AN ANALYSIS OF THE IMPACT OF AGENCY BANKING ON GROWTH OF SMALL AND MEDIUM-SCALE ENTERPRISES IN THARAKA NITHI COUNTY

BY:

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DECLARATION

DECLARATION BY THE CANDIDATE

This project is my original work and has not been presented to any other examination body. No part of this research should be reproduced without my consent or that of Kenyatta University.

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DEDICATION

I gratefully dedicate this research project to my beloved dear parents and siblings for inspiring me, proper upbringing, for successfully guiding and sponsoring my Education.

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ABSTRACT

During school opening days, we have witnessed long queues in the halls of our Commercial Banks arising from the last minute rush by the parents/guardians to pay school fees for their beloved children. In addition, the opening and closing hours of these commercial banks has continued to cause unknown havoc to small and medium scale enterprises who cannot access their services outside their normal but limiting operating hours. This has necessitated the proliferation of Agency Banking to complement the existing commercial banks. This study thus, mainly; assessed how low transaction cost by agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County; determined how customer relationship management by agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County; established how convenient financial services accessibility by agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County; and assessed how security of agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County. The study employed descriptive survey design with a sample size of 400 respondents. The primary data was collected using questionnaires. Data collected was edited, coded and analyzed using SPSS. In addition, the study conducted inferential statistics such as multiple regressions to measure the strength of the relationship between the dependent and independent variables. ANOVA was used to test the significance of the model and regression diagnostics were computed. The study deduced that customer relationship management affect the growth of SMEs business in Tharaka Nithi County to a great extent. The study also established that convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County to a great extent. The study concluded that agency banking aid SMEs in saving money easily, agency banks are fast and have no queues like in banks, they also help SMEs avoid impulse buying, they are easily accessible and facilitate banking of money at night and weekends. The study recommended that banks should lower the transaction costs of agency banking. The bank should remove the deposit charges and instead come up with more elaborate way of recovering the commissions.

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LIST OF ABBREVIATIONS

ATM   Automatic Teller Machine

CBK   Central Bank of Kenya

CDD   Customer Due Diligence

ICT   Information Communication Technology

KBA   Kenya Bankers Association

KCB   Kenya Commercial Bank

POS   Point of Sale

TAM   Technology Acceptance Model

OPERATIONAL DEFINITION OF TERMS

Agency Banking: Involving non-banking institutions like shop to accept deposits and effect payment on behalf of banks.

Agent An agent or agency means an entity that is contracted by a licensed financial institution to provide financial services to a third party e.g. shops, individuals etc.

Entrepreneurs: People responsible for bringing resources, assets, materials and labor into an integrated combination that increases their value from previous status

Financial Institutions Corporate bodies or other body of persons authorized to carry on financial business in Kenya or elsewhere.

Small and medium enterprises Business that employs a small number of workers and does not have a high volume of sales

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Recently there has been explicit growth and development of agent banking across the globe and in Kenya. This is attributed to the quest of ensuring that banking services are accessible to all people despite their demographic backgrounds. In view of this, different channels such as point of sale device (POS), automatic teller machines(ATMS) and banking correspondents otherwise recognized as agent bankers have been created to achieve the beyond the bank branches initiatives.

Kitaka (2001) discussed that banking agents are significant to financial institutions as they aid in diverting their existing customers who are entrepreneurs from the rather crowded banking halls in accessing the banking services. Further, agent banking is especially relevant in developing markets as the expansion of financial institutions to the additional and potential clientele in the rural demographic areas is lacking in terms of the cost effectiveness.

Ideally, prohibitive factors to the financial institutions include the expensive cost involved and challenges in meeting the estimated number of transactions and volumes needed in operating a fully-fledged banking branch. Mokogi (2003) noted that the above benefits coupled with the proliferation of information communication technology (ICT) agent banking explosions have taken a key position in the economic pecking order.

In Kenya the proliferation of agent banking has exponentially exploded despite the agent banking phenomena having a fairly recent past that is traced back to the year 2010. Aryeetev and Udry (1998) noted that the banking industry in Kenya is characteristic of stiff competition hence the utilization of diverse banking tools in an effort to solidify their performance and subsequently aim at owning the core benefit with balance of both rational and economic massages.

From this vein, it will be argued that the financial institutions are slowly embracing the increased adoption of Agency Banks with the aim of financial institutions being to retain their existing brand loyal customers and further grappling for the potential rural clients who are still not yet knowledgeable of the banking services available to them without the need of travelling to long distances to access the mainstream banking branches in the country.

1.1.1 Agency Banking

Agency banking refers to contracting of a retail or postal outlet by a financial institution or a mobile networkoperator to process bank clients' transactions. It is different from a branch teller, since it is the owner or anemployee of the retail outlet who conducts the transactions, ranging from: deposits, withdrawals, funds transfers,bill payments, account balance inquiry, receiving government benefits or direct deposits from employers.Banking agents may include: pharmacies, supermarkets, convenience stores, lottery outlets and post offices(CGAP, 2006). The trend of agent banking is evident in many nations all over the globe, such as in Australiawhere post offices are used as bank agents, France utilizing corner stores, Brazil making use of lottery outlets toprovide financial services, Kenya pioneering the mobile financial services, Nigeria, South Africa and thePhilippines (Siedek, 2008).

Retail outlets are forced to extend their limited sources of financing in a bid to meet the regulations so as tofulfill the legal requirements necessary to operate as banking agents. Such requirements usually involve having aspecific level of capital investment to assure the regulators of the sustainability of the venture. Inability of theretail outlets to fulfill these requirements prevents the expansion of retail banking to areas of low income earners.Unless the tight regulations are eased, few retail outlets would be able to meet the

standards required by thepolicy makers (Ivatury& Lyman, 2006). Financial institutions can only be allowed to work through retail outletsif the laws permit it. Regulators determine what kind of, if any, financial institutions are permitted to contractbanking agents, what products can be offered at the retail outlets, how financial institutions have to handlefinancial transactions and all aspects regarding the operation of agency banking. Without the approval of thelawmakers, agent banking would not be operational. Lawmakers also provide guidelines and alterations of thepolicies regarding operation of agent banking from time to time, which necessitates the banking agents to changetheir operations to be in line with the prevailing laws of the land (Ivatury& Mas, 2008). Without the support ofthe regulatory authorities, agent banking would not be facilitated.

Agent banking involves a number of technologies in order for the financial institutions to keep track of thetransactions done by the retail outlet. These technologies include: point-of-sale (POS) card readers, mobilephones, barcode scanners to scan bills for bill payment transactions, Personal Identification Number (PIN) pads,and personal computers (PCs) that connect with the financial institution's server using a personal dial-up or otherdata connection. All these technologies require expertise and capital investment in acquiring the technologicalequipment which is a challenge to the retail outlets that have limited capital (Ivatury, 2006).

1.1.2 Agency banking in Kenya

The Kenyan rural population has remained largely unbanked. Rural entrepreneurs' access to banking services in these areas has been hindered by the assumption that rural populations have low incomes which are not sufficient to sustain banking operations; hence most formal banks in Kenya have shied away from offering banking services to rural areas for many years. Recently, commercial banks in Kenya in collaboration with the mobile phone service providers came up with the new innovation of mobile and

agency banking. Given the potential for the transformative impact of such a service to the rural population, despite the known impact, most of Kenyan Small and Micro Enterprises (SMEs) owners are still not utilizing the mobile banking to the full potential if used at all.

Agency banking is the new innovation that banks are using to take services to the un-banked and under-banked at a cheaper rate. Agency banking was introduced during the 2009 budget and was enshrined in the Finance bill of 2009. Agency banking takes customers out of the bank halls to kiosks and villages. Investors have pumped billions into new platforms that offer agency banking services (Mulupi, 2011). Among the platforms are M-kesho and 24/7 from Equity bank,Co-op kwa jirani of Co-operative bank among others. Given that more Kenyans without bank accounts will gain access to mobile banking services, transaction fees charged to mobile banking customers have reduced. One notable feature mobile platforms share is that their agents also serve as banking agents (Mulupi, 2011).

The mobile platforms are widely expected to lead to regional and national economic growth due to the increased access to advanced financial services by those who need it the most; the unbanked and semi-banked. Since traditional barriers to commerce like access, cost and time have been eliminated; economic growth is set to hasten with independent, real-time and unencumbered access to financial services (Mulupi, 2011).

Businesses with strong cash flows have benefited from the newly-introduced agency banking. By June 2011, over 30,000 outlets around the country had been enrolled as mobile money transfer agents. These left banks with a smaller pool of businesses from which they could pick the cash-rich operations they needed to roll out the agency banking model (Kinyanjui, 2011). Many of the agencies are located in rural areas where, despite the advent of mobile phone money services, people still walk long distances to transact

over-the-counter business. There is still cases of selected use even when a client has chosen to embrace the new technology, they still use some and rely on the traditional methods they are used to for some activities despite the fact that it could also be done through mobile and agency banking. This suggests apathy in technology adoption.

The advancement in Technology has played an important role in improving service delivery standards in the Banking industry. In its simplest form, Automated Teller Machines (ATMs) and deposit machines now allow consumers carry out banking transactions beyond banking hours. With online banking, individuals can check their account balances and make payments without having to go to the bank hall. This is gradually creating a cashless society where consumers no longer have to pay for all their purchases with hard cash (Amoako, 2012).

1.1.3 Agency Banking in Tharaka Nithi County

Tharaka Nithi County is found in the semi-arid area of the Eastern region of Kenya, approximately 175 kilometers north east of Nairobi.It lies on the foothills of Mount Kenya and is one of the smallest counties in Kenya, covering approximately 2,638.8 square kilometers. Tharaka Nithi borders Meru County to the North, Kitui County to the East and South East and Embu County to the South.

According to data from the Kenya National Bureau of Statistics the county has a total population of 356,330 people (male - 48% and female -52%). Tharaka Nithi County lies on a semi-arid area. The rainfall averages between 200mm and 800mm annually with its temperature ranging between 11°C to 25.9°C during cold and hot seasons respectively.

Although Tharaka Nithi County lies in the semi-arid area of the larger Meru region, agriculture is the major economic activity for locals. There is small scale production of different crops including millet, sorghum, cowpeas, maize, cassava, vegetables and bananas. The county also relies on tea, coffee and horticulture for income. There is

commercial trout fish farming sponsored by the Tharaka Fisheries initiative. The fish is reared in river Nithi Thuci and Mutonga.

Tharaka Nithi is also known for the community power generation scheme located at the Kamanyaki Great Falls Dam. This dam also supports irrigation in some areas of the county. Tharaka Nithi fruit farmers also rely on processing of herbal medicine in the Meru Herbs Plant located along the Chiakariga-Nkubu Road. The plant has brought in over 100 million shillings to farmers since 2009.

Major towns in the county include; Chuka, Chogoria. Other major towns in the county are Marimanti, Chiakariga, Gatunga and Tunyai.

The phenomenon of consistent income earning has seen the region receive financial windfall such the bonuses and year in cash flows which when well tapped can greatly improve the welfare of its people.However, this potential has not been harnessed as the existing banking facilities has fallen short of reaching the ordinary citizen owing to the existing poor condition of the infrastructure necessitating the proliferation of the agency banks in the County.

Small scale-enterprises are sometimes referred to as small business. Generally it is a business that employs a small number of workers and does not have a high volume of sales. Such enterprises are generally privately owned and operated by sole proprietors, corporations or partnerships. The legal definition of a small-scale enterprise varies by industry and country. In some countries, the definition of a small-scale enterprise is bound by financial measures such as net profits, balance sheet totals, the value of assets and annual sales.

In Kenya generally and in Tharaka Nithi County in particular these businesses are common and operate from early hours in the morning to late in the night. However, they are mainly determined by business finance as it determines their mortality rate.

1.2 Statement of the Problem

In February 2011, the Central Bank of Kenya (CBK) released regulations to govern a new agency banking model. The regulations allow banks to offer services through third party agents approved by the CBK. Some commercial banks are in the process of rolling out agent banking networks. KCB expected to have 2,000 agents by the end of 2011. Equity Bank had recruited 8,000 agents, with 2,000 in operation. Co-op Bank has already seen its profits increase through partnerships with SACCOs that tap deposit pools in rural areas. Effectively, the agency banking model provides an extension into a market already targeted: Co-op Bank and Equity have both succeeded with business models aimed at low income customers.

Under the CBK regulations, agents can offer a number of banking services, including cash deposits and withdrawals, fund transfers, bill payments, loan payments, payment of benefits and salaries, and collection of account and loan applications. However, agents are limited to cash-only transactions and cannot assess applications.Further, the opening and closing hours limit the access to existing commercial banks and thus the small and medium scale enterprises cannot access their services outside these hours.

Despite the effectiveness and flexibility that agency banking bring SMEs have failed to fully embrace agency banking citing fear of security of their money an lack of trust in the agency banks. Further, although the relevance of the agency banking in the commercial banks gaining competitiveness and enhancing financial performance, there has been limited research conducted locally specifically on the contribution of agency banking on the growth of SMEs. Most of the studies reviewed were done abroad and according to Aosa (1992), it's not right to import the wholesome results of a research without taking into account the contextual differences and hence the needs to carry out local research in order to understand the problem better. This study intends to be guided by counsels of

previous researches undertaken abroad in an effort to find out the effect of agency banking on the impact of agency banking to SMEs in Tharaka-Nithi County, Kenya.

1.3 Research Objectives

1.3.1 Broad Objective

The general objective of the study was to analyze the impact of the Agency Banking on growth ofSmall and Medium Scale Enterprises in Tharaka Nithi County.

1.3.2 Specific Objectives

The study was guided by the following specific objectives;

(i) To assess how low transaction cost by agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County.

(ii) To determine how customer relationship management by agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County.

(iii) To establish how convenient financial services accessibility by agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County.

(iv) To assess how security of agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County.

1.4 Research Questions

This research projectwas guided by the following questions:-

(i) What is the effect of low transaction cost by agency banks on the growth of Small and Medium Scale Enterprises in Tharaka Nithi County?

(ii) How does customer relationship management by agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County?

(iii)   How does convenient financial services accessibility by agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County?

(iv)   To assess how security of agency banks affect the growth of Small and Medium Scale Enterprises in Tharaka Nithi County?

1.5 Justification to the study

Agency banking in Kenya has been on the continuous increase since its inception in the country back in 2010. Subsequently several studies have been initiated to analyze and assess its impact on entrepreneurs in varied places in the country.

However, an assessment and analysis of impacts to entrepreneurs in Tharaka Nithi County is yet to take center stage. In this quest some academics have opined that impact studies in varied places in the country yield to similar results as they are within the confines of the geographical boundaries of Kenya. However, this argument is limited as Kenya has different climatic and economic structures within its geographical boundaries.

In view of this the impact of agencies to entrepreneurs in the varied regions of the country is dependent on the economic structure of the region, the climatic zone of the region, the cultural perspectives on financial institutions within the regions among other demographic specific factors of all the regions.

Tharaka-Nithi county is on the Eastern part of Kenya and is characteristic of economic activities such farming, livestock keeping and commercial business enterprises.

As a result the conducting of this study may be beneficial to both the financial institutions already operating in the county and those with future prospects in the county. Further, it may be a significant source of information to entrepreneurs in the county and subsequently serve as a learning resource to the wider population of Tharaka Nithi County.

In addition, Agency banking as a product of the major banks in thecounty is bound to increase as the county is densely populated and majority of the population do not have access to the services of formal banking institutions.

1.6 Scope of the Study

Agency banking in Tharaka Nithi County is significant as it caters for the 356,330 peoples that a significant population is yet to embrace formal banking institution services in the County. However, of particular interest werethe small and medium entrepreneurs who need the banking services on a daily basis or a regular basis during the business working days.

The study also focused on Agency banking services to the target population in terms of the aspect of saving the much needed time that is wasted queuing in the towns that have operating bank branches. Evidently the study also revealed that agency banking to entrepreneurs is ideal in terms of accessing banking service beyond the normal operation hours that are set in the branch banks in the county. The study further established the opportunities that lay unexploited in the Agency banking sector in Tharaka-Nithi County bearing in mind that the county has extensive geographical coverage with numerous towns that have entrepreneurs running the economy of the county.

1.7 Limitations of the Study

Nonetheless there also exists limitation to the study which include language barrier as research instruments such as questionnaires have to be structured in English which may not be well understood by the entrepreneurs who mostly transact their business activities using the native language. Further, the quest to convince entrepreneurs and agency banking operatives to take part in study may prove to challenging task owing to individual differences and cultural perspectives surrounding recording of their information fearing that it would in future be detrimental to them as individuals and as

business operatives. And lastly, the financial constraint as the researcher had to engage research assistants to collect data. All these limitations were mitigated against by involving the residents who understood the area well to volunteer and collect data.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presented analysis of existing literature on the impact of agency banking on entrepreneurs. It included findings of related studies undertaken by other researchers, discuss briefly the concept of Agency Banking, theories of performance, the impact of the outlets and the conceptual framework.

2.2 Theoretical Frameworks

Rau (2004) provided broad theoretical frameworks that are linked to financial intermediation and access to formal banking services in Sub-Saharan Africa. They were grouped in two major categories of macro and micro factors. The Macro factors were denoted to include political factors and financial sector development whilst the micro factors were categorized to include institutional factors, technological factors and the social factors that integrate religious and cultural factors.

2.2.1 Agency theory

The Agency theory argues that in the modern organizations, in which there is shared ownership, managerial actions will usually depart from those required in order to maximize shareholder returns (Pratt & Zeckhauser, 1985). 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. Agency relationships only exist simply because the principal delegates some of their duties to the agent (Jensen & Meckling, 1976).

In the agency banking, the commercial banks and FI delegate some of their banking operations to agents who in turn offer banking services to its customers but under the banks or FI brand name. For this relationship to grow there needs to be mutual understanding between the two parties and the agents need to adhere to the terms of contract (Williamson, 1985). Agency theory specifies mechanisms which reduce agency

loss (Eisenhardt, 1989). These include schemes issued to managers which reward them financially for maximizing shareholder interests. Such schemes include plans whereby senior executives obtain shares for the company, mostly at a reduced price, thus being able to put the managers at the same level shareholders in terms of interest (Jensen & Meckling, 1976). Other similar schemes will usually link the managers compensation and benefits to shareholders returns and have part of the managers compensation deferred to the future. This will always encourage long-run managerial actions in value maximization for the organizations and deter short-run managerial actions which harm corporate value. This theory is important in guiding this study because the agents will always be working under their principal who shall be commercial banks and FI's. They both should work at ensuring the financial system established is stable and supports economic development. This study will be hinged on agency theory which will aid the study to determine how agency banking can impact the growth of SMEs.

2.2.2 Bank-led Theory

In the most basic version of the bank-led theory of branchless banking, a licensed financial institution (typicallya bank) delivers financial services through a retail agent. That is, the bank develops financial products andservices, but distributes them through retail agents who handle all or most customer interaction (Lyman & Ivatury, 2006). The bank is the ultimate provider of financial services and is the institution in whichcustomers maintain accounts. Retail agents have face-to-face interaction with customers and perform cash-in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals (Owens, 2006).

In some countries, retail agents also handle all account opening procedures and, in some cases, even identify andservice loan customers. Virtually any outlet that handles cash and is located near customers could potentiallyserve as a retail agent. Whatever the

establishment, each retail agent is outfitted to communicate electronicallywith the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS)terminal that reads cards.Bank-led model offers a distinct alternative to conventional branch-based banking in that customer conductsfinancial transactions at a whole range of retail agents instead of at bank branches or through bank employees(Lyman &Ivatury, 2006). This model promises the potential to substantially increase the financialservices outreach by using a different delivery channel (retailers/ mobile phones), a different trade partner (ChainStore) having experience and target market distinct from traditional banks, and may be significantly cheaper thanthe bank based alternatives. In this model customer account relationship rests with the bank (Tomašková, 2010).

Agents Related Risks arise from substantial outsourcing of customer contact to retail agents. From a typicalbanking regulator's perspective, entrusting retail customer contact to the types of retail agents used in both thebank-led and nonbank-led models would seem riskier than these same functions in the hands of bank tellers in aconventional bank branch. These retail agents may operate in hard-to reach or dangerous areas and they lackphysical security systems and specially trained personnel. The lack of expert training may seem a particularproblem if retail agents' functions range beyond the cash-in/cash-out transactions of typical bank tellers toinclude a role in credit decisions (State Bank of Pakistan, 2011). Banking regulation typically recognizesmultiple categories of risk that bank regulators and supervisors seek to mitigate. Five of these risk categoriescreditrisk, operational risk, legal risk, liquidity risk, and reputation risk-take on special importance whencustomers use retail agents rather than bank branches to access banking services. The use of retail agents alsopotentially raises special concerns regarding consumer

protection and compliance with rules for combatingmoney laundering and financing of terrorism (Kumar, et al. 2006).

The bank lead theory is related to the study as it focus on how financial institution like bank deliver theirfinancial services through a retail agent, where the bank develops financial products and services, but distributesthem through retail agents who handle all or most customer interaction . For example; Family bank of Kenyadistributes it financial product through it Pesa pap agent, where the agent have face-to-face interaction withcustomers and perform cash-in/cash-out functions, much as a branch-based teller would take deposits andprocess withdrawals (Tomašková, 2010).

2.2.3 Transaction Cost Theory

(Barney, 2001), model shows institutions and market as a possible form of organization to coordinate economic transactions. When the external transaction costs are higher than the internal transaction costs, the company will grow. If the external transaction costs are lower than the internal transaction costs the company will be downsized by outsourcing. Furst (2002) concludes by saying that the size of the firm is dependent on the costs of using the price mechanism, and on the costs of organization of other entrepreneurs. These two factors together determine how many products a firm produces and how much of each.

2.3Empirical Review

According to Infosys Finacle reckoned that generally agency banking form a global perspective has had significant impact inbuilding of financial inclusion hence catering for both the previously unbanked populations and further providing the formal financial services at lower costs, with great convenience and reaching remote areas. However, the

research will aim at identifying the impacts to a defined population called entrepreneurs. The following are some of the impacts that various others have predetermined.

2.3.1 Low Transaction Cost

According to Arora and Ferrand (2007), access to Finance is critical for sustainable economic growth and socialdevelopment. Financial inclusion empowers low income people and marginalized sectors of society to activelyparticipate in the economy, which leads to increasing employment and decreasing poverty levels. Apart from increasing access to those excluded from financial services and reducing reliance oninformal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savingsand Credit Associations (ROSCAs) and shylocks, agent banking has reduced the need for more staff andbranches to reach customers.

Bean (2009), states that agent banking has reduced cost and enhanced efficiency in the financial sector with apossibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increasedthe ease of banks' expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011).Agent banking means commercial outlets like shops and supermarkets acting in some capacity on behalf offormal banks (Hogan, 1991).

Agent – assisted banking is arelatively new concept. What makes agent banking work are information and communication technologies whichcustomers, retail agents and banks use to record and communicate transaction details quickly, reliably and cheaplyover vast distances. For example even in rural areas many poor people have access to low cost mobile phones andprepaid airtime dealers. For banks agent banking is used to reduce the cost of delivering financial services, relievecrowds in bank branches and establish presence in new areas. (Kumar et al, 2006)

According to Veniard, Bill and Gates Foundation (2010) in the article "how agent banking changes the economicsof small accounts" one of the primary impediments to providing financial services to the poor through branchesand other bank based delivery channels is the high cost inherent in these traditional banking methods. The amountof money expended by financial service providers to serve a poor customer with a small balance and conductingsmall transactions is simply too great to make such accounts viable. In addition when financial service providersdo not have branches that are close to the customer, the customer is less likely to use and transact with theirservices. However we see the emergence of new delivery models as a way to drastically change the economics ofbanking the poor.

By using retail points as cash merchants (defined here as agent banking) banks can offer saving services in acommercially viable way by reducing fixed costs and encouraging customers to use the service more often,thereby providing access to additional revenue sources. Agent banking systems are up to three times cheaper tooperate than commercial bank branches for two reasons. First, agent banking minimizes fixed costs by leveragingexisting retail outlets and reducing the need for banks to invest in their own infrastructure. Second, acquisitioncosts are lower for agents. By using mobile phones linked to bank accounts they are able to acquire customers atless than 70 percent of the cost of a branch (Kotler, 2006).

Costs are incurred only if transactions are realized. Agent banking systems receive a commission only iftransactions are realized. On the other hand in a commercial bank branch, fixed costs are distributed over numberof transactions resulting in significantly higher costs per transactions especially if the branch is under-utilized. Asa result of lower transaction costs and a transaction driven revenue model, agent banking systems are more

costeffective for transactional accounts with low balances and frequent transactions (Mas et al, 2008). Challenges to the profitability ofagent banking by commercial banks include the following: it is believed that banks cannot rely on agents to crosssell financial products. As a result, in order to increase overall customer profitability, banks may need to incuradditional costs in marketing and deploying sales forces, including branch employees, to cross sell additionalfinancial products to agent customers. Back office and technology costs may vary depending on the deliverychannel, since a bank may lean towards more complex and higher core banking systems because of increasedregulatory requirements and more complex procedures and product offerings.

Agents help reach more peoplein areas where commercial bank branches do not exist or by easing traffic at existing branches. Agents in anumber of countries are now authorized to offer a broader range of financial services such as withdrawals,deposits and international remittances. Agent banking represents a significant opportunity to reduce transactioncosts such as travel for clients by bringing financial services too hard to reach and geographically dispersed areas.Banks often do not have sufficient incentive or capacity to establish formal branches in these areas. The set up foragent bank is less costly and more flexible than for traditional commercial bank branches. It reduces the need toinvest in staff and physical infrastructure.Lower transaction costs are incurred since client/ entrepreneurs would visit agency any timewithout incurring any additional cost like transport cost to bank their cash. Agencies are moreaccessible for illiterates and the very poor who might feel intimidated in branches with lowamount of money they would wish to withdraw and deposit (Ba & Pavlou, 2002).

2.3.2 Customer Relationship Management

Baker (2004) defined customer loyalty as the behavior repeated by customers due to their assessing of a product or service and consequently awarding it good ratings, testimonials and reviews. Technically customer loyalty is a program that involves integration of programs aimed at keeping clients happy hence their willingness to conduct more business with the particular financial institution. Conceptually Kotler (2006) determined that customer loyalty was a result of a blend of elements in sociology, psychology, economics and social anthropology. From this vein, it was further argued that studies in customer loyalty are characterized in reference to the demographic are of individual consumers as well as their family friendship backgrounds. The dimensions of customer loyalty are further linked to service features which in this case can be the features in agency banking, service quality and the handling of customer's complaints.

Financial institutions are very concerned of their customer'sloyalty as losing them to competition amounts to loss of revenue and hence detrimental to their growth. Walsh et al. (2005) stated that it was better to take care of the existing customer before going to look for a new one. Ideally, this is premised from some of the advantages that are linked to customer loyalty that include low service costs when compared to new consumers, pay higher costs for a set of products and further the existing customer serves as a marketing agent via word of mouth to friends and relatives which is beneficial to banks as it's a strategic marketing avenue with no added costs and expenses (Gee et al., 2008). Increased Customer loyalty was also deemed to be efficient as it fulfills the customers need and further provides the customer with knowledge on financial affairs which is essential in entrepreneurship.

According to Zeithamal and Bitner (2000) quality in banking is categorized across six major areas that include bank atmosphere, relationship between the bank and its customers, charges and rates, and subsequently the availability and convenience of services. In light of these assertions agency banking is valuable to the mainstream bank as they ensure convenience and accessibility aspects which heighten quality and hence increased customer loyalty to the banks.

2.3.3 Convenient Financial Service Accessibility

Muluki(2011) opined that agency banking in Kenya was innovative and ultimately significant in the quest to take customers out of the banking halls that are usually very long to local kiosks and dukas where agents of banks offer similar services faster and at a cheaper rate. The traditional barriers that have previously offended entrepreneurs such as lack of access to banks near their places of work, the cost and time used to go to the bank to deposit or withdrawal cash have adequately been solved by the revolution of agency banking to both semi-banked and non-banked consumers.

Moreover, economic growth is bound to hasten with the independence, real-time and unencumbered access to financial services via the agent bankers who are close to the entrepreneurs (Mas et al, 2008). In the Kenyan context fast transfers are especially important to entrepreneurs as the branch bank operation hours collide with their business hours. However, this is no longer a challenge to entrepreneurs as they can deposit their day's earnings with the agent workers without having to worry about the closing hours of banks as some agents may operate till late in the evening.

Subsequently, the entrepreneurs are further favored by the agency banking model as they escape the long banking queues in banking halls which waste their time hence being forced to shut down their businesses during the hours they have to access financial services such deposit or withdrawals.For poor people retail agents may be far more

convenient and efficient than going through a bank. Banking through retail agents uses information and communication technology through cell phones to transmit transaction details from the retail agent or customer to the bank.

Agent banking benefits a range of stakeholders. The poor gain convenient access to financial services in their own communities. Financial institutions reach a vast new customer segment. Agents increase their sales volumes and have an opportunity to develop deeper relationships with the customer. However implementing correspondent strategies can be tough. It may be hard to build networks of partners that can fulfill the correspondent role. The economics are still uncertain for players that do not offer a range of services. And because the strategy is relatively new for financial service providers, it is difficult to know exactly what will work in each particular community.

In a study done by Yobes et al (2006) to assess the impact of agent banking on entrepreneurs inKisii town, they found that the agent banking saves time due to shorter lines than in branches,shorter distance since services are brought closer to client's home. The agent branches are alsoopened for longer hours compared to main bank branches. This generally has positive impact onentrepreneurs since they can use shorter distance and time to transact their bank business hencetranslate to better performance of agency entrepreneurs.

2.3.4 Security

Though the shorter the distance which the entrepreneurs and customers take to bank their cash,insecurity should be a big concern to both the entrepreneur and customer. Security around theagent entrepreneurs should be enhanced. The security level also influences the amount of cashwhich can be kept by the agent entrepreneurs at any given point hence affects their performance (Lyman et al, 2008).

Arora and Ferrand, (2007), reveal that technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world. Considering the importance of banking system's high presence and affordability, there is great potential of using this in agent banking for provision of banking services to unbanked community (Arora and Ferrand, 2007). However, technology systems have associated data and network security risks which make them susceptible for conducting financial transactions.

Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients. Owens, (2006), states that financial institutions are required to plan and act for long term development and prosperity of their agents for them to reach the targeted customers at a set population. This requires close coordination/collaboration with agents; providing them opportunities to learn more, to become more efficient and; a fair pricing mechanism for the services provided by the agents (Arora and Ferrand, 2007). As the technology changes rapidly, banks have been greatly affected in its operation, whereby application of the technology ensures quick and effective services to the clients. However, banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution (Lyman et al, 2008). This leads to customer inconvenience and trust over the security/safety of transaction lodged with agent banks. Moreover, these constant systems failure makes transactions with banking agents vulnerable to fraud.

2.4 Summary of the Gap

Access to Finance is critical for sustainable economic growth and social development. Financial inclusionempowers low income people and marginalized sectors of society to actively participate in the economy, whichleads to increasing employment and decreasing

poverty levels (Bold, 2011). Apart from increasing access tothose excluded from financial services and reducing reliance on informal financial sources such as AccumulatingSavings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and shylocks,agent banking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007).

Agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availingfinancial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks'expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011). Previous studiesmainly in developed countries like U.S.A and Britain shows the essence of agent banking to an economy, despitethis there has been no empirical study that has been undertaken in Kenya to establish the contributions of agencybanking on growth of small and medium-scale enterprises.

Since the year 2010 when Central Bank of Kenya issued guidelines on the operations of agent banking byfinancial institutions little is known about the adaptation and impact by commercial banks. Most of the reviewedstudies are more concerned with adoption of competitive strategies by various firms and organizations. They areconcerned with how competitive strategies impact the firms in various ways for example in terms of performanceand profitability. In contrast this research will go further and analyze how agent banking operations impact the growth of small and medium-scale enterprises in Tharaka Nithi County.

If Agent banking can beinstrumental in reaching the poor unbanked especially in remote areas of the country and by it commercial bankswill have an opportunity to focus on this particular clientele hence the study will explore agent banking beingutilized as a focus

strategy. This research will provide an investigation of agent banking as an alternative for the commercial banks branches in Tharaka Nithi County. This kind of information is vital in policy formulation to commercial banksin identifying and understanding the external environment and competitive strategy that can be applied to ensureboth superior performance and survival and to the SMEs in realizing how they can effectively use the agency banks to get more value for their businesses.

2.5 Conceptual Framework

Conceptual framework is a concise description of the phenomenon under study accompanied by a graphical or visual depiction of the major variables of the study (Mugenda, 2008). According to Young (2009), conceptual framework is a diagrammatical representation that shows the relationship between dependent variable and independent variables. In the study, the conceptual framework will look at the impact of agency banking on growth of small and medium scale entrepreneurs in Tharaka Nithi County.

Low Transaction cost

- Reduced need for more staff
- Reduced need for more bank branches
- Close proximity to customers
- Minimizing fixed costs
- Simple infrastructure structure required

Customer relationship management

- Low service costs
- Ease of accessibility
- Convenience of services
- Conducive banking atmosphere

Convenient financial services Accessibility

- Short queues
- Long working hours
- Short travelling distances
- Shorter transaction time

Security

- Limited amount of cash to transact
- Data and network security fears
- Delays due to system failure
- Vulnerability of fraud due to delays

Growth of small and medium-scale enterprises

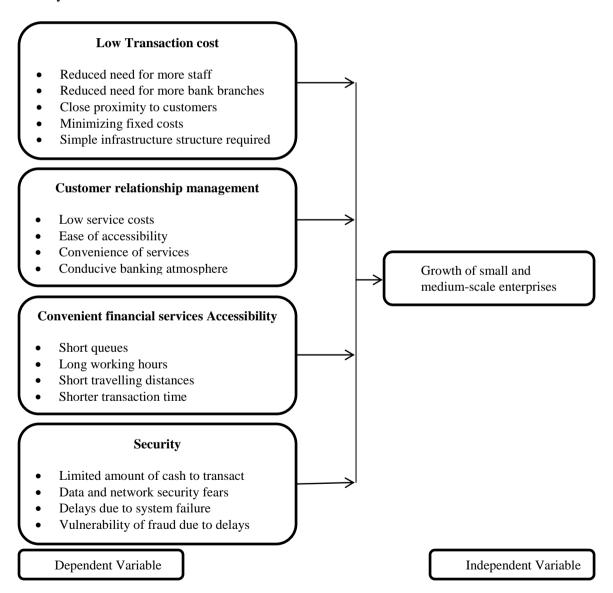| Dependent Variable | Independent Variable |

Figure 2. 1: Conceptual Framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents a summarized description of the proposed research methodology used in the study. It strived to answer questions and attain the set objectives. The following sub-sections formed the basis of the chapter;research design, description of the target area, target population, sample population, the proposed research instrument and the research procedure, data collection and analysis and ethical consideration.

3.1 Research Design

In order to examine the topic of the research, the researcher used the descriptive research design. This method of research was preferred because the researcher wasable to collect data and answer questions concerning the current status of the subject of study. Descriptive research determines and reports the way the things are and also helps a researcher to describe a phenomenon in terms of attitude, values and characteristics (Mugenda & Mugenda, 1999). Descriptive design also employs methods of randomization so that error may be estimated when inferring population characteristics from observations of samples and the variables and procedures are described (Uma & Bougie,2010).According to Orodho (2003), descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals.

3.2Target Population

According to Mugenda and Mugenda (1999), target population is the entire group a researcher is interested in or the group about which the researcher wishes to draw conclusions. These are individuals or objects that possess at least one common characteristic to be studied (Mugenda & Mugenda, 1999).The targeted population was within Tharaka Nithi County.

Table 3. 1: Target Population

CONSTITUENCIES	NUMBER OF AGENCIES	NUMBER OF SMEs
Chuka-Igambang'ombe	18	2000
Maara	12	1000
Tharaka	6	1000
Total	**36**	**4000**

Source: Tharaka Nithi County Council, 2014

The target population in the study was the entrepreneurs using agency banking services in the defined target area and those operating the agency bank outlets for banks such as Kenya Commercial Bank, Equity Bank and Co-operative bank. It estimated that around 4,000 entrepreneurs operate within the county.

3.3 Sampling Design

The study employedstratified random sampling which according to Kombo(2006) involves dividing the population into homogenous subgroups and then taking a sample random sample in each subgroup. According to (Mugenda & Mugenda, 2003), the sample should be small enough to be economical in terms to time and expenses. Simple random sampling was used to select 10 percent of the sample of this study which was 400 entrepreneurs. According to Mugenda, at least 10% of the target population should be sampled as a representative for a study.

Table 3. 2: Sample size

CONSTITUENCIES	Target Population	Sample ratio	Sample size
Chuka-igambang'ombe	2000	0.1	200
Maara	1000	0.1	100
Tharaka	1000	0.1	100
Total	**4000**	0.1	**400**

Source: Tharaka Nithi County Council, 2014

3.4 Data collection tools and Techniques

The primary data was collected using questionnaires which were administered by the researcher with the help of a research assistant. The questionnaire comprisedof questions which sought to answer questions related to the objectives of this study. Questions were both closed to enhance uniformity and open-ended to ensure maximum data was obtained. A pilot study was doneby the researcher to assess the capability of the research instruments to collect the required data for the research. The questionnaire was firstadministered by the researcher to 10 respondents in the constituency who were not part of the sample, to establish whether all questions in the questionnaire could be fully understood by the targeted respondents and hence rectified if need be.Secondary data wasgathered from relevant banks annual reports, relevant journals, pamphlets, similar research findings and books from libraries.

3.5 Validity and Reliability

According to Sirkin (2006) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Expert opinion was requested to comment on the representativeness and suitability of

questions and give suggestions of corrections to be made to the structure of the research tools. To establish the validity of the research instrument the researcher sought opinions of experts in the field of study especially the lecturers in the department of business administration. This helped to improve the content validity of the data that was collected. It facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The researcher selected a pilot group of 15 individuals from the target population to test the reliability of the research instruments. In order to test the reliability of the instruments, internal consistency techniques was applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability (Chandran, 2004). The pilot data was not included in the actual study.

3.6 Data analysis and presentation

The data obtained from the field in raw form is difficult to interpret so such data must be cleaned, coded, key punched into computer and analyzed. The result of the research was analyzed using quantitative method. The quantitative data generatedwassubjected to the descriptive statistic feature in SPSS to generate information which waspresented using frequency such as mean, mode and median as well as measures of dispersion such as percentages were calculated. Data waspresented using tables, pie charts, graphs (Kathuri et al., 1993). The qualitative data was theninterpreted by attaching significance to the themes and the patterns observed.

In addition, the study conducted inferential statistics such as multiple regressions to measure the strength of the relationship between the dependent and independent variables. ANOVA was used to test the significance of the model and regression diagnostics were computed.

The regression equation was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \alpha$$

Where: Y is the dependent variable (Growth of Small and Medium Scale Enterprises in Tharaka Nithi County),

β_0 is the constant/Y-intercept,

$\beta_1, \beta_2, \beta_3, \beta_4$, are the slopes of the regression equation,

X_1 is low transaction cost

X_2 is customer relationship management,

X_3 is convenient financial services accessibility,

X_4 is security

α is an error term.

In order to find out the value relevance of effects of agency banking on growth of SMEs, the model must be significant. The significance of the model was tested using ANOVA. Results are said to be statistically significant within the 0.05 level, which means that the significance value must be smaller than 0.05. The significance was determined by the F-statistics.

3.7 Ethical considerations

While conducting the study, the researcher ensured that research ethics were observed. Participation in the study wasvoluntary. Privacy and confidentiality of respondents was observed to avoid harming them physically and psychologically. The researcher conducted a preliminary test and obtained all the background information in an effort to avoid imparting any harm to the respondent. The objectives of the study were also explained to the respondents with an assurance that the data provided would be used for academic purpose only.

CHAPTER FOUR: RESULTS, INTERPRETATION AND DISCUSSIONS

4.1 Introduction

This chapter focused on data analysis, interpretation and presentation. The chapter covers the demographic characteristics, impact of agency banking, availability of banking services, application of agency services, reasons for adoption of agency services, benefits derived from agency banking to entrepreneurs, training for agency operators, monitoring and challenges faced in operation of agency banking.

4.1.1 Response Rate

This research study had a sample size of 400 respondents who includedentrepreneurs using agency banking services in Tharaka Nithi County. Out of this sample size, 358 questionnaires were filled and returned to the researcher which represents a sample size of 89.5% response rate. This response rate was excellent and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This commendable response rate can be attributed to the data collection procedure, where the researcher personally administered questionnaires and waited for respondents to fill in, kept reminding the respondents to fill in the questionnaires through frequent phone calls and picked the questionnaires once fully filled.

Table 4. 1: Response Rate

	Frequency	Percentage
Returned	358	89.5
Not Returned	42	10.5
Total	**400**	**100**

4.2 Demographic Characteristics

The demographic characteristics of the respondents were investigated in the first section of the questionnaire. They are presented in this section under gender, age, highest level of education, agency they belong to and the duration they had used agency services.

Table 4. 2: Gender

	Frequency	Percentage
Male	116	32.4
Female	242	67.6
Total	**358**	**100.0**

According to the findings in Table 4.2, 67.6% of the respondents were male while 32.4% were female.

The study also sought to find out the age of the respondents. The findings are as shown in Table 4.3.

Table 4. 3: Age

	Frequency	Percentage
21-35 years	45	12.6
36-50 years	261	72.9
51-70 year	52	14.5
Total	**358**	**100.0**

From the findings in Table 4.3, 72.9% of the respondents were aged 36-50 years, 14.5% were aged 51-70 years while12.6% were aged 21-35 years. This implies that all the respondents were on the right age to make informed personal response relating to the impact of the Agency Banking on growth of Small and Medium Scale Enterprises in Tharaka Nithi County.

The study further sought to find out the highest level of education of the respondents. The findings are as indicated in Table 4.4.

Table 4. 4: Level of education

	Frequency	Percentage
Secondary level	57	15.9
College level	122	34.1
Undergraduate	108	30.2
Postgraduate	71	19.8
Total	**358**	**100.0**

From the findings, 34.1% of the respondents had college level of education, 30.2% had undergraduate level of education, 19.8% had postgraduate level of education while 15.9% had secondary level of education.

The respondents indicated that their type of businesses included: cyber café, kinyozi, law firm, salon, hotel, M-pesa, shop, agro-vet, electronics shop, animal feed store, supermarket, chemist and hardware shop. The respondents further indicated that they belonged to equity, Coop, KCB agency banks.

4.3 Impact of Agency Banking

The study sought to establish how well the agency banks have been helpful.The findings are as shown in Table 4.5.

Table 4. 5: How well the agency banks have been helpful

	Frequency	Percentage
Very high	45	12.5
High	228	63.8
Moderate	56	15.6
Low	29	8.1
Total	**358**	**100.0**

From the findings in Table 4.5, majority the respondents (63.8%) indicated that the helpfulness of agency banking have been high, 15.6% moderate, 12.5% very high while 8.1% indicated that the helpfulness of agency banking have been low. The respondents

also indicated that the agency banks have helped them save money easily, agency banks are fast and have no quees like in banks, avoiding impulse buying, they are easily accessible and banking of money at night and weekends. This is in line with Kitaka (2001) who posits that banking agents are significant to financial institutions as they aid in diverting their existing customers who are entrepreneurs from the rather crowded banking halls in accessing the banking services. Further, agent banking is especially relevant in developing markets as the expansion of financial institutions to the additional and potential clientele in the rural demographic areas is lacking in terms of the cost effectiveness.

4.4 Low Transaction Cost

The study was interested in establishing extent that low transaction costs affect the growth of SMEs business in Tharaka Nithi County. The findings are as presented in Table 4.6.

Table 4. 6: Extent that that low transaction costs affect the growth of SMEs business in Tharaka Nithi County

	Frequency	Percentage
Very great extent	51	14.2
Great extent	267	74.7
Moderate extent	40	11.1
Total	**358**	**100**

From the findings, majority of the respondents (74.7%) indicated that low transaction costs affect the growth of SMEs business in Tharaka Nithi County toa great extent, 14.2% to a very great extent while 11.1% indicated that low transaction costs affect the growth of SMEs business in Tharaka Nithi County to a moderate extent.

The study further sought to find out the extent that various aspect of low transaction cost affect the growth of SMEs business in Tharaka Nithi County. The findings are as presented in Table 4.7.

Table 4. 7: Extent that various aspect of low transaction cost affect the growth of SMEs business in Tharaka Nithi County

	Mean	Std. Deviation
Short queues	4.396	0.564
Shorter transaction time	4.375	0.751
Long working hours	3.629	0.799
Short travelling distances	2.641	0.993

According to the results in Table 4.6, the respondents indicated that the aspects of low transaction cost that affect the growth of SMEs in Tharaka Nithi County to a great extent includeshort queuesas shown by a mean score of 4.396, shorter transaction timeas shown by a mean score of 4.375, long working hoursas indicated by a mean score of 4.215 and short travelling distancesas shown by a mean score of 3.629. The findings are in line with Kumar et al (2006) who posit that agent – assisted banking is a relatively new concept. What makes agent banking work are information and communication technologies which customers, retail agents and banks use to record and communicate transaction details quickly, reliably and cheaply over vast distances. For example even in rural areas many poor people have access to low cost mobile phones and prepaid airtime dealers. For banks agent banking is used to reduce the cost of delivering financial services, relieve crowds in bank branches and establish presence in new areas. Kotler (2006) adds that agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for banks to invest in their own infrastructure. Second, acquisition costs are lower for agents. By using mobile phones linked to bank accounts they are able to acquire customers at less than 70 percent of the cost of a branch.

4.5 Customer Relationship Management

The study sought to establish the extent that customer relationship management affect the growth of SMEs in Tharaka Nithi County. These results are depicted in Table 4.8 below.

Table 4. 8: **Extent that customer relationship management affect the growth of SMEs in Tharaka Nithi County**

	Frequency	Percentage
Very great extent	56	15.6
Great extent	257	71.8
Moderate extent	45	12.6
Total	**358**	**100.0**

Accoring to the findings, majority of the respondents (71.8%) indicated that customer relationship management affect the growth of SMEs business in Tharaka Nithi County to a great extent, 15.6% to a very great extent while 12.6% indicated that customer relationship management affect the growth of SMEs business in Tharaka Nithi County to a moderate extent.

The study also sought to establish the extent that various aspects of customer relationship management affect the growth of SMEs business in Tharaka Nithi County. The findings are as shown in Table 4.9.

Table 4. 9: Extent that various aspects of customer relationship management affect the growth of SMEs business in Tharaka Nithi County

	Mean	Std. Deviation
Low service costs	4.480	0.856
Convenience of services	4.401	0.669
Conducive banking atmosphere	3.746	1.098
Ease of accessibility	3.534	0.904

From the findings, the respondents indicated that the aspects of customer relationship management that affect the growth of SMEs business in Tharaka Nithi County to a great extent include low service costs as indicated by a mean score of 4.480, convenience of services as shown by a mean scoreof 4.401, conducive banking atmosphere as shown by a mean score of 3.746 and convenience of services as expressed by a mean score of 3.534. These findings are in line with Zeithamal and Bitner (2000) who posit that quality in banking is categorized across six major areas that include bank atmosphere, relationship between the bank and its customers, charges and rates, and subsequently the availability and convenience of services. In light of these assertions agency banking is valuable to the mainstream bank as they ensure convenience and accessibility aspects which heighten quality and hence increased customer loyalty to the banks.

4.6 Convenient Financial Service Accessibility

The study sought to establish the extent that convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County. The findings are as presented in Table 4.10.

Table 4. 10: Extent that convenient financial services accessibility affects the growth of SMEs business in Tharaka Nithi County

	Frequency	Percentage
Very great extent	49	13.7
Great extent	241	67.3
Moderate extent	68	19.0
Total	**358**	**100.0**

Accoring to the findings, majority of the respondents (67.3%) indicated that convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County to a great extent, 19.0% to a moderate extent while 13.7% indicated that convenient financial services affect the growth of SMEs business in Tharaka Nithi County to a very great extent.

The study further sought to establish the extent that various aspects of convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County. The findings are as shown in Table 4.11.

Table 4. 11: Extent that various aspects of convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County

	Mean	Std. Deviation
Minimizing fixed costs	4.248	0.703
Reduced need for more staff	4.158	0.928
Close proximity to customers	4.105	1.276
Simple infrastructure structure required	3.907	1.308
Reduced need for more bank branches	3.836	1.095

From the findings the respondents indicated that the aspectsof convenient financial services accessibility that affect the growth of SMEs business in Tharaka Nithi County to a great extent include minimizing fixed costs as indicated by a mean score of 4.248, reduced need for more staff as expressed by a mean score of 4.158, close proximity to customers as shown by a mean score of 4.105, simple infrastructure structure required as expressed by a mean score of 3.907 and reduced need for more bank branchesas shown by a mean score of 3.836. These findings correlate with Yobes et al (2006) who assessed the impact of agent banking on entrepreneurs in Kisii town, they found that the agent banking saves time due to shorter lines than in branches, shorter distance since services are brought closer to client's home. The agent branches are also opened for longer hours

compared to main bank branches. This generally has positive impact on entrepreneurs since they can use shorter distance and time to transact their bank business hence translate to better performance of agency entrepreneurs.

4.7 Security

The study sought to find out the extent that security affect the growth of SMEs business in Tharaka Nithi County. The findings are as presented in Table 4.12

Table 4. 12: Extent that security affect the growth of SMEs business in Tharaka Nithi County

	Frequency	Percentage
Very great extent	33	9.2
Great extent	304	84.9
Moderate extent	21	5.9
Total	**358**	**100.0**

From the findings, majority of the respondents (84.9%) indicated that security affect the growth of SMEs business in Tharaka Nithi County to a great extent, 9.2% to a very great extent while 5.9% indicated that security affect the growth of SMEs business in Tharaka Nithi County to a moderate extent.

The study also sought to find out the extent that various aspects of security affect the growth of SMEs business in Tharaka Nithi County. The findings are as shown in Table 4.13.

Table 4. 13: Extent that various aspects of security affect the growth of SMEs business in Tharaka Nithi County

	Mean	Std. Deviation
Limited amount of cash to transact	4.107	0.472
Data and network security fears	4.058	0.624
Delays due to system failure	4.027	0.864
Vulnerability of fraud due to delays	3.951	0.665

According to the findings, the respondents indicated that the aspects of security that affect the growth of SMEs business in Tharaka Nithi County to a great extent include limited amount of cash to transact as shown by a mean score of 4.107, data and network security fears as indicated by a mean score of 4.058, delays due to system failure as expressed by a mean score of 4.027 and vulnerability of fraud due to delays as shown by a mean score of 3.951.The findings are in line with Lyman et al (2008) who postulates that security around the agent entrepreneurs should be enhanced. The security level influences the amount of cash which can be kept by the agent entrepreneurs at any given point hence affects their performance. Arora and Ferrand (2007) adds that technology systems have associated data and network security risks which make them susceptible for conducting financial transactions. Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients.

4.8 Regression Analysis

In this study, a multiple regression analysis was conducted to measure the strength of the relationship between the dependent and independent variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions. The regression findings are as presented below.

Table 4. 14: Regression coefficients of the relationship between agency banking and the five predictive variables

Model		Unstandardized Coefficients		Beta	t	Sig. (P-values)
		B	Std. Error			
1	(Constant)	0.696	0.108		2.019	0.035
	Low transaction cost	0.706	0.114	0.581	3.593	0.021
	Customer relationship management	0.550	0.146	0.305	3.556	0.036
	Convenient financial services accessibility	0.587	0.137	0.249	4.874	0.015
	Security	0.711	0.103	0.343	3.825	0.034

a. Dependent Variable: Growth of SMEs

The regression equation above has established that taking all factors into account (low transaction cost, customer relationship management, convenient financial services accessibility and security) constant at zero, growth of Small and Medium Scale Enterprises in Tharaka Nithi County will be 0.696. The findings presented also show that taking all other independent variables at zero, an increase in the scores of low transaction costwould lead to a 0.706 increase in the scores of growth of Small and Medium Scale Enterprises in Tharaka Nithi County, an increase in the scores of customer relationship managementwould lead to a 0.550 increase in the scores of growth of Small and Medium Scale Enterprises in Tharaka Nithi County. Further, an increase in the scores of convenient financial services accessibility would lead to a 0.587 increase in the scores of

growth of Small and Medium Scale Enterprises in Tharaka Nithi County. In addition, the findings show that an increase in the scores of securitywill lead to a 0.711 increase in the scores of growth of Small and Medium Scale Enterprises in Tharaka Nithi County.Overall, customer relationship management had the least influence on growth of Small and Medium Scale Enterprises in Tharaka Nithi County while securityhad the highest influence. According to the model, all the variables were significant as their significance value was less than 0.05. All the variables were positively correlated with growth of Small and Medium Scale Enterprises in Tharaka Nithi County. The findings correlate with Muluki (2011) who opined that agency banking in Kenya was innovative and ultimately significant in the quest to take customers out of the banking halls that are usually very long to local kiosks and dukas where agents of banks offer similar services faster and at a cheaper rate. The traditional barriers that have previously offended entrepreneurs such as lack of access to banks near their places of work, the cost and time used to go to the bank to deposit or withdrawal cash have adequately been solved by the revolution of agency banking to both semi-banked and non-banked consumers. Subsequently, the entrepreneurs are further favored by the agency banking model as they escape the long banking queues in banking halls which waste their time hence being forced to shut down their businesses during the hours they have to access financial services such deposit or withdrawals.

Table 4. 15:Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.885	0.783	0.742	0.0761

Source: Researchers data (2014)

R-Square (coefficient of determination) is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted R^2, also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. 74.2% of the changes in the growth of Small and Medium Scale Enterprises in Tharaka Nithi County could be attributed to the combined effect of the predictor variables.

Table 4. 16: ANOVA resultsof the regression analysis between growth of Small and Medium Scale Enterprises in Tharaka Nithi Countyand predictor variables

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	2.453	5	0.613	21.354	0.00216
1	Residual	1.12	352	0.029		
	Total	3.573	357			

From the ANOVA statistics in table 4.18, the processed data, which are the population parameters, had a significance level of 0.0174 which shows that the data is ideal for making a conclusion on the population's parameter. The F calculated at 5% Level of significance was 21.354. Since F calculated is greater than the F critical (value = 2.31), this shows that the overall model was significant i.e. there is a significant relationship between growth of Small and Medium Scale Enterprises in Tharaka Nithi County and agency banking.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This is the final chapter in this study which gives the summary of the findings, the conclusions and recommendations of the study based on the objective of the study. The chapter finally presents the suggestions for further studies.

5.2 Summary

The purpose of the study was to analyze the impact of the Agency Banking on growth of Small and Medium Scale Enterprises in Tharaka Nithi County. As such the study sought to establish how Agency Bankinginfluencesgrowth of Small and Medium Scale Enterprises in Tharaka Nithi County. The data was gathered from questionnaires as the research instrument and secondary data was utilized to supplement the primary data obtained. The questionnaire was designed in line with the objectives of the study.

This study found that the helpfulness of agency banking have been high. The study also established that agency banks have helped SMEs save money easily, agency banks are fast and have no quees like in banks, avoiding impulse buying, they are easily accessible and banking of money at night and weekends. The study further found out that low transaction costs affect the growth of SMEs business in Tharaka Nithi County to a great extent. In addition the study established that the aspects of low transaction cost that affect the growth of SMEs in Tharaka Nithi County to a great the reduced need for more staff as shown by a mean score of 4.396, reduced need for more bank branches as shown by a mean score of 4.375, close proximity to customers as indicated by a mean score of 4.215 and minimizing fixed costs as shown by a mean score of 3.629.

The study deduced that customer relationship management affect the growth of SMEs business in Tharaka Nithi County to a great extent. The study also deduced that the aspects of customer relationship management that affect the growth of SMEs business in

Tharaka Nithi County to a great extent include low service costs as indicated by a mean score of 4.480, convenience of services as shown by a mean score of 4.401, conducive banking atmosphere as shown by a mean score of 3.746 and convenience of services as expressed by a mean score of 3.534.

The study also established that convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County to a great extent. The study also deduced that aspects of convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County that influence the adoption of agency services to a great extent include short queues as shown by a mean score of 4.396, shorter transaction time as shown by a mean score of 4.375, long working hours as indicated by a mean score of 4.215 and short travelling distances as shown by a mean score of 3.629.

The study further found out that security affect the growth of SMEs business in Tharaka Nithi County to a great extent. The study found out that the aspects of security that affect the growth of SMEs business in Tharaka Nithi County to a great extent include limited amount of cash to transact as shown by a mean score of 4.107, data and network security fears as indicated by a mean score of 4.058, delays due to system failure as expressed by a mean score of 4.027 and vulnerability of fraud due to delays as shown by a mean score of 3.951.

5.3 Discussion

The study established that agency banks have helped SMEs save money easily, agency banks are fast and have no quees like in banks, avoiding impulse buying, they are easily accessible and banking of money at night and weekends. These findings concur with Burger and Humphrey (1998) who argue that in agency banking outlet the owner of the retail outlet is in a position to perform the various banking transactions services that are available in banking branches such as consumers' deposits, withdraws, paying of bills,

enquire the balance in accounts, transfer funds, access government benefits and make direct deposits from their employer.

The study deduced that the aspects of low transaction cost that affect the growth of SMEs in Tharaka Nithi County to a great extent include the reduced need for more staff as shown by a mean score of 4.396, reduced need for more bank branches as shown by a mean score of 4.375, close proximity to customers as indicated by a mean score of 4.215 and minimizing fixed costs as shown by a mean score of 3.629. The findings are in line with Kumar et al (2006) who posit that agent – assisted banking is a relatively new concept. What makes agent banking work are information and communication technologies which customers, retail agents and banks use to record and communicate transaction details quickly, reliably and cheaply over vast distances. For example even in rural areas many poor people have access to low cost mobile phones and prepaid airtime dealers. For banks agent banking is used to reduce the cost of delivering financial services, relieve crowds in bank branches and establish presence in new areas. Kotler (2006) adds that agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for banks to invest in their own infrastructure. Second, acquisition costs are lower for agents. By using mobile phones linked to bank accounts they are able to acquire customers at less than 70 percent of the cost of a branch.

The study also established that the aspects of customer relationship management that affect the growth of SMEs business in Tharaka Nithi County to a great extent include low service costs as indicated by a mean score of 4.480, convenience of services as shown by a mean score of 4.401, conducive banking atmosphere as shown by a mean score of 3.746 and convenience of services as expressed by a mean score of 3.534. These findings are in line with Zeithamal and Bitner (2000) who posit that quality in banking is categorized across six major areas that include bank atmosphere, relationship between the bank and

its customers, charges and rates, and subsequently the availability and convenience of services. In light of these assertions agency banking is valuable to the mainstream bank as they ensure convenience and accessibility aspects which heighten quality and hence increased customer loyalty to the banks.

Further, the study deduced that aspects of convenient financial services accessibility that affect the growth of SMEs business in Tharaka Nithi County to a great extent include include short queues as shown by a mean score of 4.396, shorter transaction time as shown by a mean score of 4.375, long working hours as indicated by a mean score of 4.215 and short travelling distances as shown by a mean score of 3.629. These findings correlate with Yobes et al (2006) who assessed the impact of agent banking on entrepreneurs in Kisii town, they found that the agent banking saves time due to shorter lines than in branches, shorter distance since services are brought closer to client's home. The agent branches are also opened for longer hours compared to main bank branches. This generally has positive impact on entrepreneurs since they can use shorter distance and time to transact their bank business hence translate to better performance of agency entrepreneurs.

Finally, the study established that the aspects of security that affect the growth of SMEs business in Tharaka Nithi County to a great extent include limited amount of cash to transact as shown by a mean score of 4.107, data and network security fears as indicated by a mean score of 4.058, delays due to system failure as expressed by a mean score of 4.027 and vulnerability of fraud due to delays as shown by a mean score of 3.951. The findings are in line with Lyman et al (2008) who postulates that security around the agent entrepreneurs should be enhanced. The security level influences the amount of cash which can be kept by the agent entrepreneurs at any given point hence affects their performance. Arora and Ferrand (2007) adds that technology systems have associated

data and network security risks which make them susceptible for conducting financial transactions. Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients.

5.4 Conclusions

The objective of this research was to examine the relationship between agency banking and growth of Small and Medium Scale Enterprises in Tharaka Nithi County. From the findings, the study concludes that agency banking aid SMEs in saving money easily, agency banks are fast and have no queues like in banks, they also help SMEs avoid impulse buying, they are easily accessible and facilitate banking of money at night and weekends.

The study also concludes that aspects of low transaction cost that affect the growth of SMEs include the reduced need for more staff, reduced need for more bank branches, close proximity to customers, minimizing fixed costs and simple infrastructure structure required.

The study further concludes that to a great extent low service costs, convenience of services, conducive banking atmosphere and convenience of services affect the growth of SMEs in Tharaka Nithi County.

The study finally concludes that to great extent aspects of convenient financial services including short queues, shorter transaction time, long working hours and short travelling distancesaffect the growth of SMEs in Tharaka Nithi County.

5.5 Recommendations

From the research findings and conclusions the study recommends that SMEs should develop a saving culture through the continued use of agency banking which brings banking services nearer to the business. This makes it convenient for businesses to get

banking services without having to close the business as there are no queues in agency banks. Further the agencies allow businesses to save less amounts of cash and business can therefore easily accumulate savings.

The study also recommends that banks should start offering credit services through the agency banks. From the study it was established that the agency banks do not offer credit services. This would boost more businesses and increase the market for banks services which would be a double edged sword as both parties would benefit.

The study also recommends that banks should continue creating awareness in the County concerning the agency banks. This is because the study established that not many people are aware of agency banks operations.

The study further recommends that banks should encourage the opening of more agency banks in the remote areas in the country. This will widen their coverage and open up the areas deemed as poor but actually have a lot of potential to increase the earnings of the banks and promote the growth of businesses in those regions.

The study recommends that banks should lower the transaction costs of agency banking. The bank should remove the deposit charges andinstead come up with more elaborate way of recovering the commissions. Reduce the number ofregulations to enhance many people taking up this form of entrepreneurship. The bank shouldupgrade the POS machines to eliminate the unnecessary many time outs when a transaction isbeing performed hence increase efficiency for better performance.

The study finally recommends that Central Bank should consider coming with aclear agency banking regulatory policy which creates a universal platform for all banking institutions. This willenhance fair market completion and thus barring financial institutions from customer exploitation.

5.6 Suggestions for Further Research

The researcher analyzed for major effects of agency banking on growth of Small and Medium Scale Enterprises in Tharaka Nithi County. A similar study should be conducted in other counties to establish whether it will yield the same information. Further a study can be conducted to determine the challenges faced in the establishment of agency banking in Kenya. The study further recommends that a study should be done on the challenges facing the adoption of agency banks by commercial banks in Kenya.

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Appendix 1: Letter of Introduction

Lawrence Kaburu Ngai

P.O.BOX 06-60100

Embu

To whom it may concern,

Dear Sir/Madam,

RE: ANALYSIS OF THE IMPACT OF AGENCY BANKING ON ENTREPRENUERS IN THARAKA NITHI COUNTY

I am a postgraduate student at the Kenyatta University pursuing a Master of Business Administration degree in Project Finance. I am currently undertaking a research on the impact of Agency Banking on Small and Medium Scale Enterprises in Tharaka Nithi County.

I am pleased to inform you that i have selected you to participate in the study. I therefore request you to provide data through the questionnaire that will be administered to you. Your identity will be treated with utmost confidence and the data provided will be used for academic purposes only.

Yours faithfully,

Kaburu Lawrence Ngai

Appendix II:Questionnaire for small and medium scale entrepreneurs

This questionnaire seeks information on the impact of Agency Banking on Small and Medium Scale Enterprises in Tharaka Nithi County. All information given will be treated private and confidential for the academic purpose only. Please respond to all items in the questionnaire.

SECTION A: Background Information

1. Gender : male   [   ]   Female [   ]

2. Age Categories

   Below 20 years [   ]

   21-35 years   [   ]

   36-50 years   [   ]

   51-70 year   [   ]

   Over 71 years   [   ]

3. Please indicate the highest level of education attained

Primary level   [   ]

Secondary level   [   ]

College level   [   ]

Undergraduate   [   ]

Postgraduate   [   ]

4. Type of business _____

5. Agency where you belong_____

6. Current position / title_____

7. How long have you been using Agency services?

Years_____Months_____weeks_____

SECTION B: Impact of Agency Banking.

8. How well have Agent Banks been helpful to you?

A. Very high   [   ]

B. High   [   ]

C. Moderate   [   ]

D. Low   [   ]

E. Very low   [   ]

9. What   ways   has   the   Agency   Banks   helped   you?

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

…………………………..

SECTION C: LOW TRANSACTION COST

10. To what extent does low transaction cost affect the growth of SMEs business in Tharaka Nithi County?

A. Very high   [   ]   B. High   [   ]   C. Moderate   [   ]

D. Low   [   ]   E. Very low   [   ]

11. To what extent does the following aspect of low transaction cost affect the growth of SMEs business in Tharaka Nithi County?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Reduced need for more staff					
Reduced need for more bank branches					
Close proximity to customers					
Minimizing fixed costs					
Simple infrastructure structure required					

SECTION D: CUSTOMER RELATIONSHIP MANAGEMENT

12. To what extent does customer relationship management affect the growth of SMEs business in Tharaka Nithi County?

A. Very high   [ ]   B. High   [ ]   C. Moderate   [ ]

D. Low   [ ]   E. Very low   [ ]

13. To what extent does the following aspect of customer relationship management affect the growth of SMEs business in Tharaka Nithi County?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Low service costs					
Ease of accessibility					
Convenience of services					

Conducive banking atmosphere	60				

SECTION E: CONVENIENT FINANCIAL SERVICES ACCESSIBILITY

14. To what extent does convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County?

    A. Very high   [ ]   B. High   [ ]   C. Moderate   [ ]

    D. Low   [ ]   E. Very low   [ ]

15. To what extent does the following aspect of convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Short queues					
Long working hours					
Short travelling distances					
Shorter transaction time					

SECTION F: SECURITY

16. To what extent does security affect the growth of SMEs business in Tharaka Nithi County?

    A. Very high   [ ]   B. High   [ ]   C. Moderate   [ ]

    D. Low   [ ]   E. Very low   [ ]

17. To what extent does the following aspect of security affect the growth of SMEs business in Tharaka Nithi County?

	Very great extent	**Great extent**	**Moderate extent**	**Little extent**	**Not at all**
Limited amount of cash to transact					
Data and network security fears					
Delays due to system failure					
Vulnerability of fraud due to delays					

THANK YOU FOR YOUR RESPONSES

Appendix III: Questionnaire for Agency Operators

You are invited to take part in a questionnaire about the impact of Agency Banking on Small and Medium Scale Enterprises in Tharaka Nithi County.

If you agree to take part in this study please complete this questionnaire. This study is purely for academic interests and the information you will provide will be kept strictly confidential.

NB: please do not write your name

PART A: ORGANISATIONAL DATA

1. Level of education_____

2. Designation_____

3. Name of the bank_____

4. Location of operation _____

5. Year of Agency operation _____

6. Please tick the category that best describes your bank in which you offer agency services

a) Foreign owned and not locally incorporated[ ]

b) Foreign owned but locally incorporated [ ]

c) With government participation [ ]

d) Wholly locally owned [ ]

e) Others specify ……………………………………………

Part B: LOW TRANSACTION COST

7. To what extent does low transaction cost affect the growth of SMEs business in Tharaka Nithi County?

   A. Very high   [ ]   B. High   [ ]   C. Moderate   [ ]

   D. Low   [ ]   E. Very low   [ ]

8. To what extent does the following aspect of low transaction cost affect the growth of SMEs business in Tharaka Nithi County?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Reduced need for more staff					
Reduced need for more bank branches					
Close proximity to customers					
Minimizing fixed costs					
Simple infrastructure structure required					

Part C: CUSTOMER RELATIONSHIP MANAGEMENT

9. To what extent does customer relationship management affect the growth of SMEs business in Tharaka Nithi County?

A. Very high   [   ]   B. High   [   ]   C. Moderate   [   ]

D. Low   [   ]   E. Very low   [   ]

10. To what extent does the following aspect of customer relationship management affect the growth of SMEs business in Tharaka Nithi County?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Low service costs					
Ease of accessibility					
Convenience of services					
Conducive banking atmosphere					

Part D: CONVENIENT FINANCIAL SERVICES ACCESSIBILITY

11. To what extent does convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County?

    A. Very high   [ ]   B. High   [ ]   C. Moderate   [ ]

    D. Low   [ ]   E. Very low   [ ]

12. To what extent does the following aspect of convenient financial services accessibility affect the growth of SMEs business in Tharaka Nithi County?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Short queues					
Long working hours					
Short travelling distances					
Shorter transaction time					

Part E: SECURITY

13. To what extent does security affect the growth of SMEs business in Tharaka Nithi County?

    A. Very high   [ ]   B. High   [ ]   C. Moderate   [ ]

    D. Low   [ ]   E. Very low   [ ]

14. To what extent does the following aspect of security affect the growth of SMEs business in Tharaka Nithi County?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Limited amount of cash to transact					
Data and network security fears					
Delays due to system failure					
Vulnerability of fraud due to delays					

Thank You

AppendixIII: Map of Kenya

Figure 1: Map of Kenya showing the location where Tharaka-Nithi County is located.