INFLUENCE OF ACCESS TO AGENT BANKING SERVICES ON RURAL COMMUNITIES IN KENYA: A CASE OF OLOLUNG'A DIVISION, NAROK COUNTY

BY

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DECLARATION

This project report is my original work and has not been presented for a degree or any other University

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DEDICATION

This project report is dedicated to my family and more specifically to my wife Sharon, my children Shirleen and Shantell for the support they gave me throughout the period of undertaking the course.

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LIST OF ABBREVIATIONS AND ACRONYMS

KCB - Kenya Commercial Bank

MNO - Multi National Organization

SBI - State Bank of India

EKO - Engineering Knowledge Online

CBK - Central Bank of Kenya

POS - Point Of Sale

KYC - Know Your Customer

ATM - Auto-Mated Machine

MIS - Management Information System

PIN - Personal Information Number

SPSS - Statistical Package for the Social Services**.**

ABSTRACT

The agent banking model is one in which banks provide financial services through nonbank agents, such as grocery stores, retail outlets, post offices, pharmacies, or lottery outlets. Agent banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas. The agency banking in Kenya guidelines were enacted in 2010. Banks must first apply to central bank of Kenya to get approval to conduct agency banking business. The general Objective of the study was to establish the influence of agent banking services on rural communities in Kenya with reference to Ololung'a Division, Narok County. This study was guided by the following specific objectives, To investigate the impact of agent banking services on rural communities. To examine how agent banking influences liquidity on rural communities. To determine the accessibility of agent banking providers on rural communities. The researcher employed descriptive design. Descriptive design sought to uncover the nature of factors involved in a given situation, the degree in which it existed and the relationship between them. The study population constituted Agents from Cooperative Bank 102, Equity Bank 133, Kenya Commercial bank 152 and Post Bank 113. The target population of the study was 850 respondents, the study adopted fisher's model of sample selection and acquired a sample size of 384 respondents. The study used simple random sampling technique to draw a sample from the study population. Data collection was from two main sources; primary and secondary. Secondary sources included relevant documents and reports. The semi –structured questionnaire and structured questionnaire were the main instrument of the study administered to the respondents. It involved both qualitative and quantitative approaches. Open and closed ended questionnaires were administered, this was because Close ended questionnaires were easier to analyze since they were in an immediate usable form and again each item was followed by alternative answers. Interview Guides were used to generate information from the respondents. The researcher conducted a face to face interview with key respondents to the study. The study's major conclusion was that customers must be supported in making there first transactions before they are able to transact independently. The study concluded that there was need to adopt an integrated payment system that was user friendly as a critical component of financial inclusion. The studies main recommendation was that, there was need to adopt an integrated payment system that was user friendly as a critical component of financial inclusion. The study further recommended that there was need to facilitate more Agent banking in rural areas in order to improve the economy and equally increase financial inclusion. The suggestions for future researchers should investigate the effect of Agent banking retail points as avenues that can offer saving services.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Banking agents are the backbone of money banking since they perform transactions over a bank device, to enable clients to convert cash into electronic money and vice versa. Money can be sent over their banking agent, clients will have to visit a branch, or banking agent. A banking agent is a retail or postal outlet contracted by a financial institution or a bank 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. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more. (Atieno, 2001)

Globally, these retailers and post offices are increasingly utilized as important distribution channels for financial institutions. The points of service range 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 in Brazil at which clients can receive their social payments and access their bank accounts (Berger & Humprey, 1998) The agent banking model is one in which banks provide financial services through nonbank agents, such as grocery stores, retail outlets, post offices, pharmacies, or lottery outlets. This model allows banks to expand services into areas where they do not have sufficient incentive or capacity to establish a formal branch, which is particularly true in rural and poor areas where as a result a high percentage of people are unbanked. Agent banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas.

In recent years, agent banking has been adopted and implemented with varying degrees of success by a number of developing countries, particularly in Latin America. Brazil is often recognized as a global pioneer in this area since it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country's municipalities. Other countries in Latin America have followed suit, including Mexico (2009), Peru (2005), Colombia (2006), Ecuador (2008), Venezuela (2009), Argentina (2010), and Bolivia (2006). Banco do Brazil/Telecom Service (Brazil). Banco do Brasil is the largest public bank in Brazil. It has 15,300 agents. Data on Banco do Brasil agents come primarily from one of Banco do Brazil's Telecom Service. The Telecom Service, in operation since 2004, manages a network of over 1,000 agents, typically small family-owned stores. The agents primarily offer bill payments to customers on a walk-in basis. The agents also perform a limited number of transactions linked to bank accounts as well as some government-to-person payments, such as social welfare payments to poor families and pensions to retired government workers. Bradesco/Banco Postal (Brazil). Bradesco is Brazil's second largest private bank and has 24,200 agents. In 2001, Bradesco submitted the winning bid to offer banking services inside post offices throughout the country. Today, there are 6,038 Banco Postal outlets located within post offices. These outlets perform a much wider variety of services than most agents in Brazil, including high levels of account opening, deposits, withdrawals, and loans. Banking transactions account for more than 90 percent of all transactions in rural post offices.

EKO (India). EKO is a start-up that began as a third-party platform provider in 2008 linking the State Bank of India (SBI) provider of the Mini Savings Account and Airtel (largest MNO in India and provider of the distribution channel/agents). The relationship with Airtel has since changed, and EKO has now completely revamped its strategy. It is driving the entire business itself, including building and managing the agent network, providing technology, and marketing to clients. It offers clients an interest-bearing bank account (at SBI) and a money transfer product, both accessible via the customer's mobile phone. EKO has 500 agents (primarily small merchant shops) located in the capital city Delhi and the State of Bihar. As a start-up, EKO does not have money to invest in above-the-line advertising and relies heavily on agents to sell the service. Other countries around the world have also utilized the agent banking model to expand financial services, including Pakistan, Philippines, Kenya, South Africa, Uganda, and India.

The regulation, design, and implementation of agent banking vary across countries. These differences are evident in the variety of services offered by agents, the types of businesses acting as agents, the types of financial institutions that work through agents and the business structures employed to manage them. These differences ultimately contribute to the disparities in the extent to which agent banking is actually bridging the financial inclusion gap, savings, credit allocation, risk management, as well as payment services. Financial inclusion refers to both the adequate provision of services by the financial institutions as well as the appropriate uptake or use of these services by all segments of the population. Although it is just one aspect of financial inclusion, an integrated payment system is a critical component of financial inclusion.

The year 2000 is often considered the first year agent banking was implemented in Brazil even though the agent banking model existed before this. Since September 2011, there have been some advances made in the various countries. Mexico in 2010, 12 financial institutions established more Mexico projected 9,000 banking agents it was anticipated that in 2011 approximately 26,000 additional agents would be established in Mexico, the Peru 2008 (2005) 602,810 equivalent of 4.47 agents per every 10,000 adults. This is the equivalent of just over Colombia 2007 (2006) 98,438 one banking agent per every 10,000 adults in the country. Although this placed Mexico well behind its neighbors, Brazil, Mexico 2010 (2009) 9,303 Colombia, and Peru at the time. Mexico did not reach the predicted number of agents in its first year (2010), it is anticipated that it will exceed the predicted number of agents in 2011. (Central Bank of Brazil, SBS, 2010).

Agency Banking is not new in the world. It has been used very well in Latin America and Asia, (Dondo, 2003). There are few African countries that have taken up agency banking. Kenya, another country that implemented agent banking in 2010, already has almost 9,000 bank agents. With a smaller adult population than Mexico, this amounts to nearly four agents per every 10,000 adults in Kenya. Kenya's quick start is largely attributed to the already developed network of agents used in Kenya's highly successful mobile banking model, M-Pesa, which was leveraged in the initial implementation of the agent banking model.

The agency banking in Kenya guidelines were enacted in 2010. Banks must first apply to central bank of Kenya to get approval to conduct agency banking business. The board of directors of each banking institution interested in agency banking must make policies guidelines and procedures to be followed to ensure that: One of the primary impediments to providing financial services to the poor through branches and other bank-based delivery channels is the high costs inherent in these traditional banking methods. The amount of money expended by financial agent banks to serve a poor customer with a small balance and conducting small transactions is simply too great to make such accounts viable (Adera, 1995). In addition, when financial agent banks do not have branches that are close to the customer, the customer is less likely to use and transact with their service. However, the emergence of new delivery models as a way to drastically change the economics of banking the poor. By using retail points as agent banking other providers can offer saving services in a commercially viable way by reducing fixed costs and encouraging entrepreneurs to use the service more often, thereby providing access to additional revenue sources.

Banking agents have thrived and are currently estimated to have 33% penetration. The number of banks opening new branches has decreased and was attributed to affordable agent banking and lowers service charges (Mokogi, 2003). For the last one decade, the banking environment in Kenya has been very dynamic. There has been a shift from stable, non-volatile and predictable business environment to one which is quite volatile, unpredictable and competitive. Up to the very late 1990's, many banks in Kenya enjoyed unchallenged monopolies and government protection (Kaskende, 2008) Globalization has spearheaded the integration of the Kenyan economy with other world class economies such as Singapore, which is now part of the global village.

The power of information and technology de-regulation, globalization of markets and stiff competition has made entrepreneurs better educated, more inquisitive, sophisticated and deciding. The banking environment has changed tremendously thereby posing serious implications and challenges to the survival and profitability of banks (CGAP, 2003). So far, Equity Bank (Equity Mashinani), Post bank (Benki Yangu), Co-op Bank (Co-op kwa jirani) and Kenya Commercial Bank (KCB Mtaani) have launched forays into the segment, with some already claiming that identifying agencies that are able to provide cash to entrepreneurs is becoming an industry challenge. Recent data from the Central Bank of Kenya (CBK) reveals that the regulator has licensed over 10,000 establishments to act as agent banks, with Equity claiming to have outsourced some of its operations to 5,000 active outlets. CBK data shows 8,809 agency outlets were opened in 2010, most of which are being operated by Equity and Co-operative banks. KCB hopes to open about 2,500 agency branches this year, while Post bank hopes to open 500.

On this note therefore, the use of agent banking in a banking industry in Kenya that has not entirely been established. The banking industry has been characterized by stiff competition between the banks with each competing for market leadership. It is advantageous for any bank when it is a market leader because it has significant financial and perpetual benefits which then leads to consistency and focus on quality. It also enhances the use of the full range of banking tools to solidify performance and leads to ownership of core benefit with a balance of rational and economical massages (Aryeetev E & C Udry 1998).

1.2 Statement of the problem

Agent banking is rapidly evolving and its regulation plays a central role in enabling (or sometimes limiting) its spread One of the main obstacles to financial inclusion is cost: both the cost to banks involved in servicing low-value accounts and extending physical infrastructure to remote rural areas, and the cost (in money and time) incurred by customers in remote areas to reach bank branches. Regulators are required to strike a balance between promoting financial inclusion through profitable, lower cost delivery models, and protecting consumers and the integrity of the financial system. A major obstacle to financial inclusion is cost not only the cost incurred by banks in servicing low- value accounts and extending banking infrastructure to underserved, low-income areas, but also the cost incurred by poor customers (in terms of time and expense) in reaching bank branches. Achieving financial inclusion therefore requires innovative business models that dramatically reduce costs for everyone and thus pave the way to profitable extension of financial services to the world's poor. Though the bank continues to invest in rolling out brick and mortar branches that are complimented by various delivery channels, the challenge of access to formal financial services remains a big impediment to financial inclusion. Kenyans (especially in remote areas) are forced to travel long distances and spend huge amounts on transport in order to access a branch. Currently, over 30,000 outlets around the country are enrolled as bank money transfer agents, leaving banks with a smaller pool of businesses from which they can pick the cash-rich operations they need to roll out agency banking model. Some banks, like Co-operative, have instead opted to partner with cash-rich Sacco's in order to get around this issue. It is against this background that the researcher seeks to conduct this study to analyze the influence of agent banking services on rural communities in Kenya, Ololung'a division, Narok County.

1.3 Purpose of the Study

The purpose of the study was to establish the influence of access to agent banking services on rural communities in Kenya.

1.4 Objectives of the Study

This study was guided by the following specific objectives;

1. To investigate the impact of agent banking services on rural communities in Ololung'a Division, Narok County.

2. To examine how agent banking influences liquidity on rural communities in Ololung'a Division, Narok County.

3. To determine the accessibility of agent banking providers on rural communities in Ololung'a Division, Narok County.

1.5 Research Questions

The study is guided by the following research questions:-

1. What is the impact of agent banking services on rural communities?

2. How has agent banking influenced the liquidity of rural communities?

3. What is the accessibility of agent banking providers on rural communities?

1.6 Significance of the study

There is great hope that the study would be a source of a great experience and a contribution. It will be of significant to all the stakeholders within the banking industry by contributing towards the existing data on the influence of agent banking services on rural communities in Kenya. It was also felt that the study would added a wealth of knowledge already created in the field of agency banking as well as being a basis for other advanced studies to be conducted in future.

1.7 Basic assumption of the study.

Agent banking is necessary especially in remote and rural locations, where cash is still the most important way to pay and transact. A banking service is dependent on banking agents to enable clients to effectively use the service. Secondly, the data collected from the field was true and not altered. It was assumed that the respondents provided sincere and honest responses to the questions that were asked. It is upon these assumptions that the study sought to determine the influence of agent banking services on rural communities in Kenya.

1.8 Limitation of the study

Anticipated difficulties (both theoretical and practical) and beyond control of the researcher that will hinder the active participation of carrying out the investigation and reduce the scope, the sample and the extent of the replication of the findings is what is referred to as Limitations. It is important to put to view every banking agent since all of them are situated in the rural setting as per the study, however it is laborious and tedious to create a list of every banking Agent within Narok County since some of them are located within inaccessible areas. Thus stratification would guarantee representation of those who were to interact in the study.

1.9 Delimitation of the study

The purposeful and conscious actions and process of reducing the population and area to be surveyed to manageable size is referred to as Delimitation is located. Ololung'a division is located in Narok County with a population of 100 banking agents of which 10% was employed in the study this percentage was considered by (Gay, 1996) to be representative enough in situations where descriptive research design was employed. The research instruments to be used were questionnaires and interview guides.

1.10 Definition of the significant terms

Agent Banking: A banking agent is a retail or postal outlet contracted by financial institution or a bank network operator to process clients' transactions.

Digital financial services: Refers to the provision of some mix of financial and payment services that are delivered and managed using mobile or Web technologies and a network of agents.

Financial literacy: it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources.

Income status: Economic wealth that is generated in exchange for an individual's performance of agreed upon activities or through investing capital.

Rural communities: Area geographically secluded communities, which have low population density, live in land that is typically devoted to agriculture and consist of small towns.

1.11 Organization of the study

The research proposal was organized in five chapters. Chapter one included the background of the study, the statement of the problem, purpose of the study , objectives of the Study**,** the research questions, significance of the study, basic assumption of the study, limitation and delimitation of the study, definition of significant terms.

Chapter two contained review of the literature as related to the study. This was arranged in various sub-topics that included introduction and the research objectives, Theoretical framework, Conceptual Framework and finally conclusion.

Chapter three included research methodology and the following subtopics; introduction, research design, population of the study, samples selection methods and size, data collection methods, validity and reliability, procedures of data collection and data analysis techniques.

Chapter four deciphers and presents the analysis of the data collected from the respondents.

Chapter five of this study presents the discussion of the results derived from the data presented in Chapter four, the discussion leads into varying conclusions and a number of recommendations are subsequently derived.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter the researcher discusses related literature on the influence of agent banking services on rural communities in Kenya. The literature review was done in accordance with objectives and research questions of the study that guided the researcher in understanding the research problems.

2.2 Agent banking services on rural communities

Despite the trend toward greater urbanization, more than 50 percent of the developing world's population (3.1 billion people) lives in rural areas. Technology has the potential to be a great enabler for these populations. Significantly, digital payments technology facilitates rural access to information, and increasingly to the capacity to save, borrow and transact (Edwards, 2007). Of bank-led initiatives, there are 236 agent banking deployments in Brazil, Peru, Colombia and Mexico alone, with a total of more than 43,000 combined agents. As the market is further defined and developed, payment actors such as Visa, MasterCard and Western Union are positioning in this space as well (Greunig & Bratanovich, 2009).

For the purposes of this research, the term "digital financial services" refers to the provision of some mix of financial and payment services that are delivered and managed using mobile or Web technologies and a network of agents. At a minimum, the agents allow clients to cash-in or cash-out physical cash for an electronic currency, which is linked to a client's mobile phone number, bank account or voucher number. Clients can then use a network of agents or their phone or computer to make purchases, take out a loan, buy insurance and pay bills (Dondo, 2003).

Digital financial services are a win–win for consumers and providers. Consumers are able to migrate their money to a more secure environment, transact and manage their account in a more convenient and immediate manner including after hours and in closer physical proximity, and in a way that frequently saves them money through more cost-effective remittances services, reduced travel costs and lost cash. Providers are able to access new markets and introduce new services in a way that is cost-effective for small and frequent transactions, improves their operations and core product for example decongesting bank branches and providing additional services to clients and new revenue sources such as transaction fees and opportunities for cross-selling. Governments, which want to safely provide the most vulnerable rural populations with conditional cash transfers, may also utilize these electronic payment services.

The rural customer segment has distinct characteristics compared with its urban counterpart. In most countries, agriculture and related activities represent a significant percentage of rural incomes, which typically result in seasonal flows and ebbs of income. Rural actors by definition fall outside urban areas and face greater constraints in terms of distance, travel times and infrastructure development. Most are more tradition bound than urban counterparts and focus on intra-community relationships, so trust plays a huge role in engaging with them. Rural areas are also known to have lower literacy levels, lower mobile handset penetration rates and poorer network coverage. Finally, rural consumers are typically slower to adopt new brands and products but are also slower to give them up (Mylenko, 2008).

To date, specific use cases have prevailed in this market. Domestic remittances (peer-to-peer transfers), flowing from urban to rural markets, are what drove agent banking success. However, this has not had the same level of success in other markets. Where they exist, government-to-person or social payments frequently flow into rural areas and represent a commercial opportunity for institutions tasked with delivering them. A positive spillover from this is the subsequent development of systems and infrastructure to support the delivery of these government payments to underserved areas. There has also been an increase in institutions looking to rural areas for market growth and to build out information communication technology enabled networks including payment systems to cost effectively reach these new populations.

The rural poor are fundamentally different from the poor in other areas. Though they seek access to affordable financial services, providers need new strategies to engage effectively with this market (Atieno, 2001). Farmers have irregular income flows that typically follow harvests and financing needs that occur in fairly predictable cycles. Banks has found that quick and easy loan access with flexible repayment terms is successful among farmers, as are tailored savings accounts and crop insurance. Because their incomes are made in lump sum, they need ways to defer payments for labor or farming inputs and to pay for their children's education without putting cash at risk (Adera, 2005).

However, financial services should be seen as one of a number of needs, which are most effectively provided in collaboration. Productivity support and access to inputs make capital more effective. In a digital ecosystem, this might mean that technical information for farmers is distributed through agent banking agents, phones, or a strategic partner might be a network of on-the-ground extension workers to provide training.

Financial products should integrate strategies to overcome barriers related to illiteracy. There are typically higher levels of illiteracy in rural areas and financial literacy may be low, both of which can inhibit effective adoption of services. Digital literacy particularly understanding the concept of banking through a phone can be difficult to grasp. Agent banking experience shows that a customer must be supported in making at least two transactions before they are able to transact independently.

The guiding rule for rural customer engagement is that trust is key. It is vital that high-quality, trusted agents from the community are selected and that trust is built around a brand. Many unbanked clients are comfortable using the phone for communications purposes, but not for banking transactions. It is important not to underestimate the importance of the human element, especially in the digital world, which may need to compete with traditional slower and more insecure methods of moving cash (Aryeetey & Udry,2007).

2.3 Agent banking and Liquidity on rural communities

Agent banking should provide the previously unbanked and under-banked with affordable, accessible and appropriate financial products. These criteria are particularly important in order to increase financial inclusion (Mylenko,2008). Products being offered by banks, via agents, should be cheap enough for poorer people to afford them (i.e. prohibitive charges should be avoided); they should be fairly easy for people in remote areas to access (i.e. not just available in bank branches but through a variety of branchless banking mechanisms) and they should be appropriate to lower-income groups (e.g. not targeted at people with a particular salary level and offering a mixture of financial services, including savings accounts).

In all the study countries, agents have been shown to offer cheaper (particularly in Peru, less so in Kenya), more accessible (particularly in Brazil, less so in Peru), and appropriate financial products (particularly in Kenya, less so in India). Agents can be a key tool for enabling large numbers of people to open bank accounts, particularly where they have been used to receive electronic payments. Agent networks can also be instrumental in feeding back important information about their customers to the banks (Jappelli & Pagano, 2001).

In Colombia, from August 2010 to July 2011, collections (of utility bill payments) have made up the majority of transactions (around 1.8 million in July 2011), followed by mandatory payments, such as loan repayments and official government payments, such as tax (over 800,000 in July 2011). There have usually been more withdrawals made than deposits, but the numbers of these two transaction types are consistently close. The numbers of credit applications, money transfers and opening of savings accounts are negligible. In terms of the value of transactions, deposits and withdrawals constitute the two highest transaction types (both were around US$180,000 in July 2011), followed by mandatory payments and collections. Money transfers had the lowest value (consistently averaging around US$20,000 per month) (Mokogi, 2003).

In Brazil in 2008, agents transacted 75% of the volume (agents made 1.6 billion transactions) and 70% of the value (agents transacted a total of US$105 billion) of total bill payments (Banco Central, quoted in CGAP, 2010); In Brazil, rural agents transact more deposits and withdrawals as a percentage of total transactions

(38%) than their urban counterparts (8%) (CGAP-FGV-Planet, quoted in CGAP, 2010); a combination of factors has contributed to the success of the agent banking model in Brazil. Agents have provided the banks with a useful channel for distributing these payments to remote areas. In general, banks have been keen to use agents as a means of cost cutting (agents have become the cheapest way to reduce congestion in branches and avoid the fines that are imposed when customers are left waiting in line for more than a certain amount of time) and to increase their client base through geographic expansion (CGAP, 2010c).

In general, agents provide cheaper and more convenient financial services for clients: they are therefore popular on the population, increasing demand for their services. The agent model has not only brought convenience and safety for low-income families that receive government benefits through it - and for others accessing basic bank services such as bill payments - but it has also brought greater economic development to isolated communities. Instead of shopping in the cities where they would have previously travelled to receive their benefits, benefit recipients now withdraw cash, pay bills, and shop locally (CGAP, 2010).

In Brazil, although permitted to offer several types of services, less than 30% of agents actually handle bank accounts. Most specialize in receiving bill payments, which account for approximately 75% of all agent transactions (47% of which are utility bill payments). Withdrawals and deposits account for 12.6% and are nearly equally divided into savings and current accounts (including simplified accounts). Only 0.16% of transactions are account opening and 7.3% are government transfers (CGAP, 2010c); In Peru, agents carry out approximately 3.8 million transactions per month (45 million transactions in the year);

In Peru in 2010, less than 50% of the total financial system transactions were conducted through traditional bank branches: ATMs and POS terminals accounted for 36% of total transactions (SBS & CGAP, 2010); In India, an average of 8.4 deposits and 3.1 withdrawals were carried out by individual FINO (a technology firm and one of the first pioneers of agent banking in India) agents each day in 2010: with 10,000 agents nationwide we can assume that approximately 84,000 deposits and 31,000 withdrawals are carried out each day. 10 The average deposit size was Rs. 175 (US$3.50) and the average withdrawal size was Rs. 368 (US$7.39) per agent so we can assume that approximately Rs 15 million (US$301,000) worth of deposits and Rs. 11 million (US$221,000) of withdrawals are being processed each day (CGAP, 2010f). In Kenya, MNOs' combined total transactions through mobile payments amounted to Ksh 2.45 billion (US$24 million) per day or Ksh 76 billion (US$75 million) per month (Central Bank of Kenya, 2011).

Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch (Kitaka, 2001). In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost can play a vital role in offering many low income people their first time access to a range of financial services. Also, low income clients often feel more comfortable banking at their local store than walking into a marble branch (Adiera, 2005). Local regulation will determine if financial institutions are allowed to work through retail outlets. Regulators generally determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle cash transport(Christopher, 2002).

Banking agents help financial institutions to divert existing entrepreneurs from crowded branches providing a “complementary”, often more convenient channel. Other financial institutions, especially in developing markets, use agents to reach an “additional” client segment or geography.

2.4 Accessibility of Agent banking providers on rural communities

Agent banking has positively impacted on accessibility of the local population through financial education in school and training curriculum. With this the locals are empowered to take informed financial decisions and accessibility of their households and in their businesses (Parrenas, 2005). Bank agents take financial services to the people in their local shopping centers and inform them on voluntary savings, loans and money transfers e.g. school fees. They can also pay their monthly remittances e.g. National Social Security Funds (NHIF). Duvvuri Subbarao, Governor of Reserve Bank of India’s Central Bank, says financial exclusion is due to lack of understanding and knowledge among other barriers e.g lack of access, lack of infrastructure, lack of technology, lack of support and confidence .It is therefore through the dissemination of knowledge that people can have financial literacy and accessibility of their services.

The government of India therefore launched a National Mission on Financial Inclusion with a target to provide access to comprehensive financial services to at least 50%(55.77 million) excluded households by 2012 through regional semi-urban branches of commercial banks. By 2009, approximately 4 million people had enrolled in standard bank accounts. Financial literacy therefore shifts the power dynamics and it is a major foundation for major shift in the public deal with money, with the government and its social security and other benefits schemes with the financial service providers (Pandey, 2004).

In India, local women run the rural banks, 5-10 trustworthy women in the villages are selected by banks and they are trained on Mathematics, English and phone operation in money transfers. They are trained for five days, three of which are for how to enroll clients to the banks and two on how to make transactions. These women are chosen for empowerment and shift in power dynamics because they receive a lot of respect from their fellow citizens.

Local people has also benefited on the information on how to access and use the credit facilities. Credit is an input in to the production system and it contributes to increased food productivity. Results from Tegemeo Agricultural Monitoring Project Analysis (TAMPA-Egerton University, Kenya) data 2004 shows that households which received credit of maize production had a higher productivity averaging 7.65 per acre as compared to 6.50 per acre among households that didn't receive credit .According to the study, households that received credit had a higher literacy levels and hence higher income (Dondo,2003).

Due to aggressive campaigns of Kenya's Equity Bank's principle of taking banking services closer to the people,68% of its customers comes from the rural(CGAP,2004) The bank has captured a market niche in the banking sector in Kenya of the low income earners by addressing the perceived exorbitant prices and attendant charges of loans and saving product .Agent banking has also made known to the rural customers that it's through their mobilized services that they are saving on costs e.g. transport (Kasekende,2008).

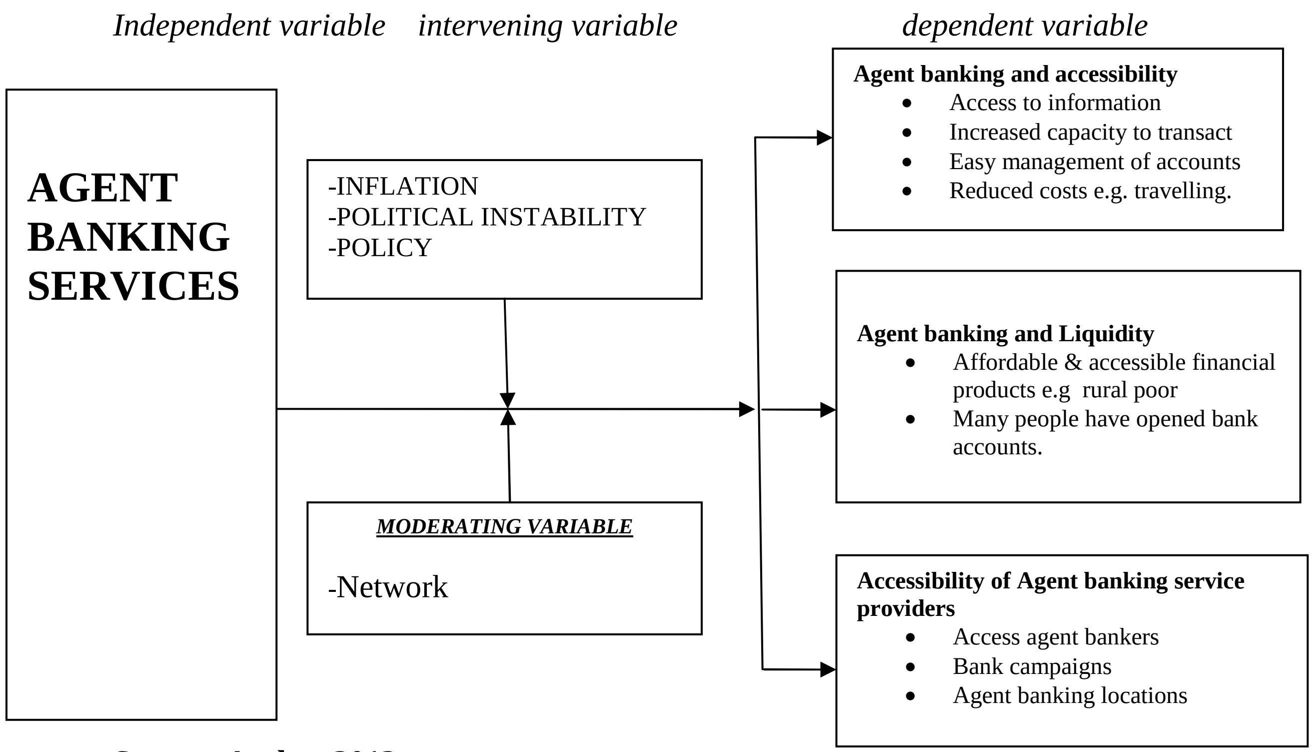
2.5 Theoretical framework

This study was based on principal-agent theory which states the principles agent problem arises when one party (agent) agrees to work in favor of another party (principle) in return of some incentives. Such an agreement may incur huge costs for the agent, thereby leading to moral hazard and conflict of interest. The position is consistent with the belief that there has been no agency shirking or slippage. According to this line of thought, it would be argued that the Bank was delegated the sole authority to conduct monetary policy, in so doing, the Bank has been faithful to the clearly expressed preferences of the principal at the moment of delegation. On the basis of this reasoning, therefore, principal-agent theory can be interpreted to suggest that the Bank does not suffer from a democratic deficit. The logic behind this argument can be justified. In most principal-agent studies agency autonomy and shirking go together. After all, the usual assumption is that the more autonomy an agency enjoys, the more opportunity it has to act self-interestedly and diverge from the preferences of the principal.

2.6 Conceptual Framework

A conceptual framework is a model presentation where a researcher represents the relationships between variables in the study and shows the relationship graphically or diagrammatically (Dondo 2003). This gave an overview of the relationship between the variables that were tested and their relevance between Agent banking services and accessibility and liquidity. In the conceptual framework below, Agent banking services is the independent variable and dependant variable are accessibility to rural communities.

Figure 2. 1: Conceptual Framework



Source: Author 2013

The conceptual framework indicates that Agent banking represents a significant opportunity to reduce transaction costs such as travel for clients by bringing financial services to hard-to-reach and geographically dispersed areas, this is quite beneficial for client who are based in the rural setting. Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost can play a vital role in offering many low income people their first time access to a range of financial services. Also, low income clients often feel more comfortable banking at their local store than walking into a marble branch. Agent banking experience shows that a customer must be supported in making at least two transactions before they are able to transact independently. The guiding rule for rural customer engagement is that trust is key. It is vital that high-quality, trusted agents from the community are selected and that trust is built around a brand. Many unbanked clients are comfortable using the phone for communications purposes, but not for banking transactions.

2.7 Summary of Literature Review

An agent bank is a bank which acts as an agent on behalf of an individual or organization. Agent banks can work for people, businesses, and other banks, providing a variety of services depending on the nature of the agreement they make with their clients. Using an agent bank can be advantageous for a number of reasons, ranging from the desire to work with a bank which has international coverage for seamless financial transactions to the desire to delegate administrative tasks. In some countries, banks have successfully expanded their outreach by engaging local "agents" or "correspondents" to offer their services. These local agents or correspondents may be known and trusted retail outlets such as shops or post offices. Agents help reach more people in areas where bank branches do not exist or by easing traffic at existing branches. While initially focused on traditional payments products such as the payment of bills or taxes, agents in a number of countries are now authorized to offer a broader range of financial services, such as withdrawals, deposits, pre-approved credit lines, simplified current accounts, and international remittances (Kitaka, P. 2001). Banking agents are the backbone of banking, performing transactions over a bank device, most often a banking agent. To enable clients to convert cash into electronic money and vice versa which send can be sent over their banking agent, clients will have to visit a branch, banking agent. Especially in remote and rural locations, where cash is still the most important way to pay and transact, a bank banking service is dependent on banking agents to enable clients to effectively use the service.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights on the research design that was used, area of the study, population of the study, sample selection methods and size, data collection methods, validity and reliability, procedures of data collection and data analysis methods.

3.2 Research Design

The study used descriptive survey. Descriptive survey sought to uncover the nature of factors involved in a given situation, the degree in which it exists and the relationship between them (Bell, 2003). Descriptive study was undertaken in order to ascertain, and it is able to describe the characteristics of the variables of interest in a situation (Uma, 2003). Descriptive survey was employed because it allowed the researcher to adopt a holistic approach of the study sampled, thus enabling and utilizing research tools like questionnaires and Interview guides. The researcher equally obtained information from a sample rather than the entire population at one point in a given time.

3.3 Target Population

The population of interest in the study was the banks offering agent banking services, entrepreneurs using Agent banking service and their employees in the target area. Target population was 850 comprising of the four major banks i.e. Cooperative Bank (152), Equity Bank (233), Kenya Commercial bank (252) and Post Bank (213). The respondents were distributed in equal proportion.

Table 3. 1 Target population

Bank	Population	Percentage
Co-operative Bank	152	18%
Equity Bank	233	27%
KCB	252	30%
Post Bank	213	25%
Total	**850**	**100%**

Source: Field Survey Data 2014

3.4. Sample size

The study population constituted Agent Banking entrepreneurs from Equity Bank, Post Bank, KCB Bank and Co-operative Bank and their employees. In the selected location the population was 850 Respondents. The sample of respondents will be determined using the formula adopted from Mugenda and Mugenda (1999) and Rukangu (2000) as cited in Njoroge, (2002). The researcher used the prevalence rate of 50% to calculate the sample size as follows:

$$n. = \frac{Z^2.p.(1 - p)}{d.^2} \quad \text{or} \quad \frac{Z^2.p.q}{d.^2}$$

Where by n = the desired sample size, z = the standard normal deviation at the desired confidence level, p = the proportion in the target population estimated to have characteristics being measured, q = 1-p, d = the level of statistical significance set.

Agents of the sampled entrepreneurs and employees automatically participated in the study; hence they were selected purposively. This made it necessary to consider Z score probability $(1.96)^2$ at a significant level of 0.05. This can be represented below as:

(z =1.96, d =0.05, p = this could be determined or use the 50% = 0.5, q.=1-p =

1- 0.5 = 0.52)

$$n. = \frac{1.96^2\ (0.48 \times 0.52)}{0.05^2} = \frac{3.8416 \times 0.2494}{0.0025} = \frac{0.95886336}{0.0025} = 383.545344 = 384$$

The sample size will be **384** respondents.

3.4.1 Sample selection

The study used simple random sampling and purposive sampling. The researcher employed these sampling techniques because they enabled an in-depth knowledge of the study using a small population sample from each of the selected respondents. Simple random sampling enables the researcher to give the respondents an equal chance of being selected therefore minimizing gender bias in the research, this technique was applied when selecting respondents who engaged in the focused group discussion. Whereas Purposive sampling as a technique allows a researcher to use cases that have the required information with respect to the objectives of the study. The study adopted from the four banks, one hundred and four (104) Agent Banking Entrepreneurs and two hundred and eighty (280) Banking Agents employees.

3.5 Research Instruments

Data collection was from two main sources; primary and secondary. Secondary sources included relevant documents and reports. The researcher employed the technique to pick information that was available from these reports. In using Primary sources data was collected from selected respondents. Primary data was gathered using Interview guides and Questionnaires. It involved both qualitative and quantitative approaches. The use of the two approaches at the same time in basic research was recommended by (Gay, 2006) as the best way to get sufficient results.

The semi –structured questionnaire and structured questionnaire were the main instruments of the study to be administered to the respondents. It involved both qualitative and quantitative approaches. Both approaches were adopted to enable the researcher get relevant information concerning the research topic. The researcher preferred to use this method because of its ability to solicit information from respondents within a short time as supported by (Gupta, 2009). Moreover, respondents were given time to consult records so that sensitive questions could be truthfully answered as supported by (Floyd, 2003).

Open and closed ended questionnaires were administered, this was because Close ended questionnaires were easier to analyze since they were in an immediate usable form and again each item may be followed by alternative answers. Open ended questions permitted a great depth of response, when a respondent was allowed to give a personal response, usually reasons for the response given were directly or indirectly included.

Interview Guides were used to generate information from the respondents. The researcher conducted a face to face interview with key respondents to the study. This allowed respondents to share their, experiences and opinions, thus enabling the researcher to capture a wider perspective of the study from the respondents view (Uma, 2003).

3.5.1 Pilot testing of the study

A pilot study is usually carried out on members of the relevant population, but not on those who formed part of the final sample. This is because it may influence the later behavior of research subjects if they have already been involved in the research (Haralambos and Holborn 2000). The researcher employed convenient sampling technique at Mulot, south of Narok county and its environs, a total of 20 respondents were employed to test the data collection tools that were adopted namely Interview guides and Questionnaires. This sampling technique was preferred by the researcher because it was fast, inexpensive, easy and the subjects were readily available.

3.5.2 Validity of the instruments

In order for the study to control quality, the researcher endeavored to attain validity co-efficient of at least 0.70 or 70%. Validity refers to process of ascertaining the degree to which the test measures what it purports to be measuring. Validity was determined by giving to two experts to evaluate the relevance of each item in the instrument to the objectives and rate each item on the scale of very relevant (4) quite relevant (3) somewhat relevant (2) and not relevant (1). Validity was determined using content validity index (C.V.I) CVI= items rated 3 or 4 by both judges divided by the total number of items in the questionnaire. This is symbolized as n¾ ⁄ N.

This technique was selected because it was easy to establish the validity of the research instruments thus revising and adjusting them based on the responses obtained and recommendation from the experts. The instruments were piloted at Mulot area which was not included in the study sample and modified to improve their validity coefficients to at least 0.70. Items with validity coefficients of at least 0.70 are accepted as valid and reliable in research (Kathuri and Pals 2003).

3.5.3 Reliability of the instruments

Mugenda and Mugenda (1999) defined reliability as a measure of the degree to which research instruments yield same result on repeated trials. To ensure quality assurance of data collected, research assistants were trained for two days prior to data collection. To test consistency in producing a reliable result (reliability), a testretest method was used. A sample of one percent of the sample size was drawn from the study area (these subjects did not participate in the main research) as part of a pre-test (Orodho, 2004). In order for the study to control quality, the researcher endeavored to attain reliability co-efficient of at least 0.70 or 70%. Reliability refers to the consistency of a measure. The instruments were piloted at Mulot area which was not included in the study sample and modified to improve their Reliability coefficients to at least 0.70. This was symbolized as n¾ / N. Items with Reliability coefficients of at least 0.70 are accepted as valid and reliable in research (Kathuri and Pals 2003).

3.6 Data collection procedure

The researcher obtained a research permit and letter of authority to conduct the research from relevant authority after presenting the requirements which include two copies of an approved research proposal. The study took 5 months from April to August 2013. During this time the researcher met all the respondents. Six weeks was for data collection, while the other two weeks was used for data organizing. The process for data analysis consumed 5 weeks. The report write up took six weeks and one week was for recommendation.

3.7 Data analysis techniques

The researcher collected both qualitative and quantitative data that was used to analyze data from targeted respondents. Upon completion of data collection, the Questionnaires and Interview guides were edited, coded and entered into a computer spreadsheet in a standard format to allow for analysis of descriptive statistics. The Statistical Package for the Social Sciences (SPSS) computer software was used for analysis. Statistical procedures were applied to the data to express concepts and relationships. Measures of central tendency (mean, mode, median) and frequencies and percentages were used to describe the population.

3.8 Ethical Considerations

Seeking of authority from various authorities was undertaken more importantly the management of the branch and also willingness of respondents. The study ensured that the information from respondent was kept confidential. Lastly the researcher assured the company that the research as purely for academic purposes.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter of the study systematically presents the results that were obtained from the research that was conducted. The results are quantitatively and qualitatively presented. The analysis and interpretation follows tabular presentation at some stages and the Focused Group discussion guide results from the respondents are also presented to supplement the quantitative presentation.

The presentation of the study was guided by the research questions that guide the study. The background information of the respondents however was also presented. Hence forth, the presentation is divided into two sections where section one presents the background information of the respondents, section two, represents the results of the study according the research objectives that guided collection. The presentation of the data follows in the following discussion.

4.1.1 The rate of return of questionnaires

During the research study the researcher distributed 384 which reflected 100% questionnaires, of which 350(91%) were returned fully answered however 34 (9%) of the questionnaires were returned not fully answered thus not being able to be used for analysis in the research study.

Table 4. 2 Response Rate Analysis

	Respondents	Percentage (%)
Questionnaires distributed	384	100
Questionnaires returned answered	350	91
Questionnaires returned un-answered	34	9

Source: Field Survey Data 2014

The researcher established that questionnaires returned unanswered because the respondents were not available to participate in the research.

4.2 Background Information

The presentation of this data as already pointed out is done in two sections. The current section presents the background information of the respondents and the response rate. The researcher felt this information was important because the respondents, background with the organization and area of study determines their ability to posses the required information and subsequently determined the necessity of the researcher to probe for any detail and establish sufficient rapport with the respondents.

On gender distributions, the researcher established the situation as presented in Table 4.2

Table 4. 3 Gender distribution of the respondents

Gender	Frequency	Percentage(%)
Male	200	57
Female	150	43
Total	**350**	**100**

Source: Field Survey Data 2014

As can be observed from table 4.2, the gender distribution of the respondents was representative. That is 150(43%) of the respondents were female and the other 200(57%) of the respondents represented males. The results indicate that during the survey, both sexes were accessible however the researcher had more contact with males than females.

During the focused group discussion however, respondents expressed that, the gender distribution was representative, respondents attributed this to the fact that there Agent banking had come up also as a source of employment that was comfortable for either gender. The researcher endeavored to explore the level of education of the respondents. This variable was deemed worth establishing by the researcher because the education level of the individual determined his or her ability to possess adequate information with regard to the research study. The results on the level of education of the respondents are presented in Table.

Table 4. 4: The distribution of respondents by their level of education

Level of Education	Total No. of respondents	Male	Female	Total Percentage(%)
Masters	31	18	13	9
Degree	91	56	35	26
Diploma	80	45	36	23
Secondary	60	36	24	17
Primary	49	36	13	14
Illiterate	39	9	29	11
Total	350	200	150	100

Source: Field Survey Data 2014

The findings on table 4.3 shows the respondents' education background and depicted that 31(9%) were postgraduate holders, 91(26%) graduates. Those with diploma certificates were 80(23%), secondary level having 60(17%) primary with 49(14%) and lastly those who did not attain any formal education certificate thus being 39(11%). This showed considerable gap between the male and female respondents as demonstrated by the table 4.3.

During the focused group discussion it was established that not all respondents were well educated. Therefore, for the above respondents who did not comprehend the research questions, the best method of collecting data from them was through interpreting concepts further of which the enumerators were employed to that effect and therefore the response rate was significant. The researcher sought to explore the respondents experience with the organization; this was deemed as important in that the respondents understanding of the industry would be necessary with regard to clarity of views presented in the study, the results are presented on table 4.4

Table 4. 5: Distribution of the respondents experience with the Bank

Years of experience	Respondents	Percentage(%)
1-3 years	140	40
4-7 years	105	30
7-10 years	70	20
Over 10 years	35	10
Total	**350**	**100**

Source: Field Survey Data 2014

As expressed by Table 4.4, the respondents experience with the Organization was unevenly distributed. That is, 140(40%) had spent a period between 1-3 years as compared to 105(30%) who had spent 4-7 years with the organization, 7-10 years category was represented by 70(20%) of the respondents while 35(10%) were established to have worked for over ten years in the organization. However majority of the respondents were categorized as having worked in the organization for 1-3 years this was attributed to the constant recruitment of new staff due to the high departure of employees to other organizations.

During the focused group discussion most of the respondents indicated that Agency Banking was relatively a new concept however those who had worked for three years and above cited a higher labour turnover this was due to search for greener pastures by employees. Despite the expressions however, the researcher was confident, because he was able to obtain varying views from respondents with varying experiences within the organization.

4.3 The impact of agent banking service on the rural communities

According to Adera (2005), Banks have found that quick and easy loan access with flexible repayment terms is successful among farmers, as are tailored savings accounts and crop insurance. Because their incomes are made in lump sum, they need ways to defer payments for labor or farming inputs and to pay for their children's education without putting cash at risk .The first research objective sought to determine the impact of agent banking service on rural communities in Ololung'a Division. In order to get answers to ascertain this research question, the researcher inquired from the respondent their perceptions on a number of issues. These issues included establishing the type of service that was used by respective establishments, whether customers were assisted during agent banking transaction process and how convenient was the management of agent banking accounts. On the type of service that was used by respective establishments, the results are presented on table 4.4.1.

Table 4.4. 1: Type of service that was used by respective establishments

Answer	Respondents	Percentage(%)
Swipe Machine	74	21
Computers	108	31
Phone	140	40
No response	28	8
Total	**350**	**100**

Source: Field Survey Data 2014

According to table 4.4.1 the respondents 74(21%) stated that Swipe Machine was used more. This left a distribution of 108(31%) of the respondents who felt that the computers was used more. 140(40%) of the respondents felt that phones were more used. However 28(8%) of the respondents did not respond, they brought back the questionnaires without answering the questions.

During the focused group discussion the respondents stated that phones supported agent banking transactions and make it very easy for the respondents to access money this was considered a great enabler for these populations. Scholars have state that despite the trend toward greater urbanization, more than 50 percent of the developing world's population (3.1 billion people) lives in rural areas. At a minimum, the agents allow clients to cash-in or cash-out physical cash for an electronic currency, which is linked to a client's mobile phone number, bank account or voucher number. Clients can then use a network of agents or their phone or computer to make purchases, take out a loan, buy insurance and pay bills (Dondo, 2003). Significantly, digital payments technology facilitates rural access to information, and increasingly to the capacity to save, borrow and transact (Edwards, 1997). On whether customers were assisted during agent banking transaction process, the results are presented on table 4.4.2.

Table 4.4. 2: Customer assistance during agent banking transaction process

Respondents	Frequency	Percentage(%)
Strongly agree	112	32
Agree	91	26
Neutral	18	5
Disagree	101	29
No response	28	8
Total	**350**	**100**

Source: Field Survey Data 2014

According to table 4.4.2 on whether customers were assisted during agent banking transaction process, 91(26%) of the respondents Agreed that there were measures put in place to assist customers during agent banking transactions, 112(32%) of the respondents were strongly of the view that measures were in place to handle and assist clients during agent banking transactions, However 109(29%) of the respondents disagreed and did not feel that proper measures were actually put in place to handle customers during agent banking transactions, this left a distribution of 18(5%) of the respondents who were neutral on the matter while 28(8%) of the respondents did not respond to the question.

During the focused group discussion the respondents stated that customers were assisted during agent banking transaction because being a community that was based in the rural area the level of illiteracy was quite high thus their was need to instruct clients on how to transact.

It has been observed by scholars that the rural poor are fundamentally different from the poor in other areas. Though they seek access to affordable financial services, providers need new strategies to engage effectively with this market (Atieno, 2001). Rural areas are also known to have lower literacy levels, lower mobile handset penetration rates and poorer network coverage. Financial products should integrate strategies to overcome barriers related to illiteracy. There are typically higher levels of illiteracy in rural areas and financial literacy may be low, both of which can inhibit effective adoption of services. Digital literacy particularly understanding the concept of banking through a phone can be difficult to grasp. Agent banking experience shows that a customer must be supported in making at least two transactions before they are able to transact independently. (Aryeetey & Udry,1997). Finally, rural consumers are typically slower to adopt new brands and products but are also slower to give them up (Mylenko, 2008). The results on table 4.4.2 enticed the researcher to establish how convenient the management of agent banking accounts was; the results are presented in table 4.4.3

Table 4.4. 3: Convenience of the management of agent banking accounts

Respondents	Frequency	Percentage(%)
Very efficient	165	47
Efficient	140	40
Less efficient	17	5
No response	28	8
Total	**350**	**100**

Source: Field Survey Data 2014

According to table 4.4.3 on how convenient the management of agent banking accounts was, 165(47%) of the responds felt that the management of agent banking accounts was very efficient, 140(40%) of the responds felt that the management of agent banking accounts was efficient, 17(5%) of the respondents however felt that the management of agent banking accounts was less efficient while 28(8%) of the respondents did not respond.

During the focused group discussion the respondents stated that the management of agent banking accounts was very efficient, this was because this market was considered subtle and that there was need to ensure that customers were satisfied with the service delivery. When asked about efficiency of management of Agents accounts, one of the agent entrepreneurs reinstated that;

"Setting up agent banking accounts system does not need to be difficult, it doesn't need to add unsupportable expense into your business, but it does need to be easy to understand, implement and manage"

Scholars have observed that digital financial services are a win–win for consumers and providers. Consumers are able to migrate their money to a more secure environment, transact and manage their account in a more convenient and immediate manner including after hours and in closer physical proximity, and in a way that frequently saves them money through more cost-effective remittances services, reduced travel costs and lost cash (Adera, 1995). Providers are able to access new markets and introduce new services in a way that is cost-effective for small and frequent transactions, improves their operations and core product for example decongesting bank branches and providing additional services to clients and new revenue sources such as transaction fees and opportunities for cross-selling. Governments, which want to safely provide the most vulnerable rural populations with conditional cash transfers, may also utilize these electronic payment services (Mylenko, 2008).

4.4 Influence of agent banking on liquidity of the rural communities

According to Mylenko (2008), Agent Banking should provide products and services which are affordable and accessible in order to increase financial inclusion. The question sought to explore the influence of agent banking on liquidity of rural communities. In order to get answers to ascertain this research question, the researcher inquired from the respondent their perceptions on a number of issues. These issues included the contribution of agent banking to the respondent's income, the status of Clients Flow the respective Organization after becoming An Agent, How agent banking influenced the income status of the rural communities. On the contribution of agent banking to the respondent's income, the results are presented on table 4.4.4.

Table 4.4. 4 The contribution of agent banking to the respondent's income

Respondents	Frequency	Percentage (%)
Above Average	140	40
Average	112	32
Below Average	53	15
Satisfactory	17	5
No response	28	8
Total	**350**	**100**

Source: Field Survey Data 2014

According to table 4.4.4 on the contribution of agent banking to the respondent's income, 140(40%) of the respondents stated that agent banking had contributed immensely to the there income, in contrast to 112(32%) of the respondents who felt that the contribution of Agent banking to their income was average. However 53(15%) of the respondents were of the opinion that the contribution was below average, 17(5%) of the respondents felt that the contribution was satisfactory this left a distribution of 28(8%) of the respondents who did not respond to the questions.

During the focused group discussion majority of the respondents, stated that agent banking had contributed immensely to the there income in that Agents had provided the banks with a useful channel for distributing there services to remote areas, thus benefiting on the transactional fees.

According to (Mylenko, 2008) Agent banking can provide the previously unbanked and under-banked with affordable, accessible and appropriate financial products. These criteria are particularly important in order to increase financial inclusion.

Agents provide cheaper and more convenient financial services for clients: they are therefore popular on the population, increasing demand for their services. The agent model has not only brought convenience and safety for low-income families that receive government benefits through it and for others accessing basic bank services such as bill payments but it has also brought greater economic development to isolated communities. Instead of shopping in the cities where they would have previously travelled to receive their benefits, benefit recipients now withdraw cash, pay bills, and shop locally (CGAP, 2010). The results on table 4.4.4 enticed the researcher to seek to establish the status of Clients Flow in the respective Organization after becoming an Agent; the results are presented in table 4.4.5

Table 4.4. 5: The status of Clients Flow in the respective Organization being an Agent

Respondents	Frequency	Percentage (%)
Increased	140	40
Constant	91	26
Decreased	74	21
Don't Know	17	5
No response	28	8
Total	**350**	**100**

Source: Field Survey Data 2014

According to table 4.4.5 on the status of Clients Flow in the respective Organization after becoming an Agent, 140(40%) of the respondents stated that the flow of clients had increased in their organization, 91(26%) of the respondents felt that the client flow was constant despite the enhancement of agent banking, this left a distribution of 74(21%) of the respondents who felt that the clients had decreased, there was a distribution of 17(5%) who did not have an idea as whether the clients had increased or not, 28(8%) of the respondents did not respond.

During the focused group discussion the respondents opined that the flow of clients had increased in their organization, this was either attributed to an efficient service delivery that attracted clients to the establishment. Scholars have stated that banking agents help financial institutions to divert existing entrepreneurs from crowded branches providing a "complementary", often more convenient channel. Regulators generally determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle cash transport(Christopher, 2002). The results on table 4.4.5 enticed the researcher to seek to establish how agent banking influenced the income status of the rural communities; the results are presented in table 4.4.6

Table 4.4. 6: How agent banking influence the income status of the rural communities

Respondents	Frequency	Percentage
Has Improved	140	40
Has Not Improved	119	34
Partially improved	56	16
Not Aware	7	2
No response	28	8
Total	**350**	**100**

Source: Field Survey Data 2014

According to table 4.4.6 on how agent banking influenced the income status of the rural communities, 140(40%) of the respondents stated that the income status of the community has improved, 119(34%) of the respondents felt that the income of the community had partially improved, 56(16%) of the respondents stated that they were not aware whether the income of the community had changed, 7(2%) of the respondent felt that the income status of the community had not improved at all, 28(8%) of the respondents did not respond.

During the focused group discussion the respondents stated that the income status of the community had improved in that they could now transact in real time, they further stated that Agents can be a key tool for enabling large numbers of people to open bank accounts.

Scholars observe that reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch (Kitaka, 2001). In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost can play a vital role in offering many low income people their first time access to a range of financial services. Agent banking has also made known to the rural customers that it’s through their mobilized services that they are saving on costs e.g transport (Kasekende, 2008). Also, low income clients often feel more comfortable banking at their local store than walking into a marble branch (Adiera, 1995).

4.5 The accessibility of agent banking providers on rural communities

According to Parrenas (2005), Agent banking has positively impacted on financial literacy of the local population. This as a result empowered the locals make informed decisions and access the products and services. The question sought to explore the accessibility of agent banking providers on rural communities. In order to get answers to ascertain this research question, the researcher inquired from the respondent their perceptions on a number of issues. These issues included whether customers were trained on agent banking services, what was the motivation to becoming an agent, the roles of agent banking on financial literacy of rural communities. On whether customers were trained on agent banking services, the results are presented on table 4.4.7.

Table 4.4. 7 Customer training on agent banking services

Respondents	Frequency	Percentage (%)
Always	130	37
Sometimes	91	26
Never	56	16
No idea	45	13
No response	28	8
Total	**350**	**100**

Source: Field Survey Data 2014

According to table 4.4.7 on whether customers were trained on agent banking services, 130(37%) of the respondents stated that sometimes customers were trained on agent banking services, 91(26%) of the respondents were of the view that customers were never trained on agent banking services. However 56(16%) of the respondents were of the opinion that customers were always trained on agent banking services, 45(13%) of the respondents had no idea while 28(8%) of the respondents did not respond.

During the focused group discussion the respondents stated that sometimes customers were trained on agent banking services, the training was viewed as necessary especially when new products were being introduced into the market. It has been observed that the rural customer segment has distinct characteristics compared with its urban counterpart; financial services should be seen as one of a number of needs, which are most effectively provided in collaboration. Scholars have opined that Productivity support and access to inputs make capital more effective. In a digital ecosystem, this might mean that technical information is distributed through banking agents on-the-ground therefore by extension workers are required to provide training to clients on how to adapt the new changes if any. The results on table 4.4.7 enticed the researcher to seek to establish what the motivation to becoming an agent was; the results are presented in table 4.4.8

Table 4.4. 8: Motivation of becoming an agent

Respondents	Frequency	Percentage
Reduce cost	140	40
Creation of job opportunity	91	26
Association with big brand	74	21
No Idea	17	5
No response	28	8
Total	**350**	**100**

Source: Field Survey Data 2014

According to table 4.4.8 on what the motivation to becoming an agent was, 140(40%) of the respondents stated that they ventured in Agent Banking to reduce the cost of paying rental for the existing business, 91(26%) of the respondents felt that there key motivation was creating job opportunity, this left a distribution of 74(21%) of the respondents who were motivated by associating with a big brand, there was a distribution of 17(5%) of the respondents who had no idea, while 28(8%) of the respondents did not respond.

During the focused group discussion the respondents opined that what motivated them in agent banking was to reduce the cost of paying rental for the existing business, this was so because Agent banking being a new product attracted a lot of business and was geared for expansion.

Scholars have attributed agent banking model as one in which banks provide financial services through nonbank agents, such as grocery stores, retail outlets, post offices, pharmacies, or lottery outlets. This model allows banks to expand services into areas where they do not have sufficient incentive or capacity to establish a formal branch, which is particularly true in rural and poor areas where as a result a high percentage of people are unbanked. Agent banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas (Aryeetey & Udry, 1997). The results on table 4.4.8 enticed the researcher to seek to establish the role of agent banking on financial literacy of rural communities; the results are presented in table 4.4.9

Table 4.4.9: The accessibility of agent banking services by rural communities.

Respondents	Frequency	Percentage(%)
The Community has increased the number of transactions with the bank	112	32
The community appreciates the ease of banking	140	40
Members of the community have improved on their saving culture.	70	20
No response	28	8
Total	**350**	**100**

Source: Field Survey Data 2014

According to table 4.4.9 on the role of agent banking on financial literacy of rural communities, 112(32%) of the respondents stated that the Community had increased the number of transactions with the bank, 140(40%) of the respondents stated that the community appreciates the ease of banking, 70(20%) of the respondents appreciated that Members of the community had improved on their saving culture, 28(8%) of the respondents did not respond.

During the focused group discussion the respondents opined the fact that the community had increased the number of transaction with the bank, this was viewed in relation to the amount of business that establishment contracted on a monthly basis.Scholars have stated that Agent banking has positively impacted on financial literacy of the local population through financial education in school and training curriculum. With this the locals are empowered to take informed financial decisions in their households and in their businesses (Parrenas, 2005). Financial literacy therefore shifts the power dynamics and it is a major foundation for major shift in the public deal with money, with the government and its social security and other benefits schemes with the financial service providers (Pandey, 2004).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The current chapter of this study presents the discussion of the results derived from the data presented in Chapter four, the discussion leads into varying conclusions and a number of recommendations are subsequently derived.

5.2 Summary of Findings

The following are the summaries on the findings based on the three objectives that guided the study. The results are also cross referenced with the findings of other scholars in related organizational environments that have got a supportive element of the current study. The first objective sought to investigate the impact of agent banking services on rural communities in Ololung'a Division, Narok County. The study established that Swipe machines supported the trend toward greater urbanization since in rural areas; Technology was considered a great enabler for these populations. (Edwards, 1997) observes that significantly, digital payments technology facilitates rural access to information, and increasingly to the capacity to save, borrow and transact. It equally came into light that customers were assisted during agent banking transaction because being a community that was based in the rural area the level of illiteracy was quite high thus their was need to instruct clients on how to transact. (Atieno, 2001) observes that rural areas are also known to have lower literacy levels, lower mobile handset penetration rates and poorer network coverage. There are typically higher levels of illiteracy in rural areas and financial literacy may be low, both of which can inhibit effective adoption of services. Digital literacy particularly understanding the concept of banking through a phone can be difficult to grasp. Agent banking experience shows that a customer must be supported in making at least two transactions before they are able to transact independently. (Aryeetey & Udry,1997). Finally, rural consumers are typically slower to adopt new brands and products but are also slower to give them up (Mylenko, 2008).

The second objective sought to examine how agent banking influences liquidity on rural communities in Ololung'a Division, Narok County. The study established that agent banking had contributed immensely to the income of the respondents in that Agents had provided the banks with a useful channel for distributing there services to remote areas, thus benefiting on the transactional fees. According to (Mylenko, 2008) Agent banking can provide the previously unbanked and under-banked with affordable, accessible and appropriate financial products. These criteria are particularly important in order to increase financial inclusion. The flow of clients had increased in respondent's organization; this was either attributed to an efficient service delivery that attracted clients to the establishment. However scholars have stated that banking agents help financial institutions to divert existing entrepreneurs from crowded branches providing a "complementary", often more convenient channel. Regulators generally determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle cash transport(Christopher, 2002). Scholars observe that reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch (Kitaka, 2001). In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost can play a vital role in offering many low income people their first time access to a range of financial services. Agent banking has also made known to the rural customers that it's through their mobilized services that they are saving on costs e.g. transport (Kasekende, 2008). Also, low income clients often feel more comfortable banking at their local store than walking into a marble branch (Adiera, 1995).

The Third objective sought to determine the accessibility of agent banking providers in Ololung'a Division, Narok County. The respondents in the research study stated that sometimes customers were trained on agent banking services; the training was viewed as necessary especially when new products were being introduced into the market. It has been observed that the rural customer segment has distinct characteristics compared with its urban counterpart; financial services should be seen as one of a number of needs, which are most effectively provided in collaboration. Scholars have opined that Productivity support and access to inputs make capital more effective. In a digital ecosystem, this might mean that technical information is distributed through banking agents on-the-ground therefore by extension workers are required to provide training to clients on how to adapt the new changes if any. Scholars have attributed agent banking model as one in which banks provide financial services through nonbank agents, such as grocery stores, retail outlets, post offices, pharmacies, or lottery outlets. This model allows banks to expand services into areas where they do not have sufficient incentive or capacity to establish a formal branch, which is particularly true in rural and poor areas where as a result a high percentage of people are unbanked. Agent banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas (Aryeetey & Udry, 1997). Scholars have stated that Agent banking has positively impacted on financial literacy of the local population through financial education in school and training curriculum. With this the locals are empowered to take informed financial decisions in their households and in their businesses (Parrenas, 2005). Financial literacy therefore shifts the power dynamics and it is a major foundation for major shift in the public deal with money, with the government and its social security and other benefits schemes with the financial service providers (Pandey, 2004).

5.3 Conclusion

Technology is considered a great enabler to Agent banking. Digital payments technology facilitates rural access to information and increasingly capacity to save, borrow and transact. Most of the rural population under study was being assisted to transact. Agent banking experience shows that the customers must be supported in making transactions before they are able to transact independently. Financial products should integrate strategies to overcome barriers related to illiteracy. There are typically higher levels of illiteracy in rural areas and financial literacy may be low, both of which can inhibit effective adoption of services. Agent banking services and management of accounts should be simple, cost effective and efficient.

Agent banking has contributed immensely to the income in that agents provide the banks with a useful channel for distributing there services to remote areas, thus benefiting on the transactional fees. Agent banking also provides the previously unbanked and under-banked with affordable, accessible and appropriate financial products. These criteria are particularly important in order to increase financial inclusion. Agents provide cheaper and more convenient financial services for clients: they are therefore popular on the population, increasing demand for their services.

The agent model has not only brought convenience and safety for low-income families that receive government benefits through it and for others accessing basic bank services such as bill payments but it has also brought greater economic development to the community.

Agent banking has positively impacted on financial literacy of the local population through financial education in school and training curriculum. With this the locals are empowered to take informed financial decisions in their households and in their businesses. Financial literacy therefore shifts the power dynamics and it is a major foundation for major shift in the public deal with money, with the government and its social security and other benefits schemes with the financial service providers.

5.4 Recommendations

From the study, it was recommended that Agent banking systems must meet data and network security concerns, and banks must meet certain technical criteria for the electronic operating systems used at agents. The respective roles and responsibilities of the agent and principal must be communicated to the customer. The costs of services must be clearly described, and customers must be provided with information on how to resolve problems and file complaints.

The contract between the agent and the principal institution must include certain information regarding risk management and consumer protection. This required information includes: measures taken to mitigate risks associated with agent banking services including limits, customer transactions, cash management, cash security, security of agent premises, insurance policies, confidentiality of customer information and data management by the agent. Banks must also engage in risk management, addressing a variety of issues touching on credit risk, operational risk, liquidity risk, legal risk and reputation risk. Furthermore, appropriate consumer protection systems against risks of fraud, loss of privacy or loss of service must be in place. These include the issuance of receipts for all transactions undertaken by agents, channels for customer complaints, and clear signage indicating that the agent is providing services on behalf of a particular institution.

Ultimately, agent banking and mobile payment networks will need to be interoperable in order to maximize network effects and consumer benefits of remote access financial services. If parallel services develop that are difficult or costly to interconnect, this will limit financial inclusion in the long run. In the near term, however, mandating immediate interoperability of remote access services is likely to discourage innovation and market entry, as some service providers may find it too costly or unprofitable to do so. Therefore, it is recommended that interoperability not be mandated from the start. However, regulators should require that services offered use technical standards that will allow for interoperability at low cost in the future. This will maximize flexibility to allow for market entry while also ensuring that future interoperability will be feasible, both from a technical and financial perspective.

5.5 Contribution to knowledge

Objective	Contribution to knowledge
1. To investigate the Impact of agent banking services on rural communities.	Digital payments technology facilitates access to information and increasing the capacity to save, borrow and transact.
2. To examine how agent banking influences liquidity on rural communities.	Agent baking provides the un banked, under banked, with accessible and appropriate financial products.
3. To determine the role agent banking on accessing financial services to rural communities.	Financial literacy can be enhanced through financial education and training.

5.6 Areas for Further Research

Agent banking also provides the previously unbanked and under-banked with affordable, accessible and appropriate financial products. These criteria are particularly important in order to increase financial inclusion. Agents provide cheaper and more convenient financial services for clients: they are therefore popular on the population, increasing demand for their services. The following suggestions are recommended for future researchers.

1. In this study, an only rural community was considered to develop analysis and findings. There are other sectors of which studies should consider in other parts of the country.
2. Future researchers should investigate the effect of retail points as avenues that can offer saving services.

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APPENDICES

Appendix i: Questionnaire for agent banking employees

INFLUENCE OF AGENT BANKING SERVICES ON RURAL COMMUNITIES IN KENYA: A CASE OF OLOLUNG'A DIVISION, NAROK COUNTY

Dear respondents I am Michael Kibet a student of Nairobi University. As part of my Academic requirements to the award of a Masters Degree in Project Management. I am administering this questionnaire to collect information on the influence of Agent Banking services on Rural Communities. Kindly respond to the question as candidly as possible. Your honest and co-operation in responding to this question will be appreciated with confidentiality.

INSTRUCTIONS:

1 Do not sign your name anywhere on this questionnaire.

2 For Section A, B and C, Just tick and fill in for other sections.

SECTION A: RESPONDENT BACKGROUND (Just tick)

1.1 Gender: Male ☐ Female ☐

1.2 Age: 20-29 ☐

30-39 ☐

40-49 ☐

50-59 ☐

60-above ☐

1.3 Highest Educational Level

O-Level ☐ A-Level ☐ Diploma ☐ Bachelors Degree ☐

Masters Degree ☐ Other Professional Qualification ……………….

SECTION B: ***Agent banking services on the rural communities***

1. Please indicate the Type of service that you use in your establishment

a) Computers ☐

b) Internet ☐

c) Phones ☐

Any other,

specify…………………………………………………………………..

……………………………………………………………………………………..

2. Do you assist customers during agent banking transaction process?

Yes ☐

No ☐

3. How convenient is the management of agent banking accounts?

Less efficient ☐ efficient ☐ very efficient ☐

SECTION C: ***Agent banking on Liquidity***

1. What is the contribution of agent banking to your liquidity?

Below average ☐

Average ☐

Satisfactory ☐

2. After you became an agent, would you say the number of people coming into your Establishment increased, remained the same, or decreased?

. Increased ☐

. Remained the same ☐

. Decreased ☐

. Don’t know ☐

3. On average, how much did the number of people coming into your store transact after you became an agent?

. 0–10 ☐

. 11-20 ☐

. 21-30 ☐

. 31 and above ☐

4. How has agent banking influenced the liquidity of the rural communities? Indicate with a tick (√) your position on the following statements where SA = Strongly Agree, A = Agree, UD = Undecided, D = Disagree, SD = Strongly Disagree.

STATEMENT	**SCORES**				
	SA	**A**	**UD**	**D**	**SD**
Agent Banking has not improved the liquidity of rural communities					
Agent Banking has improved the liquidity of rural communities					
Agent Banking has partially improved the liquidity of rural communities					
Am not aware of any increment or decrement of liquidity in rural communities as a result of Agent banking					

Any other specify………………………………………………………………

SECTION D: Accessibility of Agent banking providers

1. How do banks disseminate their financial information to their bank agents____?

2. Do you normally train customers on agent banking services e.g deposits withdrawals, account balance inquiries?

Yes ☐ No ☐

If yes show often do you train on the services?

Rarely ☐ frequently ☐ all the time ☐

3. Apart from the income what is your motivation to be an agent?

Reduces Cost e.g travelling cost ☐

Creation of job opportunity ☐

I want to be associated with a big brand ☐

Other____?

4. Who pays for the insurance for the cash used in the agent business?

. Bank/service provider ☐

. I do ☐

5. How does agent banking support fee payments? ______________________

6. Do the following statements indicate the roles of agent banking on financial literacy of the rural communities? Indicate with a tick (√**)** the society's' position on the following statements where SA = Strongly Agree, A = Agree, UD = Undecided,

D = Disagree, SD = Strongly Disagree.

STATEMENT	**SCORES**				
	SA	**A**	**UD**	**D**	**SD**
The Community has increased the number of transactions with the bank					
The community appreciates the ease of banking					
Members of the community have improved on their saving culture.					

Any other Specify…………………………………………………………………

Appendix ii: Interview Guide for Agent Banking Entrepreneurs.

1. What is the impact of agent banking services on rural communities?
2. How has agent banking influenced the liquidity of rural communities?
3. What is the accessibility of agent banking providers on rural communities