International Journal of Thesis Projects and Dissertations (IJTPD)
Vol. 4, Issue 2, pp: (66-78), Month: April - June 2016, Available at: www.researchpublish.com

Effect of Innovative Microfinancing Approaches On Financial Outreach, Case Study: Letshego Rwanda Ltd

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Abstract: **This study seeks to assess the measures undertaken by MFI in Rwanda to increase their outreach in order to address such challenges of financial inclusivity in Rwanda. The study has objectives to assess the specific innovative approaches applied by MFIs for expanding the financial outreach, to establish the role of innovative micro-financing approaches on their MFI service delivery to the clients and determining the relationship between innovative financial approaches used in MFI and increased outreach. The study was carried out in Letshego, Muhanga branch whereby 100 respondents who consists of both clients and employees by using primary methods of data collection. Data from respondents were presented using descriptive statistics. The study found that that mobile phone applications are one of the main products used to reach out to more clients in MFI. Although MFI have tried to innovate ways of reaching out to clients, majority of the clients still have reservation for adopting the new changes. This was observed when the respondents were asked to state the maximum amount they can deposit using mobile banking and 62.8% stated that they are willing to part with any amount not more than 50,000 Rwandan francs. The study found that product innovation in MFI is very important in ensuring that they reach out to as many as possible clients. This is evident by the response rated at 36.4% of the respondents who supported it arguing that MFI should be in a position to introduce a new good or service to the market. Another important aspect is process innovation whereby a new production process or methodology should be effective and efficient. This was supported by 36.4% of the respondents who stated that process development is equally important as the product development. The study indicates that in average there are similarities between the outcome of the employees who believe that innovative ways of reaching out to customers are effective and efficient, withdrawal and deposit in Letshego Microfinance due to its innovative products as indicated, easy ways to check balance in their accounts, easier ways of opening an account, quick access to MFI services, error free records innovative services, 24 hours online services, security of innovative products and time saving. The study recommends that there is a need to put much attention into the technological innovation, infrastructure building, institutional development, and human capital formation which directly increase the productivity and human resources. There is also a need to ensure an appropriate regulatory and prudential framework for the market of Microfinance including capital adequacy ratios, asset quality indicators and unsecured loan limits. It is important to provide a specialized credit bureau for Microfinance that can help financial institutions to have necessary information on clients in order to minimize risks.**

Keywords**: Microfinance Approaches, Financial Outreach, Innovative services, financial institutions and product development.**

1. INTRODUCTION

Innovation in banking sector has really improved over the recent years in most parts of the world. Financial institutions are seeking alternative banking channels to enable them to reach more and more clients as well as increase financial inclusivity especially those who live in the rural areas. According to Rangarajan Committee report (2008) Financial

Inclusion is defined "as the process of ensuring access to financial services, timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost". However, it is observed that financial exclusion is highly witnessed in developing countries especially Asia and African countries.

For instance in India, Porkodi and Aravazh (2013) asserted that 60% of the country's population does not have bank accounts and nearly 90% do not get loans. This has made India to be currently rated as the second-highest number of financially excluded households in the world. According to Andrianaivo and Kpodar (2011) bank penetration is lower than 10 percent in some regions of Africa particularly in rural areas. Although financial institutions play a major role in economic development of the country, majority of the world's poor remains unbankable.

Many of them live in rural areas where there is no access to formal banking systems. Initially, financial institutions used to provide financial services to a set of clients who were deemed to have capacity to pay back the loans judging on their ability to provide collateral security. Majority of the people mainly youth and women could not afford to meet such demands because of social-cultural practices particularly in African countries. Policy makers have articulated that financial inclusion can help poor households improve their lives and stimulate the economic activity (Cull, *et al.,* 2014).

This has led to the rising debates on accessing finance which has been a subject of discussion in recent times. The discussion of this subject matter has been closely related to developmental matters where by studies have tried linked the financial inclusiveness towards economic development of a nation. Building inclusive financial sectors improves people's lives, in particular those of the poor (UN, 2006).

In Africa, the majority of the population has no access to banking services, with only 20% of African families having bank accounts (Dovi, 2008). For instance, in 2007, a comparative study was conducted between Kenya and Benin and it was established that only about 30% of household in Kenya had bank accounts; and in Benin, with a population of 7 million had only 35 bank branches in 2006 (Kimenyi & Ndungu, 2009).

Ondiege (2010) argued that the problem of limited access to financial services in Africa originates from poor infrastructure causing inaccessibility of financial services, financial illiteracy, all of which culminate into exceedingly high cost of providing banking services. He cited that in Ethiopia, Uganda and Tanzania for instance, each have less than one bank branch per every 100,000 people compared to more developed countries like Spain where one branch serves 100 people.

It is this gap in the financial services market that is creating a unique niche for mobile phone banking to develop on the continent, enabling a growing number of people to access financial services for the first-time (Aiyedogbon, &Obumneke, 2014).

In this context, new technology-based financial services, such as mobile phone banking and the use of smartcards, have the potential to substantially increase people's access to finance. In South Africa, the DRC, Zambia and Kenya for instance, mobile phone banking is taking services to remote areas where conventional banks have been physically absent. Subscribers can now open accounts, check their balances, pay their bills, transfer money, and cater for their daily basic needs (Ondiege, 2010).

Local banks in Rwanda have tuned to mobile banking too in a bid to increase service delivery and reduce cost as competition has stiffened. However, there is little information about the efforts by Microfinance Institutions (MFIs) in Rwanda especially in portfolio management in order to develop and introduce flagship project which might be a game changer in financial sector. Based on the above background, this study aims to assess the effect on innovative MFIs approaches on Rwandan financial outreach.

1.1 Objectives of the study:

1.1.1. General objective:

The general objective of this study is to assess the effect of innovative MFI approaches on financing outreach in Rwanda.

1.1.2 Specific objectives:

i. To assess the specific innovative approaches applied by MFIs for expanding the financing outreach.

ii. To establish the role of innovative micro-financing approaches on their MFI service delivery to the clients

iii. To determine the relationship between innovative financing approaches used in MFI and increased outreach.

2. LITERATURE REVIEW

2.1 Introduction:

In this chapter the researcher discusses the objectives of the study citing the work that other scholars who have published their evidence relating to the effects of creativity and innovation on the financial performance of the financial industry. The researcher used journals to develop the theoretical debate, empirical debate and the conceptual framework of this study.

2.2 Conceptual Perspectives:

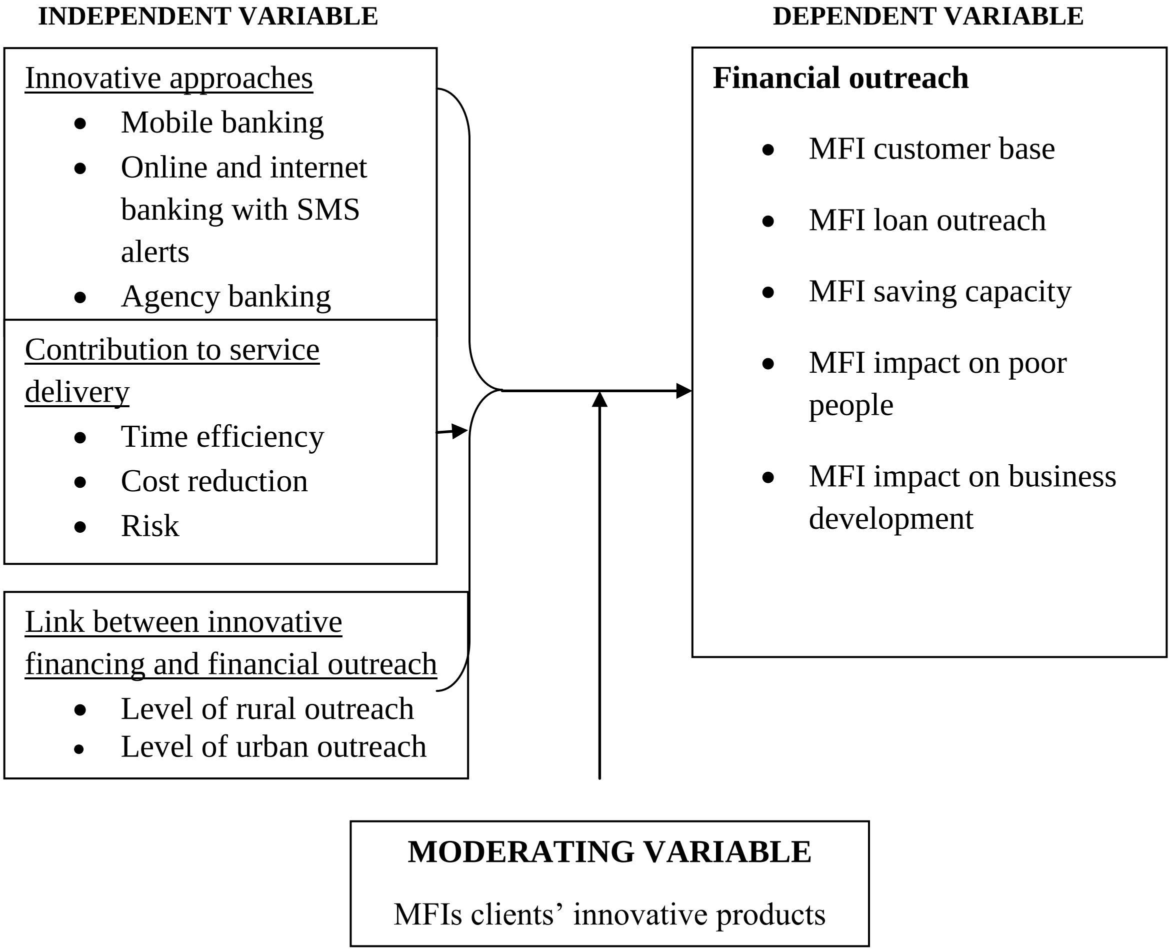

Figure 2.1: Conceptual frame

MFI innovations in technology (such as Mobile banking, Village saving, Agency banking, etc.) policies, organization, and management that affect how well financial outreach objective is met This environment broadly includes the human and social capital possessed by the poor, the economic policies of the country, and the quality of the financial infrastructure that supports financial transactions. Financial outreach as objective of the most of MFIs should be reached when the number of persons now served that was previously denied access to formal financial services (Kereta, 2013). This should be measured considering an increase in number of customer base, loan outreach, savings capacity and impact on business development.

2.3 Importance of innovation in MFIs:

Microfinance has been prioritized for decades as an instrument for fighting poverty. Microfinance is seen as very crucial to attaining the Millennium Development Goals (Little, *et al.*, 2003). Supporting the creation of access to formal financial services for low income households holds the promise of improving the living conditions of poor families and fostering economic development (Terberger, 2003). Increasing the access of the poor to sustainable financial services is an important part of the World Bank Africa Region's strategy for supporting the Millennium Development Goals for poverty reduction. Convenient and affordable instruments for savings, credit, insurance, and payment transfers are essential both to cope with the economic fluctuations and risks that make the poor especially vulnerable, and to take advantage of opportunities to acquire productive assets and skills that can generate increased income (Steel & Andah, 2003).

Microfinance offers novel ways to cope with the fundamental problems in the lender-borrower relationship, and in order to be better able to understand the importance of the microbanks' innovations a short review of asymmetric information problems in the lender-borrower relationship is necessary. The lender-borrower relationship contains several informational problems (Freixas & Rochet, 2008). Suppose the bank faces a new borrower. At this initial stage, the bank does not know the borrower's type. Focusing on the extremes, the borrower may be trustworthy or untrustworthy.

2.4 MFI financial performance based on creativity and innovation:

According to people who stood and addressed the attendance during the award of the Most Innovative Bank of the Year (2011) they asserted that in today's world, many of the big banks are excelling in providing online banking services, using their well-known brands to overcome security concerns and so-called 'first-mover' advantage. However, the internet is also helping us reach customers all over the world. Internet is also helping us sell more products with less paperwork. All of which brings me to a fourth potential answer to what is the greatest banking innovation to date: enhanced security.

Banking has become much more competitive. And much more responsive to customers' needs Many people have come to realize that banks are just like any other business - that is any other retail business. In the meantime, more and more banks are modifying what they do and how they do it based on the realization that they are indeed retail shops. They are changing their branches from transactional banking models to more proactive sales outlet models. They are modifying some branches to create bigger more comfortable outlets to better satisfy customers' changing lifestyles. They are building other outlets which are aimed at fulfilling on the most basic of needs. More and more banks are also becoming more customers centric, offering specific types of services to specific types of customers (Most Innovative Bank, 2011).

Banking institutions is one of the powerful institutions in our society. It has a major role in transforming people's lives and even the entire economy of a country. This will however be possible if the institution assembles a group of individuals with creative and innovative minds who may come up with unique ideas that can assist the bank on its efficiency and effectiveness.

The modern economy cannot exist without the efficient financial system that is defined as the collection of markets, institutions, instruments and regulations through which the financial securities are traded, interest rates are determined and financial services are produced and delivered around the world (Rose & Marquis, 2009). The financial system is regarded as one of the most important creations of the modern society and it is described as an integrated part of the economic system.

Halkos and Salamouris (2004) pointed out that creativity and innovations can play a major role in the financial institutions. They pointed out in the first place that it can play as the risk reduction or protection against all types of market risk: price risk, exchange risk, interest rate risk or credit risk (by the use of derivatives, securitization or collateralization process).

Secondly the risks that are embodied in a financial instrument can be stripped out, priced, held and traded separately from other risks of this instrument (by the transactions in secondary markets). Third, it increase liquidity of the assets or instruments (by the securitization process the loans can traded in the secondary markets and the assets structure of the lending institutions can be improved). Fourth it, enhance the widening and access to the credit markets or increasing the credit capacity both for the borrowers and for the creditors. Fifth, it increases the assessment to the equity financing together with the higher flexibility of the capital structure (by the usage of debt-equity swaps or convertibles). Sixth it widens the possibilities to insure risk in return for the payment of a b widens the scope for managing assets and liabilities.

2.5 Financial outreach through MFI innovative products:

The triangle of microfinance reflecting the objectives of financial sustainability, outreach, and impact is represented in figure 2.3 below (Zeller and Meyer, 2002). MFIs attempt to contribute to these objectives (either indirectly through pursuance of financial sustainability leading to scale and serving many clients, or directly through targeting poorer segments of the population) but many stress one particular objective over the other two. So do donors, governments, and other social investors that differ in their relative emphasis on the three objectives. Some MFIs may produce large impacts but achieve limited outreach. Others may make smaller impacts but are highly financially sustainable with a large breadth of outreach, and past investments in such institutions may have high cost efficiency in reducing poverty. The potential trade-offs between depth of outreach and financial sustainability have been noted, but they may also exist between impact and financial sustainability. As Sharma and Buchenrieder (2002) argue, the impact of finance can be enhanced through complementary services, such as business or marketing services or training of borrowers that raise the profitability of loan-financed projects. Complementary services are sometimes offered by MFIs but supplying them increases operating costs, thereby jeopardizing financial sustainability if the additional costs are not covered by borrowers (which almost never happens).

There may also be trade-offs between impact and depth of outreach. The impact assessment studies reviewed by Sharma and Buchenrieder (2002) suggest that the very poor may benefit from microfinance largely by smoothing their consumption through improved management of their savings and through borrowing. Those just above or just below the poverty line may be able to use loans more effectively for productive purposes, which ultimately raise their income and asset base. Thus, expanding financial services may improve the welfare of the very poor, but not necessarily lift them out of poverty because of their lack of access to markets, technology, knowledge, and other factors that expand the production frontier.

These potential trade-offs exist in urban as well as rural finance and must be addressed when MFIs develop their business plans and decide between marketing their services to only the very poor, to a mix of clients clustered around the poverty line, or to owners of small and medium-size enterprises.

Thus, greater financial sustainability can positively influence outreach. This synergy is even more important for savers who must have faith in the permanence of the institution to which they entrust their savings. No one will save with an institution that is considered to be only temporary. Second, striving for financial sustainability forces MFIs to be sensitive to client demand and induces them to improve products, operations, and outreach. Better financial products, in turn, generate greater economic benefits for clients, and thus greater impact.

2.6 Summary:

According World Bank (2014) many of the MFIs are embracing innovative product development because traditional banks are now providing microfinance services, and therefore threatening to run them out of the market. They are now venturing into services such as providing online banking services, using their well-known brands to overcome security concerns and so-called 'first-mover' advantage. However, the internet is also helping us reach customers all over the world. Internet is also helping us sell more products with less paperwork. All of which brings me to a fourth potential answer to what is the greatest banking innovation to date: enhanced security.

Many people have come to realize that financial business is just like any other business - that is any other retail business. In the meantime, more and more financial institutions are modifying what they do and how they do it based on the realization that they are indeed retail shops. They are changing their branches from transactional banking models to more proactive sales outlet models. They are modifying some branches to create bigger more comfortable outlets to better satisfy customers' changing lifestyles. They are building other outlets which are aimed at fulfilling on the most basic of needs. More and more banks are also becoming more customers centric, offering specific types of services to specific types of customers (World Bank, 2014).

3. RESEARCH METHODOLOGY

3.1 Research design:

The researcher used descriptive survey when conducting this study. Zuelueta and Costales (2003) cited that descriptive research is a quantitative research design that describes phenomena as they exist, taking care not to influence subjects or events in any way. Descriptive and survey research designs are used by social scientists to describe human behaviors, by market analysts to look at the habits of customers, and by businesses seeking insight about company practices.

3.2 Target Population:

The study targeted both clients and employees' of Letshego Rwanda Limited particularly in branches located which has a dominance of rural population setting in order to assess the penetration of the MFI in these areas. Letshego Rwanda Limited MFI has eight branches in Rwanda and four of them operate within Kigali City. Others are located outside the city. The study therefore targeted Muhanga branch which has 11 employees and approximately 800 saving and credit clients.

TABLE.1: Sample elements distribution

Branches	Total Employees
Muhanga	
Employees	11
Clients	800
Total	**811**

3.3 Sample size and sampling methods:

For the employees, census was uses whereby all of the employees participated in the exercise because they are few. However, on the side of the client's determination, the research used Solvin's formula. The sampling error was 10% in order to attain a desired or a recognizable level of accuracy.

Formulae: $n = N/ (1 + N*e^2)$

$= 800/ (1+800*0.1*0.1)$

$= 800/1+8$

$= 800/9$

= 89 clients and 11 employees

= 100 respondents

3.4 Sample and sampling techniques:

According to Mugenda (2003) sampling techniques are the methods which can be used to identify the respondents during the data collection exercise. The researcher used simple random method to collect information from the clients whereas census method of sampling was used to collect information from the employees in order to get different points of views.

3.5 Data processing and analysis:

Out of the 89 client respondents who were targeted, 78 questionnaires were well filled and were returned for the analysis. This implies that the study recorded (78/89*100), that is 88% response rate and the researcher took the non-response rate (12%) as minor. After data collection, the researcher evaluated the worth of the data by analysis and presentation in a more organized and systematic way. Triangulation of the findings of qualitative and quantitative data was vital to arriving at logical conclusions about the results.According to Rhodes (2014) quantitative data is the data is the data which can be represented in numerical terms such as frequency and percentage. However, qualitative data cannot be measured using figures because it concerns the perception of the respondents own views.

4. FINDINGS AND DISCUSSIONS

4.0 Introduction:

This chapter discusses the findings which were collected from the field using the questionnaires and the interviews. The researcher used the computer software known as the statistical package for social science (SPSS) in order to analyze the data. The researcher entered the data in the software while coding it accordingly depending on the degree of certainty and surety that the respondent felt it correct. The data was analyzed using descriptive statistics where the mean, standard deviation, correlations, frequencies and percentages were considered.

4.1 Specific innovative approaches applied by MFIs for expanding the financial outreach:

The first objective of this study was to assess the specific innovative approaches available in microfinance institutions which are meant to reach out to more clients who do not have access to banking services. The following section presents the findings and discuses about some of these innovative products.

4.2 Measures adopted in MFI to improve their innovative service delivery:

The study sought to establish the actions which MFIs have taken to ensure that they reach out as more clients as possible. Currently, microfinance institutions are considering non-traditional, or alternative, ways of distributing credit and other financial services to the poor. This function is typically referred to as Alternative Channels. In most cases some of these alternative or innovative ways may include situation whereby MFI can be able to work with and through third parties to reach customers and, consequently, outsourcing a significant part of the customer experience to those parties like chemist shops, hardware companies, supermarkets and other busy places where clients frequent each day.

TABLE.2: Measuring the innovativeness of microfinance

	Frequency	Percent
product innovation	4	36.4
process innovation	4	36.4
organizational innovation	1	9.1
marketing innovation	2	18.2
Total	**11**	**100.0**

The study indicates that product innovation in MFI is very important in ensuring that they reach out to as many as possible clients. This is evident by the response rated at 36.4% of the respondents who supported it arguing that MFI should be in a position to introduce a new good or service to the market. Another important aspect is process innovation whereby a new production process or methodology should be effective and efficient. This was supported by 36.4% of the respondents who stated that process development is equally important as the product development. A new organization of management was considered by 9.1% of the respondents that it serves a key role in ensuring that the MFI reaches as many clients as possible and this is viewed as an organization innovation. Market innovation is a situation whereby it facilitates a new way of selling your goods or services. This variable was considered as the key measurement needed by MFI in order to extend their outreach by 18.2% of the employee respondents.

TABLE.3: Accessing financial services through innovative ways in MFI

	Frequency	Percent
Easy	9	81.8
Normal	2	18.2
Total	**11**	**100.0**

According to 81.8% of the employees of MFI, the condition of accessing finance from their institution is easy whereas 18.2% stated that the process is normal. Low access to formal credit among rural households and microenterprises, and the widening income gap between rural and urban households, MFIs are now taking several innovative measures to increase the supply of credit and access to finance to a large population.

TABLE.4: Number of transactions per day

	Frequency	Percent
Less than 10	1	9.1
10 – 20	6	54.5
Above 20	4	36.4
Total	**11**	**100.0**

The study reveals that more than 90% of the employees stated that in average, the transaction they make cannot come below 20. Microfinance has long been considered a powerful tool for sustainable development. The idea of granting loans at fair conditions to alleviate financial constraints of the poor has gained widespread acceptance among academics, investors and the public sector alike. The market for microcredit has expanded over many years, with microfinance institutions (MFIs) extending loans to many clients in Rwanda.

TABLE.5: Model of reaching out to customers in MFI

	Frequency	Percent
Individual business customers	2	18.2
Women	2	18.2
Youth	7	63.6
Total	**11**	**100.0**

It was observed that 18.2% of the respondents stated that majority of the customers of MFI are individual businessmen, 18.2% sated that they are women and 63.6% stated that they are youth. This is because Letshego have several products such as SME business loan product. The product targets individual SME customers to meet their working capital needs. Another type of product is salary loan product. This product targets people in gainful employment for personal development whose loan repayment is through check off by the employer. Standing order loan product targets people in gainful employment for personal development whose loan repayment is through monthly standing orders. Back to school loan product is designed to meet the education needs of our customers. Asset financing loan product is for the purpose of purchasing business and household assets. Business training service is provided to customers to bridge the existing skill gaps in business management.

4.3 Relationship between innovative financial approaches used in MFI and increased outreach:

The study wanted to establish the relationship between innovative microfinancing and financial outreach in Rwanda. Descriptive statistics were used to assess the mean response and the correlations were used to assess the relationship between these two variables.

TABLE.6: Descriptive Statistics showing the quality of using agent banking in MFI (N=11)

	Mean	Std. Deviation
Letshego Innovative Microfinance services are effective and efficient	1.82	.874
It is easy to make withdrawal and deposit in Letshego Microfinance due to its innovative products	1.55	.522
It is easy to check balance using Letshego Microfinance	1.27	.467
Opening an account is very easy using Letshego Microfinance	1.91	.944
Letshego Microfinance services are very quick	1.36	.505
Innovative products in Letshego Microfinance are error free records	1.45	.522
Letshego Microfinance agency systems are online 24 hours a day	1.45	.522
Letshego Microfinance innovative products are secured	1.45	.522
Letshego innovative Microfinancing systems are time saving	1.45	.522
Valid N (listwise)		

The study used a Likert scale to rate the above five variables such that those who indicates that they strongly agree would be indicated by a mean of (0-1.5), agree (1.6-2.4) Neutral (2.5-3.5) disagree (3.6-4.4) and strongly disagree (4.5-5.0). The statistics indicates that in average majority of the respondents agreed that Letshego Innovative Microfinance services are effective and efficient having rated with a mean of 1.82 and a heterogeneous standard deviation of .874. Similarly majority of them also agrees that it is easy to make withdrawal and deposit in Letshego Microfinance due to its innovative products as indicated by a mean of 1.55 and a heterogeneous standard deviation of .522. Strongly agreed that it is easy to check balance in their accounts at Letshego because the Microfinance as shown by a man of 1.27 and a heterogeneous standard deviation of .467. Majority of them agreed that opening an account is very easy using Letshego Microfinance having rated with a mean of 1.91 and a heterogeneous standard deviation of .944. regarding the issues such as quick access to MFI services, error free records innovative services, 24hour online services, security of innovative products and time saving, majority of them agreed normally as indicated with a mean ranging from 1.36 and 1.45 with heterogeneous standard deviation ranging from .505 and .522 respectively.

TABLE.7: Descriptive Statistics showing the of MFI innovative products

	Mean	Std. Deviation
We are planning to introduce agency banking because customers are to transacting amount below frw 100,000at their nearest agent	1.36	.674
Customers are familiar with the agency banking systems	1.36	.505
Customers prefer agency banking more than other mode of financial services	1.36	.809
Most of customers approach agency when banks and SACCOs have closed	1.00	.000
Valid N (listwise)		

The study indicates that in average majority of the employees strongly agreed with the statements that We are planning to introduce agency banking because customers are to transacting amount below frw 100,000at their nearest agent, customers are familiar with the agency banking systems, customers prefer agency banking more than other mode of financial services and also Most of customers approach agency when banks and SACCOs have closed. This is indicated by a mean of 1 and 1.36 respectively and heterogeneous standard deviation of .674 and .000 respectively. This implies that agency banking is important aspect needed to consider in microfinance institutions for the purpose of financial inclusion.

TABLE.8: Correlations between financial inclusion and outreach in rural areas

		Level of financial outreach in rural areas	Model of reaching out to customers in MFI
Letshego Innovative Microfinance ervices are effective and efficient	Pearson Correlation	.657*	.629*
	Sig. (2-tailed)	.028	.038
	N	11	11
It is easy to make withdrawal and deposit in Letshego Microfinance near your place due to its innovative products	Pearson Correlation	.603*	.702*
	Sig. (2-tailed)	.050	.016
	N	11	11

The study shows that there is a positive correlation between the innovative MFI approaches and financial outreach in rural areas. The study shows that since Letshego Innovative Microfinance services are effective and efficient, the institution is able to reach the rural clients as shown by the Pearson Correlation of .657* which is significant at a p-value of .028. This also contributes in enabling rural residents an easy process to make withdrawal and deposit in Letshego Microfinance. This is indicated by a Pearson Correlation value of .603* which is significant as indicated with a p-value of .050. This means that majority of the people in rural areas are not supposed to travel for distance to access financial services by visiting the MFI offices to transact their businesses.

Another aspect which shows a positive correlation is the model which MFI uses to reach to its customers. Innovation has increased the efficiency and effectiveness of offering services to youth an women in various parts of the country and have also facilitate proximal access to financial services to those who were locked out of financial services by the traditional banks.

4.4 Customers views on the use of innovative products for outreach:

TABLE.9: Clients perception whether Mobile banking can subject their money to risk of getting lost

	Frequency	Percent
Yes	69	88.5
No	9	11.5
Total	**78**	**100.0**

The researcher wanted assess to client perception whether mobile banking can subject their money to risk of getting lost and it was observed that 88.5% of them believe that their money may get lost whereas 11.5% stated that the money is safe when using mobile banking.

TABLE.10: Correlations between innovative MFI products and clients perceptions

		highest amount of money which you can transfer using your mobile phone
Clients perception whether Mobile banking can subject their money to risk of getting lost	Pearson Correlation	-.237*
	Sig. (2-tailed)	.037
	N	78

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

The study indicates that the is a negative correlation between clients perception whether Mobile banking can subject their money to risk of getting lost and the highest amount of money which you can transfer using your mobile phone. This is indicated by a Pearson Correlation -.237*which is significant at .037 as indicated by a p-value (Sig. (2-tailed)) in the table above. This implies that although innovative microfinance services are there for the purpose of the clients outreach, majority of the clients still fear that their money can be lost through such processes like mobile banking. Such perceptions negatively affect the efforts of microfinance in terms of customer outreach.

TABLE.11: Customer preferred method of banking

	Frequency	Percent
Mobile banking	27	34.6
Traditional banking	51	65.4
Total	**78**	**100.0**

The study indicates that 34.6% of the sampled clients stated that they prefer using mobile banking rather than traditional method in a microfinance whereas majority of them who consisted of 65.4% mentioned that they prefer traditional method of banking rather than mobile banking.

TABLE.12: Convenience of using mobile banking

	Frequency	Percent
Very convenient	39	50.0
Convenient	17	21.8
Not convenient	3	3.8
Not at all convenient	5	6.4
I don't know	14	17.9
Total	**78**	**100.0**

The research shows that 50% of the respondents in MFI believe that the use of mobile banking is very convenient because majority of the people nowadays own the mobile phones, 21.8% stated that it is slightly convenient, 3.8% mentioned that this process is not convenient, 6.4% mentioned that it is not at all convenient and 17.9% suggested that they don't know whether it is convenient or not.

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction:

In this chapter the researcher developed a general overview which captures the main issues raised in the three chapters and make clear conclusions based on the facts collected and analysed in chapter four.

5.1 Summary:

5.1.1 Specific innovative approaches applied by MFIs for expanding the financial outreach:

The first objective of this study was to assess the specific innovative approaches available in microfinance institutions which are meant to reach out to more clients who do not have access to banking services. The study found that that mobile phone applications are one of the main products used to reach out to more clients in MFI. Similarly, some of the innovative ways of reaching out to more clients is through the process of increasing point of service rated at 63.6% of the respondents. This is always done through partnership with other businessmen who have direct connection with the clients at the local level. This process is meant to diversify an MFI's channels beyond the branch in order to acquire new customers, penetrating new markets or servicing hard-to-reach areas, product diversification customer retention, offering valuable products, such as micro-savings and remittances, profitably and efficiently, reducing branch congestion and maximizing efficiency of branch tellers and loan officers as well as reducing the fraud risk.

5.1.1.1 Customers views on the usage of specific innovative products in MFI:

Although MFI have tried to innovate ways of reaching out to clients, majority of the clients still have reservation for adopting the new changes. This was observed when the respondents were asked to state the maximum amount they can deposit using mobile banking and 62.8% stated that they are willing to part with any amount not more than 50,000 francs. This means that although MFIs are putting up with innovative techniques to ensure that clients gets easy, save and faster products and services, most of the clients are still skeptical.

On another incident 52.6% of the respondents stated that they have used agent banking for not more than a year, This means that although the agency microfinance is becoming popular in Rwanda, majority of the MFI clients have not been using it for quite some times now.

5.1.2 Role of innovative microfinancing on service delivery to the clients:

The study sought to establish the importance of innovative microfinancing on ensure that they reach out as more clients as possible. The study found that product innovation in MFI is very important in ensuring that they reach out to as many as possible clients. This is evident by the response rated at 36.4% of the respondents who supported it arguing that MFI should be in a position to introduce a new good or service to the market. Another important aspect is process innovation whereby a new production process or methodology should be effective and efficient. This was supported by 36.4% of the respondents who stated that process development is equally important as the product development. Through such innovativeness in product development and process of delivery to the clients, 81.8% of the employees of MFI believe that the condition of accessing finance from their institution is now easier. The statistics also indicates that 63.6% of the employees stated that they are able to operate with more than 10 new accounts opening per day. this shows that the number of people gaining access to financial services climbed steadily, while microfinance became increasingly commercialized and transformed into a more and more financially efficient industry. Sustainability of market growth was rarely questioned during that time. About 90% of the employees also stated that in average, the transaction they make cannot come below 20 per day.

It was observed that the level of financial outreach in rural areas is very high at 63.6% as compared to the outreach in urban areas is high at lower rate of more than 50% penetration rate. It was observed that 18.2% of the respondents stated that majority of the customers of MFI are individual businessmen, 18.2% sated that they are women and 63.6% stated that they are youth. It is all inclusive because they targets individual SME customers to meet their working capital needs. They also target those with salary loan so that people in gainful employment for personal development whose loan repayment is through check off by the employer. Standing order loan product targets people in gainful employment for personal development whose loan repayment is through monthly standing orders. Back to school loan product is designed to meet the education needs of our customers. Asset financing loan product is for the purpose of purchasing business and household assets. Business training service is provided to customers to bridge the existing skill gaps in business management.

5.1.3 Relationship between innovative financial approaches used in MFI and increased outreach:

The study indicates that in average there are similarities between the outcome of the employees who believe that innovative ways of reaching out to customers are effective and efficient, withdrawal and deposit in Letshego Microfinance due to its innovative products as indicated, easy ways to check balance in their accounts, easier ways of opening an account, quick access to MFI services, error free records innovative services, 24hour online services, security of innovative products and time saving.

However, although innovative microfinance services are there for the purpose of the clients outreach, majority of the clients still fear that their money can be lost through such processes like mobile banking. Such perceptions negatively affect the efforts of microfinance in terms of customer outreach. This is indicated by a Pearson Correlation -.237* which is significant at .037 as indicated by a p-value (Sig. (2-tailed)) in the table above.

In addition, it was also established that there is appositive correlation between the innovative MFI approaches and financial outreach in rural areas. The study shows that since Letshego Innovative Microfinance services are effective and efficient, the institution is able to reach the rural clients as shown by the Pearson Correlation of .657* which is significant at a p-value of .028. This also contributes in enabling rural residents an easy process to make withdrawal and deposit in Letshego Microfinance. This is indicated by a Pearson Correlation value of .603* which is significant as indicated with a p-value of .050. Finally, there is a positive correlation between the model which MFI uses to reach to its customers and the level of outreach. Innovation has increased the efficiency and effectiveness of offering services to youth an women in various parts of the country and have also facilitate proximal access to financial services to those who were locked out of financial services by the traditional banks.

5.2 Conclusion:

Rarely a day goes by without someone mentioning how financial inclusion can be boosted by new delivery channels, such as ATMs, banking agents, and mobile phones. Yet for all the talk about reaching the “unbanked” and other low-income groups, it is banks, mobile operators, and retailers that have been experimenting with new delivery systems to reach the poor. As the group that is closest to the niche segment, microfinance institutions (MFIs) seem conspicuously absent from the discussion. This study intended to unveil the importance of innovative products on financial inclusion by assessing it through the perspective of MFI.

Poor people need a variety of financial services, not just loans. In addition to credit, they want savings, insurance, and money transfer services. It is clear from this study that the poor benefit more from a wider range of options in financial services. MFIs have tried to diversify risks and develop new business lines where traditional banks used to refer to a risk group to invest into. The advances and refinements in lending technologies in microcredit as well as in mobile banking MFIs can be applied in other financial services for the poor.

One of the challenges is that other functions, such as risk management, branch operations, or marketing, alternative channels is a relatively new field, even in the banking sector. There are few reference points, especially in the microfinance sector, and even fewer success stories—and almost none are widely communicated across borders or regions. This means that senior executives at MFIs often have an incomplete understanding of alternative channels and how they might fit in their businesses and unclear ideas of what benefits they may bring.

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