keep up with their lifestyle.

From the study, it can be deduced that the Youth do consider the interest rate as the most important factor when obtaining a loan. This is an indication that they are very price sensitive and that they are well informed about the different interest rates regimes and charges across the Banks. The products features were also an important consideration for them when taking loans since they need products that meet their immediate needs.

When it came to evaluating the basis of giving loans, the youth generally agreed that the loans issued to them should be based on the ability to repay the loan. There is also a strong preference by the Youth to use Mpesa statements to determine their ability to pay compared to Bank statements and business plans. The respondents agreed that the Bank need to ensure that all facilities taken from the Bank are adequately secured to ensure repayment is as required. However, since they may not possess the required security, they felt that the Bank should be willing to take third party guarantees to act as collateral for the loans. When the Youth were asked about undergoing training to be able to access funding, the Youth strongly agreed that this would be the right step for them to obtain additional skills to run and manage their ventures.

Based on the study, the study noted that the Youth do possess the required skills to run their ventures. This they believe will ensure that they are able to run profitable venture to repay their loans. In addition, the youth do maintain lifestyles that don't threaten the continued growth of their business thus curtailing their loan repayments. The study did identify that the Youth would

be willing to go an extra step to ensure success of their businesses. This is through willingness to report to the Bank on a Monthly basis their performance, willingness to participate in a Government guarantee scheme and willingness to be paired with experienced business persons to guide them in their ventures.

As a recommendation, the management must review the products being offered to the Youth to ensure that they are responsive to their needs and that they address the expectations of the Youth. This should be done through a consultative process involving management, staff and the clients (the Youth). This will allow the Youth access products that address their need and fulfill their expectations. In addition, this will need to be a periodic process since the tastes and preferences of the Youth change from time to time. In terms of provision of services, the management will need to relook at the provision of services through mobile phones and other innovative means. This is due to the fact that the youth are very tech savvy and would like their services on the go. It will also ensure a wide coverage which is cost effective to reduce costs.

The study recommends that management incorporates client training into the business. This will ensure that the Youth possess the required skills to run successful enterprises while building a trust relations hip which will result in more referral thus more business. In addition, management should review the loan appraisal process to incorporate the use of Mpesa and Business plans in the loan appraisal process. This will enable the bank correctly evaluate the value of business done by the youth and rightfully their ability to pay.

Management need to identify clear ways of managing the banks costs at a sustainable level, obtaining an appropriate mix between quality service provision and outreach and profitability. This will be essential for the Bank to ensure that is able to be profitable in the long term and grow its client's base. The available option is the use of mobile technology among other innovations to increase access to financial services.