RELATIONSHIP BETWEEN AGENCY BANKING AND INVESTMENT PERFORMANCE OF FISHING ENTREPRENEURS IN SELECTED BEACHES IN SIAYA COUNTY, KENYA

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS AND ECONOMICS

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DECLARATION

I declare that this research project report has not been presented anywhere for any award and that all sources of information have been acknowledged by means of references.

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This research project report has been presented for examination with my approval as the university supervisor.

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ACKNOWLEDGEMENT

I wish to sincerely acknowledge the guidance I have got from my supervisor, Dr. Robert Mule. His encouragement, mentorship and support inspired me to complete this project on schedule. Finally I give glory to God.

DEDICATION

This project report is dedicated to my late mother Herine Ayieta, family members, my children and my dear spouse.

ABSTRACT

Agent banking is quickly become recognised as a viable strategy in many countries. In recent years agent banking has been adopted and implemented with varying degrees of success by a number of developing countries particular Latin and Brazil. Brazil is often recognised as a global pioneer in this area since it was early adopted the model and over the years has developed a mature network of agent banks covering more than 99% of countries municipalities. Currently, agency banking model is an integral part of modern banking in many African countries including Kenya. It is geared to help entrepreneurs like fisher folk to enjoy a more convenient channel of accessing bank services. Whereas banking services are designed to facilitate financial services to the community this has not been realized by majority of low income earners; who comprise a large portion of Kenyan fishing population. Therefore, the purpose of this study is to determine the relationship between agency banking and investment performance of fishing folk in selected beaches in Siaya County. Objectives of the study were to; establish the relationship between agency banking policy regulations and investment performance, determine the association between agency banking costs and investment performance and establish the relationship between agency banking risks and investment performance. The study was guided by contract theory. A correlation research design was used. The target population and sample all the 91 fishing entrepreneurs operating in Siaya county. A Census sampling technique was employed. The study used both primary and secondary data. Primary data was collected using a semi structured questionnaire. Validity and reliability of these instruments were checked using expert review and pilot test analysed using Cronbach's Alpha respectively. The findings of the study were that agency policy regulations and investment performance had a positive and significant association ($r = .357$, $p =.000$), agency banking costs had a negative and significant association with investment performance ($r = -.241$, $p =.000$) and agency banking risks and investment performance had a negative and significant association ($r = -.356$, $p =.000$). This implies that agency banking lead to reduced investment performance. Data was analysed using descriptive and inferential statistics such as mean, standard deviation, and Pearson's correlation analysis. Data was presented using tables. The research findings may be significant to financial policy makers in coming up with policy that will regulate the bank and the agents at large. It may also be useful to the existing commercial banks to establish their impact to their profitability. In addition, the research may provide new empirical evidence on the effect of agency banking on commercial banks performance and form a basis for future research

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ACRONYMNS

ATM	Automated teller Machine
CBK	Central Bank of Kenya
POS	Point of sale
KBA	Kenya Bankers Association

OPERATIONAL DEFINITIONS OF TERMS

Investment performance -	This is the ability of an organization to fulfil its mission through sound management, strong governance and a persistent rededication to achieving organizational goals and objectives.
Profitability -	This is the ability of business operations to generate revenue in greater quantities done expenditure.
Efficiency -	This is a measure of how well management practice is yielding against the budget.
Customer base-	This is the group of customers that a business serves in line with its business objectives.

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CHAPTER ONE
INTRODUCTION

This chapter introduces the background of the study, statement of the problem, objectives, hypothesis, research questions, scope and justification of the study.

1.1 Background of the Study

Agency banking is whereby a second person; in most cases business people, works on behalf of the bank for an agreed benefit thus there is a principle -agent relationship between the banks and the business people (Pandey, 2009). According to Mudupe agent banking refers to delivery of financial services outside convectional bank branches, often using non bank retail outlets that rely on technology such as point of sale devices or mobile phone for real time transaction process .Currently, agency banking model is an integral part of modern banking in many African countries including Kenya. It is geared to help financial institutions like Equity Bank Limited divert existing customers from crowded branches by providing a more convenient channel of accessing bank services .Agent banking is quickly becoming recognised as a viable strategy in many countries. In recent years agent banking has been adopted and implemented with varying degrees of success by a number of developing countries particular Latin and Brazil .Brazil is often recognised as a global pioneer in this area since it was early adopted the model and over the years has developed a mature network of agent banks covering more than 99 % of countries municipalities (AFI, 2008).

Studies on the agency banking and investment performance have been in the banking sector and SMEs in different parts of the world. Dupas and Robinson (2009) used a unique study design that controlled for potential biases while allowing for the use of simple regression analysis, find that access to a formal savings account has substantial positive impacts on women’s productive investment levels and expenditures, and also makes women less vulnerable to shocks from illness.

On the other hand, Chen and Snodgrass (2001) relied on a similar method to that of Barnes (2001) and Dunn and Arbunkle (2001) to control for potential biases, also find a positive impact of savings. Although the impact of savings is smaller than that of borrowing, income of savers is more stable than that of borrowers. Chen and Snodgrass

(2001) further compared the impact of SEWA Bank on clients who borrow to those who save without borrowing, and compare both groups to non-clients (who are drawn randomly from women engaged in the informal sector in the same neighbourhood as clients in Ahmedabad, Gujarat, where SEWA is based).

On the contrary, Houston and James (1995) investigated the compensation in the banking industry as a tool for promoting propensity to take risk. In their study they find no evidence that equity-based incentive increase the level of risk taking. On the contrary, they find a positive relationship between the use of equity-based compensation and the ratio of market-value to book-value. The use of more equity-based incentives by banks with high charter values is completely inconsistent with a propensity to increase risk. Gorton and Rosen (1995) produce similar results. Their conclusion is that managers with controlling interests tend to make safe loans while entrenched managers make more risky loans. nOther studies notably, Onay *et al*. (2005) studied impact of internet banking on bank profitability in Turkey which covered a period of ten years (1996-2005). Fourteen banks were selected for the study using random sampling method. Secondary data was drawn from income statements and balance sheets found in the bank scope database for Turkish banks. The results showed that adoption of online banking did not seem to have a significant impact on the performance of Turkish banks measured in terms of ROE (ratio of pretax profit to equity), ROA(ratio of bank profit to its total assets) or margin in the year of adoption. However, in the following year there was significant decrease in the profitability. This was attributed to the increase in IT expenditures following the adoption of the new technology.

Another qualitative study by Sumra *et al*. (2011), on determining the effect of electronic banking on the profitability of banks in Pakistan focused on twelve banks where interviews were conducted on the managers and the study was descriptive and exploratory in nature. The main motive for e-banking identified by the all bank managers was their customers, to amplify their clientage, to increase customer satisfaction, retention and business expansion which would eventually gain them more profits. It indicated E-banking enabled banks to achieve efficiency; it reduced the requirements of manual applications maintaining low cost on transactions as activities were recorded automatically on computers which in turn reduced human errors hence, increasing the accuracy and saves time

From the literature review and empirical studies, the results on how agency banking affects investment performance of various organizations differ. Though different methodology were applied in precious studies there is still a gap on how the agency banking has enhanced the investment performance of fishing entrepreneurs and hence the need for the current study to bridge this gap

Out of the Kenyan population only 46% is banked: as of October 2010 it was noted that equity bank had the largest customer base in Kenya, with over 5.7 million accounts. This entire means there is still a big mass of Kenyans who are yet to be banked. To deal with the above challenges Safaricom come up first agency model called MPESA then followed with different banks coming up with their own agency model .This has brought about banking revolution in Kenya. Rachel Keller (2011) states that 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. Agents can be telco outlets, SMEs, retail chains, savings and credit co-operatives (SACCOs), or even ‘dukas' (corner shops) - essentially any profit-making entity that has been in business for at least 18 months and can afford to fund a float account to facilitate payments. In central bank of Kenya report for the quarter ended march 31 this year noted there are 10,066 active agents in the east Africa nation .The agent contracted by eight banks made transaction worth 762 million dollars in the period .leading in the number of agents is equity bank with over 3234 agents, then KCB with over 2600 and co-operative bank with about 1800 agents. (www.capitalfm.co.ke). Regulators want to achieve financial inclusion through a profitable, low cost delivery model that simultaneously protects consumer and the integrity of financial service. As agency banking becomes even more spread, it will reduce foot halls within branches and enable them to focus on delivery advice and premium service (Sai jayanty, 2012)

This research was concerned with fisher community more especially fishing entrepreneurs around Lake Victoria. These include boat owners, employees, fish mongers and BMU leaders that earn a living through fishing activities. The research was carried out in Kenya, which shares the Lake Victoria water body with Uganda and Tanzania. The specific location of the Study is in Siaya County. This county has several landing sites, approximately around eight. Through random sampling three sites were chosen which are; Luanda K'Otieno, Usenge and Osieko. These three landing sites are particularly ideal mainly because they are far apart and quite busy and popular as compared to the others.

1.2 Statement of the Problem

The contribution of agency banking to the development of Kenyan economy is of great importance for instance in the year 2016 the commercial banks advanced up to Ksh.220 billion to private businesses, parastatals and other public entities receiving up to Kshs 28 billion. In Kenya today, commercial banks are not only worried about the safety of their funds and increase in returns on their investments but also customers demand on efficiency, fast and convenient services. Customers want a commercial bank that will offer them services that will meet their particular needs and support their business goals. They want to be able to check their balance online, find out if a cheque is cleared, and transfer funds within accounts and even access banking services via agents. Equity Bank Limited, a leading bank in terms of customer base and use of agency banking model, has been on the fore front in rolling out its strategies to enhance customer efficiency. On the contrary, even with introduction of agency banking model, the bank has continued to witness long queues in its banking halls resulting in low service efficiency to its customers. Though banks have come up with this agency model, long queues are still experienced in the bank .Additionally banks are reporting high level of dormancy of accounts while the bank's services have been brought right at their door step. Daily there are new agents being recruited by the banks one will wonder there level of compliance to agency regulation policy. For shops of different magnitude being given the magnitude being given the mandate. This therefore serves as pointers there is need to establish the effectiveness of the agency banking on performance of fishing folk in selected beaches in Siaya County. Many studies have been done relating to agency banking, however a little research has been done to determine its effectiveness to the entrepreneurs performance. The aim of agency banking is to increase outreach of banks to enable them satisfy the financial needs of the under-banked and unbanked Kenyan populace as well as leveraging on additional cost effective distribution channels to offer financial services. So far agents of banks have facilitated more than 21 million transactions valued at more than Ksh.105 billion (USD1.2 billion) as at June 2015.This study therefore sought to establish the relationship between agency banking and investment performance of fishing folk in Siaya county.

1.3 Objective of the Study

The broad objective of this study was to determine the relationship between agency banking and investment performance of fishing entrepreneurs in selected beaches in Siaya County, Kenya.

The specific objectives were to:

1. Establish the relationship between extent of compliance to the agency banking policy regulation and investment performance of fishing entrepreneurs in Siaya County.
2. Determine the association between agency banking cost and investment performance of fishing entrepreneurs in Siaya County.
3. Establish the relationship between agency banking risk and investment performance of fishing entrepreneurs in Siaya County.

1.4. Research Hypotheses

The study sought to answer the following research hypotheses:

H_{01}: There is no the relationship between extent of compliance to the agency banking policy regulation and investment performance of fishing entrepreneurs in Siaya County.

H_{02}: There is no association between agency banking cost and investment performance of fishing entrepreneurs in Siaya County.

H_{03}: There is no the relationship between agency banking risk and investment performance of fishing entrepreneurs in Siaya County.

1.5 Significance of the Study

The study has great contribution to the existing knowledge in the area of agency banking. This in turn contributes to the well- being of the financial sector of the economy and the society as a whole. This study will assist bankers, national, county governments and interested organizations in developing and implementing more focused interventions aimed at improving the quality of life of fishing communities by dealing with the poor saving culture, poverty and the underlying factors that give rise to it in an informed manner. The existence of a positive relationship between the two variables would mean bankers need to invest on Agency banking for fund mobilization and netting of more unbanked population at reduced costs. This ultimately improves financial inclusion. Therefore, the major beneficiaries from this study are fishing entrepreneurs, commercial banks, regulatory bodies, the academia and the society as a whole in the country.

1.6 Scope of the Study

Fishing entrepreneurs are distributed all over the country but due finance and time constraints the study concentrated only on selected beaches in Siaya County. The research was conducted on three beaches in Siaya County and 8 fishing sites. The study was restricted to agency banking and investment performance of these entrepreneurs. The specific location of the Study is in Siaya County. This county has several landing sites, approximately around eight. Through random sampling three sites were chosen which are; Luanda K'Otieno, Usenge and Osieko. These three landing sites are particularly ideal mainly because they are far apart and quite busy and popular as compared to the others.

1.7 Conceptual Framework

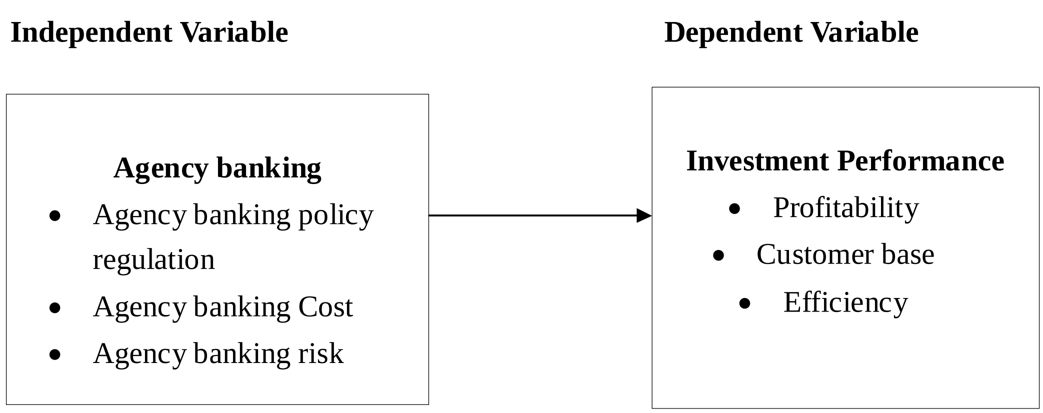

Figure 1.1: Agency banking and Investment performance relationship
Source: Self conceptualisation, 2017

The conceptual framework above shows the interaction between agency banking and investment performance. It depicts agency banking as an independent variable with three elements namely: agency banking policy regulation, agency banking cost, agency banking risk and dependent variable with three dimensions namely profitability, customer base and efficiency

CHAPTER TWO

LITERATURE REVIEW

This chapter aims at reviewing related literature and the previous studies on agency banking. It aims at identifying gaps of such studies, which the research work will attempt to fill

2.1.Theoretical Literature

2.1.1. Financial Growth Theory

Berger and Udell (1998) propose a financial growth theory for small businesses where the financial needs and financing options change as the business grows, becomes more experienced and less informationally opaque. They further suggest that firms lie on a size/age/information continuum where the smaller/younger/more opaque firms lie near the left end of the continuum indicating that they must rely on initial insider finance, trade credit and/or angel finance. The growth cycle model predicts that as firm grows, it will gain access to venture capital (VC) as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth paradigm, as the firm becomes older, more experienced and more informationally transparent, it will likely gain access to public equity (PE) or long-term debt.

Problems related to financing are dominant in the literature with regard to small firms. There are numerous empirical studies describing inadequate financing as the primary cause of SMEs' failure (Coleman, 2000; Owualah, 2007).

2.1.2 Contract Theory

In contract theory, asymmetric information arises when one of two parties engaged in a business transaction happens to have more or different information than the other. In such a situation, one party often does not know enough about the other party and fails to make an accurate decision. This circumstance leads to a potential adverse selection and moral hazard problems in the credit market. Adverse selection is a problem arising from asymmetric information which occurs before a transaction is entered into. A lender may decide not to lend money although the borrower is worthy of the loan and has the potential to make loan repayments as expected. Moral hazard is a problem of asymmetric information that arises after transition has occurred. The borrower might engage in activities that are undesirable from the lender's point of view, and this makes it less likely that the loan will be paid back. For these reasons, formal financial institutions insist on collaterals as a prerequisite for providing loan money to small enterprises. The disbursement of loan money without securing adequate collateral is considered too risky. Stigilitz and Weiss (2011) have pointed out that information asymmetry is one major cause of credit constraint in small businesses and enterprises. According to the authors, capital does not always flow to small firms because of adverse selection and moral hazard, two factors that are known to have a devastating negative impact on fishing enterprises.

2.1 .3 The Concept of Agency Banking in Kenya

When a bank is dealing with a third party on behalf of the customer, the bank is an Agent while the customer is the Principal. An Agent is one employed to work for a Principal to make contracts on their behalf. A Principal is one who informs the Agent what he wants him/her to do on his behalf. Other examples of Principal / Agent relationship between bank and customer is when the banks arranges for insurance, sends money either abroad or within the country (generally money transfer) on behalf of the customer. Agency banking is another example of Principal agent relationship between bank and customer (Pandey, 2009).

Kate layer al (2011) says that banks use approximately 160,000 agents-many with multiple outlets to provide financial services to all 5,564 Brazilian municipalities .In 2010, bank agents in brazil handled 3.1 billion transaction (6% of all transaction), 2.85 billion in which involved the movement of funds .As recently as 2009, just 23% of Kenyan adults had access to formal financial services. Financial inclusion has risen in recent years, with aggressive expansion by Kenyan banks. Kenya now has 1,072 retail bank branches, up from 534 in 2005. Several factors have driven service expansion: the recovery of the Kenyan economy since 2003, advances in technology that support the administration of a large number of small bank accounts; and the wildfire spread of mobile money services through Safaricom's M-PESA that created a dual dynamic of both competition and co-operation with the banking sector. (Rachel Keller, 2011)In 2009, the Central Bank of Kenya (CBK) commenced measures to open up banking channels to non-bank agents. An amendment to the Banking Act (passed as part of the Finance Act 2009) allowed banks to start using agents to deliver financial services. Using small shops, petrol stations, pharmacies and other retail outputs as agents could have a dramatic impact on improving access to financial services, especially in rural areas. Bankele (2009), the sub-text of M-kesho and other variants is the emergence of agency banking in Kenya, a process endorsed by the Government of Kenya to bring more banking services to more of the (unbanked) population. Agency banking is supposed to take customers out of the bank halls and out to kiosks and villages.

Banking agents are the backbone of banking, performing transactions over a bank device, most often a banking gadget. To enable clients to convert cash into electronic money and vice versa which send can be sent over their banking agent, clients will have to visit a branch, banking agent. Especially in remote and rural locations, where cash is still the most important way to pay and transact, a bank banking service is dependent on banking agents to enable clients to effectively use the service (Waithuka, 2012).

To achieve loyalty, a product or service must be beyond achieving visibility and differentiation. It should instead develop deep relationships with the entrepreneurs to a point where the brand becomes a meaningful part of the customer's life and or self concept and when this occurs the customer was highly loyal (Atman, 1993). Thus, brand loyalty is at the core of relationship banking, which goes beyond traditional banking and focuses more on creating a pool of committed, profitable entrepreneurs. A successful brand aims to develop high quality relationship in which entrepreneurs feel a sense of commitment and belonging. Relationship banking aims at developing long-term entrepreneurs (Kitaka, 2011).

Agency banking has a positive impact to the banking sector. This has reduced cost both for the bank and the bank customers and has promoted efficiency and effectiveness in our banking sector .Kenyans have been having a mindset that banking is for the high calibre citizen but this is about to change because of this agency model

2.1.5 Agency Banking Usage

As cited in www.pesatalk.com (2012), a survey on agency banking was carried out by Kenya Bankers Association (KBA) for its Centre for Research on Financial Markets and Policy, 40.9% of agents operations are cash deposits while 36% are withdrawals. The survey also revealed that customers are asking for additional services not on offer, including ATM cards, recommendations for a loan given the closer interaction, loan processing and advice on various bank products on offer. While these would offer a distinction from services offered by telcos' mobile money services, they require more expertise than agents have, and closer supervision than they can be given. The survey also found that 91% of respondents will use an agency outlet because they trust the bank compared rather than the agent. Banks with positive images and long, stable operations are favoured. Agents use point-of-sale (POS) devices and/or mobile phones and must have access to the bank's core banking system so that the clients' transactions are reflected in real time.CBK (2010) notes that various banks have already invested in new core banking systems. ‘The new systems are expected to facilitate centralization of operations, staff rationalization and support new technological products such as internet and mobile banking. Agency banking has helped to bring some banking services to rural areas. The prohibitive costs of setting up branches and ATMs vis-à-vis the expected returns have been a disincentive for banks to roll out their services in rural areas, but agency banking has provided an avenue to these markets at limited cost. Although some rural customers still have to travel some distance to branches for services that agents can't deliver, basic transactions are far more readily available (Modupe, 2010).

2.1.6 The Concept of Risk Involved to the Bank

Kate layer al (2011), states that the level and kind of risk to which a bank will be exposed as a result of its use of agents will depend on the extension of such use, the activities in which its agents are engaged, the banks management of the agent business. The FSD (2009) further reveals that the biggest risk faced by banks is agent fraud .although on line systems limit the risk to clients from this source, the banking industry has a strong interest in ensuring that dishonest agents do not get fired by one bank only to appear, in another form, as agents of another bank. A further risk is agent churn, whereby for a variety of reasons, agents do not stay long stay agents of any one bank but either transfer to another bank, or else drop out from the system.

In countries where models have been successfully implemented, regulators and supervisors have addressed the potential risks of using a large number of agents to deliver financial services by adopting a risk-based approach to supervision where agents are supervised indirectly and banks must assume full responsibility for their agents (Kasekende, 2008) Regulation enabling agent banking allows for sufficient business incentives for both agents and financial institutions to increase outreach by delivering financial services through a network of agents.

The CBK regulations require that agents have secure operating systems capable of carrying out real time transactions, generating an audit trail, and protecting data confidentiality and integrity. This is all driven by technology: Transactions can be made via mobile phone, a point of sale (POS) system, or internet banking, and must be reflected immediately on the bank's side in the core banking system. Orange Money does this by operating on a shared real-time platform with its agents that allows customers to deposit cash into their Orange Money account and then access it immediately at an Equity branch or ATM. Shared infrastructure protects data integrity, reduces operation costs and keeps transaction fees low (Rachel,2011).

Rachel (2011) additionally states that there is still some scepticism regarding how well banks can manage risks remotely. Liability between the agent and bank must be well established and liquidity and credibility of the agent ensured, which means banks are keen to work with SACCOs and large well-known companies that have solid cash flows. The CBK regulations are also quite clear about the need for agent training and enforcement of anti-money laundering standards. The former in particular has been an enormous investment in building Safaricom's extensive agent network, and monitoring and policing agents requires continuous efforts.

Agent banking in Kenya should be branch driven and branch centric. Inasmuch as many banks are viewing agency banking as an expansion channel, agent's need to be linked to the nearest bank branches for operational and administrative effectiveness. Processes and Procedures should be put in place to ensure seamless operations and minimal turnaround time. Branches should also participate in the agent recruitment process so that the Bank can leverage on market knowledge and existing relationships that branches have established with surrounding businesses. (http://bankinginkenya.com). The central bank of Kenya has set out to have Banks appoint qualified and professionally suitable entities as their agents in the wake of the growing networks of agency banking in the country. The Central Bank of Kenya (CBK) released revised Prudential Guidelines and Risk Management Guidelines for institutions licensed under the Banking Act for stakeholder and public comments which are still under review. In the guidelines, under Agency banking, the bank seeks that for Banks to appoint agents across the country they must establish their ability to be in business and sustain the agent station. Additionally the guidelines state they will check:"Moral and professional suitability of sole proprietors, partners and officers licensed to run agency banking. In the case of a corporate entity, the institution shall assess the moral, business and professional suitability of the Chief Executive Officer and the officer in charge of or responsible for agent banking operations of the entity. "Most banks in the country have rolled out agency banking services in a bid to exploit the potential of unbanked people especially in the rural areas .Having a third party transacting for the bank is a bit of risky, considering the fact that most of the agent have no formal education or rather training to handle the job. The issue pertaining knowing a fake note, handling of customers and maintaining of a brand can be a challenge to an agent. “Opm” (2009), further states that agent banking is rapidly evolving and its regulation plays a central role in enabling its spread regulators are required to strike a balance between promoting financial inclusion through profitable, lower cost delivery models and protecting consumers and the integrity of the financial systems.

2.1.7 Agency Policy Regulation

Manzano and Mandrille, (2010) states that Policymakers and regulators have been facing the challenge to reconcile a safe development of branchless banking operations with increased levels of financial access.3 The Colombian authorities are committed to developing the use of mobile-phone and card-based branchless banking models to increase access to finance in the entire country. There is no regulatory obstacle preventing branchless/mobile banking from growing into an important tool for bancarization. On the contrary, there is still a lack of regulation, which may be the biggest barrier for the expansion of financial services through new technologies because it creates legal uncertainty, an issue for financial institutions that plan to offer mobile financial services
There are no rules for the games in an emerging industry. The competition problem is that all the rules must be established such that the banks can cope with and prosper under them (Podpiera, J., 2008). Emerging industries share common characteristics relating to the absence of established basis for competition or other rules of the game or to the initial size and newness of the industry.

In countries where models have been successfully implemented, regulators and supervisors have addressed the potential risks of using a large number of agents to deliver financial services by adopting a risk-based approach to supervision where agents are supervised indirectly and banks must assume full responsibility for their agents(Kasekende , 2008) Regulation enabling agent banking allows for sufficient business incentives for both agents and financial institutions to increase outreach by delivering financial services through a network of agents. Financial intermediaries have long been identified as unique institutions in free-market economies. The negative externalities deriving from bank failures have prompted a body of government regulation unparalleled among non-financial firms. In the U.S. a large segment of this regulation was enacted in the Depression era of the 1930’s. For the next four decades all seemed reasonably well but the 1980’s brought a wave of bank failures that produced losses that exceeded in real terms the losses of the 1930’s. Quite naturally this led to a questioning of the rationale and efficacy of then current bank and thrift regulation. (Palia and Porter, 2007)

2.2 Investment Performance

Investment performance has been defined as the ability of an entrepreneur or organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results. Effective non-profits are mission-driven, adaptable, customer-focused, entrepreneurial, outcomes oriented and sustainable (Hallam-Baker, 1996)**.** Use of and investment in e-banking facilities require complementary investments in skills, organization and innovation and investment and change entails risks and costs as well as bringing potential benefits.

2.2.1 Profitability

Profitability is the measure of the difference between the purchase price and the costs of bringing to market that is the revenue a company derives from its operations, less all explicit costs (Gupta and Collins, 1997). Through the introduction of agency banking have recorded different results on their profit and customers have continued to demand for the better services Banks have therefore expanded on the range of products and services they offer to their customers at a low cost of expenditure through introduction of alternate channels such as ATM, POS, mobile banking and internet banking. Simpson (2002) suggests that agency banking is driven largely by the prospects of operating costs minimization and operating revenues maximization.

2.2.2 Customer Base

This is the group of customers or consumers that a business serves Simpson, (2002). In the most situations, a large part of this group is made up of repeat customers with a high ratio of purchase over time. They are the main source of consumer spending. In many cases, the customer base is considered the business's target market, where customer behaviors are well understood through market research or past experience. All actions the bank takes would be through consideration of its customer base. In order to compete favorably in the market, banks have introduced new banking products and services that have greater appeal to a changing customer base (Simpson, 2002; Brewer, 2001). Agency banking services, such as online banking is one of the alternatives (Gupta and Collins, 1997). Currently the majority of agency banking services are delivered by large regional and national banks. A key factor of internet activities within the banking sector must be driven by service quality that augments the traditional banking relationship which has added pressure upon banks to be efficient in delivering customer based products and services.

2.2.3 Efficiency

This is a level of performance that describes a process that uses the lowest amount of inputs to create the greatest amount of outputs. Efficiency relates to the use of all inputs in producing any given output, including personal time and energy (Gupta and Collins, 1997). The concept of efficiency can be regarded as the relationship between outputs of a system and the corresponding inputs used in their production. Efficiency is treated as being a relative measure that reflects the deviations from maximum attainable output for a given level of input. Gupta and Collins (1997) argues that the efficiency of a firm consists of technical and allocative efficiency. Technical efficiency is the ability of a firm to obtain maximum output from a given set of inputs, and allocative efficiency is the ability of a firm to use the inputs in optimal proportions given their respective prices. When these two measures are combined they provide a measure of total economic efficiency in the bank.

2.3 Empirical Review

2.3.1 Agency Policy Regulation and Investment Performance

Terry (2006) finds that loans from FINCA-Tanzania create major positive changes in the lives of female borrowers, including an improvement in social status and self-esteem, and an increase in confidence. Women also feel empowered through an increase in income and the ability to accumulate savings, purchase household assets and contribute towards children's education. The findings also suggest that members of the household and the community, at large, view female participants in a more positive way. However, Terry relies completely on qualitative data and does not include a control group. Therefore, the results of the study are not necessarily reliable.

A study by Berger (2003) in assessing agent management in Ghana found out that most banks employing agency banking were unwilling to infuse more resources in proper management and training of agents which in the long run negatively impacted on SME financial access. He further noted that when the managers and SMEs alike were asked about agent management, the significant response indicated that most traditional banks in a bid to save on cost preferred to manage agents from the headquarter banks often at the detriment of SMEs. However, the interplay of agency policy regulation and investment performance in the fishing sector's context is still unknown.

Sathye (2005) conducted a research on the impact of the introduction of transactional internet banking on performance and risk profile in major credit unions in Australia. Performance was measured using linear programming technique and data obtained analyzed and regressed on relevant explanatory variables using censored normal regression. A sample of sixty one credit unions was used to represent the population. The results showed that transactional inter banking did not have a significant impact on performance and risk profile of credit union. Thus internet banking did not prove to be a performance-enhancing tool in the context of major credit unions in Australia. It neither reduced nor enhanced risk profile. The current study seeks to focus on the relationship between agency policy regulation and investment performance in areas of profitability, customer base and efficiency.

Onay *et al.* (2005) studied impact of internet banking on bank profitability in Turkey which covered a period of ten years (1996-2005). Fourteen banks were selected for the study using random sampling method. Secondary data was drawn from income statements and balance sheets found in the bank scope database for Turkish banks. The results showed that adoption of online banking did not seem to have a significant impact on the performance of Turkish banks measured in terms of ROE (ratio of pretax profit to equity), ROA(ratio of bank profit to its total assets) or margin in the year of adoption. However, in the following year there was significant decrease in the profitability. This was attributed to the increase in IT expenditures following the adoption of the new technology.

Another qualitative study by Sumra *et al.* (2011), on determining the effect of electronic banking on the profitability of banks in Pakistan focused on twelve banks where interviews were conducted on the managers and the study was descriptive and exploratory in nature. The main motive for e-banking identified by the all bank managers was their customers, to amplify their clientage, to increase customer satisfaction, retention and business expansion which would eventually gain them more profits. It indicated E-banking enabled banks to achieve efficiency; it reduced the requirements of manual applications maintaining low cost on transactions as activities were recorded automatically on computers which in turn reduced human errors hence, increasing the accuracy and saves time.

Shittu (2010) studied the impact of electronic banking in Nigeria banking system focusing on sample size of forty Unity bank officers in Nigeria. Through the cluster sampling technique, data was collected by means of questionnaires from 40 Unity Bank officers. The study used both descriptive and inferential statistics in analyzing the data, simple frequency counts, percentages and the chi-square were used in the data analysis. The results showed that adoption of electronic banking enhanced Unity Bank efficiency by making it more productive and effective also electronic banking had a strong impact on the overall banking performance by making workers performance more effectively and efficiently. The adoption of electronic banking further enhanced the fortune of the bank. Recommendations emanating from the study included the bank information technology training programme to be encouraged among the staff of Unity Bank in Nigeria, necessary legal code banking to be established in order to enhance growth of the industry.

Malhotra and Singh (2009) established a journal on the impact of internet banking on bank performance and risk a case study in India. Using information drawn from the survey of 85 scheduled commercial bank’s websites, during the period of June 2007. Results indicated that nearly 57 percent of the Indian commercial banks provided transactional Internet banking services it further indicated that there was no association between adoption of internet banking and the banks’ performance and risk. However, internet banking had a negative and significant impact on profitability of private sector banks particularly new private sector banks. Thus, adoption of Internet banking was a reason behind the lower profitability of these banks, while internet banks in new private sector were operating with higher cost of operations, including fixed cost and labour cost, thus affecting negatively the profitability of these banks. On the other hand, internet banking had a negative and significant impact on risk, which shows that, the adoption of internet banking did not increase the risk profile of banks.

2.3.2 Agency Banking Costs and Investment Performance

Berger (2003) assessed management in Ghana found out that most banks employing agency banking were unwilling to infuse more resources in proper management and training of agents which in the long run negatively impacted on SME financial access. He further noted that when the managers and SMEs alike were asked about agent management, the significant response indicated that most traditional banks in a bid to save on cost preferred to manage agents from the headquarter banks often at the detriment of SMEs. However, the interplay of agency banking costs and investment performance in the fishing sector’s context is still unknown.

Houston and James (1995) investigated the compensation in the banking industry as a tool for promoting propensity to take risk. In their study they find no evidence that equity-based incentive increase the level of risk taking. On the contrary, they find a positive relationship between the use of equity-based compensation and the ratio of market-value to book-value. The use of more equity-based incentives by banks with high charter values is completely inconsistent with a propensity to increase risk. Gorton and Rosen (1995) produce similar results. Their conclusion is that managers with controlling interests tend to make safe loans while entrenched managers make more risky loans.

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From the literature review and empirical studies, the results on how agency banking affects investment performance of various organizations differ. Though different methodology were applied in precious studies there is still a gap on how the agency banking has enhanced the investment performance of fishing entrepreneurs and hence the need for the current study to bridge this gap

2.3.2 Agency Risk Factors and Investment Performance

Dupas and Robinson (2009), who used a unique study design that controlled for potential biases while allowing for the use of simple regression analysis, find that access to a formal savings account has substantial positive impacts on women's productive investment levels and expenditures, and also makes women less vulnerable to shocks from illness.

Chen and Snodgrass (2001), who rely on a similar method to that of Barnes (2001) and Dunn and Arbunkle (2001) to control for potential biases, also find a positive impact of savings. Although the impact of savings is smaller than that of borrowing, income of savers is more stable than that of borrowers.

Chen and Snodgrass (2001) compare the impact of SEWA Bank on clients who borrow to those who save without borrowing, and compare both groups to non-clients (who are drawn randomly from women engaged in the informal sector in the same neighbourhood as clients in Ahmedabad, Gujarat, where SEWA is based). In round 1, the borrowers were shown to be considerably better off than savers, who were in turn better off than non-participants. Some of these differences may be attributable to participation in SEWA prior to the round 1 survey. However, between the two rounds, the savers showed the fastest rate of income growth. Still, borrowers income was over 20 percent greater than that of savers, and 40 percent higher than that of non-participants'. Savers, however, enjoy an income, which is 20 percent greater than that of non-participants.

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From the literature review and empirical studies, the results on how agency banking affects investment performance of various organizations differ. Though different methodology were applied in precious studies there is still a gap on how the agency banking has enhanced the investment performance of fishing entrepreneurs and hence the need for the current study to bridge this gap.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter covers the research methodologies, which include research design, population, data collection methods and data analysis method.

3.1 Research Design

According to Mugenda and Mugenda (2003), correlational research explores the relationship between variables, that is, the effect of one thing on another and more specifically, the effect of one variable on another. The study employed a correlation research design which involves relating two or more variables and allows predictions of outcomes based on causative relationships between the variables (Cooper and Schindler, 2003).Mugenda and Mugenda (2003) contend that correlational research has the advantage of being relatively cheap and it is used for the current study so as to assess the relationships between study variables.

3.2 Study Area

The specific location of the Study is in Siaya County. This county has several landing sites, approximately around eight. Through random sampling three sites were chosen which are; Luanda K'Otieno, Usenge and Osieko. These three landing sites are particularly ideal mainly because they are far apart and quite busy and popular as compared to the others. The study area is shown in Figure 3.1 below.

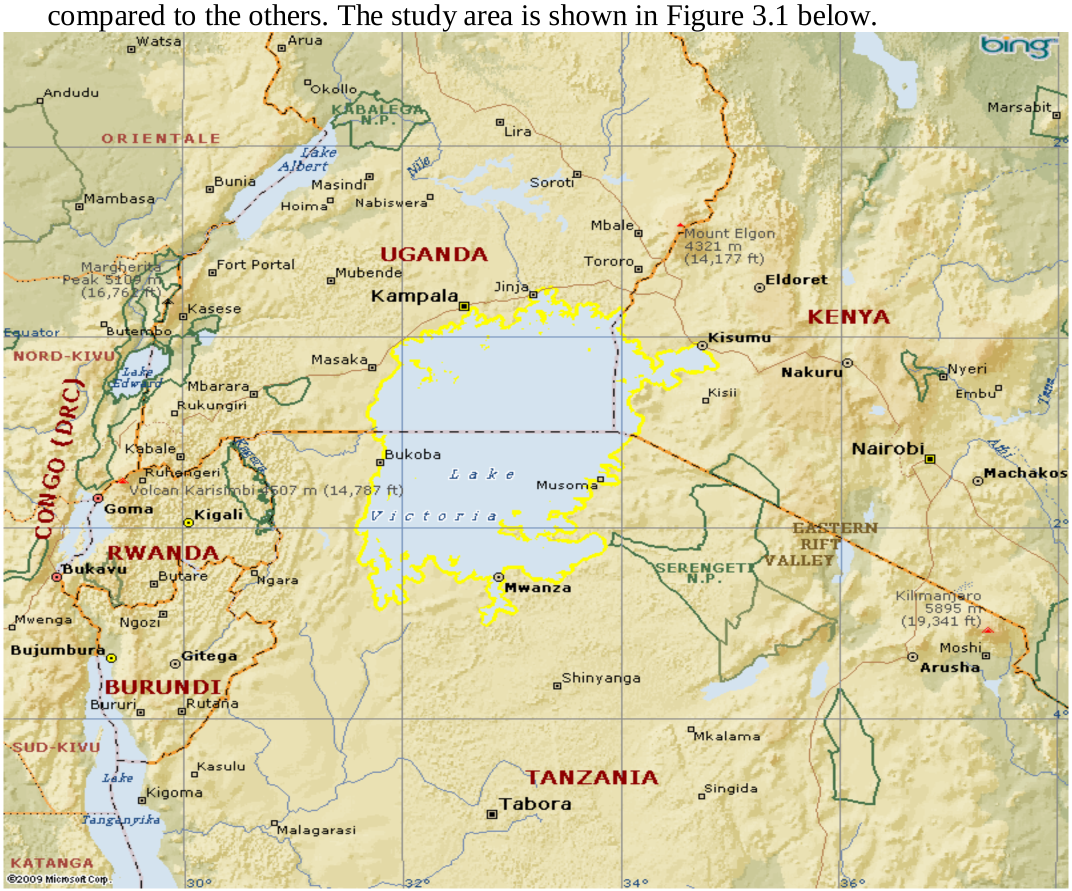

Figure 3.1: Map Showing Study Area

Source: Google Map, 2017

3.3 Target Population

A population is all the individuals in whom we are interested. For this study, the population consists of all fishing entrepreneurs involved directly in the business of artisanal fishing and agency banking. There are 91 fishing entrepreneurs involved in agency banking in all the landing sites in Siaya County. Given the small number, all the 91 respondents were studied hence the study used a saturated sampling technique.

3.5 Data Collection Method

Both Primary and secondary data was used in the study. Primary data was collected using a semi-structured questionnaire. The researcher administered the questionnaires through the drop and pick later method. The questionnaires were administered to the fishing entrepreneurs in all the landing sites in Siaya County. Secondary data was collected using document review and content analysis

3.5.1 Data Sources

Both primary and secondary data was used in the study. Primary data was collected using questionnaire .Secondary data was obtained from journals, bank pamphlets, and research findings from libraries, newspapers and other publications .The questionnaire were employed for date collection in this study because a lot of information was collected over a short period of time.

3.5.2 Validity and Reliability

Validity and reliability are measures of relevance and correctness. Validity is the accuracy and meaningfulness of inferences, which are based on the research results while reliability is a measure of the degree to which a research instrument yields constant results or data after repeated trials (Mugenda and Mugenda, 2005). Validity of the research instrument was done using two experts from Maseno University. Reliability test was done using pilot study of 10 respondents and analysed using Cronbach's Alpha. The results are summarized in table 3.1 below.

Table 3.1: Summary of Cronbach's Alpha on Reliability Test

Variables	No. of Items	Cronbach's Alpha
Agency banking	3	0.713
Investment performance	3	0.723

Source: Field Data, 2017

All the variables had alpha values met the threshold 0.701 and above, indicating strong internal consistency among measures of variable items.

3.6 Data Analysis

Data was analyzed using both descriptive and inferential statistics. Descriptive statistics included mean, standard deviations, frequencies and percentages while inferential statistics included Pearson correlation coefficient. The data analyzed was then be presented in the form of tables and graphs.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter entails results presentation and discussion. The first part presents demographic characteristics and descriptive statistics and the rest presents results as per each objective.

4.1 Return Rate

Out of the 81 questionnaires administered to the respondents, 67 of them were returned constituting a response rate of 83.0 % of the administered questionnaires.

4.2 Background Information of the Respondents

The study sought to establish the background of the respondents in the study in terms of gender and age. The results were as shown in the following sections.

Table 4.1 Respondent's Gender

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Female	23	34.33	34.33	34.33
Male	44	65.67	65.67	100.0
Total	67	100.0	100.0	

Source: Survey data, 2017

Table 4.1 indicates that 65.67 % of the fishing entrepreneurs are males while 34.33 % of them were females. This implies that majority of agency banking fishing entrepreneurs are males.

Table 4.2 Respondent's Age

Respondent's age bracket	Frequency	Percent	Valid Percent	Cumulative Percent
Below 25 years	8	11.94	11.94	11.94
25-30 years	12	17.91	17.91	29.85
36-40 years	23	34.32	34.32	64.17
40-45 years	13	19.40	19.40	83.57
Above 45 years	11	16.42	16.42	100.0
Total	67	100.0	100.0	

Source: Survey Data, 2017

Most of the respondents were aged above 36 years which is a very active and productive age bracket.

4.3: Relationship between Agency Banking Policy Regulations and Investment Performance

This relationship was assessed using Pearson's correlation analysis and the results are summarized in the Table 4.3 as shown below.

Table 4.3: Agency Banking Policy Regulations and Investment Performance

Variables		Agency banking policy regulations	Investment Performance
1.	Agency banking policy regulations	1	
2.	Investment Performance	$.357^{**}$	
		(.000)	1

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

Source: Survey data, 2017

Table 4.3 indicates that agency policy regulations and investment performance had a positive and significant association (r = .357, p =.000). This implies that agency policy regulations lead to improved investment performance. These findings are in tandem with previous studies (Terry, 2006) who report a positive relationship between agency policy regulations and investment performance. However, the results are at variance with the findings of Sathye, 2005 who found no association between agency banking and investment performance.

4.4: Association between Agency Costs and Investment Performance

To assess this association, Pearson's correlation analysis was performed and the results are summarized in the Table 4.4

Table 4.4: Agency banking costs and Investment Performance Relationship

Variables		Agency banking costs	Investment Performance
1.	Agency banking costs	1	
2.	Investment Performance	$-.241^{**}$	
		(.000)	1

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

Source: Survey data, 2017

Table 4.4 shows that agency banking costs had a negative and significant association with investment performance (r = -.241, p =.000). This means that agency costs leads to reduction in investment performance. These findings are in tandem with previous studies (Dupus and Robinson, 2009) who report a positive association between agency costs and financial investment performance. However, the results are at variance with the findings of Chen and Snodgrass, 2001 who found no association between agency costs and investment performance.

4.5: Relationship between Agency Banking Risks and Investment Performance

To assess this relationship, Pearson's correlation analysis was performed and the results are summarized in the Table 4.5 as shown below**.**

Table 4.5: Agency Banking Risks and Investment Performance

Variables	Agency banking risks	Investment Performance
1. Agency banking costs	1	
2. Investment Performance	-.356**	
	(.000)	1

**. Correlation is significant at the 0.01 level (2-tailed).
Source: Survey data, 2017

Table 4.5 indicates that agency banking risks and investment performance had a negative and significant association (r = -.356, p =.000). This implies that agency banking risks lead to reduced investment performance. These findings are in tandem with previous studies (Houston and James, 1995; Shittu, 2011) who report a negative relationship between agency banking risks and investment performance. However, the results are at variance with the findings of Sumra et al., 2011 who found no relationship between conduct of annual audit and financial performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of study findings, conclusions and recommendations based on the major findings.

5.1 Summary of Findings

Based on correlation analysis, objective one found that agency banking and investment performance had a positive and significant relationship. Based on correlation analysis, objective two found that agency banking costs had a negative and significant association with investment performance and based on objective three, the study found that relationship between agency banking risks and investment performance was negative and significant.

5.2 Conclusions of the Study

From the findings of objective one, the study concludes that agency banking policy regulations leads to improved investment performance. Based on the findings of objectives, the study concludes that agency banking costs leads to reduced investment performance and from the findings of objective three, the study concludes that agency banking risks culminates into reduced investment performance.

5.3 Recommendations of the Study

Based on conclusion of objective one, fishing entrepreneurs should intensify use of agency banking as this enhances investment performance. From the conclusion of objective two, fishing entrepreneurs minimize on agency banking costs as this was found to reduce investment performance. Similarly, from conclusion of objective three, agency banking risks as this undermines investment performance.

5.4 Limitations of the Study

The outcome of the study cannot be generalized to all entrepreneurs in Kenya since the study was limited to fishing entrepreneurs in selected landing sites in Siaya county in Kenya. The study adopted a correlation research design.

5.5 Suggestions for Further Research

An exclusive study on the investment performance constraints facing fishing entrepreneurs in Kenya should be carried out. Future research should be conducted on determinants of investment performance requirements in Kenya and compare their performance over a period of time using secondary data. Future studies could also explore the relative importance of agency banking among fisher folk. Lastly, future research efforts could dwell on comparative studies on agency banking amongst SMEs in Kenya.

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APPENDICES

Appendix I: Letter of Introduction

SECTION A

PART A: DEMOGRAPHIC DATA

1. Please indicate your gender

Male ( ) Female ( )

2. . Indicate your age

18-25 ( )

26-33 ( )

34-41 ( )

41-48 ( )

49 and above……………………………………

PART B

Agency policy regulation

1. Please indicate the extent to which you agree or disagree with the following statements. Please indicate by ticking [√] your view. The Value of Scale is given below

SA-Strongly Agree (1), A-Agree (2), U-Undecided (3), D-Disagree (4), SD-Strongly Disagree (5)

	SA 1	A 2	U 3	D 4	SD 5
It is on my opinion the agency regulation policy by CBK is compiled by the bank					
It is on my opinion the customers get satisfactory services from the agent location					
It is on my opinion the customer base of the bank has increase due to agency banking					
The perception the banks are strict and demand a lot has negatively influenced our seeking of finances from the banks					
Banks have the ability to control the agents under there jurisdiction					
As a manager you deal with a large retailer that manages its agent banking outlets and it has been effective to the performance of the bank					

PART C

Agency banking cost

1. Please indicate the extent to which you agree or disagree with the following statements. Please indicate by ticking [√] your view. The Value of Scale is given below

SA-Strongly Agree (1), A-Agree (2), U-Undecided (3), D-Disagree (4), SD-Strongly Disagree (5)

	SA 1	A 2	U 3	D 4	SD 5
It is cost effective to establish an agency bank					
Most agents just offer cash in/cash out services thus hampering financial access to the clients					
Most customers engage with agents who are business facilitators who simply identify borrowers, collect loan applications, verify data and engage in consumer education					
Agency banking has reduced the banks operational Cost					
It is on my opinion it is cheaper to start an agency					
The agency banking services are well structured and differentiated thus improving banks profitability					
It is better to open a bank branch to starting an agency outlet					
The deposit mobilised due to agency banking is quite Considerable					
Customers have greatly increased due to agency Banking					
Agency banking has influenced the saving culture of the banks client					

PART F

Agency Banking Risk

9. Please indicate the extent to which you agree or disagree with the following statements. Please indicate by ticking [√] your view. The Value of Scale is given below

SA-Strongly Agree (1), A-Agree (2), U-Undecided (3), D-Disagree (4), SD-Strongly Disagree (5)

	SA 1	A 2	U 3	D 4	SD 5
It’s my opinion that the banks customers are scared to engage agency banking because it is too risky					
It’s my opinion that banks therefore use agents for a limited number of basic activities which are not beneficial to the client					
It’s my opinion that banks, because of its ultimate liability for					

actions of its agents have made it very difficult to access finances through the agency					
The Kenyan agent regulations have not helped to improve financial accessibility through agents					
It's my opinion that banks consideration of operational risks eg agent fraud or theft, data entry errors, poor cash management have made it difficult for the banks clients to access finances through this model					
Overall, banks risk assessment has greatly hampered financial accessibility by fishing entrepreneurs					
The agents are well versed in matters of finance and have therefore been a great help to my entrepreneurs					
The agents perform their duties efficiently and on time					
The agents gave my fishing entrepreneurs financial education and how to go about getting a loan					
It's my opinion that agents are not significantly well trained in their work					
Such level of training has hampered fishing entrepreneurs access of finances					

INVESTMENT PERFORMANCE

How do you rate the following constructs of investment performance in your organization? Key: Very High (5), High (4), Moderate (3), Low (2), and Very Low (1)

Investment performance indicators	Very High	High	Moderate	Low	Very Low
• Customer base					
• Efficiency					
• Profitability					

Thank you