

**FACTORS INFLUENCING FINANCIAL INCLUSION IN RURAL KENYA: A
CASE STUDY OF KENYA COMMERCIAL BANK AGENT OUTLETS IN
MARAKWET WEST SUB COUNTY**

**BY
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Award of the Degree of Master of Arts in Project Planning and Management of
the University of Nairobi**

@ 2015

DECLARATION

This research report is my original work and has not been presented to any other University.

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DEDICATION

I dedicate this research to my wife Mary Boit who continually encouraged and supported me in my pursuit for further education. To my children, Emmanuel, Lydia, Gideon and Faith for choosing to understand my absence during this study period when you needed me most.

To my mother Colleta Tula and my late father Kiboit Chesang who planted a seed of self-belief and discipline in my life. Lastly to my brother Bernard Boit for mentoring and encouraging me to work smart and remain focused. Thank you very much.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CRA	Community Reinvestment Act
GDP	Gross Domestic Product
ICT	Information Communication Technology
IFC	International Finance Corporation
KBA	Kenya Bankers Association
KCB	Kenya Commercial Bank
KYC	Know Your Customer
MFI	Micro Finance Institution
MSGs	Millennium Sustainable Goals
RBZ	Reserve Bank of Zimbabwe
RTC	Rural Transaction Centre
SME	Small and Medium Enterprise
SPSS	Statistical Package for Social Sciences
UN	United Nations

ABSTRACT

The relationship between financial development and growth has been studied extensively by researchers in the past decade. The World Bank and other financial institutions have declared that by 2020, all world population need to have bank accounts for social economic development. Agency banking is one invention aimed at ensuring financial inclusion of rural people towards promoting development. However, statistics from Kenya Bankers Association (2010) shows that almost 50.0% of the population in rural areas have bank accounts. Therefore, the purpose of this research was to establish factors influencing financial inclusion of rural population in Marakwet West Sub County. The objectives of the research were to determine how financial education, infrastructure access, network connectivity and agent quality influence financial inclusion by KCB agents in Marakwet West Sub County. The study was guided by agency theory. The study was conducted in Marakwet West Sub County KCB Mtaani agent outlets. The study used a survey research design approach. Information from Kapsowar KCB branch shows that 156 agents had been registered by December 2014. The manager at Kapsowar KCB Branch acted as a key informant for the research. The sample size involved 113 respondents who were selected through simple random sampling technique. Data was collected through use of questionnaires and interviews. Validity, piloting and reliability procedures were undertaken to ascertain the instruments are effective. Data collected were analysed using descriptive and inferential statistics. Results of the research are presented in tables. The study found out that the four factors; financial education ($r=0.126$), infrastructure ($r=0.642$), network access ($r=0.434$) and agent quality ($r=0.195$) were significant factors ($p<0.05$) influencing financial inclusion for rural development in Marakwet West Sub County. The study recommends that financial education should be regularly provided not only to agent operators but also to residents from all corners of the study area, there is need for KCB to consider adjusting float management levels by some outlets as some said that were underperforming due to ceilings set by the bank. The study findings will be significant to commercial banks (especially KCB) in improving their agency banking services, development partners (World Bank, IMF) and future researchers.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Banking sector is a catalyst in economic growth of a country (Kaburu, 2012). However, according to the 2014 World Bank estimates, there are still around 2.5 billion people in the world who do not have a bank account (Singh & Tandon, 2012; Kenya Bankers Association, 2014; Boyd, 2011; McKay, 2011). Global Findex data for 2014 reveal that only around 50% of adults (people aged 15 and above) in the world have at least one bank account in the formal financial system. However, this percentage of individuals with a bank account varies considerably between developed and developing countries. In developing countries, banking penetration rates are far below the average.

In Africa, the percentage of adults with a bank account is 20%, and in Latin America 39% (Mahmood & Sahai, 2011). In India, half of the poor are financially excluded from the country's mainstream of the banking sector (Singh & Tandon, 2012). The National Financial Access Survey of 2009 shows that 32% of Kenya's bankable population remains totally outside the orbit of financial services and many more being served by the informal financial system (CBK, 2009). This shows that development agendas cannot be attained without including all people around the world in financial matters and this has made organisations and countries across the world advocate for financial inclusion of all.

The United Nations report (2006) played a significant role in bringing international attention on this issue. The UN report defines an inclusive financial system as one that provides credit to all bankable individuals and firms; insurance to all insurable individuals and firms; and savings and payment services for everyone. It

is commonly argued that the economy as a whole benefits through financial inclusion (Mohan, 2006). First, it could be an important tool to reduce income inequality in the economy. Low-income individuals are often those not accessing financial services. Once access is provided, these individuals have greater potential to improve their income levels (World Bank, 2012). The objective of achieving universal financial access by 2020, expressed by the president of the World Bank, is another attempt to recognize the important role of financial inclusion for economic growth and alleviation of poverty (Honohan, 2008).

Financial inclusion is a situation where financial services are accessible to low income people. Vulnerable groups are usually excluded due to access barriers (Rani, 2006). The evolution of money from physical cash to digital form is redefining financial services as an information business. This, in turn, is generating optimism around the long-term prospect of cashless societies, where most people have access to low-cost, convenient, and broadly available financial services. Research indicates that these digital cash models can increase financial access for unbanked segments by reducing the cost-to-serve for providers and making service more convenient for customers (Omwansa & Waema, 2014). Branchless innovators who get it right can help accelerate the pace at which financial inclusion happens.

In the United States of America, an introduction of the Community Reinvestment Act (CRA) by the Government is often cited as a major initiative to combat the issue of 'unbanked' households. There has been positive impact in that lending to black and Hispanic Americans is higher within CRA regulated areas and that there has been crowding out of lenders falling outside the regulatory powers of the CRA in low income communities (Kempson *et al.*, 2004). In Australia, the Government partially sold Telstra (the telecommunication company) to raise A\$70

million to provide banking and other transaction services to communities without banking facilities through the Rural Transaction Centre (RTC) set up in post offices, stores or stand-alone facilities run by Councils (Kempson *et al.*, 2004). The programme has benefited 100 communities and many more are applying for funding of the same product.

In Peru, Clamara, Peñay and Tuesta (2014) found out that factors such as age, gender, education and income level seem to affect perception of the barriers to financial inclusion. The identification of individual characteristics that could affect financial inclusion provides useful empirical evidence for designing policies that promote more inclusive financial systems. Financial inclusion has been an issue for many developing countries. Countries such as India, Brazil, South Africa and Kenya have adopted mobile banking, to give banking access to the unbanked sector. Siddik, Sun, Yanjuan and Kabiraj (2014) inform that in Bangladesh, during last few years, the banking industry has experienced tremendous growth.

However, there are concerns that banks have not been able, due to high operating costs, to include vast section of entire population into the fold of basic banking services, especially peoples from remote and rural areas. In Zimbabwe, the Reserve Bank has been on the forefront urging financial institutions to adopt strategies meant to promote financial inclusion. The Reserve Bank of Zimbabwe (RBZ)'s (2006) Monetary Policy Statement affirmed that the majority of Zimbabweans has no access to financial services. A study by FinMark (2012) revealed that 65% of the Zimbabwean population stays in the rural area and that only 5% of rural people have access to a bank that is within 30 minutes reach. In South Africa, the Mzansi brand is a National banking initiative, launched in 2004 for banks to offer low cost accounts in order to make banking affordable to the majority of the

people (Kotler, 2010). In Kenya, a product called MPESA was launched in 2007 (Mbiti& Weil, 2011).

Despite introduction of mobile banking related platforms, agency-banking model has been introduced across the world as a method of ensuring financial inclusion of unbanked population. An agency bank is a organization that acts in some capacity on behalf of another bank, it, thus, cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank. It is a retail outlet contracted by a financial institution or a mobile network operator to process clients' transactions (CBK, 2010).Agency banking was first developed in Brazil in 1999. Although by 2000, only 1,600 municipalities in Brazil had bank branches, by 2010, some 170,000 agents cover all of the 5,500 municipalities, and nearly 12 million accounts have been opened at agents over three years. Brazil's experience has offered valuable lessons for countries where banks can contract an agent (McKay, 2011).

In United States, agency banking is a form of organization commonly used by foreign banks to enter the US market. Using an agency bank allows a foreign bank to engage in financial activity on US soil. People in the United States who want to do business with the parent bank can do so through the agent, with representatives at the agency bank taking care of issues like currency exchange, transfers of funds, and deposits among others. In addition to providing access to the financial industry in the United States, the agency bank also creates a method for investors in the US to access securities and other opportunities overseas with limited risk (Bold, 2011).

Agency banking was introduced in India in 2006 when banks were allowed to appoint MFIs and post offices as business correspondents for inter alia small deposit taking. Elsewhere, agency banking refers to the points of service ranging from post offices in the outback of Australia where clients from all banks can conduct their

transactions, to rural France where the bank Credit Agricole uses corner stores to provide financial services, to small lottery outlets and clients can receive their social payments and access their bank accounts (Porteous, 2006).

In Africa, the finance sector has a pivotal role to play in economic development. Across the continent, a number of banks are championing sustainability and reengineering their operations to integrate agency-banking models. However, in Africa, agency banking is a new concept, with the model/concept being highly implemented in Kenya and South Africa. In South Africa, the first agency banking was implemented in 2005 (Bold, 2011). The South African regulatory framework gives wide discretion to banks to use nonbank third parties to offer banking services beyond their traditional branch network, either as agents or through outsourcing arrangements.

Agency banking model was embraced in Kenya in 2010 has led to further expansion of the distribution of banking services leading to the establishment of village banks. Financial services were then provided from the supermarkets to canteens with much ease (Omwansa & Waema, 2014). With all that shaping of the banking industry in the country it was hard to know what the next move could be but what was clear was that Kenyan banks were taking financial empowerment to another level (Mbiti & Weill, 2011). This was not only happening in Kenya but also within the wider region as a whole (Bold, 2011). Many strategies were used by banks to expand in their quest for international expansion. The common ones were acquisitions, start-ups and joint ventures. Most banks chose the same or varying options when they were expanding across the borders. Equity bank chose the agency model to expand in the east Africa region (Wambua, & Datche, 2013).

From the reviewed background studies, Financial inclusion related issues are a subject of growing interest and one of the major socioeconomic challenges on the agendas of international institutions, policymakers, central banks, financial institutions and governments (Cihak *et al.*, 2012). Financial services are provided more efficiently by the private sector and thus financial institutions are the main agents involved in these processes. However, since lack of use of financial services is mostly due to the presence of market failures, governments should try to mitigate these failures by establishing adequate regulation and policies. It is desirable to ensure that financial services can reach the whole population with appropriate products and access channels. The problem of involuntary financial exclusion requires intervention to address market failures such as asymmetric information, lack of competition in the markets or insufficient infrastructure. These failures make it difficult population groups, low-income groups or those who have traditionally been more vulnerable, such as women, young people or people who live in rural areas, to use formal financial services.

Marakwet West Sub County is under Elgeyo Marakwet County in the larger Rift valley province. Crop farming and livestock keeping are the main economic activities. The head quarter of the region is in Kapsowar that is served by several banks and micro finance; Kenya Commercial Bank (KCB), Equity Bank, Kenya Women Finance Trust (KWFT) micro finance, Marakwet Teachers SACCO among others. Most financial institutions are located in urban centres especially Kapsowar where people have to move out of their areas to come and make banking transactions in the town. With the advent of mobile and agency banking, the rural population can now access banking services within their vicinity. However, statistics from Kenya Bankers Association (2014) indicates that more than 50.0% of rural Kenya population

are still unbanked. This is what made the researcher to investigate probable factors influencing financial inclusion of rural people in Marakwet West Sub County with specific focus on KCB Mtaani agent outlets that have been existing for the past four years.

1.2 Statement of the Problem

The link between banking service penetration and poverty starts from the premise that households try to maximise their profit and not their income (Honohan, 2008). Their objective is to synchronise income flows and consumption needs. In this context, the use of financial services is an important tool for smoothing the cycles in consumption. However, the most vulnerable groups find it particularly difficult to access these services in Marakwet West Sub County. Agency banking took effect in Kenya in May 2010 after the publication of prudential guidelines by the Central Bank of Kenya. Agency banking has been practiced in a number of countries such as Brazil, Columbia, Pakistan, South Africa and Indonesia (Saropa, 2013). A survey by Kenya Bankers Association (2014) revealed that majority of banks agents' outlets are located in urban centres but majority of the rural population remained unbanked. KCB as the largest bank by assets in the country introduced agent banking in 2012 but as of late, annual reports project that the banking agent outlets have not been performing as expected.

Research studies have been conducted on rival banks. For instance, Gitongaand Njeru (2014) researched on factors influencing adoption of agency banking on financial performance of agents' outlets in Kajiado North Sub County but the current research looks at financial inclusion of the rural population. One study conducted by World Bank (2012) indicates that lack of financial services could lead

to poverty trap and an increase in the inequality gap. Social objectives of poverty eradication is considered to be the main objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances which in turn leads to sustainable livelihood because weaker section of society got some money in loan which they can start up their own business or they can support their education.

Financial inclusion is important for improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups (Wambua & Datche, 2013).Kenya National Bureau of Statistics (2014) indicate that the poverty rate in Marakwet Sub County stands at 57.9 percent and it is not understood whether financial exclusion of rural population could be the result for this trend. It is due to the above mentioned reasons that the study investigated factors influencing financial inclusion in rural Kenya with specific reference on Kenya Commercial Bank agents' outlets in Marakwet West Sub County.

1.3 Purpose of the Study

The purpose of this research was to investigate factors affecting financial inclusion in rural Kenya with specific focus for KCB agent outlets in Marakwet West Sub County.

1.4 Objectives of the Study

The study was guided by the following objectives:

- (i) To determine how financial education of KCB agents influence financial inclusion in Marakwet West Sub County.

- (ii) To establish how KCB agents infrastructure access influence financial inclusion in Marakwet West Sub County
- (iii) To determine how KCB agents network connectivity affect financial inclusion in Marakwet West Sub County
- (iv) To establish how KCB agent's service influence financial inclusion in Marakwet West Sub County.

1.5 Research Questions

The following were the study research questions;

- (i) How does financial education of KCB agents influence financial inclusion in Marakwet West Sub County?
- (ii) To what extent does KCB agent infrastructure access affect financial inclusion in Marakwet West Sub County?
- (iii) Does network connectivity of KCB agents influence financial inclusion in Marakwet West Sub County?
- (iv) What is the influence of KCB agent quality towards financial inclusion in Marakwet West Sub County?

1.6 Significance of the Study

The findings of this study may be relevant to rural populations (unbanked), Kenya Commercial Bank, policy makers (CBK, KBA) and future researchers. To residents, identifying factors influencing financial inclusion will help drive out poverty in rural population to aid in the achievement of millennium sustainable goals (MSGs) and Vision 2030. In addition, the unbanked population may have an opportunity of accessing banking services at their locations since recommendations are going to be

made on how accessibility to agency banking can be improved. To policy makers, the study aims at understanding of opportunities available for financial accessibility development.

Kenya Bankers Association and Central Bank of Kenya (the regulator), necessary policies may be formulated aimed at reaching out to the unbanked population. For Kenya Commercial Bank, the study findings may inform the management on the best methods and ways through which financial inclusion can be improved to ensure the success of agency banking is achieved. This is because mobile banking has the potential to offer wider markets for financial institutions by reaching to the previously ‘unbanked’ people. To future researchers, it is expected that the results of the study might be helpful as the world is adjusting to mobile banking platform in the next 5 years (by 2020).

1.7 Delimitations of the Study

The study was concentrated on banking agents’ outlets operating under KCB agency banking platform in Marakwet West Sub County. This is despite 13 other commercial banks adopting agency-banking model in their objective of ensuring financial inclusion of all people across the country. The study also understands that there are other factors influencing financial inclusion apart from; financial education, infrastructure access, network and system connectivity and agent quality that were directly connected to the agent bank operator. This was to minimise costs and time allocated for the research.

1.8 Limitations of the Study

As in most empirical research, this study had several limitations; firstly, the sample size of this study is 113 respondents only, and thus these findings were generalized to the broader agency banking based on this study alone. Therefore, in future research, it would be logical to elevate sample size and testing this model more extensively, hence this future research would be more generalizable. The second limitation that the study encountered was unavailability of adequate research materials on problem under study due to the fact that financial inclusion indicators are provided for the whole country unlike in each Sub County. Another limitation of the study was that data collection period which took longer due to rough terrain in Marakwet West Sub County where there is no all-weather road. Rainfall also affected data collection during the month of May 2015. The researcher ensured that data collection was conducted at an extended period and utilisation of every mode of transport available to reach all agents in the area.

1.9 Assumptions of the Study

The study made assumptions that all KCB agents operating in Marakwet West sub county experience unique challenges towards financial inclusion in their area of operations. Another assumption that the study made is that the instruments used in the research provided actual information that the researcher intended to gather. Thirdly, the study assumed that the respondents chosen; agents' operators and KCB Kapsowar agent manager provided information necessary to answer the research questions. Lastly, the research was undertaken within the stipulated work plan and budget.

1.10 Definition of Significant Terms

Agency banking- refers to a partnership between bank and others channels often retails outlets, provision of services through non branch physical channels,

Agent quality- refers to specific behaviours that an agent operator possesses when conducting banking operations. In this research it is measured by determining the float that an agent has or usually maintains, operating hours and days of operation.

Commercial bank- it is a financial institution that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets.

Financial education- refers to outlet operator level of knowledge on agency banking services. The financial education may be promoted through regular information updates, attendance of seminars, workshops and use of mass media.

Financial inclusion- refers to provision of banking services to the unbanked population by various financial institutions like banks and micro finance.

Infrastructure- location and distance between one agency out-let to the next. Also the facilities available at the agent outlets are considered as infrastructures aimed at supporting banking operations.

Mobile banking-is the use of cellular technology to provide financial services'- money is electronically recorded moved electronically and used and accepted by a third person as payment, Prepaid Cards/Smart Cards:

Network connectivity – Refers to system and communication link between a financial institution and an agent outlet during transaction of agent activities.

The network connectivity will be determined by looking at the period of conducting one transaction.

1.11 Organisation of the Study

This chapter has presented the background information to the study, research problem, objectives and significance of the study results. The next chapter presents the review of related literature, theories, empirical reviews conceptual framework and knowledge gap. The chapter three documents on the research design and methodological procedures followed. Chapter four present results of data analysis and chapter gives give summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews related literature on factors influencing of financial inclusion in rural areas with specific reference to agency banking model as written by other scholars; it also presents the theoretical framework, conceptual framework and the study research gaps.

2.2 Agency Banking and Financial Inclusion

An agency bank is a company/organization that acts in some capacity on behalf of another bank, it, thus, cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank. It is a retail outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer (Central Bank of Kenya [CBK], 2010).The partnership has helped banks to take financial services closer to people, more importantly, to areas that lack them. Kenya changed its banking laws in January 2010, to allow commercial banks offer their services through third-party businesses. The agents operate as satellite branches. The banking concept that is deepening access to financial services is gaining currency in Kenya, where one-third of the population still lacks access to formal banking services (Vutsengwa&Ngugi, 2013).

2.2.1 Financial Education and Financial Inclusion

In India, many people are unaware of the banking terms and conditions laid down from time to time. Because of illiteracy, a substantial number of people are unable to take recourse to banking services. Lack of information about the role and function of banks, banking services and products, interest rates among others stop people from including themselves in mainstream banking (Singh & Tandon, 2012).

Another barrier to access is the fact that there might be an issue of trust due to asymmetric information causing problems of moral hazards and adverse selection. The group of people that is most likely to be affected by this barrier is the group referred to as the un-bankable. The un-bankable consists of people who are considered a high lending risk or who lack sufficient earnings in order to obtain access to financial services. When exploring barriers to financial access in countries with different characteristics Beck *et al.*, (2007) found that the stricter the regulatory framework is on the financial system, the higher are the barriers to access. Economies with stricter regulations on the formal financial sector often require more documentations and higher minimum balances in order to open an account. Furthermore, the requirements on collateral in order to obtain a loan are usually higher in these economies and finally there are usually high restrictions put on financial services carried out through alternative delivery channels.

Wambua and Datche (2013) study found out that majority of the respondent in Mombasa found it very hard to operate the gadgets (for Agency banking) without any help. Further the aged and peasant farmers could not operate the innovated channels without any help hence this indicates that majority of respondents were sceptical about user friendliness of innovated channels. However, a significant number of respondents indicated user friendliness this has bared a segment of the market from

accessing bank services through the innovated channels which has affected financial inclusion in the opposite direction.

Customer service is a huge challenge for the banks, as they need to train and retrain the Agents to maintain high levels of customer service. Most agents are not properly trained on know your customer (KYC) they do not know how to distinguish a fake identification document and a real one. Accounts opened at agent locations are also prone to money laundering transactions this is because of a few irregularities that happen during account opening (Sirken, 2009).

Client's lack of trust in agency banking which in most cases are due to lack of knowledge of products and its relationship to a traditional bank. Mobile phones are shared making it hard to meet KYC requirements agents may not fully understand all features offered by mobile money providers. They may also not completely back the technology considering it as a threat to their livelihoods; Lack of vernacular language support in applications makes it difficult for the customer. Low transaction limits due to Anti money laundering requirements (Wambua & Datche, 2013).

2.2.2 Infrastructure Access and Financial Inclusion

Accessibility of financial services by those in rural areas has been cited as a barrier to financial inclusion in researches conducted across the world. Mahmood and Sahai (2011) refer to this as a logistics barrier in that financial services are not developed in many regions where it is not considered feasible by the service provider. Mobile banking has been found in this research to be considered as easily accessible as compared to agency banking.

Based on a survey of up to five large banks in 99 countries, Beck, Demirguc-Kunt and Martinez Peria (2007a) developed indicators of access barriers to loans,

savings, and payments services of banks. It includes indicators of physical barriers such as geographic branch penetration and ATM penetration per population. In India, accessibility is a problem from all those people who live in geopolitically isolated regions. Moreover, as most of the commercial banks are located in the vicinity of cities, people in rural areas (mainly in developing countries) have a geographical barrier in accessing banks (Singh & Tandon, 2012).

IN Bangladesh, distance or time to bank branch can increase the effective cost of using financial services, as a result the supply curve of financial services shifts upwards, out of reach if individuals with modest demand. From a supply side perspective, higher levels of financial inclusion can be achieved if bank networks expand into small towns and villages. Though Branch expansion strategy has the potential of incremental improvements in financial inclusion, but it involves, *inter alia*, high costs, thereby can reduce the profitability of banks and thus making branch expansion decision unattractive to the service providing banks (Siddiket *et al.*, 2014).

The main barrier to all of financial inclusion is believed to be the lack of physical presence by formal financial institutions. There are numerous ways to measure the proximity to financial services although the more common ones measure branch and ATM penetration as well as distance. Another issue associated to proximity has to do with the fact that not all bank outlets offer the customers the whole range of services in order to fill the financial needs of households. The proximity barrier is believed to be the main obstacle preventing people from having access to formal services in developing countries where distance is a major issue. It is often the rural population that is most affected by this barrier seeing as the areas that they live in usually are remote areas with lacking infrastructure (Beck *et al.*, 2007).

According to Kithuka (2010), distance does not influence the frequency of customer transactions in agency banking. This cannot be interpreted to mean proximity has zero effect on agency adoption. Customers will not knowingly incur more in terms of time and financial cost to do a bank transaction at the bank unless it is not available at the agent (CBK, 2011). Lower transaction costs were incurred since client/ entrepreneurs would visit agency any time without incurring any additional cost like transport cost to bank their cash. Agencies are more accessible for illiterates and the very poor who might feel intimidated in branches with low amount of money they would wish to withdraw and deposit. Though most people are not aware of these costs, to some extent they do influence the customer decision to use agency banking or not to use the agency banking hence influences the performance and growth of agency banking (Ombutura&Mugambi, 2013).

Moreover, high proportion of population is excluded from access to financial sector with the situation being grave in rural areas. For majority of Kenya's population, especially those living in rural areas, access to banking services has been almost non-existent. With the introduction of Mobile banking and Agency banking services in Kenya's financial systems, affordable and convenient banking services continue to be availed to the large unbanked masses (Vutsengwa&Ngugi, 2013).

2.2.3 Network Connectivity and Financial Inclusion

Agency banking success will largely depend on reliability of its systems and network. One of the major measurements of reliability is the system availability. In Brazil, many agents complain about downtime POS frozen by bank once cash limit reached, pending deposit of cash at branch, but often with a lag until POS is unfrozen. Poor GPRS connection for some agents, occasional maintenance required. If unable to

transact for 2 days, monthly profit margin may cut by more than half from 10.6% (\$124) to 2.6% (\$27) CGAP, (2010). By its very nature the ICT phenomenon is relatively new in the developing world.

Research studies conducted suggest that the majority of developing countries such as Kenya in sub-Saharan Africa are lagging behind in the information revolution (Zhao& Frank, 2003). The system being the only connectivity between the customer and the bank will determine whether a customer request is frustrated or satisfied at the agent location. System safety and malfunction can frustrate the agent reconciliation or even facilitate fraud against the bank, customer or the agent.

In Kenya, Saropa (2013) informs that Equity banks agents across East Africa use the bank servers to serve customers. The challenge comes in when the bank servers are down even agents cannot serve customers. The bank should build agents their own systems and serves so that when there is an issue with the systems the agents can continue serving customers. Mobile phone network failures posted a major challenge to agency banking in the region. From the findings 50% of clients are affected by this problem (100%) of agents asked admitted that it was a major problem (Saropa, 2013).

A study by Kinyanjui (2011) finds that Agency outlets use the bank server in order to execute clients' transactions. In Kenya, banks partners with Mobile telephone service providers and use a secure network to access the server to complete any given transactions. Juma (2011) in a study on Turning Cell phones into 24-Hour Tellers in Kenya found that Safaricom, the single most successful mobile money deployment, invested heavily in developing the M-PESA agent infrastructure with a focus on a consistent customer experience. Vutsengwa and Ngugi (2013) found out that the

respondents strongly agreed that agency outlets use the bank server in order to execute clients' transactions.

2.2.4 Agent Quality and Financial Inclusion

Agent quality will be assessed using three parameters namely float adequacy, age of an agent in agency business and the core business of the agent. According to CGAP (2011), the top concerns among agents are low remuneration, liquidity management and network availability. The operation of the agency is such that a customer deposit at the agent means customer giving cash to the agent and is accounted by the bank by debiting the agent account at bank and crediting the customer's account at the bank (Gitonga and Njeru, 2014). It is therefore not possible for an agent to receive a deposit unless the agent has sufficient credit in the bank. A customer withdrawal at the agent means the agent gives cash to the customer and the bank accounts by debiting the customer's bank account and crediting the agent's account at the bank. An agent then can only pay out a withdrawal if they have cash in their till at the shop. This means the agent has to have both cash in the bank and cash in till. This is a key challenge to banks as most agents are not able to balance the cash holding or have inadequate capital.

Commercial banks have not been able to convince some businesses like large retail chains that could be ideal for agency banking. Some of the reasons given are the inability of the banks to provide reconciliation mechanism that has led to the chains loosing cash. The situation of float is even worse for remote agents who have to travel to the banks to replenish their deposits when balances run low. Erratic nature of finance services daily cash limits are also to be considered as part of anti- money laundering initiative by CBK, agents cannot transact above certain limit. Hitting this

limit means the agent can only close for the day unless they have applied for higher limits. In Brazil many agents complain about downtime POS frozen by bank once cash limit reached, pending deposit of cash at branch, but often with a lag until POS is unfrozen (CGAP, 2010).

According to Gitonga and Njeru (2014), agents are expected to take time to establish themselves and the normal growth curve is expected to apply. This means lower footprint in the beginning of a new outlet that keeps on growing to maturity if the correct factors for growth are cultivated or closure or dormancy of agency if the right factors are not exhibited. Agent's type of core business: The type of agent business is critical in number of ways.

First, the nature of business determines the hours of business. For example, retail shops, supermarkets and hotels are known to open 365 day a year, they open early and close late. Chemists are known to open late in the day but extend late in the night. Majority of other businesses like the hardware shops open between 08.00hrs and 18.00 hrs. The more formal businesses like the SACCOs and microfinance have similar hours of business to those of banks and remain closed for businesses on weekends and public holidays. Agents are required to have suitable human resources to manage the agency services as per agreements (Vutsengwa&Ngugi, 2013) with their commercial banks.

Studies have been conducted to determine the influence of agent quality on financial inclusion in rural areas. Wambua and Datche (2013) study in Mombasa County showed that majority of respondents felt that their Bank details information was not secure with the estate agent; the agent has been entrusted by the bank to provide financial services on behalf of the bank. This can bar new customers from opening and operating an account with the bank on account of trust. Gitonga and

Njeru (2014) found out that high quality of agents increases the adoption of agency banking while poor quality agents inhibit the adoption of agency banking.

2.3 Theoretical Framework

The study theoretical framework was guided by agency theory. According to Laudon and Laudon (1996), agency theory views the company as a link of contracts among self-interested individuals rather than a unified, profit-maximizing entity. It explains the relationship between principal and agent in business. Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals and agents of the principals. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing; and problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

Therefore, agents need constant supervision and management to ensure success of their principals' objectives. Information technology, by reducing the costs of acquiring and analysing information, permits organizations to reduce overall management costs, and allows them to grow in revenues while shrinking the numbers of middle management and clerical workers. Research on agency theory has had several findings. Most notably, an agent is more likely to adopt the goals of the principal, and therefore behave in the interest of the principal, when the contract is outcome-based.

Also, when the agent is aware of a mechanism in place that allows the principal to verify the behaviour of the agent, he is more likely to comply with the

goals of the principal. Considering the relationship between KCB bank and KCB *Mtaani*-gents have partnered to ensure financial inclusion of all rural people in Kenya. As projected, majority of rural population remain unbanked and therefore, the research investigates probable factors amongst them that influence financial inclusion in rural Kenya.

2.4 Conceptual Framework

The conceptual framework for the research was based on the relationship between the independent and dependent variables of the research.

The model is shown in Figure 1.1.

Independent variables Moderating variables Dependent variables

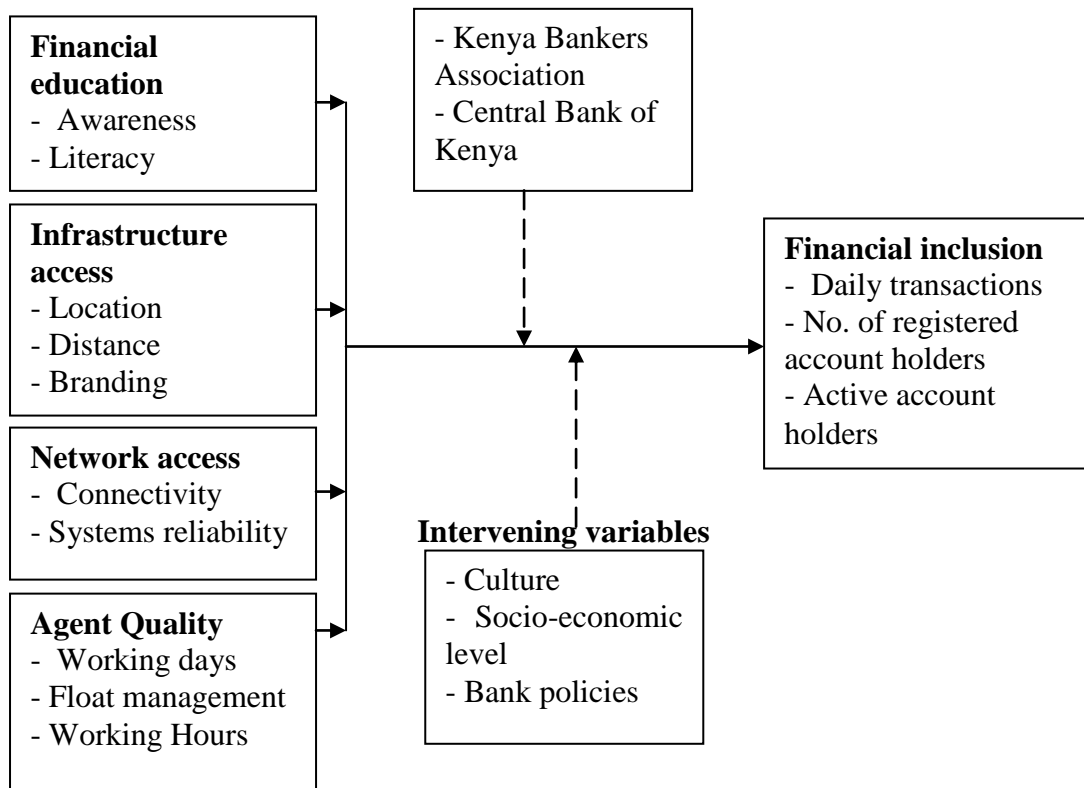


Figure 2.1 Conceptual framework

The first independent variable entails the financial education given to agents' operators and public on the agency banking platform. The financial education could depend on the extent to which awareness and publicity has been made regarding the importance of owning and transacting using agency banking mode. The second variable looks at the infrastructure access factors of distance, proximity and location that may influence rural population access to financial services. The third involves the network access variable that is determined by checking the reliability of the network systems in processing transactions from the agents to the bank and the customer.

The fourth independent variable touches on the agents factors like; convenience, working hours/days and float management. The third identified variables are assumed to have direct relationship on the dependent variable that involves financial inclusion to rural population in Marakwet West Sub County. The indicators of financial inclusion are measured through determining approximate daily transactions, active account holders and number of registered rural people in one agency outlet.

2.5 Knowledge Gap

The review of related literature has shown that research on M-Banking has been done mostly as opposed to agency banking within and outside Kenya (Sing &Tandon, 2012; McKay, 2011; Bold, 2011; Gitonga and Njeru, 2014). However, substantial research has been done in relation to the study topic although some gaps are evident. For instance, Gitonga and Njeru (2014) assessed factors influencing adoption of agency banking in Kenya but targeted several commercial banks offering

agency banking, the current study looks at KCB Mtaani outlets in different geographical location from Kajiado North by Gitonga and Njeru.

Ombutora and Mugambi (2013) researched on the role of agency banking on performance of banking agent entrepreneurs while the current research focuses on the financial inclusion of rural people in relation to the project management field. Saropa (2013) investigated Equity bank agency model in relation to international business and therefore the results are applicable at international level but not Marakwet West Sub County. The next chapter presents the research design and methodological procedures followed during the process of identifying respondents, data collection and analysis procedures.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The choice of research method does have an influence on the inferences drawn from the analysis of data (Babbie& Mouton, 2001)). The research methodology employed in this study comprised of qualitative and quantitative methods. This chapter deals with the descriptions of methods that to be used in carrying out the study. The subsections includes; research design, study location, target population, sampling procedures and sample size, research instrumentation and their validity and reliability, methods of data collection and data analysis.

3.2 Research Design

Research design refers to the plan on how the researcher systematically collected and analysed data needed to answer research questions. It is a framework or roadmap through which a research process is conducted to explain the social phenomena under investigation (Kothari, 2004). The study used a survey research design plan. Survey research is defined by Leedy and Ormrod (2010) as acquiring information about one or more groups of people perhaps about their characteristics, opinions, attitudes, or previous experiences-by asking questions and tabulating their answers. In this vein, KCB Mtaaniagents wereasked on their perceptions regarding critical factors influencing financial inclusion in Marakwet West Sub County. The data to be collected from the respondents 'were analysed to come to a logical conclusion.

3.3 Target Population

The target population for the research involved all KCB Mtaani agents operating in Marakwet West Sub County. Statistics from KCB Kapsowar Branch shows that as per December 2014, they had registered a total of 156 operators within the district. In addition, the research interviewed manager in charge of agency banking at KCB Kapsowarbranch to act as key informant.

3.4 Sample Size and Sampling Procedure

3.4.1 Sample Size

Sampling techniques is defined as procedure used to select some elements of a population in such a way that they represent the actual characteristics of the total population (Cohen, 2000). Considering that the target population of KCB Mtaani- agents is too large, a sample size was selected to be the representative of the whole population. To calculate the sample size, Kathuri and Pals (1994) table for sample size determination was used. When the target population is 156, the sample size is 113. Therefore, 113 KCB Mtaani agents formed the sample size for the research.

3.4.2 Sampling Procedure

In selecting 113 out of 156 agents, simple random sampling method was used. In this case, the number of all operators was written into several pieces of papers up to 156 after which the papers were put in a contained, churned thorough until, and thereafter were picked randomly until a sample size of 113 will be arrived at. For KCB head of agency banking, purposive sampling was used as he/she has the required information for the research purposes.

3.5 Data Collection Methods

Data refers to all the information a researcher gathers for his or her study (Mugenda and Mugenda, 2003). There are mainly two types of data, namely primary data and secondary data. Primary data refers to the information a researcher obtains from the field for example from the subjects in the sample while secondary data refers to the information a researcher obtains from research articles, books, reports and journals. In this study, the researcher made use of both primary and secondary data. The study utilised questionnaires and interview schedules as instrument of collecting primary data.

Mugenda and Mugenda (2003) depicts that the use of questionnaire method is advantageous because many of the respondents' information can be captured in an easy, quick and cost effective manner. The questionnaire collected both qualitative and quantitative information through open and close-ended questions. The questionnaire had both open and close-ended questions. The questionnaires were structured according to the objectives of the study. Section A comprised of questions on demographic profile of respondents, Section B: questions on financial education, Section C: infrastructure access, Section D contained questions on network connectivity and Section E contained questions on the influence of agent quality on financial inclusion.

Interview guide was prepared for manager of KCB in charge of agency banking. The purpose of using interview is to get supplementary information on how a KCB Mtaani service operates in Marakwet West Sub County. The interview questions were structured according to the objectives of the study.

3.5.1 Pilot Testing

Kothari (2004) argues that before administering the questionnaire, it is advisable to conduct a pilot study for testing the questionnaires. It is the replica and rehearsal of the main survey. The study conducted a pilot study in Eldoret town involving KCB Mtaaniagents to familiarise and create a rapport with respondents. This assisted in modifying the question that seemed to be ambiguous or not structured well and the improvements were effected before final administration to the field.

3.5.2 Validity

According to Kothari (2004), validity refers to the extent to which a test measures what it actually wished it wished to measures. Content validity was used in determining the validity of the research instrument. The University of Nairobi Department of Extra Mural Studies research supervisors assist in checking whether the instrument really answers and measures the objective of the study.

3.5.3 Reliability

According to Neumann (2007), a measuring instrument is reliable if it provides consistent results. In addition, he adds that if quality of reliability is satisfied by an instrument, then while using it a researcher can be confident that the transient and situational factors are not interfering. Test–retest technique was used in determining the reliability of the research instruments when conducting a pilot study in Eldoret town KCB Mtaani agents.

The questionnaires were administered twice within an interval of two weeks after which an alpha coefficient reliability test will be conducted estimate the reliability of research instruments. A cut off reliability value of 0.7 was used as a

benchmark of determining the reliability of the research instrument as suggested by Neumann (2007).

3.6 Data Collection Procedure

An official letter of introduction was obtained from Department of Extra Mural Studies to seek research permit from National Commission for Science, Technology and Innovation (NACOSTI). Thereafter, the researcher, through a formal request letter, sought for grant of permission from Kenya Commercial Bank Limited collect data from their Mtaani agents in Marakwet West Sub County. Agents operators consent in participating in the research will be sought by explaining to them the purpose and objectives of the study. The researcher randomly administered the questionnaires personally to selected agents in the sub county. Interview data collection method was also applied for clarity and wider scope data by interviewing manager in charge of agency banking at KCB Kapsowar Branch. The researcher thanked each respondent and after completion of data collection exercise, proceeded to sort the questionnaires for data processing and analysis.

3.7 Methods of Data Analysis

Kothari (2004) defines data analysis as the process of computation of certain indices or measures along with searching for patterns of relationship that exist among the data group. Further, Mugenda and Mugenda (2003) added that the data must be cleaned, coded and analysed from the results of which the researcher is able to make sense of the data. Considering that the researcher collected qualitative and quantitative data, two methods of analysing them was used. First of all, quantitative data from open-ended questions and discreet data were coded, entered and analysed in spread sheets for easier summary with the aid of SPSS (Statistical Package for Social

Sciences Version 20.0). Quantitative data was analysed using descriptive; frequencies, percentages, means and standard deviation and use of inferential statistics; Karl Pearson product moment correlation was used. Qualitative data obtained from open ended questions and interviews were analysed thematically using content analysis method. The analysed data are presented tables, graphs and charts.

3.8 Operational Definition of Variables

The following table gives the operationalization of variables and method of testing the data.

Table 3.1Operationalization of the study variables

Objective	Predictors	Indicators	Measurement scale	Tools of analysis
How financial education influence of financial inclusion	Education level Training level Literacy Awareness	Registered users Daily transactions Active users	Nominal Ordinal Scale	Means, standard deviations, frequencies, percentages and correlations
Influence of infrastructure access on financial inclusion	Distance Location	Registered users Daily transactions Active users	Scale Nominal Ordinal	Means, standard deviations, frequencies, percentages and correlations
Influence of network connectivity effect on of financial inclusion	Network connectivity Reliability	Registered users Daily transactions Active users	Scale Nominal Ordinal	Means, standard deviations, frequencies, percentages and correlations
How agent quality influence the of	Float management	Registered users	Nominal Ordinal	Means, standard deviations,

financial inclusion	Convenience	Daily	frequencies,
	Hours of	transactions	percentages and
	operations	Active users	correlations

3.9 Ethical Considerations

Creswell (2009) assert that the purpose of research ethics is to protect the welfare of the research participants. They argue that research ethics also involve not only the welfare of the informants but extend to areas such as scientific misconduct and plagiarism. Respondents were assured of the confidentiality of the information they gave. Prior to the study, the researcher will visit the area of study and make appointments with the respondents. The researcher personally administered questionnaires to participants.

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION, INTERPRETATION AND
DISCUSSION

4.1 Introduction

This chapter presents the findings of the study collected from Marakwet Sub County, Elgeyo Marakwet County on the factors influencing financial inclusion in rural Kenya. The unit of study was KCB Mtaani agents located in the sub county. The data was collected through use of researcher-administered questionnaire. After the presentation of findings, interpretations are made and later discussions are made to check for similarities or differences with previous published works.

4.1.1 Response Rate

The following table shows the response rate for the study.

Table 4.1 Response Return rate

Respondents	Sample size	Response rate	Percent
KCB Mtaani Agents	113	87	76.9%
Manager	1	1	100.0%
Total	114	88	88.5%

The responses rate from KCB Mtaani agents in Marakwet West Sub County was 87(76.9%) while for KCB manager in charge of mobile service was 1 (100%). This translated to an average response of 88 (88.5%). Gitonga and Njeru (2014) informs that response rates are more important when the study's purpose is to measure effects or make generalizations to a larger population and less important if the purpose is to gain insight. Acceptable response rates vary by how the survey is administered.

The analysis of findings from the questionnaires were conducted through use of descriptive and inferential statistics to determine how several factors influenced

financial inclusion of rural people in Marakwet West Sub-County. The presentation of data flows according to the objectives of the study but at first, the demographic profile of participants is presented.

4.2 Background Characteristics of Agent Banking Operators

This involved looking at the personal characteristics of respondents based on; gender, age category, highest trade and places where they live.

4.2.1 Location of Respondents

At first, the study wanted to know the locations to which KCB Mtaani agents operated from as either rural or urban areas of Marakwet West Sub County. The results are presented in Table 4.2.

Table 4.2 Location of respondents

Location	Frequency	Percent
Urban	41	47.1
Rural	46	52.9
Total	87	100.0

The results shows that 46 (52.9%) of KCB Mtaani agent operators came from rural places of Marakwet West while 41 (47.1%) operated from urban areas. Therefore in determining the rate of financial inclusion, agent banking operators from all locations were involved. Research conducted shows that banks are mostly located in towns as opposed to being equally spread across all regions (Singh and Tandon, 2012).

4.2.2 Gender of Respondents

The respondents were asked to give their gender profiles. The results are given in Table 4.3.

Table 4.3 Gender of respondents

Profile	Frequency	Percent
Male	46	52.9
Female	41	47.1
Total	87	100.0

Results on gender category shows that 46 (52.9%) of KCB Mtaani agents were male while 41 (47.1%) were female. This shows that operations of these agents' outlets are not dominated by people of specific gender but both men and women have equal opportunities. This also ensures that balanced response is captured.

4.2.3 Respondents Age Category

The study sought to know the age category of operators of KCB Mtaani agents. Their responses are given in Table 4.4.

Table 4.4 Age category

Range	Frequency	Percent
18-24yrs	32	36.8
25-34yrs	53	60.9
35-44yrs	2	2.3
Total	87	100.0

On their age category, 53 (60.9%) were aged between 25-34 years, 32 (36.8%) were aged between 18-24 years and only 2 (2.3%) indicated that they were aged between 35-44 years. The results show that the operators of KCB Mtaani agents are young people who are vast with technological knowledge and are capable of adapting to changes in business environments. This makes it easy for them to delivery banking services to the rural population due to their understanding of how to operate agency banking system models.

4.2.4 Education Level of Respondents

The study also sought the education level of respondents. The findings are presented in Table 4.5.

Table 4.5 Education level of respondents

Level	Frequency	Percent
Secondary	21	24.1
Tertiary college	61	70.1
University	5	5.7
Total	87	100.0

Results shows that majority 61 (70.1%) of operators had tertiary level of education that includes having diploma and certificates, 21 (24.1%) had secondary level of education while 5 (5.7%) said that they had degree. This shows that KCB agents' operators are literate and therefore capable of operating the gadgets or guide customers on how to make agent banking transactions. This is in contrast to Sing and Tandon (2012) research who found out that illiteracy of a substantial number of people made them unable to take recourse to banking services.

4.2.5 Financial Inclusion

This is the dependent variable for the study that investigates the financial inclusion of rural people in Marakwet West Sub County. The rural financial inclusion is hypothesized in this project to be promoted through KCB Mtaani agent platform. To measure rate of financial inclusion, the operators were asked to state the extent to which the following transactions were happening in their businesses in a single day; cash withdrawals, payment of bills, payment of social benefits, transfer of funds, account balance enquiries, mini statement, dormant account activation, loan

repayment, loan request and account opening. The scale used was frequently (5), often (4), sometimes (3), rarely (2) and never (1). The results of the analysis are presented in Table 4.6.

Table 4.6 Financial Inclusion (N=87)

	N	Min	Max	Mean	Std. Deviation
Cash withdrawals	87	2.00	5.00	4.7126	.69730
Cash deposits	87	1.00	5.00	4.6782	.84212
Account opening	87	3.00	5.00	4.5402	.78953
Accounts and mini statement enquiries	87	1.00	5.00	4.5172	1.00997
Payment of bills	87	2.00	5.00	4.3333	1.04176
Transfer of funds	87	1.00	5.00	2.9655	1.03932
Loan repayment	87	1.00	5.00	2.3103	1.13415
Payment of social benefits	87	1.00	4.00	2.1149	.65460
Loan request	87	1.00	5.00	1.7701	.88530
Dormant account activation	87	1.00	4.00	1.7126	.87482
Valid N (List wise)	87	1	5	3.3655	0.89689

Computed composite scores shows the mean as 3.36 with standard deviation values of 0.89 which suggests that the financial inclusion of rural population in Marakwet West Sub County is on average. The agent banking services that majority of respondents utilised were in cash withdrawals (M=4.71 and SD=0.69). This is further supported by Saropa (2013) who found out that agency banking has also made financial services cheaper for customers it is cheaper to withdraw at an agent location than withdrawing from an automatic teller machine. The second utilised services at KCB Mtaani agents was cash deposits (M=4.68 and SD=0.84). The third was account opening (M=4.54 and SD=0.79). The fourth services that customers sought were account balance and mini statement enquiries (M=4.52 and SD=1.01). The fifth utilised services was payment of bills (M=4.33 and SD=1.04).

According to the statistics presented above, the above-mentioned services were frequently conducted at KCB Mtaani agents in Marakwet West Sub County. The results further showed that residents occasionally transferred funds (M=2.96 and SD=1.03) in their daily work. However, the following services were found to be rarely conducted by KCB Mtaani agents in the area, they include; loan repayment (M=2.31 and SD=1.13), payment of social benefits (M=2.11 and SD=0.65), loan request (M=1.77 and SD=0.88) and dormant activation account (M=1.71 and SD=0.87) was the least utilised agent banking service. The respondents were asked to indicate the level of rural people financial inclusion in their study area. The findings are given in Table 4.7.

Table 4.7 KCB Mtaani agents' responses on the level of financial inclusion

Level	Frequency	Percent
Very low	6	6.9
Low	38	43.7
Average	41	47.1
High	2	2.3
Total	87	100.0

Results reveal that 41 (47.1%) of operators indicated that the level of financial inclusion to be on average, 38 (43.7%) said that it was very low, 6 (6.9%) indicated that it was very low while 2 (2.3%) only 2 (2.3%) reported that financial inclusion as high. The result therefore implies that financial inclusion remains an objective not yet realised by rural people in Marakwet West Sub County, Kenya. This is in contrast with Saropa (2013) whose study findings showed that increasing the area covered by agents within the country has had the effects of increasing the reach of the financial services to the people thus raising the levels of financial inclusion because a certain

cliché of the population would not visit the bank branches for various reasons included in the study.

4.3 Financial Education of KCB Agents Influence on Financial Inclusion

This is the first objective of the research that sought to investigate the influence of financial education on financial inclusion of rural people as reported by KCB Mtaani agents' operators in Marakwet West Sub County. At first, the operators were asked to indicate the rate at which they agreed or disagreed with several statements regarding financial education provided by KCB bank to its mobile banking agents. Their responses were measured on a Likert scale of five; Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and Strongly Disagree (1). The results of the analysis are given in Table 4.8.

Table 4.8 Respondents perceptions on financial education of KCB agents influence on financial inclusion

Perceptions	N	Min	Max	Mean	Std. Deviation
We can operate the gadgets easily without any help	87	2.00	5.00	4.1609	.64472
We do understand the agency banking well	87	2.00	5.00	4.1609	.69673
There have been promotion activities as a result of agent banking	87	2.00	5.00	4.1379	.92977
There have been training activities as a result of agent banking	87	2.00	5.00	3.6782	1.28944
We are in a position to educate the locals (customers) on the benefits of using agent banking	87	2.00	5.00	3.5172	1.21867
The strategy on agency is effectively communicated to the agents outlets	87	1.00	5.00	3.4023	1.15597
Valid N (Listwise)	87	2	5	3.8429	0.98922

Composite results show that respondents appear to have positive perceptions (M=3.84 and SD=0.98) on the relationship between financial education and financial inclusion of rural people in Marakwet West Sub County. For instance, they agreed (M=4.16 and SD=0.64) that they can operate the gadgets easily without any help. This confirms that the operators had actually been trained before well on how to operate mobile agent banking gadgets. Mago and Chitokwindo(2014)inform that the issue of ability to use the system has a direct bearing on adoption of the facility. The operators also agreed (M=4.16 and SD=0.69) that they understood the agency banking very products well. This shows that most of them are aware of the concept of agency banking and therefore were in a position to assist customers. The respondents also agreed (M=4.14 and SD=0.93) that there have been promotion activities because of agent banking. This shows that the bank is engaged in efforts that ensure that the public and agent operators are aware of agent banking products and services. The respondent also tended to agree (M=3.67 and SD=1.28) that there have been training activities for agent banking. These capacity-building activities are aimed at improving their knowledge on agency banking platform operations. The agent operators also agreed (M=3.51 and SD=1.22) that they were in a position to educate their clients on the benefits of agent banking. This indicates the vast pool of knowledge that operators have towards helping out their customers in case they encounter problems in utilising agent-banking services.

However, the agent operators had mixed responses (M=3.40 and SD=1.15) on the statement ‘the strategy on agency growth is effectively communicated to agent outlets’ this shows that some agents are not effectively communicated in case there have been changes and this could be due to their remote location and even network availability. Considering the area is interior, cases of communication breakdown are

frequently reported, this might affect the delivery of quality services to customers. The results concur with to Singh and Tandon (2012) who established that many people in rural India were unaware of the banking terms and conditions laid down from time to time. The respondents were further asked to state the extent to which financial education was provided to them by KCB through use of the following scale; frequently, often, sometimes, rarely and never. Results are illustrated in Table 4.9.

Table 4.9 Frequency to which financial education is provided by KCB to its agents

Frequency	Frequency	Percent
Rarely	23	26.4
Sometimes / occasionally	52	59.8
Often	12	13.8
Total	87	100.0

Findings reveal that 52 (59.8%) of respondents said that financial education is occasionally provided, 23 (26.4%) admitted that it is rarely provided and only 12 (13.8%) reported that KCB bank often arranges training for them. The result shows that financial education is inadequately provided. The findings concur with study conducted in India by Singh and Tandon (2012) who found out that lack of information on banking services influenced financial inclusion of rural population. They found out that lack of information about the role and function of banks, banking services and products, interest rests among others stopped people from including themselves in mainstream banking. For those who were provided with training, some of them had to close their own businesses for some days to attend training while others opted not to go for training that was normally conducted in Iten or even Eldoret town. Despite that, the researched asked KCB Mtaani agent operators on whether they were in a position to provide customer services to their clients rather than referring them to nearest KCB Branch in Kapsowar. Findings are given in Table 4.10.

Table 4.10 Ability of agents' operators to provide customer-care services

Response	Frequency	Percent
Sometimes	9	10.3
Often	61	70.1
Frequently	17	19.5
Total	87	100.0

Most 61 (70.1%) of respondents reported that they are often in a position to provide customer care services on behalf of KCB bank, 17 (19.5%) said that they frequently provide while 9 (10.3%) said that they sometimes provide customer care services to customers. This shows that despite inadequate training opportunities for agents, a significant number of them are in a position to provide customer care services. Similar to this, Gitonga and Njeru (2014) found out that customer service affected adoption of agency banking in Kenya with high service availability increasing adoption and low availability inhibiting the adoption. To check on the relationship between financial education and financial inclusion, a correlation analysis was computed. The results are given in Table 4.11.

Table 4.11 Relationship between financial education and financial inclusion

Correlations			
		Financial education	Financial inclusion
Financial education	Pearson Correlation	1	.216*
	Sig. (2-tailed)		.044
	N	87	87
Financial inclusion	Pearson Correlation	.216*	1
	Sig. (2-tailed)	.044	
	N	87	87

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

The statistics shows that there exist a positive degree of association ($r=0.216$) between financial education provision by KCB to its agent outlets in Marakwet West Sub County and financial inclusion among rural population in the area under study. The results are also significant ($p<0.05$) which suggests that an increase in provision of educational awareness and financial education will result in greater number of rural population accessing banking services from mobile banking agents in the study Area. This calls for KCB to improve its public education campaigns to reach the unbanked population and ensure that financial inclusion is promoted.

4.4 KCB Agent Infrastructure Access Influence on Financial Inclusion

The second objective of the study was to investigate how infrastructure and network access by KCB agents in Marakwet West Sub-County influenced financial inclusion by rural people in the area. The study designed several question using different measurement scales; ordinal and nominal to determine the views and opinions of KCB Mtaani agents' operators on how infrastructure influenced financial inclusion. At first, the operators were asked to indicate their perceptions on the KCB agent banking technology they operated on as; simple, easy to use, difficult to use or need for usage training. Their responses are presented in Table 4.12.

Table 4.12 Status of KCB Mtaani agent technology

	Frequency	Percent
Difficult to use	3	3.4
Simple	3	3.4
Easy to use (understandable)	75	86.2
Need for usage training	6	6.9
Total	87	100.0

Majority 75 (86.2%) of operators admitted that the agent banking technology is easy to use (understandable), 6 (6.9%) suggested that they needed usage training, 3 (3.4%) said that it was simple while 3 (3.4%) said that it was difficult to operate. This shows that KCB Mtaani agents are versed with operations of the technology used in that platform. Another infrastructure variable that the study investigated involved determining the distance between one agent to another. Therefore, the operators were asked to indicate the distance of their outlet to the next KCB outlet. The descriptive statistics results are given in Table 4.13.

Table 4.13 KCB Agent Distance measurements (in Kms)

	N	Min	Max	Mean	Std. Deviation
What is the approximate distance between your agent outlet and the next KCB	87	.01kms	22.00kms	3.7937kms	6.26288
Valid N (List wise)	87				

It is seen that the average distance between one outlet to the other is 3.79 kilometres in the whole of Marakwet West Sub County. The result shows that the least distance between one agent was 100 metres while the longest distance was 22 kilometres. Those who were found to be sparsely spread were the agents in rural setting while those who were closely spread were located in urban centres where customer population was high. On his part, KCB manager in charge of agent banking indicated that the distance between one out-let to the other varies depending on the location, population, network availability and even security. He indicated that security in far-flung areas prevented them from launching agent outlets due to high risks and cost associated with it. The study findings concur with Singh and Tandon (2012) who found out that accessibility is a problem for rural people in geographically isolated

regions in India. They found out that banks were located in vicinity of towns as opposed to rural areas, a common occurrence in developing countries such as Kenya. In addition, Gitonga and Njeru (2014) found out that over 95% of agents indicated that they are affected by the distance of the branch of the bank they serve.

Moreover, they were asked to indicate their perception on the location and distance between one agent to the other. The results are illustrated in Table 4.14.

Table 4.14 Respondents perception on the location of KCB Mtaani agents in Marakwet

Views	Frequency	Percent
Located in urban centres	56	64.4
Located both in rural and urban areas	21	24.1
Agents are concentrated in one area	3	3.4
KCB Mtaani agents are geographically distributed	7	8.0
Total	87	100.0

It is evident that more than half 56 (64.4%) of respondents said that agent outlets are located more in urban environments as opposed to rural environments, 21 (24.1%) said that the agents are spread across rural and urban areas, 3 (3.4%) opined that agents are concentrated in one area while only 7 (8.0%) said that agents are geographically distributed. The results therefore imply that the bank has several factors to look at before deciding to issue a licence to an operator for an agency banking services.

The respondents were further asked to indicate the extent to which agent banking infrastructure affected financial inclusion of residents in Marakwet West Sub County through use of Likert scale questions; Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and Strongly Disagree (1). The results of analysis are presented in Table 4.15.

Table 4.15 Respondents perceptions on agent banking infrastructure

Perceptions	N	Min	Max	Mean	Std. Deviation
Introduction of KCB Mtaani agents has reduced transport costs that rural people used to incur when travelling to bank branches before	87	4.00	5.00	4.7586	.43040
Cases of money loss by rural people have significantly reduced after the entry of KCB Mtaani	87	1.00	5.00	4.3793	.85238
Strategic location of KCB Mtaani agents outlets has influenced the growth of my business	87	2.00	5.00	3.4368	1.24547
The proximity of agent outlets has increased our relationship with KCB customers	87	2.00	5.00	3.2529	1.21252
The appearance and brand of my agent outlet has great influence customer trust and confidence	87	2.00	5.00	3.2184	1.26146
The physical evidence of KCB Mtaani agents has increased demand for agency services by people	87	2.00	5.00	2.9655	1.11489
We are supported by KCB in providing appropriate infrastructure for growth and expansion	87	1.00	5.00	2.6667	1.11717
KCB bank ensures there is no concentration of agents in one particular area	87	1.00	5.00	2.4483	.99719
Valid N (Listwise)	87	2	5	3.3908	1.02894

Majority of respondents strongly agreed (M=4.78 and SD=0.43) that introduction of KCB Mtaani has reduced transport costs that rural people used to incur when travel to bank branches before. This implies that reduction in distance between the customers and the bank by introducing agent banking models have resulted to more people saving money which they could have used in transport to nearby bank branch(es). Another statement that the respondents agreed (M=4.38 and

SD=0.85) is that cases of money loss have significantly reduced after entry of agency banking outlets. This is because money is saved in electronic form thereby reducing risk associated with theft or even loss.

A significant number of rural populations who access-banking services through this platform feel safe since they can make transactions within their vicinity. However, the respondents appeared to have mixed reactions on the following statements: strategic location of their outlets had influenced the growth of their business (M=3.44 and SD=1.24). This suggests that some operators feel that their locations have not been strategic in helping them to grow their business while others have positive views about it. The results further revealed that agents were undecided (M=3.25 and SD=1.21) on the statement that the proximity of agent outlets had increased their relationships with KCB customers. Some were on the positive side while others were negative about it. This therefore calls for stakeholders' involvement in designing strategic places to put up agent outlets as some complained that their agents were inaccessible to majority of the population.

The respondents also showed mixed responses (M=3.21 and SD=1.26) on the statement that 'the appearance and brand of their agent outlet had great influence on customer trust and confidence'. They also showed divided opinion on the statement that 'physical evidence of KCB Mtaani agents had increased their services for the rural population (M=2.96 and SD=1.11). This suggests more is needed to brand outlets and even KCB products and services to ensure competitive advantage is attained from their competitors in the agency banking business. When asked as to whether they were supported by KCB in providing appropriate infrastructure for growth and expansion, majority were undecided (M=2.67 and SD=1.11). This suggests that the bank should increase its support in providing appropriate

infrastructure that will enable its agents compete at the same level with other rival competitors.

Lastly, the respondents also appeared to disagree (M=2.45 and SD=0.99) with the statement that ‘KCB ensures there is no concentration of agents in one particular area’ this however may not be practical in urban centres whereby the distance between one outlet to the other is less than 100 metres. It is therefore the duty of agent banking operators to strategies on how they will survive in a competitive environment. Composite statistics shows that the KCB Mtaani agents operators Marakwet West Sub County had shared perceptions (M=3.39 and SD=1.03) on the influence of infrastructure towards financial inclusion of rural people in the area. To determine the relationship that existed between the two factors; combined scores for infrastructure were correlated against combined scores for financial inclusion. The results of the analysis are given in Table 4.16.

Table 4.16 Correlation between agent infrastructure and financial inclusion

Correlations			
		Infrastructure	financial inclusion level
Infrastructure	Pearson Correlation	1	.642**
	Sig. (2-tailed)		.000
	N	87	87
financial inclusion level	Pearson Correlation	.642**	1
	Sig. (2-tailed)	.000	
	N	87	87

** . Correlation is significant at the 0.01 level (2-tailed).

The results shows that there exist a strong positive degree of association (r=0.642 and p=0.001) between infrastructure and financial inclusion of rural population in Marakwet West Sub County. The correlation between the two variables appears to be significant at the 0.01 level (2-tailed). This therefore implies that

improvements in agents' infrastructure; branding and location will lead to improvement in financial inclusion in the study area. This therefore shows that agent infrastructure is an important predictor to financial inclusion in Marakwet West Sub County. Contrary to the study results, Kithuka (2010) established that distance does not influence the frequency of customer transactions. This was because people factored in the costs of transactions before deciding to use agency banking services.

4.5 KCB Agency Network and Financial Inclusion

The third objective of the study sought to investigate how KCB agency system network influenced financial inclusion in Marakwet West Sub County. Therefore, the study asked the agent banking operators to indicate the reliability of network they use in making banking transactions as; poor, fair, good, very good or excellent. The results are presented in Table 4.17.

Table 4.17 KCB Mtaani Agency Network performance

Network performance	Frequency	Percent
Poor	49	56.3
Fair	21	24.1
Good	14	16.1
Very good	3	3.4
Total	87	100.0

It is revealed that 49 (56.3%) of agent operators said that the network performance has been poor, 21 (24.1%) said that it was fair, 14 (16.1%) said it was good with only 3 (3.4%) admitting that the network has been very good. This seems to be a major challenge affecting KCB Mtaani agents in Marakwet West Sub County. This is consistent with Saropa (2013) who established that there were also technological risks involved in agency banking according to the respondents. Utility

disruptions or software or hardware failures can cause a lack of service availability and information loss. The respondents were further asked to state the time that one client took to make one transaction. Their responses are illustrated in Table 4.18.

Table 4.18 Transactions time

Period	Frequency	Percent
Less than 1 minute	6	6.9
1-2 minutes	35	40.2
3 min and above	46	52.9
Total	87	100.0

At least 46 (52.9%) of operators reported that it takes more than 3 minutes for one transactions to be successful executed, 35 (40.2%) said that it takes 1-2 minutes while 6 (6.9%) are the only ones who reported that it took less than a minute to complete one transaction. This shows that frequent network delays affect transaction time and this could be one of the factors inhibiting financial inclusion by rural population in Marakwet West Sub County. Moreover, the agent operators were asked if the network availability was consistent throughout. Their responses are given in Table 4.19.

Table 4.19 Network availability consistency

Response	Frequency	Percent
Sometimes consistent	32	36.8
Not consistent	48	55.2
Vary according to period of the day	7	8.0
Total	87	100.0

Responses shows that more than half 48 (55.2%) of respondent said KCB Mtaani network has not been consistent, 32 (36.8%) said that it is sometimes consistent while 7 (8.0%) said that it varies according to the period of the day. None

(0%) of the respondents indicated that the network has been consistent and this could be the reasons for non-expansion of agent outlets in the area. The study went further to ask the respondents the best time through which KCB Mtaani platform work best. Results are given in Table 4.20.

Table 4.20 Period at which KCM Mtaani platform works best

	Frequency	Percent
Varies	10	11.5
No specific time	38	43.7
Evening	10	11.5
8:00am-4:00pm	3	3.4
9:00am-4:00pm	5	5.7
Morning hours and evening	7	8.0
midday	3	3.4
Morning hours	2	2.3
Every time	3	3.4
Afternoon	4	4.6
weekends	2	2.3
Total	87	100.0

To majority of respondents 38 (43.7%), there is no specific time through which KCB Mtaani platform works bests. This is reflected with the results made on the above table that shows different operators experience different network consistency and this could be one of the factors influencing financial inclusion. Another variable that the study investigated involved asking the respondents the amount of time it took for mistakes in transactions to be rectified through open-ended questions.

Their results are given in Table 4.21.

Table 4.21 Period of correcting transaction mistakes in KCB Mtaani agent platform

Period	Frequency	Percent
Less than 24 hours	22	25.3
More than 24 hours	9	10.3
4 days	3	3.4
2 hours	3	3.4
2-3 days	13	14.9
1 hour	3	3.4
Less than 1 hour	15	17.2
More than 1 week	2	2.3
four hours	17	19.5
Total	87	100.0

The results reveal varying responses on the period of time KCB takes to rectify mistakes in their agent banking platforms. To some it took less than an hour (17.2%) while to some it took more than 1 week (2.3%) depending on the nature of transaction one was engaged in and this applies where payments are made to other utilities. Therefore, delays in transactions mistakes corrections resulted to dissatisfaction by some clients leading to them reducing their transactions through Agent banking system. In addition, the study sought respondents' perceptions on how network connectivity affected financial inclusion of rural people in Marakwet West Sub County.

Their responses are given in Table 4.22.

Table 4.22 Respondents perceptions on how network connectivity affects financial inclusion

Perceptions	N	Min	Max	Mean	Std. Deviation
There is always an alternative method of agency banking when the main bank systems is down or when jammed	87	1.00	5.00	4.2759	1.04202
Service availability is not frequently interrupted	87	1.00	5.00	3.7011	.91645
When a customer conducts a transaction, the message is instantly relayed to his/her phone	87	2.00	5.00	2.9080	1.14762
The systems applied in KCB Mtaani agents has reduced risks associated with other banking models	87	1.00	5.00	2.7816	1.14552
Valid N (Listwise)	87	1	5	3.4167	1.0629

Results shows that respondents agreed ($M=4.27$ and $SD=1.04$) that there is an alternative method of agency banking when the main bank systems are down and jammed and that services availability is not frequently interrupted ($M=3.7$ and $SD=0.91$). However, they appeared undecided on the statement that; when a customer conducts a transaction, the message is instantly relayed to his/her phone ($M=2.90$ and $SD=1.15$) and that systems applied at KCB Mtaani agents have reduced risks associated with other banking models ($M=2.78$ and $SD=1.14$). Composite statistics reveal that respondents appeared undecided ($M=3.41$ and $SD=1.06$) on the influence of network connectivity on the financial inclusion of rural population in Marakwet West Sub County. To check the relationship that existed between network connectivity and financial inclusion, a correlation analysis was computed.

The results are presented in Table 4.23.

Table 4.23 Network connectivity and financial inclusion

Correlations			
		Network connectivity	financial inclusion level
Network connectivity	Pearson Correlation	1	.434 ^{**}
	Sig. (2-tailed)		.000
	N	87	87
Financial inclusion level	Pearson Correlation	.434 ^{**}	1
	Sig. (2-tailed)	.000	
	N	87	87

** . Correlation is significant at the 0.01 level (2-tailed).

Results shows that there exist an average degree of correlation ($r=0.434$ and $p=0.001$) between network connectivity and financial inclusion of residents in Marakwet West Sub County operating under KCB Mtaani agent platform. The correlation is significant at the 0.01 level (2-tailed). This implies that an increase in network connectivity will result in an increase in financial inclusion. Therefore, KCB should try to improve its network connectivity and systems consistency so as to ensure the unbanked population in the interior areas of Marakwet West are reached.

4.6 Agent's Quality of Service influence on Financial Inclusion in Marakwet West Sub County

The fourth objective of the study was to determine how agent services quality influence financial inclusion in Marakwet West Sub County. Therefore, the study first asked the respondents to indicate the number of days they usually operate in a week (7-days).

Their responses are presented in Table 4.24. Table 4.24 Agents' numbers of operating a business in a week

	Frequency	Percent
4 days	2	2.3
5 days	3	3.4
6 days	71	81.6
7 days	11	12.6
Total	87	100.0

Results shows that majority 71 (81.6%) of KCB agent outlets operate within one week, 11 (12.6%) open for 7 days, 3 (3.4%) said 5 days while 2 (2.3%) said that they open for 4 days. This shows that most of the agents operate on daily basis and those who indicate that they do not open on specific days could be due to unavailability of network. Majority seem not to work on Sundays because they go to church while others have personal reasons for not opening all days throughout the week. The researcher went further to asked the operators, the times of day when they operate. The results are presented in Table 4.25.

Table 4.25 KCB Mtaani Agent business-operating hours

	Frequency	Percent
8:00 am - 6:00 pm	56	64.4
8:00 am - 4:00 pm	8	9.2
7:00 am - 6:00 pm	9	10.3
7:30 am - 6:30 pm	7	8.0
8:00 am - 5:00 pm	5	5.7
7:00 am - 9:00 pm	2	2.3
Total	87	100.0

The findings reveal that most 56 (64.4%) of agent businesses operate 10 hours in a day, 8 (9.2%) said that they operated for 8 hours, 9 (10.3%) said that they operated for 11 hours among others presented in the table above. Moreover, the respondents were asked to indicate the frequency to which they maintained a float, open during weekends and holidays, planning to increase float and extending working hours beyond normal stipulated time. Gitonga and Njeru (2014) indicated that bank agents deliver convenience by providing more working hours than the conventional bank's hours of business and through close proximity to the customers than would the banks. They found out that agents were delivering additional hours and making services available to bank customers beyond what the banks could deliver. All agents were opening longer hours than banks during weekdays. 52.6% opened on Sundays and 93.5% opened on holidays. This was in tandem with the agents' core businesses hours.

Moreover, the agent operators were required to indicate the frequency to which they performed those duties on a scale of; frequently (5), often (4), sometimes (3), rarely (2) and never (1). The results are presented in Table 4.26.

Table 4.26 Quality of agent services

Frequency of	N	Min	Max	Mean	Std. Deviation
Maintaining float	87	2.00	5.00	4.1149	.53755
Planning ahead in increasing the float	87	3.00	5.00	4.0115	.46989
Opening during weekends and holidays	87	2.00	5.00	3.9770	.62834
Extending working hours beyond the normal stipulated time	87	2.00	5.00	3.1264	.75951
Valid N (List wise)	87	2	5	3.8075	0.59882

The results of the study reveals that respondents agreed (M=4.11 and SD=0.53) that they regularly maintain float. Float maintenance usually is the biggest challenge facing agents and to maintain their performance, they have to ensure that they have enough cash to deposit and dispense to customers. This is explained by Saropa (2013) who argue that liquidity was a major problem that is affecting agents this is mainly because they have to visit the branch to buy float and sometimes the branches are very far. Secondly, the respondents said that they often (M=4.01 and SD=0.46) plan ahead in increasing the float. Thirdly, they also said that they often (M=3.98 and SD=0.63) open during weekends and holidays. However, the respondents said that they sometimes (M=3.12 and SD=0.76) extend working hours beyond the normal stipulated times. From the results, it is clear that agent operators have devised various methods of improving their quality services to attract more clients and become sustainable. To check the relationship between agent quality and financial inclusion of rural population, a correlation was conducted. The results of the analysis are presented in Table 4.27.

Table 4.27 Relationship between agent quality and financial inclusion

Correlations			
		Agent quality	Financial inclusion
Agent quality	Pearson Correlation	1	.195
	Sig. (2-tailed)		.070
	N	87	87
Financial inclusion	Pearson Correlation	.195	1
	Sig. (2-tailed)	.070	
	N	87	87

The results reveal that there exist positive relationship ($r=0.195$ and $p=0.070$) between agent quality and financial inclusion of rural people in Marakwet West Sub

County. This implies that agents' improvement in their quality of services will lead to more unbanked population opening and making transaction through agency outlets.

4.7 Challenges Experienced by KCB Mtaani agents in Marakwet West Sub County

Although agency banking seem to hold a great promise of increasing financial inclusion of rural individuals there are also potential challenges associated with it. Therefore, through open-ended question, the study requested the respondents to indicate challenges they experienced while operating agency outlets. Their responses are given in Table 4.28.

Table 4.28 Challenges experienced by KCB Mtaani agents

Response	Frequency	Percent
Poor network	73	83.9
Low commission	11	12.6
Lack of regular visits to agents	9	10.3
Misunderstanding of the effectiveness of Mtaani agent by the customers due to lack of knowledge	8	9.2
Float replacement	5	5.7

The main challenge that the agency operators faced were because of; poor network (83.9%). Wambua and Datsche (2013) supports this by indicating that public confidence has been eroded due to failures associated with information communication based technologies. This calls for quick redress. The agent operators 11 (12.6%) also said that low commission was a challenge towards financial inclusion. The respondents said that lack of regular visits by KCB officers to their businesses (10.3%) affected financial inclusion while 8 (9.2%) of them said that misunderstanding between them and customers due to ignorance on some issues. The results coincides with Saropa (2013) research who established that phone

network failures posted a major challenge to agency banking. According to CGAP (2011) research, the top concerns among agents are low remuneration, Liquidity (float) management and network availability.

Moreover, they suggested the following to be done to improve on their platforms. The results are presented in Table 4.29.

Table 4.29 Suggestions on improvement of agency banking

Response	Frequency	Percent
Improve on the agent banking systems to be more efficient	46	52.9
Improve on the network	39	44.8
Conduct regular visits	32	36.8
Educating customers on the importance of KCB Mtaani operations so as to ease their operation	13	14.9
Introduce better machines systems to improve on delivery of services	9	10.3
Increase level of commission	2	2.3
Increase float limit	2	2.3

The respondents suggested that KCB Mtaani agent systems should be upgraded to ensure efficiency of operations; network improvement also appears to be significant additions while others said that KCB officers should conduct regular visits to their outlets to check on their progress and performances.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the major findings of the study, conclusions, recommendations, suggestions for future research and implication of study findings. The findings reported in this study are helpful in ensuring rural development is achieved through financial inclusion of the population by connecting them with bank accounts where they can conduct financial transactions and access loan products at their convenient locations. This report is generated from survey of KCB Mtaani agents in Marakwet West Sub County, Elgeyo-Marakwet County, Kenya.

5.2 Summary of Findings

The aim of conducting this study was to determine factors influencing financial inclusion of rural population in Marakwet West Sub County. The main respondents for the study were the agent outlets operators in urban and rural regions of Marakwet West. The data was collected from open and close-ended questions. The data collected was analysed by use of descriptive and inferential analysis methods. Demographic data results showed that equal participation of both men and women in operating KCB Mtaani agent outlets in the study area. In terms of their age bracket, most of them were middle aged and they had tertiary level of education. This showed that literacy rate among operators of agency banking model for financial inclusion was high.

The results of the research revealed that the level of financial inclusion at average for 47.1% of residents in the study area. This showed that there are sections

of the population who do not have bank accounts. This could affect rural development as they are hindered in making savings or receiving money for their business ventures. Results showed that financial transactions that happen in most of agent outlets there were; cash withdrawals, account balance enquiries, account opening, mini statement enquiries and payment of bills. This helped majority of respondents by reducing transport costs associated with going physically to where bank branches are located to deposit or withdraw funds for school fees and other purposes. Time wastage problem was also found to be a problem that has been addressed by KCB partnering with businesspersons from Marakwet West in setting up agent outlets. Cases of thefts and money loss were reported to have significantly reduced in the study area.

The study findings further indicated that considering their middle aged bracket, most of the operators could operate the agent banking gadgets with less help from KCB. The study also established that financial education was regularly provided ($M=3.67$ and $SD=1.28$) to agent operators within the study area. This was established to be on average level for 59.8% of the population. The study findings also revealed that promotional activities have been on-going to create awareness to rural population on the need to open and operate bank accounts. The operators also concurred with the statement that they were in a position to assist customers in resolving their complaints. Correlation statistics showed that there existed a significant positive relationship ($r=0.216$ and $p=0.044$) between provision of financial education by KCB and financial inclusion by rural population in Marakwet West Sub County.

The results of the study showed that infrastructure access was also a significant factor in determining financial inclusion of rural population in the study area. Most 86.2% of operators agreed that they were in a position to use the agent banking gadgets very well with minimal assistance. The distance from one outlet to

the other was found to be determined by; population density, network access, security and even level of development. More outlets of KCB Mtaani agents were found to be concentrated in urban areas (64.4%) than rural and remote areas. the distance from one outlet to the other averaged for only 3km. the proximity and nearness of these outlets reduced transport costs that rural populated used to incur when travelling to bank branches before. It was also clear that cases of money loss had significantly reduced since farmers and other business people could deposit or make withdrawal of funds at the nearest outlet. This promoted social-economic development as parents whose children were to be sent home to collect fees at home; their parents used the agents to pay fees. Relationship between infrastructure and financial inclusion was found to be positive ($r=0.642$) which was significant at 0.01 level (2-tailed).

Network access and interruptions was found to be major impediment towards operation of KCB Mtaani agents in the study area. More than half 56.3% of operators reported that they faced network hitches on several occasions. The only time they network was working was during the holidays and Sundays where banks are usually closed. This showed that the agent banking model was not on an independent system but works with the other banking systems since the systems are interconnected. Despite the hindrances brought out by inconsistent network, the study found out that good network connectivity will result to increase financial inclusion levels ($r=0.434$). Therefore, network connectivity is an important factor towards financial inclusion of rural people in Marakwet West Sub County.

Quality of services provided by agent outlets was also discovered to be important in predicting financial inclusion of rural population in the study area. Statistics showed that majority of outlets operated for six days in a week. The days that most operators were not working was on Sundays and during days when network

hitches occurred. Business hours ranged from 8:00am - 6:00pm although some were found to stretch up to 9:00 am.

The study established that operators were always prepared for their customer as they always maintained float ($M=4.11$ and $SD=0.53$), they planned ahead in increasing float, some opened throughout the weekend while others extended their operating hours from the normal. Correlation statistics showed that there existed a positive degree of association ($r=0.195$) between quality of agency banking outlets and financial inclusion for rural development.

5.3 Conclusions

The study has established that financial education, infrastructure provision, network access and quality of agents are significant factors ($p<0.05$) in predicting financial inclusion for rural development in Marakwet West Sub County. The study has learnt that when KCB provide training and awareness about their products and services in KCB Mtaani platforms, more residents will be willing to open and operate accounts. This would spur social-economic development of the area. The study also found out that the bank targets middle-aged businesses persons in rolling out their agency banking products. This is because they can easily understand and grasp issues on agency banking and therefore will be of constant help in helping rural population access funds and pay loans through their outlets. The provision of financial information through advertisements, promotions and even field visits were considered important towards ensuring the unbanked rural population is reached.

The study also found out that various factors are put in place before one is allowed to operate a KCB agent outlet. For instance, population density was a factor and location of an agent. The average distance between one agent to the next ranged

from 100 meters to 22 kilometres. Majority of these agent outlets were found to be in urban areas of the sub county. This is because the bank could not establish outlets where the population is sparse and spread across a large area. The Pearson statistics revealed that there existed a positive degree of association between infrastructure and financial inclusion in the study area.

Network variability was found to be common across the outlets visited. Majority of the respondents complained that the network connectivity has been a problem they have been facing for quite some time. This resulted to delay in transaction and customers losing confidence of the services they provided. However, due to remoteness of some areas within the sub county, the bank admitted that network challenges were common experienced. However, study results showed that network availability was a significant factor in ensuring financial inclusion for socio-economic development of Marakwet West Sub County.

The study found out that agents who operate during normal hours, six days and had float always performed well than those who operated irregularly. Majority of operators reported that they open at least six days a week. Some even said that they extended their operating hours to attend to various customers who seek services to them. Correlation statistics revealed that there existed a positive degree of association between agent quality and financial inclusion in Marakwet West Sub County. This meant that an increase in quality of services given by agents would retain existing clients and attract new ones who are unbanked thereby fulfilling the goals of ensuring the unbanked population have bank accounts before year 2020, which has been declared to the year of achieving this millennium sustainable development goal.

5.4 Recommendations

Generally, the findings of this study has raised a range of issues which should be considered by further studies as a baseline data for future projects on rural development through ensuring the unbanked population are banked. This may not specifically apply to KCB bank but through other commercial banks operating in Kenya. This would result to increase in social-economic development of the rural population. To achieve these, following recommendations are made:

- (i) To improve financial education, the study recommends that KCB should conduct massive campaign drive targeting rural population on the importance of transacting their financial business using agent outlets. This would erase the fear that rural population have towards using agent outlets.
- (ii) To address infrastructural factors, the study suggests that substitute gadgets should be provided to serve customers when main agent banking system gadget fails. This would mean that operators will be provided with a specific phone to use to shift their operations to mobile banking platforms when the other system has failed or is slow.
- (iii) To address network connectivity, the study suggests that there is need for KCB to update is systems to be able to be reliable. The non-reliability of network has cost the bank, outlets and even customers' huge amounts of money and productive time occasioned by delays. Moreover, the service providers along with KCB therefore need to work efficiently when developing systems for the agents to operate with in order for them to be able to provide customerswith reliable financial services.
- (iv) To improve on agent quality, there is need for KCB to raise float limit depending on one's operations. Standardising floating limits has denied some

operators chances of making extra income. Therefore float management should be not be standardised but be specific.

5.5 Contributions to the Body of Knowledge

The study researched on the influence of agency banking towards financial inclusion of rural people. This results to socio-economic development of rural population. Agency banking services as a process of ensuring access to financial services, timely, and adequate credit where needed by rural populations at an affordable cost and aimed at raising their standards of living. Moreover, social objectives of poverty eradication is considered to be the main objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances which in turn leads to sustainable Livelihood. Because weaker section of society got some money in loans that, they can start up their own business or they can support their children education. Financial inclusion is important for improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups.

Table 5.1 presents the summary of the implications of the study as per research objectives.

Table 5.1 Contributions to the Body of Knowledge

Objective	Contribution
Financial education and its influence on financial inclusion	When project stakeholders (operators and customers) are informed well and regularly about agency banking, rural development will be achieved.
infrastructure access and its influence on financial inclusion	Distance between one-agent outlets to another is not influenced by geographical location but rather by population density, public amenities available and communication/transport centres location.
Network connectivity and its effect on financial inclusion	The success of rural development projects will largely depend on how frequent are networks reliable
Agent quality and its influence on financial inclusion	For agents to succeed and expand in their network clientele, offering quality services for all remains key to rural development

5.5 Suggestions for Further Studies

The study suggests further research to be done on:

- (i) The influence of social factors on financial inclusion for rural development in Marakwet West Sub County
- (ii) The influence of economic factors on financial inclusion for rural development in Marakwet West Sub County
- (iii) A similar study can be conducted in other counties within North Rift region of Kenya or other countries.

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APPENDICES

APPENDIX I: RESEARCH INTRODUCTORY LETTER

JOSEPH BOIT
P.O. BOX
ELDORET

RE: REQUEST TO PARTICIPATE IN RESEARCH

My name is Joseph Kimutai Boit a student at The University of Nairobi. I am carrying out a study on the “**Factors Influencing Financial Inclusion in Rural Kenya: A Case Study of Kenya Commercial Bank Agent Out-lets in Marakwet West Sub County**” and you have been identified as one of the people who can be of assistance to me.

The information you will provide was entirely for academic purposes and was treated with utmost confidentiality. Your name is not required on the questionnaire and your identity will not be disclosed in any way.

For us to proceed with this exercise, kindly sign the section below

Thank you,

JOSEPH BOIT

.....

APPENDIX II: QUESTIONNAIRE FOR AGENTS

Instruction

You are requested to fill in this questionnaire by giving your opinion. Please fill in the blanks provided by ticking against the most appropriate response. Do not indicate your name on the questionnaire booklet

Section A: Demographic data

1. Where do you live?

Urban [] Rural []

2. Your gender

Male [] Female []

3. Your age category

18-24 years [] 25-34 years [] 35-44 years []

45-59 years [] 60 < years []

4. What is the highest grade you have attended?

Primary [] Secondary [] Tertiary college [] University []

Section B: Financial Education

5. Indicate whether you agree or disagree with the following statements on the promotion of financial education by KCB; SA-Strongly Agree, A-Agree, UN-Undecided, D-Disagree and SD=Strongly Disagree

Educational awareness	SA	A	UN	D	SD
i. There have been promotion activities as a result of agent banking					
ii. The strategy on agency growth is effectively communicated to the agent outlets					
iii. We do understand the agency banking well					
iv. We can operate the gadgets easily without any help					
v. There have been training activities as a result of agent banking					
vi. We are in a position to educate the locals (customers) on the benefits of agent banking					

6. How frequent is financial education provided to agents operators by KCB bank?

Frequently [] Often [] Sometimes [] Rarely []

Never []

7. We are in a position to provide customer service to our clients rather than referring them to the nearest KCB Branch?

Frequently [] Often [] Sometimes [] Rarely []

Never []

Section C: Agency Banking Infrastructure

8. How do you find the KCB agent banking technology that you operate on?

Simple [] Easy to use (Understandable) [] Difficult to use []

Need for usage training []

9. What is the approximate distance between your agent outlet and the next KCB agent outlet? (Give in terms of metres, kilometres) _____

10. What is your perception on the location of KCB Mtaani agents in Marakwet?

Located in urban centres [] Located in both urban and rural areas []

Agents are concentrated in one area []

KCB Mtaani agents are geographically distributed []

11. Indicate whether you agree or disagree with the following statements on the influence of infrastructure on the financial inclusion of rural people in Marakwet West Sub County; SA-Strongly Agree, A-Agree, UN-Undecided, D-Disagree and SD=Strongly Disagree

Agent banking Infrastructure	SA	A	UN	D	SD
i. Introduction of KCB Mtaani agents has reduced transport costs that rural people used to incur when travelling to bank branches before					
ii. Strategic location of KCB Mtaani agent outlets have influenced the growth of my business					
iii. KCB bank ensures there is no concentration of agents in one particular area					
iv. We are supported by KCB in providing appropriate infrastructure for growth and expansion					
v. Cases of money loss by rural people have					

significantly reduced after the entry of KCB Mtaani					
vi. The appearance and brand of my agent outlet has great influence customer trust and confidence					
vi. The physical evidence of KCB Mtaani agent has increased demand for agency services by people					
vii. The proximity of agent outlets has increased our relationship with KCB customers					

Section D: Agency Banking Network Connectivity

12. From the time you started acting as KCB Mtaani agent, what can you say on the reliability of network?

Poor [] Fair [] Good [] Very good [] Excellent []

13. Most of them time, how long does one transaction service take?

Less than 1 minute [] 1-2 Minutes [] 3 mins and above

14. Is network availability usually consistent?

Always consistent [] Sometimes consistent [] Not consistent []

Vary according to period of the day []

15. At what time does the KCB Mtaani platform work best? _____

16. In case you make mistakes in transaction, how long does it take to be rectified by the bank? _____

17. Indicate whether you agree or disagree with the following statements on the influence of network connectivity on the financial inclusion of rural people in Marakwet West Sub County; SA-Strongly Agree, A-Agree, UN-Undecided, D-Disagree and SD=Strongly Disagree

Network connectivity	SA	A	UN	D	SD
i. The systems applied in KCB Mtaani agents has reduced risks associated with other banking models					
ii. Service availability is not frequently interrupted					
iii. When a customer conducts a transaction, the message is instantly relayed to his/her phone					
iv. There is always an alternative method of agency banking when the main bank systems is down or jammed (e.g. using mobile phone and other gadgets)					

Section E: Quality of Agent Service

18. How many days do you operate in a week? _____

19. What are your business operating hours? _____

20. What is the frequency to which you maintain your float?

Frequently [] Often [] Sometimes [] Rarely []
Never []

21. What is the frequency to which you open during weekends and holidays?

Frequently [] Often [] Sometimes [] Rarely []
Never []

22. What is the frequency to which you plan ahead to increase the float?

Frequently [] Often [] Sometimes [] Rarely []
Never []

23. What is the frequency at which you extend working hours beyond the normal stipulated time?

Frequently [] Often [] Sometimes [] Rarely []
Never []

Section F: Financial Inclusion

24. Indicate the frequency to which the following transactions occurs at your shop in a single day

Transactions	Frequently	Often	Sometimes	Rarely	Never
i. Cash withdrawals					
ii. Payment of bills					
iii. Payment of social benefits (NSSF, NHIF)					
iv. Transfer of funds					
v. Account balance enquiries					
vi. Mini statement enquiries					
vii. Dormant account activation					
viii. Loan repayment					
ix. Loan request					
x. Account opening					

25. What can you say on the financial inclusion level of residents in your area?

Very high [] High [] Average [] Low [] Very low []

26. What are the challenges towards financial inclusion through mobile agent platform in this area?

27. What needs to be done to rectify the above named situation?

The end

Thank you

APPENDIX III: INTERVIEW SCHEDULE

The purpose of conducting this interview is to get your opinion on the way through which financial inclusion has been promoted through KCB Mtaani agents in Marakwet West Sub County.

Questions to be asked

1. What can you say on the distribution network of KCB mtaani agents in Marakwet West Sub County (to give current data on the number of agents licensed)
2. What is the approximate number of people in this area who are unbanked?
3. What is the strategy of KCB towards ensuring the inclusion of unbanked population in financial activities?
4. What are the methods through which your bank uses to promote financial education among agents and population?
5. What types of infrastructure and facilities are required to start agency banking in this area?
6. Does your bank take into consideration geographical distance and location when licensing new agents? (To give the criteria being applied in their area)
7. What is the general network distribution in this area? Is it reliable on all occasions, what is the exact time taken for one transaction to be completed? What is the minimum time possible to correct wrong transaction?
8. How do you address issues concerning agent maintenance quality services towards promoting financial inclusion in their areas of operations? What can you say on the agent banking service delivery by KCB Mtaani agents in this area?
9. Do you make follow up to ensure the agents are always maintaining and topping up their floats regularly
10. What is your opinion on the contribution of agency banking towards promoting financial inclusion for rural people in this area? What has it affected?
11. How can agency banking services by KCB be improved to ensure financial inclusion and development of people in this region?

APPENDIX IV: RESEARCH PERMIT

CONDITIONS

- 1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do that may lead to the cancellation of your permit**
- 2. Government Officers will not be interviewed without prior appointment.**
- 3. No questionnaire will be used unless it has been approved.**
- 4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.**
- 5. You are required to submit at least two(2) hard copies and one(1) soft copy of your final report.**
- 6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice.**

REPUBLIC OF KENYA

NACOSTI

National Commission for Science, Technology and Innovation

RESEARCH CLEARANCE PERMIT

6098

Serial No. A

CONDITIONS: see back page

THIS IS TO CERTIFY THAT:

MR. JOSEPH KIMUTAI BOIT

of UNIVERSITY OF NAIROBI , 856-30100 Eldoret , has been permitted to conduct research in Elgeyo-Marakwet County on the topic: FACTORS INFLUENCING FINANCIAL INCLUSION IN RURAL KENYA: A CASE STUDY OF KENYA COMMERCIAL BANK AGENTS OUTLETS IN MARAKWET WEST SUB COUNTY

for the period ending: 4th December, 2015

Permit No : NACOSTI/P/15/8755/6715

Date Of Issue : 6th August, 2015

Fee Received :Ksh 1000

Applicant's Signature

Director General National Commission for Science, Technology & Innovation



APPENDIX V: TABLE FOR SAMPLE SIZE DETERMINATION

Required size for randomly chosen sample

Table for determining needed size of a random chosen sample from a given finite population n cases such that the sample proportion will be within plus or minus .05 of the population P with a 95 percent level of confidence

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size

"S" is sample size.

Source: Kathuri and Pals (1993)