Journal of
Developing Country Studies
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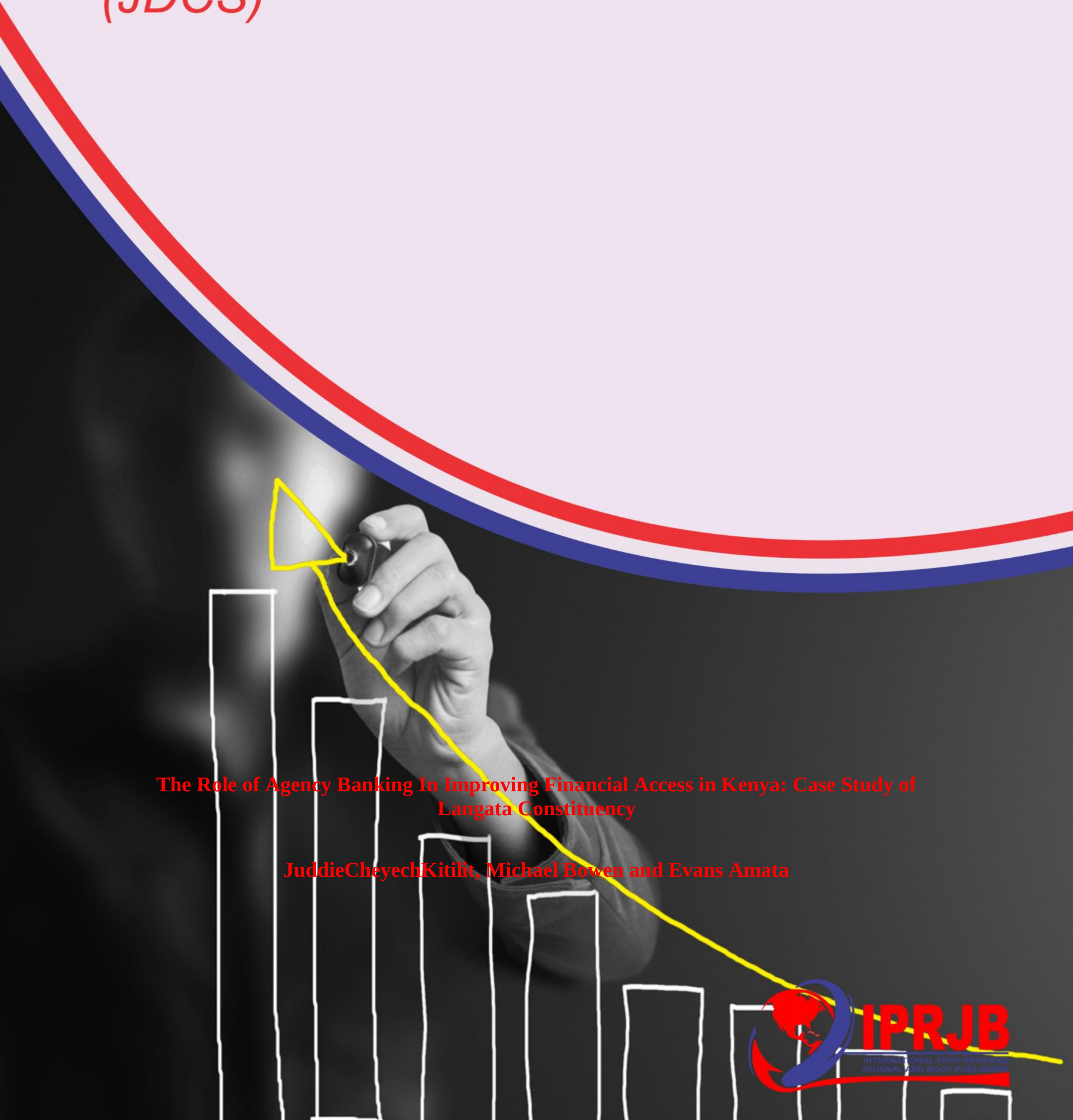

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IPRJB
INTERNATIONAL PEER REVIEWED JOURNAL AND BOOK PUBLISHING

Journal of Developing Country Studies
ISSNxxxx-xxxx (Paper) ISSN xxxx-xxxx (Online)
Vol.1, Issue 1 No.1, pp 61-73, 2016

www.iprjb.org

The Role of Agency Banking In Improving Financial Access in Kenya: Case Study of Langata Constituency

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ABSTRACT

Purpose: The purpose of this study was to establish the effect of agency banking model on financial access in Kenya, especially for the lower income spectrum of the society.

Methodology:A mixed method descriptive research design was used, which involved the use of both qualitative and quantitative research methods. The study used purposive and stratified random sampling method. Statistical package for social science programmewas also used to analyze the data. The researcher used frequency distribution, histograms and percentage to present the data.

Results:Study findings revealed that agency banking plays a major role in the convergence of various banking and non-banking players to provide financial services to all end consumers of financial services. In addition, it increases the number of access points that provide financial services. Further the study indicates that the level of utilization of agency banking was high.

Unique contribution to theory, practice and policy: It is highly recommended that the regulator of banks to encourage more banks to come up with agency banking as this would increase financial access. The banks also need to be more supportive to agency units through minimizing system down times as this would increase the utilization of agency banking services

Keywords*: agency banking, financial access, level of utilization, challenges*

1.0 INTRODUCTION

According to the World Bank (2010), many Sub-Saharan African countries still face a severe financial development gap relative to not only the advanced economies but other peer developing economies. This fact continues to be seen despite the fact that there have been extensive economic and financial sector reforms over the last few decades. A key obstacle to financial development is the lack of financial access among the financially disadvantaged. Financial access would certainly promote economic growth at the broadest scale. Kenya is a developing country with a total population of 43 million people and has a slightly lower than average income inequality amongst developing countries (Adera, 1995).

A report by the Microcredit Summit (2000) asserts that facilitating financial access is a major drive behind the strengthening of the financial sector. Kenya, as well as a number of other African countriestake part in a series of financial access surveys. Worldwide, financial access has become an increasingly important development metric as one of the major factors that can drive widespread economic development. The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives (Atieno, 2001).

In the past in Africa, poor people experienced problems when attempting to gain access to financial services. This was because banks were not near their localities and they were thus forced to travel significant distances in search of a bank. What this meant for those in informal settlements, was that they would have to spend a large part of their day travelling to then stand in long queues to access financial services. Transportation costs also had to be taken into account; more often than not, the whole endeavor would prove extremely time-consuming and costly. However, there have been significant improvements in the banking sector with the introduction of agent banking, an innovative delivery channel that seeks to bring access to financial services much closer to poor people (Making Finance Work,2013).

At present, a group of major banks are using branchless banking channels to deliver services and reach new clients through retail outlets. Admittedly, the development of any branchless banking scheme takes quite a lot of time and preparation as it implies analyzing and taking action regarding the business case of each of the parties involved, the customer value proposition and the local legal and regulatory environment. The true power of branchless banking cannot be unleashed until some trusted third party is involved in performing some of the activities that are traditionally performed in bank branches by the bank staff. Many branchless banking clients agree that technology-based financial services can provide cost savings on various products and services (Making Finance Work,2013).

According to the Alliance for Financial Inclusion (2011) survey on financial access in developing countries by the Alliance for Financial Inclusion (AFI) in April 2010, the challenge of financial exclusion of the majority of the population, especially in developing countries has been raised in different forums all around the world. Fortunately, various possible solutions have been discussed including the adoption of the agency banking model. When agency banking was adopted in Kenya in 2010, members of the society such as laborers, slum dwellers, people in rural areas and those considered to be marginalized and disadvantaged quickly rose up to take advantage of these financial products and services that they had hereto never been exposed to(AFI, 2010).

1.2 Statement of the Problem

The problem of lack of access to financial services is not only limited to Kenya. In Africa, a large proportion of the population lacks access to essential financial services (Geber, 2008). Sadly, very many countries in the developing world face the financial accessibility challenge. The link between financial accessibility and decreased poverty levels has motivated these countries to innovate ways to improve accessibility (Omporn, 2007).

Lack of access to financial services has been a significant challenge to development in Kenya. Consequently, there is still a wide gap in access to financial services particularly for low income earners (Napolitano, 2010).According to a report published by the Financial Sector Deepening Program (FSD, 2010), the majority of adult Kenyans are not served by the financial system.

The fact of the matter is that the population or households lacking financial access, also known as the unbanked, are concentrated in the lower strata of the society or live in the rural area (Napolitano, 2010). Notably, these are areas plagued with poverty and underdevelopment. Therefore, financial access continues to be a challenge and a source of many problems to both the people and the respective governments responsible for their well being.

The absence of financial access in the rural and poor areas of a country or region makes these areas to lack the proper financial services to ensure socio-economic development. One such service is that of formal credit systems. The lack of financial access means that people will not be able to access the funds that they need in order to advance their businesses, homes and lives thus growth in the various sectors available in these areas will be non-existent. For example, without any credit a farmer will not be able to expand his or her farm produce but instead will be producing the same output each year. This growth is needed for socio-economic growth and as such financial access is highly important in all regions of the world. In addition and with regards to credit, individuals lacking financial access and in need of credit will turn to shylocks, relatives and friends for informal loans. In most cases, the conditions that come with such kind of borrowing are stringent and punitive thus do not produce any sustainable development. On the contrary they weigh heavily on the borrower and cause many other socio-economic problems (Shafi&Medabesh, 2012).

The lack of financial access denies individuals, groups and communities a chance to partake in financially led development and progress (Kodan, Garg,&Kaidan, 2011). This study sought to fill this research gap by investigating the role of agency banking on financial access in Kenya.

1.3 Objective of the Study

i. To examine the role of agency banking in ensuring financial accessin Langata Constituency.
ii. To find out the level of utilization of the agency banking in Langata Constituency.
iii. To establish the challenges faced by agency banking unitsin Langata Constituency.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Stakeholders theory

There are two main theories which include the abuse of executive power model and the stakeholder model. The Anglo-American corporate governance arrangements vest excessive power in the hands of management who may abuse it to serve their own interest at the expense of shareholders and society as a whole (Hutton, 1995). Supporters of such a view argue that the current institutional restraints on managerial behaviour, such as non-executive directors, the audit process, the threat of takeover, are simply inadequate to prevent managers abusing corporate power (Mallin, 2010). In the same manner, the agents in the agency banking relationship have been contracted by the banks to offer banking services. As such, the agents so contracted are supposed to foster the interests of the Bank including observing the Banking Act provisions on agency banking. If the agents do not act in the interests of commercial banks, their privileges to provide these services on behalf of the banks may be withdrawn hence jeopardize their business.

2.1.2 Agency theory

Agency theory works in situations where there are two individuals in a relationship with one of them acting as a principal and the other being an agent (Pratt &Zeckhauser, 1985). Agency relationships exist because the principle delegates some of their duties to the agent (Jensen &Meckling 1976). In the agency banking relationship, the commercial banks delegate some of their banking rights to agents who offer banking services to its customers under its brand name. For this relationship to blossom and grow, there needs to be mutual understanding between the two parties. The agents need to adhere to the terms of contract (Williamson, 1985). This theory is important in guiding this study because the agents will always be working under their principal who shall be commercial banks. They should work to ensure a stable financial system that supports economic development.

2.2 Empirical studies

Podpiera (2008) argues that agency banking does improve the economics for these institutions compared with branches, especially for high-transaction, low-balance accounts that are common among poor users. The analysis focuses on four types of agency banking delivery channels: POS-enabled bank agent; this is an agent managed by a bank that uses a payment card to identify entrepreneurs. Banking agent-enabled agent; this is an agent managed by a bank that uses a cell phone to identify entrepreneurs. This agent often managed by a telecom uses a cell phone to identify entrepreneurs, and provides store-of-value accounts called bankwallets that are backed by bank deposits. Entrepreneurs can use bank wallets to send, receive, and store electronic monetary value. For this analysis, we consider them a store of value account that provides a useful comparison for a savings account directly provided by a financial institution.

Kempson and Whyley (2000) identified 6 principal types of financial exclusion; a) Physical access exclusion, brought about by the closure of local banks or building societies and lack of reliable transport to reach alternatives; b) Access exclusion, when access is restricted through risk assessment, with people being denied a product or service as they are perceived to be high risks; c) Condition exclusion, when conditions are attached to products or services thereby making them inaccessible to some; d) Price exclusion when products are available but at a price that is unaffordable; e) Marketing exclusion, where sales and marketing activity is targeted on some groups, or areas, at the expense of others; and f) Self-exclusion, when individuals do not seek financial products and services for reasons including fear of failure, fear of temptation or lack of awareness. As the evidence base grows, and the theory becomes more sophisticated, policy has been developed and adapted to tackle these issues.

Financial Sector Inclusion Survey (2010) asserted that in 2006, age was a particularly important influence in financial access, and older people were much more likely to use a bank account than younger people. Although the mean age of users had fallen from 39.0 years in 2006 to 37.0 years in 2009, the influence of age was still very strongly positive. In addition, source of income was found to be a key influence in 2006. In particular, 64percent of government employees used a bank account and were five times more likely to be associated with bank use than those whose main income was farming or fishing (8percent of whom had a bank account). Those who were in the private sector were twice as likely to be associated with having a bank account, while those employed on domestic chores were ten times less likely and those who were farm employees or who relied on pensions/transfers from others were three times less likely. Level of expenditurewas also strongly positively related to use of bank services, as would be expected. Education was also strongly associated with the likelihood of bank use in 2006. In 2006 13.3percent of women compared to 22.6percent of men used a bank account and being a woman was associated with a significantly lower likelihood of bank access. Since 2006, the proportion using bank accounts has increased in line with the overall average for both genders. However, this has not removed the negative association of being female with bank use (-2percent).

Ndii (2009) asserts that in the last decade, access to bank credit increased slightly, from 1.7 percent to 2.3 percent of the population, and lending to women increased more than lending to men. The bias in lending towards the formal wage employed, in particular public sector workers, increased. One third of public sector employers had outstanding bank loans in 2009, up from 18 percent in 2006. Put differently, a public sector employee was 15 times more likely to get a bank loan than other customers in 2009, up from 11 times in 2006. There is also a notable improvement in access to bank credit by entrepreneurs. With manufacturers reporting bank credit increased from 0.3 percent, way below the national average, to 4.5 percent, about twice the national average. Geographical distribution of bank credit has also improved. In 2006, 5.5 percent of Nairobi residents had bank credit, more than double the number at the Coast, which was the next highest province. In 2009, Nairobi was down to 4.5 percent, while all the other provinces had registered improved access, with the exception of the Coast Province which remained the same.

3.0 RESEARCH METHODOLOGY

The study used mixed method descriptive research design involving a field survey. This mixed method research involved use of both qualitative and quantitative research methods. The population was 374 comprising 371 agencies practicing agency banking. The sample size was 74 agency units. The study used stratified random and purposeful sampling techniquesfor the agencies and Bank staff respectively. Questionnaires and literature publications were used to

Journal of Developing Country Studies
ISSNxxxx-xxxx (Paper) ISSN xxxx-xxxx (Online)
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obtain primary and secondary data respectively. The questionnaires were self-administered. The researcher pre-testednine questionnaires. Data analysis was done using SPSS and Microsoft Excel to generate quantitative reports which was presented in the form of tabulations, percentages, mean and standard deviation.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

Out of 75 questionnaires administered, a total of 68 questionnaires were filled and returned giving a response rate of 91 % which is within Mugenda&Mugenda (2003) recommended sufficient response rate for analysis.

4.2 Demographic Characteristics

The study sought to establish the period the respondent had operated as an agent. From the findings, 31% of the respondents had operated as an agent for between 0-2 years, 56 % of the respondents had operated as an agent for between 3-4 years while 13% of the respondents had operated as an agent for more than 4 years. The results imply most respondents had operated the agency banking units for more than three years running and thus were knowledgeable enough to answer the questionnaire.

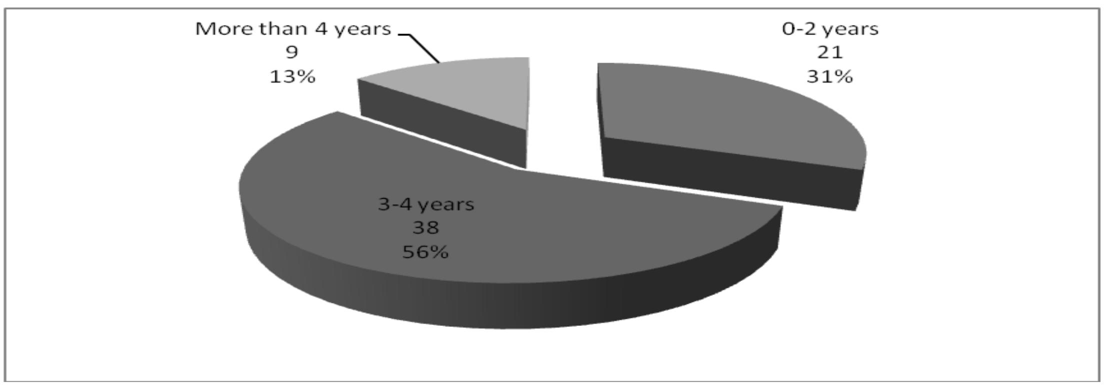

Figure 1: Period operated as an Agent

4.3 Descriptive Statistics

4.3.1Role of Agency Banking in Financial Access

The study sought to find out the role of agency banking in financial access. Results in table 1 on the question of whether agency banking had improved financial access to women, majority (62%) strongly agreed with the statement. The findings agree with those in Small Change Partnership (2006) which note that households headed by a woman, including lone parents, single pensioners, widows and separated women are likely to be financial excluded and measures such as agency banking are aimed at improving the level of financial access.

Majority (66%) of respondents strongly agreed with the statement that Agency Banking has improved financial access to the low income earners. The findings agree with those in

Wainaina(2009) who argued that Kenya has in the last five years made great strides in improving access to financial services throughout the country.

The majority (76%) strongly agreed with the statement that Agency Banking has improved financial access to old residents. A majority (74%) also indicated that Agency Banking has improved financial access to the youth. The findings agree with those in Financial Sector Inclusion Survey (2010) which asserted that in 2006, age was a particularly important influencein financial access, andolder people were much more likely to use a bank accountthan younger people.

Table 1: Role of Agency Banking in Financial Access

	Strongly Agree	Agree	Moderately Agree	Disagree	Strongly Disagree	Mean Likert
Agency Banking has improved financial access to women	62%	19%	3%	9%	7%	4.19
Agency Banking has improved financial access to the low income earners	66%	21%	1%	3%	9%	4.32
Agency Banking has improved financial access to old residents	76%	7%	4%	1%	10%	4.38
Agency Banking has improved financial access to the youth	74%	3%	6%	3%	15%	4.18
Agency banking has offered convenience banking services to the residents of Langata	57%	15%	7%	9%	12%	3.97
Agency banking has made deposit banking services available to residents of Langata	71%	13%	1%	6%	9%	4.31
Agency banking has made withdrawal banking services available to residents of Langata	59%	18%	4%	4%	15%	4.01
Agency banking has shortened the Time it takes to receive banking service	65%	6%	7%	9%	13%	4.00
Agency banking has made it possible for residents of Langat to avoid bank queues	85%	4%	3%	0%	7%	4.60
Agency banking has shortened the Distance to financial services	88%	3%	1%	4%	3%	4.69

Journal of Developing Country Studies
ISSNxxxx-xxxx (Paper) ISSN xxxx-xxxx (Online)
Vol.1, Issue 1 No.1, pp 61-73, 2016

Further, majority (57%) strongly agreed that Agency banking has offered convenience banking services to the residents of Langata. The findings agree with those in Wainaina (2009) who noted that one of the reasons for the low financial exclusivity among the marginalized populace is the long distance they need to travel to access financial services.

The majority (71%) strongly agreed that Agency banking has made deposit banking services available to residents of Langata while another majority (59%) strongly agreed that agency bankinghas made withdrawal banking services available to residents of Langata. The findings agree with those in Wainaina (2009) who argued that Kenya has in the last five years made great strides in improving access to financial services throughout the country.

A majority (65%) strongly agreed with the statement that Agency banking has shortened the time it takes to receive banking service. Another majority (85%) strongly agreed that Agency banking has made it possible for residents of Langat to avoid bank queues. The majority (88%) indicated that they strongly greed with the statement that Agency banking has shortened the Distance to financial services. The findings agree with those in Wainaina (2009) who noted that one of the reasons for the low financial exclusivity among the marginalized populace is the long distance they need to travel to access financial services.

4.3.2 Level of Utilization

The study sought to find out the number of clients the agencies serves in a month.

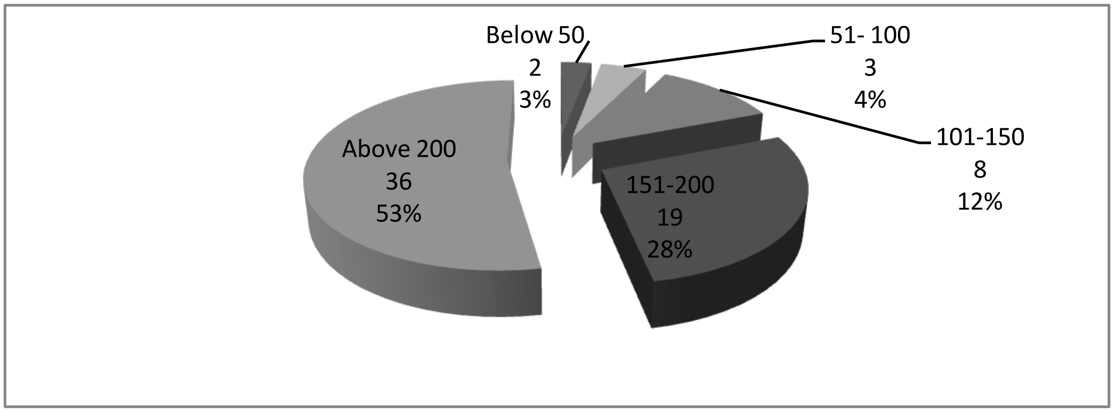

Figure 1: Number of Clients the Agencies Serves in a Month

The findings in figure 1 revealed that most respondents who were 53% served above 200 clients a month, 28% of the respondents served between 151-200 clients a month, 12% (8) of the respondents served 101-150 clients a month, 4% of the respondents served 51-100clients a month while only 3% served below 50 clients a month.It is clear that the agencies serve quite a good number of clients with 93% of the agencies serving more than 100 clients a month. This is in view of the fact that most agencies were started relatively recently with only 13% having operated for more than 4 years.The finding implied that there has been a high level of utilization of agency banking services.

Further, the study sought to find out the kind of services offered to client by the agency. From the findings in table 2, 31% of the respondents indicated the service offered to be cash deposit,

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ISSNxxxx-xxxx (Paper) ISSN xxxx-xxxx (Online)
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55% answered they were withdrawals, 3% indicated they were balance enquiryand 3% answered that the services were credit application. The finding implied that there has been a high level of utilization of agency banking services as far as cash withdrawal and deposits are concerned. However, balance enquiries and credit application are yet to pick up due to the sensitive nature of information required.

Table 2: Services Offered to Client in the Agency

Services offered	F	%
Cash Deposit	23	31%
Withdrawals	41	55%
Balance enquiry	2	3%
Credit application	2	3%
Total	68	92%

4.3.3 Challenges Facing Running of Agency Banking

The study sought to establish the challenges faced in the running the agency. The findings in table 3 reveal that 88 % of the respondents indicated that security was a challenge they faced in running the agency. An overwhelming majority (93%) and (96%) indicated that untrustworthiness among customersand limited float were challenges facing agency banking. Only 5%of the respondents indicated that high competition was a challenge. This implies that the level of competition between Agency units was low perhaps because they were few in number. Therefore, competition was not a challenge.

Table 2: Challenges Facing Running of Agency Banking

Challenge	Frequency	Percent
Security	60	88%
Untrustworthiness among customers	63	93%
Limited float	65	96%
High competition	5	7%
Rigid supervision by the Banks	47	69%
System Breakdown	63	93%
Untrained Staff	45	66%
Compliance with bank Regulations	48	71%
Low Commissions and Revenues	50	74%

A majority (69%) indicated that rigid supervision by the banks was a challenge. An overwhelming majority (93%) indicated that system breakdown was a challenge facing agency banking. Untrained staff presented a challenge as indicated by 66% of the respondents. 41% of the respondents said it was untrustworthiness among customers, customers from time to time try to defraud the agency banking operators, 13% of the respondentsindicated it was limited float, 24% of the respondentsindicated it was high competition and 6% of the respondents indicated that the challenge they faced in running the agency was high supervision by the banks. A majority (71%) indicated that compliance with bank regulations was a challenge while a further 74% indicated that low commission and revenues presented a challenge to running agency banking units.

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion

One objective of the study was to examine the role of Agency Banking in Financial Access. The findings indicated that majority of the respondents agreed with the statement that agency banking had improved financial access to women. Majority of the respondents strongly agreed with the statement that agency banking has improved financial access to the low income earners. The findings agree with those of Wainaina (2009) who argued that Kenya has in the last five years made great strides in improving access to financial services throughout the country.

Majority of the respondents strongly agreed with the statement that Agency Banking has improved financial access to old residents. Majority also indicated that Agency Banking has improved financial access to the youth. Majority of the respondents strongly agreed that Agency banking has offered convenience banking services to the residents of Langata. The findings agree with those of Wainaina (2009) who noted that one of the reasons for the low financial exclusivity among the marginalized populace is the long distance they need to travel to access financial services.

Majority of the respondents strongly agreed that Agency banking has made deposit banking services available to residents of Langata while another majority strongly agreed that agency bankinghas made withdrawal banking services available to residents of Langata. The findings agree with those of Wainaina (2009) who argued that Kenya has in the last five years made great strides in improving access to financial services throughout the country.

Majority of the respondents strongly agreed with the statement that Agency banking has shortened the time it takes to receive banking services. Another majority (85%) strongly agreed that Agency banking has made it possible for residents of Langata to avoid bank queues. The majority (88%) indicated that they strongly agreed with the statement that Agency banking has shortened the distance to financial services.

The second objective of the study was to determine the level of utilization of Agency Banking. Results indicated that agency unit served above 200 clients a month. It is, therefore, clear that the agencies serve quite a good number of clients with 93% of the agencies serving more than 100 clients a month. This is in view of the fact that most agencies were started relatively recently with only 13% having operated for more than 4 years.The finding implied that there has been a high level of utilization of agency banking services.

Results also show that agency banks offered cash deposit services,withdrawals services,balance enquiry and credit application. The finding implied that there has been a high level of utilization of agency banking services as far as cash withdrawal and deposits are concerned. However, balance enquiries and credit application are yet to pick up due to the sensitive nature of information required.

The third objective of the study was to establish the challenges facing Agency Banking. From the study findings a majority indicated that security, untrustworthiness among customersand limited float were challenges facing agency banking. Only a minority indicated that high competition was a challenge. This implies that the level of competition between Agency units was low perhaps because they were few in number. Therefore, competition was not a challenge. A majority indicated that rigid supervision by the banks was a challenge while still another overwhelming majority indicated that system breakdown was a challenge facing agency banking. Untrained staff and compliance with bank regulations were also challenges. Further, majority indicated that low commission and revenues presented a challenge to running agency banking units.

5.2 Conclusions

The study concluded that agency banking plays a major role in the convergence of various banking and non-banking players to provide financial services to all end consumers of financial services. In addition, it increases the number of access points that provide financial services.The level of utilization of agency banking was high. It was revealed that an agency unit served above 200 clients a month. It is therefore clear that the agencies serve quite a good number of clients with most of the agencies serving more than 100 clients a month.Security, untrustworthiness among customers, limited float,rigid supervision by the banks, system breakdown,untrained staff, Compliance with bank regulations, low commission and revenues presented a challenge to running agency banking units. It was revealed that competition was not a challenge affecting the operation of agency units.

5.3 Recommendations

The study recommended that the regulator of banks to encourage more banks to come up with agency banking as this would increase financial access. The banks need to be more supportive to agency units through minimizing system down times as this would increase the utilization of agency banking services. Agents should be well trained; trusted by customers; strategically and conveniently located; and properly incentivized to follow procedures.In addition, the agents should keep sufficient float on hand to avoid running out of cash. In this case, customers will get discouraged if the agent cannot provide the services as and when they need them. To overcome the challenge of security, a secure mechanism needs to be in place to transport cash to and from an agent.Agents should place CCTVs in their agency premises to curb insecurity and also to counter the untrustworthy customer who bring fake notes.

5.4 Areas for Further Studies

There is need for further research on the subject of the role of agency banking in improving financial access in rural areas, marginalized areas. The study can also be replicated in Mombasa, Kisumu and other towns. A study on the role of agency banking in improving financial access can also be undertaken from the banking sector's point of view.

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