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Importance of Credit and Other Financial Services to Growth and Investments

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Abstract— **The underlying reasons for rapid expansion in the financial industry could be of different forms. However, one of the leading economic reasons behind the rapid development of this industry is the increase in demand and discrepancy in the supply of financial services. Individuals aim at acquiring financial help in the form of loans, savings plans, risk management services, money transfer services, and so forth. A general and visual inspection on the effects of financial services on the economy shows that the increase in availability of these services has a positive impact on the growth and development. In this paper, data from anonymous participants was collected through the use of questionnaires and applied to a random sampling technique. The descriptive survey helped to classify, measure, analyze, and compare sets of data. Also, this research technique was helpful in defining the problem and inferring meaning to the outcome of the analysis. Out of the six types of financial services, lending, savings, and transfers were the most popular and the most used to cover for personal and investment purposes. On the other hand, the research showed that most people failed to access financial services due to low income, lack of security, and unmatched ability and willingness to pay for specific services. Nonetheless, the research attained its sole purpose in determining the importance of financials services in investment and growth. Financial services increased cash flow in financial systems, and hence, facilitated the generation of capital. Also, these services expanded activities in financial industry, causing dynamism in finance and investments. Finally, with the presence of financial services, investors experience little or no risk while investing or saving for the future.**

Keywords: **financial services, risk management, loan, savings, market, capital market, liquidity, insurance, cash flow, investment, financial growth.**

1. INTRODUCTION

1.1 Background of the Study: In today's world, growth and development have become a measure of success in utilizing resources and other advantages that are accessible to individuals, households, small businesses, companies, and countries. For this reason, researchers have resorted in finding more efficient and reliable resources that facilitate development and growth. For example, Shin (2012) relates education to growth and development, but other researchers take different perspectives such as financial services, family background, and status of the economy. According to Taylor, Morison, and Morrison (1999), the significanceof financial services and credit access has been a central point of discussion in the finance and investment sector. Different factors might affect the willingness and readiness to invest in an idea, and according to Samuragwa (2014), the availability of money plays a significant role in investment. The government and other authorized financial institutions regulate the flow and accessibility of money in other areas of the economy, and consequently, affecting the rate of growth and investment. The connection between financial services and investment can, therefore, be analyzed and studied through collecting data from users on their progress and significance of credit or other services on growth. Additionally, the importance of credit and financial services on growth and investment can reflect on a case that studies this topic from a commercial perspective. However, this study will focus on the basic unit of a population (the family or individual), which is the building block of an economy. Also, the research discusses the way in which the accessibility of financial services has aided in financial or investment growth.

1.2 Objective of the Study: First and foremost, the purpose of the survey was to study the importance of financial services and credit to growth and investment. In that line, this research will aim at:

- Finding out the accessibility of essential financial services
- Ascertaining the commonly used commercial service
- Finding out how individuals use these financial services
- Finding out if each financial service has an impact on the economic growth and investment outcome of these families
- Presenting findings based on the result of the analysis

1.3 Significance of the Study: The purpose of this study was to research and find out the importance of financial services and credit to investment and growth. This study took a microeconomics perspective that individuals are the primary building block of an entire financial system. I (the researcher) believe that this study will serve a greater purpose beyond its primary objectives. The outcome of this report will be helpful to various financial institutions, especially those that provide financial services to the public. Besides, investors of financial markets will have a general view of what these services can do for growth and investment, and therefore, simplify accessibility and availability of core economic amenities. The government and other key financial regulators can find essential knowledge from this study. For example, central financial systems such

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the Bank of England can devise means of reducing or preventing future economic downtowns by learning from this study. Growth and investment are the primary enemies of recession and inflation. On the other hand, this study will add more knowledge to the already existing ones. Indeed, this study will fill some gaps in the research on importance and significances of financial services to growth and investment. Besides, this study will provide recommendations on how to boost the impact of financial services on economic growth and investment. Also, if the outcome of this research is anything to go by, future research will find significant information from this paper.

1.4 Scope of the Study: This study did not focus on any particular group, and therefore, the data collected was from individuals from different backgrounds and perspective on investment, growth, and financial services. The goal was to ensure that the findings were significantly unbiased and more accurate in representing a larger population. To accomplish the collection of data from different people, and from such a broad target group, I decided the internet was the best channel for reaching various participants. Otherwise, some questionnaires were physically distributed in the county and its outskirts.

During the study, I came across different obstacles and drawbacks that hampered the progress of my research. However, these disadvantages significantly motivated my will to complete this research. For this reason, I worked around the clock to put together different pieces of this report and make this research a reality.

1.5 Limitations: This research was unavoidably limited due to a succession of lack of resources and corporation from various individuals. Additionally, the time factor limited my freedom to gather and record more data from other respondents. The response was average, but more time could allow for more responses, and hence, more data for analysis. Other practical research limitations include:

- Respondents' unwillingness to fill out the questionnaire during the data collection phase. Some respondents claimed to be busy, while others felt that the study wasn't relevant to them. Others felt that the information they could provide would not help in attaining the study's primary objective. In some cases, respondents agreed to participate in the study but failed to turn in their filled questionnaires.
- Financial and labor resources were scarce and thus slowed down the data collection process. Due to the financial and energy constraints, I faced the challenges of distributing the questionnaires, paying for printing services, and raising funds for numerous operations. However, the presence of emails and other internet media came in handy since they are cost efficient and easy to use and access.
- Recording data was a big challenge since I had to input one entry after the other in a programming software before carrying out any form of analysis. The scarcity of labor services and finance also contributed to the development of this obstacle.

2 LITERATURE REVIEW

2.1 Review of Financial Services and Credit Services: Financial services refer to every skillfully managed service for businesses, where cash is traded to earn more money. That is, money is exchanged for money. Due to the increasing demand for money and financial support, financial institutions and capital markets have come up with improvised management and lending services that fall into three broad categories.

2.1.1 Cash Rental Services: This service involves transactions where money is given out to a less-liquefied party that will refund the cash based on the payment plan agreement. This financial service comprises of two sides. Firstly, the lending party should be a registered and legal money lender. For example, banks, Sacco, and other legal financial institutions. Secondly, the receiving party should have attained various standards or prerequisites to have access to these services. For example, a loanee should have security, also known as collateral that will be used to validate a loanee's ability to repay the loan. On the other hand, when the loanee repays the cash, he or she will pay an additional fee, commonly known as interest. The most widely used cash rental services in this study were "savings" and "lending." Saving is a transaction in which a party has much or extra money that has no use for a given period. For this reason, the party places the extra cash with a financial institution that will be responsible for holding and safely managing it. Also, the financial institution will be responsible for refunding the money to the owner based on the agreement, either returned on demand or at a future date. Clients can save their money for a small fee or at interest (Fabozzi and Kothari, 2013).

On the other hand, lending falls under the cash rental services but with a different approach to financial services. This case of credit services is a reversed process to that of saving. Lending entails transactions in which licensed institutions give cash to clients for their personal or financial needs. The customers and the organizations agree on payment plans that involve an interest as a way of paying for the services.

2.1.2 Liquidity Management Services: These forms of financial management services are transactions where for a charge one party helps different parties to deal with the planning or appropriation of their money. These services primarily aim at improving capital allocation and usage within a given period. The liquidity management services do not involve issuing cash to any party that is involved. In this study, I focused on three common examples: overdraft, factoring, and transfers (Khan, 2010).

The overdraft financial service is a credit transaction, where a licensed institution permits the customer to make installments from its account despite the fact that the account has insufficient funds.This transaction is only conceivable given that the client will deposit funds that will reimburse the sum overdrawn and the expenses. Overdrafts permit customers to meet money related commitments notwithstanding when they are briefly short of money (Khan, 2010).

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The factoring financial service is a type of transition that aims at offsetting a payment held for more than 30 days. For example, a licensed institution pays a discounted amountto cover an invoice to a buyer of its client's goods and services. The institution will then receive the total amount indicated on the invoice during or after payday. In other words, the institutions pay for delayed payments to make profits when the payments are completed later, either 30 or 60 days from the day the business was done (Khan, 2010).

Lastly, in this research, I will also consider transfers as a financial service that might be helpful to individuals and households. Transfer of money is understandable from the definition the name of duty. It entails the movement of money from one place to another without carrying the money in physical form. According to USAID (2010), money transfer services are "Transactions in which a licensed institution receives a cash payment from a client in one of its locations and makes a cash payment to a beneficiary stipulated by the customer in another of its locations, for a fee." Primarily, the transfer services save time and resource and reduce the risks of losing money.

2.1.3 Risk Management Services: The risk management services aim at covering the unforeseen emergencies or life challenges that need money or cash to settle. In risk management transactions, one party aids the second party to save money for use in future. The leading risk management service is insurance (Mishra, Yadav, and Kumar, 2015). Insurance is a financial service in which an individual or client pays an institution on a monthly or yearly basis with the hope that the institution will cover for future losses. For example, an individual can pay company X $500 per month to secure his or her assets.

2.2 Importance of Financial Services and Credit: From the discussion in the above sections, financial services – including credit services – primarily involve exchanging money for different purposes. However, we need to narrow down these functions to growth and investments to fulfill the purpose and objective of this study.

According to Fabozzi et al. (2009), financial services aid in improving or promoting individuals' ability to invest and grow financially. The analogy in this claim is that the presence of financial services in the economy increases demand for products and services. Additionally, as the demand for commodities increases, the need for the producer and server will also rise. Therefore, the demand for both the products and the producers will increase due to the availability of financial services. However, the producer and the server cannot sustain these requirements without a boost in finances and capital. Increased demand for goods and services will require yielders to expand their business and productivity. In that line, the budgetary administrations act the hero of the financial specialist, for example, trade financier through the financial service market, empowering the maker or producer to raise capital.

Mutual funding is an excellent example of services that promote savings. In fact, with the presence of financial services, different types of investments come to existence (Rezaee, 2013). For instance, pensioners and aged people can be sure of consistent returns on investments and safer investment plans. For this reason, the presence of financial services plays a significant role in the creation and improvement of the growth and investments.

In that perspective, the presence of financial services minimizes the risks of investments and capital acquisition. The best commercial service to consider in this case is the insurance service plans. The risks of both investing and growing financially diminish by the immediacy of financial services, especially the insurance service plan. On the other hand, insurance act as a source of both the financial and saving services. Besides, the insurance services minimize the risks that relate to economic growth and investment (Fabozzi et al., 2009).

With more money to save and spend in projects, the capital market becomes vibrant and capable of increasing cash flow in other markets. Therefore, making more room for investment and financial growth for boththe publicand big organizations. The immediacy of financial services in the capital market results in an increase in activities, which Plummer (2009) refers to hectic activity in the markets. The hectic activities in these markets act as a parameter of an active economic condition. The immediacy of financial services guarantees that every organization can procure satisfactory assets to help in the creation of revenue and harvest more benefits in the long run. Without budgetary administrations, there will be a scarcity of assets which will unfavorably influence the working of organizations and the speculation capacity of people. Subsequently, resulting in a negative development of the capital market. With the presence of an active financial market, which results from the immediacy of financial services, the success of investments is more likely to increase. In that line, there will be a promotion of foreign trade and domestic trade, which will influence the rapid growth and financial stability.

3 METHODOLOGY

3.1 Research Design: In this case, the applied research design is the descriptive survey. According to Reid and State (2013), detailed capital primarily aims at observing, recording or documenting, and describing the outcome of a study based on reliable data. The advantage of using the descriptive survey research design expresses the nature of a situation in a natural and unbiased manner. However, this study design does not explain the outcome in details. For this reason, the study will have a data analysis and explanation segment that will solely cover the weakness of the research design. Besides, Wimmer and Dominick (2010) state that descriptive survey can also de fine the problem, measures, classify and compare data.

3.2 Sampling Techniques: The population proved to be beyond outreach. More so, the data from such a huge population would significantly affect the ability to analyze and record big data. For this purpose, a small number of units from the population (the sample size) was helpful in carrying out this study. According to Lim and Ting (2013), the sample size should be a perfect representative of the entire population. My choice of a sampling technique included the following traits: free of biased procedures, random, and dependent on probability. Given these definitions, my preferred sampling method was the random sampling plan, where every person had an even chance to be in the study (Peck, Olsen, and Devore, 2012).

3.3 Research Instruments: The research instruments used for collecting data was based on questionnaires (see Appendix below). The study only required the permission of participants. Therefore, there were no reasons for legal authorization. Questionnaires were distributed via email, online platforms, and physically.

4 ANALYSIS AND RESULTS

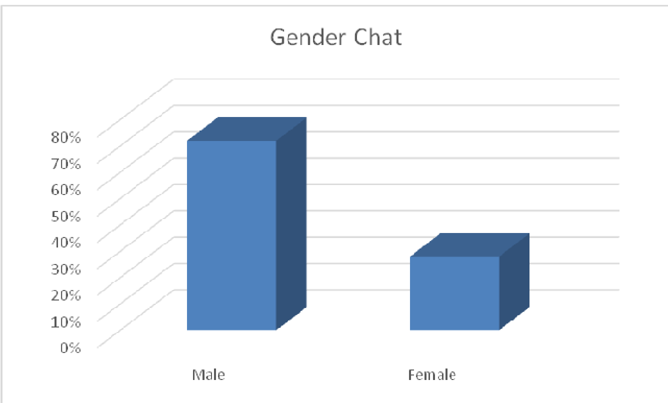

Figure 1: Gender of Respondent

Figure 1 above shows that out of the 1800 respondents, 1296 were males and 504 were females. This outcome indicates that there was a big difference in the gender aspect. This result means that male correspondents have a high demand for financial services.

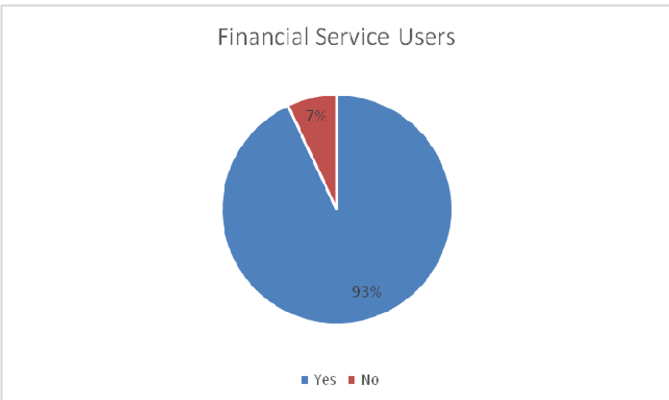

Figure 2: Users and Non-users

Given the analysis above, there is a high demand for financial services, and perhaps, people have realized the importance of financial services.

Types of Financial Services		
Savings	610	36%
Lending	804	48%
Transfers	120	7%
Insurance	60	4%
Factoring	54	3%
Overdraft	26	2%
	1674	100%

Figure 3: Financial Services used.

From the data, correspondents were more familiar with the financial lending services. Loans and credit services were popular then followed by savings and transfers. Most respondents significantly relied on loans to cover for personal or business obligations. On the other hand, as seen in figure, 4,7% of the contributors did not have access to or did not need financial services.

Not Need	16	13%
Do Not Qualify	100	79%
No information about it	10	8%
	126	100%

Figure 4: Correspondence that did not depend on financial Services

Besides, most correspondents who had access to financial services used these services to invest and grow, while 23% used for personal use. For this reason, it is evident that loans – the most popular financial services – are used for more valuable activities such as investments and economic growth.

Investment/growth	1289	77%
Personal Use	385	23%
	1674	100%

Figure 5: Purposes for Financial Services

one	69	4%
two	200	12%
three	227	14%
four	256	15%
five	922	55%
	1674	100%

Figure 6: Financial Progress on a Scale of 1-5

On the other hand, 55% of the correspondents had positive reviews on the impact of financial services. Some correspondents felt that these financial services had little or no

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impact on their growth and investments. Finally, those who were dependent on financial services were most likely to pump their money specifically in investments while others used in growth. Examples of growth include furthering education, skills, and other productivity services. Finally, the fifth question of the questionnaire was directed to identify the importance of financial services to investment and growth. In this section, correspondents were allowed to pick more than three choices. This technique was used to identify ways in which financial services have impacted investment and growth.

Helpful in what way?	
More money to invest	1409
More money to save	1057
Less risks in investment	800
Better Financial Management	578
More confidence (security)	378

Figure 7: Ways that financial services were impactful.

5 SUMMARY OF FINDINGS, RECOMMENDATIONS, AND CONCLUSIONS

5.1 Findings: Key findings were:

- Financial services are in high demand and that more people are looking to boost their economic growth and investments due to the increased need to accumulate wealth and generate more income.
- Most people who did not rely on financial services were unable to qualify for such services while others were not well informed.
- Lending was the most used commercial service among the correspondents since it was a transaction that increased the capacity of individuals and households to invest and grow financially.
- Financial service seekers opted to use loans and savings to invest and grow their financial muscles.
- Most of the correspondents (about 84%) agreed that financial services played a significant role in improving their finances and facilitating their investments. Nonetheless, 60% of the contributors who used financial services preferred to invest while 40% used their funds for growth and development.
- Most importantly, correspondents agreed that financial services improved the flow of money and capital. For example, 1409 decided that financial services increased chances of having capital to start an investment. 1057 believed that financial services increased their income, and therefore, increased their chances of saving. 1028 agreed that the immediacy of financial services, while few decided that financial management improved financial management and investment confidence.

5.2 Conclusion: The intention of this study was to research on the importance of financial services and credit on investment and growth. The outcomes of this research indicate that the financial services and credit or loans had an impact on the capacity of individuals to increase their finances and improve the scope of their investments. Given the analysis and interpretation of the data in section 4 of this report, financial services have a direct impact on investment and growth. However, the most prominent consequences include:

- Financial services increased the availability of cash, which supported rapid investments and economic growth.
- Financial services expand activities of financial institutions through providing opportunities to distribute funds appropriately – hence, ensure economic dynamism.
- Financial services such as hire purchase and risk management services increase confidence in investments and growth. Professional financial management services can create surety in investing and facilitating growth.
- The immediacy of financial services supported domestic and foreign trade, and hence, creating opportunities for growth and investment.

5.3 Recommendations: Based on the outcome of the investigation, it is important to implement policies that will:

- Not limit people from accessing financial services
- Cap interest rates to an affordable and reasonable range
- Educate the public on the importance of financial services to personal and nation-wide economic growth.
- Ensure more flow of cash in the financial markets and the economy at large.
- Increase the linkages between financial institutions and the public.

Following these recommendations will ensure that the public or financial services seekers will develop character, capacity, capital, collateral, and conditions to repay and adequately utilize the financial services.

5.4 Limitations and Recommendations for Future Research: This research had its approach as one of the primary constraints. I believe that having adequate information from correspondents will provide detailed and concrete results. My recommendation for future research is that studies should take both qualitative and quantitative approaches in identifying the importance of financial services to investment and growth. For example, future studies should target financial markets and specific financial institutions. In that line, these studies should record the rates of which institutions offer services and the exact amounts of loans, saving, and transfers within a given period. Additionally, they should compare the rate of investment and economic growth to the availability of financial services in the region. Comparing the rate of issuing services to investment or growth rate in these areas will give similar results to this study but from a different perspective. However, this approach will require more funds and legal procedures and permissions since it entails the use of private financial data for various people. Despite having taken a different approach, I am confident that the outcome or findings will reflect those in this study.

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6 APPENDIX

Appendix I: Questionnaire

Questions	
1. Have you used financial services before?	YES NO (If "NO" answer parts "b" of each question).
2. A) What types of financial services have you used? (select the one you have used often)	a) Saving b) Lending c) Overdraft d) Transfers e) Factoring f) Insurance
B) Why haven't you used any of the services?	a) I do not need the services b) I do not qualify for any of the services c) I do not have access or information about the services
3. A) How did you use the services?	a) Investment/Growth b) Personal use
B) How would you rate your investment/growth progress on a scale of 5	a) One b) Two c) Three d) Four e) Five
4. What was the impact of the services on investment or growth?	Investment Growth a) One___ ___ b) Two___ ___ c) Three___ ___ d) Four___ ___ e) Five ___ ___
5. Why do you think this service was helpful?	a) More money to invest b) More money to save c) Less risk in investment d) Better financial management e) More confidence to invest and grow (Insurance)

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