



**AGENCY BANKING PRACTICES, FINANCIAL LITERACY, AND FINANCIAL
INCLUSION IN PALLISA DISTRICT**

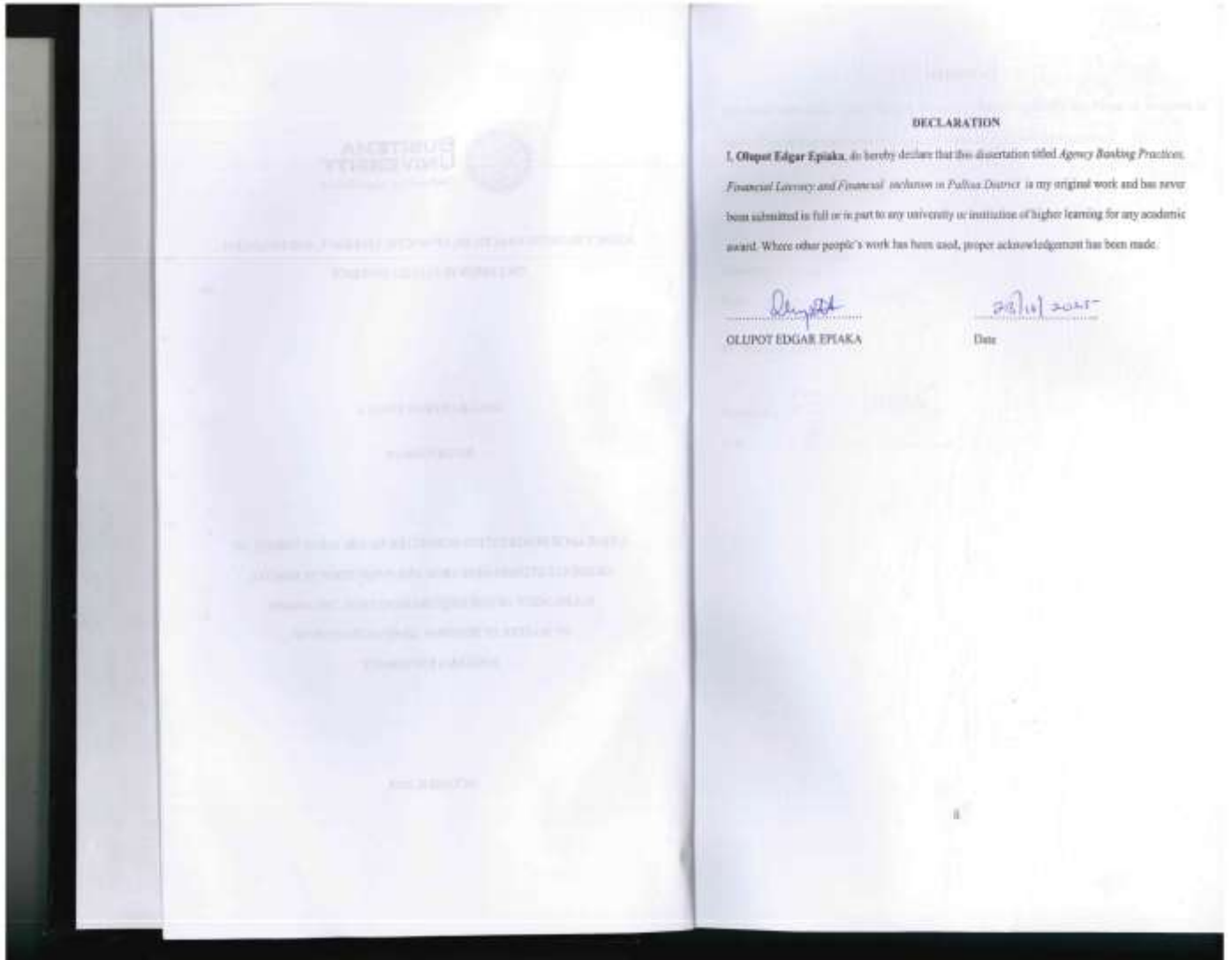
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**A RESEARCH DISSERTATION SUBMITTED TO THE DIRECTORATE OF
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DECLARATION



APPROVAL

APPROVAL

This dissertation titled *Agency Banking Practices, Financial Literacy and Financial Inclusion in Pafine District* has been submitted with our approval as University supervisors

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DEDICATION

This dissertation work is dedicated to my loving wife and children, whose unwavering support, patience, and encouragement have been the foundation of my academic journey.

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LIST OF ACRONYMS/ABBREVIATION

ADFI:	Africa Digital Financial Inclusion facility.
AFI:	Alliance of Financial Inclusion.
ATM:	Automated Teller Machines.
CVI:	Content Validity Index
ESBG:	European Savings and Retail Banking Group.
FIA:	Financial Institutions Act
FI:	Financial Inclusion
FSD:	Financial Sector Deepening
FSDU:	Deepening Financial Sector Uganda
ICT:	Information and Communication
MOLG:	Ministry of Local Government
NFIS:	National Financial Inclusion Strategy
NGOs:	Non-Governmental Organizational
OECD:	Organisation Economic Co-Operation and Development.
PDM:	Parish Development Model
SACCO:	Savings and Credit Co-operative Organization
SPSS:	Statistical Package of the Social Sciences

UBOS: Uganda Bureau of Statistics.

ULCI: Upper limit confidence interval

LLCI: Lower Limit Confidence Interval

VLSA: Village Savings and Loan Associations.

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ABSTRACT

This study investigated the mediating role of financial literacy in the relationship between agency banking practices and financial inclusion in Pallisa district. Anchored on public good theory and dissatisfaction theory of financial inclusion (Ozili, 2020), the study investigated the relationship between agency banking practices, financial literacy, and financial inclusion. From a population of 300, the study derived a sample of 169 which yielded a response rate of 90.5%. Data was collected using a structured questionnaire and analyzed using SPSS v 27. The researcher used descriptive statistics, correlation, regression, and mediation analysis to analyse data. The findings revealed that there is a positive and significant relationship between agency banking practices and financial inclusion ($r=0.631$, $p<0.01$). Additionally, financial literacy was significantly associated with financial inclusion ($r=0.681$, $p<0.01$) and was positively influenced by agency banking practices ($r=0.527$, $p<0.01$). Furthermore, financial literacy mediated the relationship between agency banking practices and financial inclusion. Based on the findings, the study concluded that financial literacy is a mechanism that explains the relationship between agency banking practices and financial inclusion in Pallisa district. Therefore, the study recommends the expansion of the agency banking networks alongside robust financial literacy programs to enhance financial inclusion.

CHAPTER ONE INTRODUCTION

1.0 Introduction

The chapter shows the background of the study, Statement of the problem, study objectives, study hypothesis, scope of the study significance of the study, and Conceptual framework

1.1 Background to Study

Financial inclusion has become a major concern for policymakers in developing countries (Fanta & Mutsonziwa, 2021; Goenadi et al., 2022; Khan et al., 2022) due to inadequate access to services like savings, accounts, and bill payments, which hinders economic prosperity and poverty reduction for the poor and vulnerable (Xiaoyan, 2020). According to the Global Findex database (2021), access to financial services enables households and businesses to withstand shocks, boost income for low earners, sustain informal businesses, and create productive employment, improving living standards (World Bank, 2023). Uganda's government adopted financial inclusion as a pillar in its Parish Development Model (PDM), combating exclusion through literacy programs and services like agent banking and SACCOs (MOLG, 2021). However, challenges persist despite these benefits (Fanta & Mutsonziwa, 2021; Girón et al., 2022; Goenadi et al., 2022).

The World Bank (2023) defines financial inclusion as the ability of individuals and businesses to access useful, affordable financial products and services including transactions, payments, savings, credit, and insurance delivered responsibly and sustainably. Without this access, individuals are financially excluded (Okello et al., 2020). Financial inclusion empowers previously excluded groups, like youth and women, enabling their economic participation (Mushtaq et al., 2023).

Globally, 1.4 billion adults (24% of the world's population) remain financially excluded, lacking account ownership (Demirgüç-Kunt et al., 2021). In Europe, Romania has the highest exclusion rate (30.9%), followed by Bulgaria (16%), Hungary (11.8%), Croatia (8.2%), and Portugal (7.4%) (ESBG, 2022). In Africa and Asia, financial inclusion remains challenging, with unequal sharing of digital benefits and persistent gaps between genders, income levels, and rural-urban populations (Cicchello, 2021), leading to higher exclusion rates than other regions (Cicchello, 2021).

Africa accounts for 50% of the financially excluded population globally (Global Finance Magazine, 2021). Morocco has the highest exclusion rate (71%), followed by Egypt (69%) and Nigeria (60%) (Ventura, 2021). In Zimbabwe, digital financial service access remains critically low (32.3%) despite their introduction (Sanderson et al., 2018). Tanzania faces similar challenges, with gender disparities worsening rural women's financial access (Were & Odongo, 2021). In Kenya, the unbanked population has increased despite interventions (Fanta & Mutsonziwa, 2021).

Uganda faces financial inclusion challenges including limited access, poor usage, and low service quality. In 2019-2020, 51% of Ugandans were financially excluded (UBOS, 2021). Karamoja is the most excluded region (99%), followed by Kigezi (96%), Bugisu (95%), Bukedi, Teso, and West Nile (94%), Lango and Acholi (89%), Ankole (85%), and Kampala (58%) (FSD Uganda, 2018). Pallisa district in Bukedi sub-region is among the most excluded despite having formal financial institutions.

This study uses Ozili's (2020) Public Good Theory and Dissatisfaction Theory of financial inclusion. The Public Good Theory argues that financial services (e.g., payments, savings, credit) should be universally accessible public goods to promote equity. Agency banking is a cost-

effective extension to reach underserved populations. However, this theory overlooks mechanisms linking agency banking to inclusion. The Dissatisfaction Theory addresses this gap by identifying individual discontent caused by poor service, high costs, and lack of financial knowledge as a root cause of exclusion (Klapper & Lusardi, 2020). It highlights financial literacy as a key intervention to rebuild trust, increase usage, and re-engage dissatisfied individuals (Asyik et al., 2022), addressing behavioral barriers neglected by the Public Good Theory.

The relationship between agency banking practices and financial literacy has been widely explored throughout literature (Idoko and Chukwu, 2022; Nisha and Bushra, 2020). However, while literature links agency banking directly to financial inclusion, the mediating role of financial literacy in this relationship remains unexplored. Therefore, this study examined financial literacy's mediating role in the agency banking–financial inclusion relationship.

1.2 Statement of the Problem

Despite sustained efforts to promote financial inclusion in Uganda, it remains a persistent development challenge, especially in rural and underserved regions (Khan et al., 2022; Okello et al., 2020; Setiawan et al., 2021). National statistics reveal that 51% of Uganda's population is financially excluded, with access to basic financial services remaining out of reach for many (UBOS, 2021). The problem is particularly acute in the Bukedi region, where 94% of the population remains financially excluded, and Pallisa District stands out as one of the most affected (Okwakol, 2022). This condition continues to persist despite intervention such as increase financial support to village savings and loan associations (VLSAs) and parish development Model (PDM) (Kampumure, 2020; Okello & Ntayi, 2020). While prior studies acknowledge the role of agent banking in extending formal financial services to marginalized populations and improving access

(Nisha & Bushra, 2020; Nkuna et al., 2018), the extent to which agent banking enhances usage and ensures quality, affordable services remain inadequately explored (Asyik et al., 2022). Additionally, though literature indicates a potential linkage between agent banking practices and financial literacy, this relationship is not well-theorized or empirically established. Given that financial literacy is a critical factor influencing individuals' capacity to access, understand, and effectively use financial services, it is posited to play a mediating role in the relationship between agent banking practices and financial inclusion (Mutlu & Gökhan, 2021). This underscores the need for context-specific research examining how agent banking practices interact with financial literacy to influence financial inclusion outcomes particularly in rural districts like Pallisa, where both financial exclusion and low financial literacy are prevalent.

1.3 Purpose of the study

The purpose of this study was to examine the mediating role of financial literacy in the relationship between agency banking practices and financial inclusion of individuals in Pallisa district.

1.4 Specific Objectives

- i. To assess the relationship between Agent banking practices and financial inclusion in Pallisa District.
- ii. To examine the relationship between financial literacy and financial inclusion in Pallisa district.
- iii. To find out the relationship between agent banking practices and financial Literacy in Pallisa District.
- iv. To examine the mediating role of financial literacy in the relationship between agent banking practices and financial inclusion in Pallisa district.

1.5 Research Hypothesis

H₁: There is a significant relationship between agency banking practices and financial inclusion

H₂: There exists a significant relationship between financial literacy and financial inclusion

H₃: there is a significant relationship between agent banking practices and financial literacy

H₄: Financial literacy mediates the relationship between agent banking practices and financial inclusion

1.6 Scope of the study

1.6.1 Geographical scope

This study was conducted in Pallisa District, located in the eastern region of Uganda, and part of the Bukedi sub-region. This district was selected because according to the Financial Sector Deepening Uganda report of 2018, Bukedi region records a financial exclusion rate of 94%, with Pallisa District among the most affected (Okwakol, 2022).

1.6.2 Content Scope

This study focused on the mediating role of financial literacy (Financial knowledge, financial skills, Financial attitudes, and Financial behavior) in the relationship between Agency banking practices (Cash deposit& withdrawal, Utility Payment, Accounts Opening, and Funds transfer) and financial inclusion (Financial Access, Usage, and quality &affordable financial services

1.6.3 Time scope

The study considered a period of Five years between 2017/2018 and 2022/2023. This period is viable because it is the time when Bank of Uganda and the Ministry of finance and Economic Planning launched the National financial Inclusion strategy (NFIS 2017-2022) and the introduction of agent banking in Uganda after passing the Financial Institutions Act (Agent Banking), 2017.

Also, despite the gains of the NFIS 2017-2022, Uganda as a country still has a long way to achieve its financial inclusion goals thus the launch of the National Financial inclusion strategy (NFIS) II (2023 - 2028).

1.7 Significance of the study

To governments, the study could provide evidence-based insights that support the design and implementation of inclusive financial policies tailored to rural populations. By highlighting how agent banking and financial literacy interact to improve financial access, usage, and service quality, the findings may guide national initiatives reviews such as the Parish Development Model.

To scholars, the study could contribute to the existing body of knowledge in the fields of financial inclusion, agent banking practices, and financial literacy. Specifically, the study could add to the existing literature by explaining the underlying mechanism that supports the relationship between agency banking practices and financial inclusion.

To practice, the study could offer practical recommendations to financial institutions, agent bankers, and NGOs by identifying how agency banking services can be better structured to meet the needs of rural and financially excluded populations. The findings can help banks and development actors customize their outreach strategies, design affordable financial products, and build more inclusive financial ecosystems in rural settings like Pallisa District.

1.8 Conceptual Framework

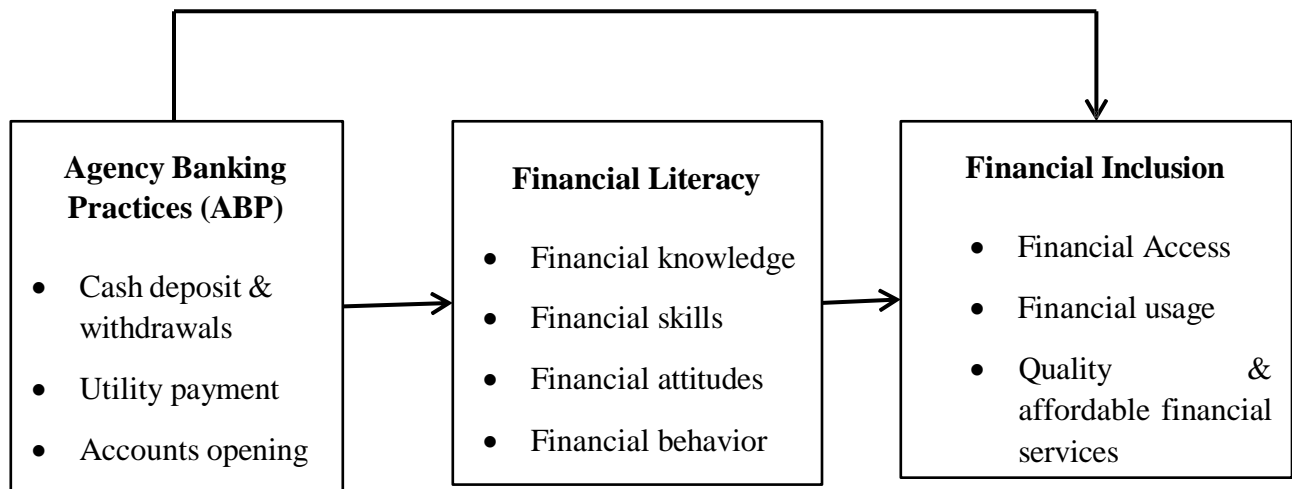


Figure 1-1: Conceptual Framework

Sources: (Martin M. Lwanga, 2022), (Kilimo Trust, 2020), (Upasana Sharma, 2022) (AFI Policy paper, 2010), modified to fit researchers' objectives of the study.

Figure 1 above indicates that Agency banking practices of cash withdrawals, deposits, utility payments and funds transfers are directly related to financial inclusion which is measured by access, usage, and the quality of financial services. Also, the model further indicates that the direct relationship can be better explained with the integration of a third process variable, financial literacy that involves financial knowledge, financial skills, financial attitudes and financial behaviors as key dimensions that explain how agency banking impacts financial Inclusion to make the relationship complete.

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

This chapter contains reviewed literature in accordance with the study objectives. Specifically, it entails the theoretical framework, conceptualization of variables, empirical review, and summary of literature gaps.

2.1 Theoretical review

2.1.1 Public good Theory

The Public Good Theory of Financial Inclusion as proposed by Ozili (2020) conceptualizes access to financial services such as savings, credit, payments, and insurance as a non-excludable and non-rivalrous public good. The theory is grounded in the belief that financial services are essential for inclusive economic development, and therefore, governments have a moral and policy obligation to ensure that these services are universally accessible (Okello et al., 2020). Central proponents of this theory argue that financial exclusion results from situations where private financial institutions often neglect low-income and geographically remote populations due to low profitability and high operational risk (Galiani et al., 2022; Koomson et al., 2023; Lyons & Kass-Hanna, 2021). Agency banking emerges as a cost-effective extension of public financial services, enabling outreach to the underserved and geographically remote populations. This theory aligns closely with the current study by offering a structural explanation for how agent banking practices can drive financial inclusion. By leveraging mobile technology and local intermediaries, agent banking reduces both transactional costs and geographical barriers, thereby enhancing financial access, especially for rural populations (Okello & Ntayi, 2018).

However, while the Public Good Theory provides a compelling justification for the expansion of access through agent banking practices, the theory primarily focuses on availability and provision while ignoring individual-level factors such as trust, financial literacy, and user experience that influence the actual access and usage of financial services (Goenadi et al., 2022). Also, the mechanism through which agent banking leads to financial inclusion remains theoretically underdeveloped. Therefore, to address this limitation, the researcher adopted the dissatisfaction theory of financial inclusion (Ozili, 2020).

2.1.2 Dissatisfaction theory of financial inclusion (Ozili, 2020)

The Dissatisfaction Theory of Financial Inclusion was also developed by Ozili (2020). According to this theory, many individuals who previously had access to formal financial services choose to disengage from the system due to persistent dissatisfaction, which may stem from poor service quality, complex procedures, lack of enough information, high transaction costs, or negative past experiences with financial institutions and their agents (Lyons & Kass-Hanna, 2021). At the core of this theory is the argument that financial inclusion is not only about providing access, but also about sustaining trust and engagement. The theory argues that financial literacy improves trust and therefore reduces the dissatisfaction (Koomson et al., 2023). The theory empirically supports the inclusion of financial literacy as a critical mediating factor in the relationship between agent banking practices and financial inclusion. Financial literacy equips individuals with the knowledge, confidence, and skills to evaluate and use financial services effectively (Kumar et al., 2020). By increasing financial awareness, improving trust, and interpreting financial concepts, literacy can bridge the psychological and informational gaps that inhibit meaningful usage of services provided by agent bankers (Okello et al, 2020).

2.2 Conceptualization of variables

2.2.1 Agency Banking Practices

The Alliance for Financial Inclusion (AFI) recognizes agency banking as a viable strategy in many countries for extending formal financial services into the poor and rural areas (Choudhury & Barnajee, 2018). Research has been undertaken to explore the idea of agency banking as a means of financial inclusion to serve the unbanked population according to (Ummay, 2022). Defined as branchless banking facilitated by authorized third-party agents, agency banking enables services such as cash deposits and withdrawals, utility payments, and account openings to be performed outside conventional banking halls (Ayadi, 2023; Rahman, 2016). These agents, often local shop owners or mobile money operators, operate under formal agreements with financial institutions and are supported by digital infrastructure like mobile phones and POS devices (Munyengabe, 2018). Beyond transaction facilitation, agent bankers also contribute to financial literacy, engaging clients and raising awareness about financial products and responsible usage (Asyik et al., 2022).

In this study, agency banking practices are measured using three key indicators: cash deposits and withdrawals, utility payments, and account openings as guided by Rukundo and Hakizimana (2020). These were selected for their practical significance in rural contexts like Pallisa District, where financial exclusion is pervasive and formal banking options are limited. Cash transactions reflect day-to-day financial engagement, utility payments demonstrate financial integration into formal systems, and account openings signify initial inclusion. However, while agent banking increases access, it faces constraints such as low financial literacy, limited liquidity, and security concerns (UBA, 2024; Mwangi, 2014). Additionally, the product offerings often fail to meet the specific needs of agrarian communities (FSD, 2017).

2.2.2 Financial Literacy

The issue of product knowledge in today's digital era has assumed increasing importance hence the critical role of financial literacy, counseling, and capacity-enrichment in enhancing financial penetration at the grassroots (Idoko & Chukwu, 2022). Lusardi and Mitchell (2017) describe financial literacy as the capacity to analyze financial data and make educated decisions regarding budgetary arranging, annuities, and obligations. According to (OECD, 2013), financial Literacy is “a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”, financial literacy usually represents a level of aptitude in understanding personal finance. According to the World Bank 2012 Global financial Barometer, lack of knowledge about basic financial products and services was a major hinderance to financial access. According to (Lisa & Zia, 2012), financial literacy encompasses concepts ranging from financial awareness and knowledge, including of financial products, institutions, and concepts; financial skills, such as the ability to calculate compound interest payments; and financial capability more generally, in terms of money management and financial planning.

In this study, financial literacy was assessed using four key dimensions financial knowledge, skills, behaviour, and attitudes as guided by (Vieira et al., 2020). First, financial knowledge refers to an individual's understanding of financial concepts, products, and institutions (Asyik et al., 2022; Vieira et al., 2020). Second, financial skills involve the practical ability to manage money, perform calculations like interest rates, and plan for financial needs (Okello et al., 2020; Vieira et al., 2020). Third, financial behavior captures how individuals apply their knowledge and skills such as through saving habits, debt management, and financial planning (Asyik et al., 2022; Okello et al., 2020). Finally, financial attitudes reflect people's mindsets and motivations toward financial

decisions (Khan et al., 2022; Vieira et al., 2020). Using this multidimensional framework enabled the study to assess how different aspects of financial literacy shape individuals' interaction with available financial services, particularly in rural areas like Pallisa District.

2.2.3 Financial Inclusion

Financial inclusion is defined by the World Bank Group as the “ability of individuals and businesses to access useful and affordable financial products and services that meet their needs; transactions, payments, savings, credit, and insurance delivered in a responsible and sustainable way” (World Bank, 2018). It relates to all initiatives that make formal financial services available, accessible, and affordable to all segments of the population (AFI,2012). Attention should be given to segments of the population that have been excluded from the formal financial sector because of gender, location, financial literacy, and income levels. Financial inclusion can also be seen as a state in which individuals access a full suite of financial services at affordable prices, in a convenient manner and with respect and dignity (CFI, 2018).

Financial inclusion, measured as “access” to and “use” of financial services is a key enabler to eradicating poverty and enhancing prosperity (Demirgüç-Kunt & Klapper, 2012). The “access” part deals with the supply side that addresses proximity to bank branches, financial depth, cost of financial services and the regulatory system while the “use” part deals with the demand side that addresses the use of financial services and products by customers (Klapper, 2013). In addition to access and usage of financial services, another dimension to financial inclusion is “Quality”, which ensures that products are well tailored to customer needs and appropriate segmentation to develop products for all income levels (Fanta & Mutsonziwa, 2021). A well developed and appropriate financial system is essential for economic growth and investment opportunities needed to drive a

country's development. Development, in turn, can increase the breadth of financial services and the financial system (Cicchello, 2021).

Although efforts to promote financial inclusion should strive to achieve the three dimensions i.e. access, usage and quality simultaneously, this is not being realized due to the lack of information and reliable data (Khan et al., 2022). In 2019, the African Development Bank (AfDB) launched the Africa Digital Financial inclusion facility (ADFI) designed to accelerate financial inclusion and ensure access to the formal economy, however this remains a key challenge in most countries because the benefits of the digital age are not being shared equally and important access gaps persist between men and women, poorer and richer households and rural and urban populations (Demirgüç-Kunt & Klapper, 2018).

2.3 Empirical review

2.3.1 Agency banking Practices and financial inclusion in Organizations

Prior to the 2016 amendment of the financial institutions act of Uganda, the main distribution channel for banks was through their branches and Automated Teller Machines (ATM) networks, however this proved inadequate with the introduction of mobile money which changed the face of banking by offering similar services like deposits, withdrawals and increased access and outreach to the population (Okello et al., 2020), this caused competition to financial institution hence adoption of Agent banking. With the introduction of agent banking, financial inclusion is more than just banking the unbanked but a convergence of bank and non-bank players to provide financial services and greater convenience to all end consumers of financial services (Sai, 2017).

Studies have shown that agency banking has become a reliable and effective method of establishing financial deepening especially in rural areas, fostering access to financial services and

a driver for economic growth (Nisha & Bushra, 2020). They underline that agent banking may ensure the impoverished in rural areas have access to financial services and lead to overall economic growth. In terms of development of the rural economy, agency banking has led to increased employment in rural areas and as well improved on the already existing businesses such as mobile money business that have taken on agency banking operations (Salma, 2022).

A study in Northern Uganda by UBA, showed that agency banking acts as a bridge between the rural unbanked and financial services that they would not have access to. This enhanced access to financial services through increasing the number of distribution channels, improved the volume and number of transactions and reduced transaction costs by bringing services closer to the people (UBA, 2024). Agency banking has been crucial in boosting the use of financial services in underserved markets. The involvement and efforts of the agent bankers, particularly in rural and semi-urban regions, are bringing financial literacy to the common people on the streets through agency communications (Asyik et al., 2022; Lyons & Kass-Hanna, 2021) (Barasa & Mwirigi, 2013).(Asyik et al., 2022)

However, despite all these interventions, there persists a rural -urban gap; there are significantly few agents in rural areas and these agents offer limited services (deposits and withdraws) compared the services offered in financial institutions within the urban reach that offer a variety of financial services (UBA, 2024). The participation of women as agents is still minimal with about 10% of agents being female across Uganda as per UBA, 2024 report. Also, the inability of agents especially in rural area to carry out large volume transactions and offer adequate security to clients at agent points, has negatively impacted on customer confidence and this is driving clients to prefer

use of commercial banks which is detrimental to the growth of financial inclusion (Mactosh, George, & Omboi, 2017). Hence, it was proposed that;

H₁: Agency banking practices positively and significantly predicts financial inclusion.

2.3.2 Financial Literacy and Financial Inclusion in Organizations

Financial literacy has attracted the attention of different groups in recent years, including financial markets, employers, bankers and governments (Lyons & Kass-Hanna, 2021). The importance of improving financial literacy has been emphasized due to multiple factors, such as changes in economic and demographic situations, complicated financial markets and the development of new financial markets (Hassan, 2009). It represents the level of aptitude in understanding personal finance (Ros, 2013).

Studies have shown that increased financial literacy through improved financial education positively influences a firm's access to finance and business growth (Hasan et al., 2021). Financial literacy, particularly the saliency and relevance of financial education regarding financial products, services and activities has played a significant role in helping consumers select suitable financial products (Hasan et al., 2021).

Financial literacy impacts financial inclusion, it acts as a moderator to financial inclusion (Mutlu & Gökhan, 2021). Research has shown financial literacy to be a driver for growth of business firms, and it has a direct impact on financial inclusion on rural households and individuals in Uganda (Bongomin, 2018).

Financial literacy has been linked to behaviors related to saving, wealth and portfolio choices (Lusardi & Messy, 2023). Individuals with a high level of financial literacy can easily develop the

necessary risk management skills, identify available business opportunities, gain more market knowledge, manage their money more effectively, and make better financial decisions, all of which are critical for the growth of venture creation and entrepreneurship (Li, 2020). Research has further shown financial literacy as a driver for growth of business firms, and it has a direct impact on financial inclusion on rural households and individuals in Uganda (Bongomin, 2018).

Despite the existence of some literature discussing the concept of financial literacy and financial inclusion, there is still scarcity of research in this field especially among the youth, women and in the developing world (Lusardi & Messy, 2023). Therefore, it's crucial to investigate the role of financial literacy in promoting inclusive finance and how it impacts on individual behaviors when comes to savings and choosing financial products (Ali & et al., 2021). Also, studies have shown that there is a strong link between an individual's financial knowledge and financial practices, which enable a savings & investment culture (Chu, 2017). Based on these arguments, it was hypothesized that;

H₂: financial literacy and financial inclusion are positively related in Pallisa district.

2.3.3 2.8 Agency banking practices and financial literacy in organizations

According to the (UBA, 2024) financial report on Agency banking in Northern Uganda, respondents stated that agency banking had increased their financial knowledge, skills and financial independence. This was through financial sensitization and engagements by bank agents with their customers (UBA, 2024). The emergence of agency banking has increased the penetration of banking services to rural areas through agency communications and operations (Asyik et al., 2022), agency communications such as agent activation drives, radio talk shows and financial

literacy clinics have helped promote financial knowledge and awareness to the public especially the local illiterate population (Idoko & Chukwu, 2022).

The agent banking platform has enabled technology and information sharing among the different financial institutions in Uganda, offering choice and variety of financial services to customers (FSD, 2022). Bank agents also act as financial advisors based on consumer needs and available banking solutions which improves the financial perspective and product knowledge amongst customers especially in rural settings (Asyik et al., 2022). According to (Arpit, 2023) , agency banking has improved financial literacy through information sharing on financial products and services, benefitting customers to make informed financial decisions and choices in the developing world.

However, building trust and confidence among customers, especially in rural areas remains a challenge to agency banking (Kwesiga, 2018), this requires robust sensitization and campaigns to engage customers. A study by (Malinda et al., 2018) , indicates that if bank agents are not well engaged by financial institutions, their influence on financial literacy is weakened, its therefore important that financial institutions keep engaging bank agents to reap the benefits of financial literacy (Malinda et al., 2018). A study by (Hasan et al., 2021), also shows that the level of financial literacy in developing countries like Uganda remains low despite government efforts to eradicate poverty & financial exclusion through the introduction of agency banking (MOLG, 2021). Based on these arguments, it was hypothesized that;

H₃: Agency banking practices and financial literacy are positively related and significantly predict financial inclusion.

2.3.4 Mediating role of financial Literacy in the relationship between agency banking practices and financial inclusion

Financial literacy has been explained as the possession of knowledge of fundamental financial concepts to manage financial resources (Fanta & Mutsonziwa, 2021). An individual's knowledge of financial markets and resources is an essential component of financial inclusion (Lusardi & Mitchell, 2014). According to (OECD, 2013), financial inclusion is about awareness, availability, and the accessibility of financial products and services, therefore ensuring that an individual can access financial services and products easily. Low levels of financial inclusion are associated with limited access to and availability of financial services resulting in poverty and slow economic growth (Çera, 2020).

Studies have shown that there exists a positive relationship between agency banking practices and financial inclusion (Josephat, 2016). According to Josephat (2016), agency banking has brought financial services closer to customers and simplified banking services for customers by reducing distance & time customers would take to reach service points. He further argues that liquidity problems are not a major concern for agents since their operations are closely monitored by financial institutions to avoid cash shortages and minimize security risks. Another study by (Barasa & Mwirigi, 2013), showed that agency banking efficiently supported low-income earning individuals in society and guaranteed them financial security, hence poverty reduction and economic growth because of financial inclusion.

However, these studies are linear or lacking. They do not show why and how agency banking practices and financial inclusion are related; therefore, these studies remain unexplained and incomplete. Financial literacy has previously been studied as a mediator and posted significant

results (Hasan et al., 2021). Therefore, we argue that financial literacy could be the underlying mechanism through which agent banking practices influence financial inclusion. A study by (Bhatia & Arnav, 2010), showed that despite having affordable and low-cost financial services within their locality provided by agent banks in Mumbai India, majority of the slum dwellers remained financially excluded. This was due to traditional myths about banking among the slum dwellers. As a result, the role of agent banks in financial inclusion must be examined to have more people participate in financial activities. According to (Jappelli, 2010), financial literacy enhances financial understanding which in turn influences financial behavior of households and communities. Another study by (Sendyona & Mercerina, 2024) , showed that agency banking alone is ineffective in promoting financial inclusion because most people in rural areas lack financial literacy and digital skills, thus they do not appreciate the electronic delivery of financial services. They recommended increased sensitization of the population about agency banking, digital skills and financial literacy. Based on these studies, financial literacy could be the process variable to help explain the relationship between agency banking practices and financial inclusion. Financial literacy will enable more people to embrace agency banking services, increasing financial inclusion (Sendyona & Mercerina, 2024).

Financial literacy clinics and radio talk shows on financial institutions, agency banking and financial services have improved financial awareness and interest in banking services especially among consumers in rural and remote areas (UBA, 2024), thus promoting financial inclusion. Also, Malinda et al (2018) indicate that financial literacy plays a significant role when it comes to the usage and uptake of agency banking services resulting in financially inclusive societies. It was therefore hypothesized that.

H₄: financial literacy has a mediating role in the relationship between agency banking practices and financial inclusion in Pallisa district.

CHAPTER THREE RESEARCH METHODOLOGY

3.0 Introduction

This chapter comprises of the research design, study population, sample size determination, sampling procedures, data collection instrument, data collection procedures, measurement of variables, data quality control, data analysis and presentation, ethical consideration, and limitations.

3.1 Research Design

A research design is defined as a set of well sequenced steps used by a researcher in the collection, analysis and reporting of data to allow provision of answers to research questions about specific variables (Kothari, 2004). The study employed a cross-sectional research design, whereby the researcher collected quantitative data at one point in time (Byrne, 2002). A cross-sectional study design was chosen because these studies can usually be conducted relatively faster and are inexpensive. It is also suitable for a population-based survey (Holtom et al., 2022). This study also adopted a quantitative research approach that helped to describe and draw inference from the data collected on agency banking practices, financial literacy, and financial inclusion (Creswell, 2014). The quantitative approach was used because it enabled the researcher to obtain objective, measurable data and apply statistical techniques to test hypotheses and identify patterns across a large sample (Creswell, 2018).

3.2 Study Population

According to Creswell (2014), a study population refers to the entire group of individuals, events, or items that the researcher seeks to draw conclusions about. For this study, the target population comprised 300 users of agency banking services in Pallisa District. These include 300 individuals

(100 agent banking users and 200 members from the public) from the selected from the 21 sub counties in Pallisa district. Also, these were selected because they are the intended population for financial inclusion initiatives.

3.3 Sample size Determination

Sampling is the process of selecting a subset of data from a larger population or dataset to analyze or make inferences about the whole population (Neuman, 2019). In this study, the sample size was determined using the Krejcie and Morgan (1970). This method was selected because it is widely recognized for its statistical accuracy, especially in survey-based research, and ensures that the sample is both representative and manageable within the study's resource and time constraints (Neuman, 2019). The study used a population of 300 individuals that required a sample size of 169 people according to Krejcie and Morgan (1970) . The sample was divided into 20 bank employees, 50 agent bank users and 230 individuals from the public. This was done because these groups interact directly with agency banking.

3.4 Sampling Techniques

The study employed simple random Sampling to select a sample of 169 respondents from an accessible population of 300 individuals. This probability sampling technique was chosen because it ensured that each member of the population had an equal and independent chance of being selected, thereby reducing the potential for selection bias and enhancing the representativeness of the sample (Saunders et al., 2019). Simple random sampling was used because it gives an equal chance to all items in the sampling frame to be selected hence eliminating bias (Neuman, 2019).

To implement this method, every individual in the sampling frame was assigned a unique identification number and placed in a bowl. Then 169 of them were selected one by one without replacement. This process ensured that the sample was free from researcher influence and that the selection remained transparent, objective, and replicable (Norman, 2022).

3.5 Data collection Method and tool

Data collection refers to the process of gathering and measuring information on variables of interest in a systematic manner that enables the researcher to answer research questions, test hypotheses, and evaluate outcomes (Creswell & Creswell, 2018). This study employed a survey method as the primary approach for data collection. Surveys are a quantitative data collection method used to gather information from a predefined group of respondents to gain insights into behaviors, attitudes, opinions, or characteristics, often through standardized questions (Saunders et al., 2019). The survey method was chosen because it is suitable for studies involving large populations and allows for the efficient collection of standardized data that can be analyzed quantitatively.

To implement the survey, the study used a structured, close-ended questionnaire as the main data collection tool. A questionnaire is a research instrument consisting of a series of predefined questions designed to gather raw data from respondents (Creswell, 2014). The questionnaire was developed to capture data on the study's key variables agency banking practices, financial literacy, and financial inclusion. The questionnaires were distributed in person to respondents with the assistance of trained research assistants. After a period of two weeks, the completed questionnaires were retrieved, reviewed for completeness, accuracy, and consistency, and subsequently entered into SPSS for data analysis.

3.6 Data collection Procedures

The researcher obtained official authorization to conduct the study from Busitema University's Faculty of Management Science, department of economics and Management. To facilitate the data collection process, the researcher recruited and trained two research assistants, who were briefed on the study's objectives, ethical considerations, and procedures for administering questionnaires. These assistants played a key role in distributing the questionnaires to selected respondents across Pallisa District, ensuring that each participant understood the purpose of the study and provided informed consent. Their involvement was essential in reaching the dispersed sample efficiently and maintaining consistency in the administration of the data collection tool.

3.7 Measurement of study Variables

Agency banking practices was in terms of cash deposits and withdrawals, utility payments, and account openings as guided by Rukundo and Hakizimana (2020). The questionnaire consisted of 12 items to measure agency banking practice with sample questions such as "I often transact with bank agents.". These items were anchored on a five-point Likert scale ranging from strongly disagree to strongly agree.

Additionally, financial literacy was measured in terms of financial skills, financial attitudes, financial knowledge, and financial behavior in line with the guidelines of Vieira et al. (2020). The questionnaire tool consisted of 31 items including "I have knowledge on how to acquire a loan and compute interest.". Also, the questionnaire items were measured on a 5-point Likert scale.

Financial inclusion was measured as financial access, usage, and quality and affordable services as guided by Demirgüç-Kunt and Klapper (2012). To assess financial inclusion, the researcher used 23 items including “I have access to a bank account through my family members”. These items were also anchored on a five-point Likert scale.

3.8 Data Quality Control

3.8.1 Validity of Instrument

Validity refers to the extent to which an instrument accurately measures what it is intended to measure and reflects true differences among respondents (Kothari, 2004). To ensure the validity of the research instrument, the researcher sought expert judgment from two university supervisors and five bank officials familiar with agency banking operations. These experts evaluated the questionnaire for clarity, relevance, and alignment with the study constructs (agency banking practices, financial literacy, and financial inclusion).

The Content Validity Index (CVI) method was employed to quantify the instrument’s validity. Experts were asked to rate each item in the questionnaire as either *relevant* or *not relevant* to the corresponding variable. The CVI was then completed using the following formula:

$$CVI = \frac{\text{Items rated as relevant}}{\text{Total number of items}}$$

A CVI score of 0.70 or above was considered acceptable, following the guideline by Surucu and Maslakoi (2020). The findings revealed that for the Agency Banking Practices, which included 10 items, 9 were rated as relevant by at least four out of five experts, resulting in a CVI score of 0.90. For Financial Literacy construct, which comprised of 12 items, 10 were rated as relevant, yielding

a CVI of 0.83. Similarly, the Financial Inclusion construct had 10 items, of which 8 were rated as relevant, producing a CVI of 0.75.

3.8.2 Reliability of Instrument

Reliability refers to the consistency or stability of a measurement instrument over time, across different observers, and under varying conditions (Smith & Smith, 2018). It ensures that the instrument yields reproducible results when applied to similar groups or situations. According to (Tavakol, 2011), a commonly used method for assessing internal consistency reliability is Cronbach's alpha, which evaluates how closely related a set of items are as a group. A Cronbach's alpha coefficient of 0.70 or above is generally considered acceptable for research instruments.

To determine the reliability of the questionnaire, a pilot study was conducted in Kibuku District, a neighboring rural district with demographic characteristics like Pallisa District. The pilot involved a sample of 30 respondents, including agent banking users, members of the public, and bank staff. The responses were coded and analyzed using SPSS software, and the internal consistency of each construct was tested using Cronbach's alpha.

The results of the reliability analysis showed that all three constructs (Agency banking practices, financial literacy, and financial inclusion) exceeded the minimum threshold for reliability. These findings confirmed that the items under each construct were internally consistent and reliable for use in the main study.

The combined results are summarized in the table below:

Table 3.1: Validity and Reliability

Construct	No. of Items	CVI	Cronbach's Alpha
Agency Banking Practices	10	0.90	0.88
Financial Literacy	12	0.83	0.81
Financial Inclusion	10	0.80	0.79

Source: Primary data, 2025

3.9 Data Analysis and Presentation

The data collected through the structured questionnaires were first checked for accuracy, completeness, and consistency, and then entered into the Statistical Package for Social Sciences (SPSS) V 27 for analysis. Both descriptive and inferential statistical techniques were applied. Descriptive statistics, including frequencies and percentages were used to summarize the demographic characteristics of the respondents and provide general insights into the responses related to agency banking practices, financial literacy, and financial inclusion (Kothari, 2004). To explore the strength and direction of the relationship among variables, Pearson's correlation analysis was performed. Also, multiple regression analysis was used to examine the predictive power of the independent variables (agency banking practices and financial literacy) on the dependent variable (financial inclusion). To further investigate the mechanism through which agency banking practices affect financial inclusion, a mediation analysis was conducted, with financial literacy specified as the mediating variable. This analysis was carried out using Hayes' PROCESS macro version 4.2 in SPSS (Model 4).

3.10 Ethical Considerations

Ethics in research has been described by (Jackson, 2021) as norms and values that guide decisions regarding the collection and analysis of data, as well as dissemination of findings. It deals with moral problems related to research practices. Therefore, while carrying out the study, the

researcher took into consideration the following ethical issues. To ensure integrity, the researcher obtained permission from the University before administering the questionnaires to the respondents. Additionally, informed consent was sought from participants. Participants were informed about the purpose of the research, their benefits & rights as study participants and the confidentiality of their responses. Furthermore, the research process, methodology and findings were transparent to allow scrutiny and use by other researchers. Finally, the researcher ensured that the rights and dignity of respondents are protected. No respondents names appeared on the questionnaires and the information collected was not shared with any other party, apart from the research team for academic purposes (Parveen & Showkat, 2017).

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter contains analysis of data and interpretations of the findings with focus on response rate, demographic characteristics, descriptive statistics, correlation analysis, regression analysis and mediation results.

4.1 Response rate

Out of 169 questionnaires distributed to various respondents in the fourteen sub counties in Pallisa district, 153 questionnaires were duly filled and returned. This constitutes a response rate of 90.5%. According to Mugenda and Mugenda (2007), a response rate of 70% is considered adequate. Therefore, this response rate is adequate for the researcher to conduct inferential statistical analysis (Cresswell, 2014).

4.2 Demographic characteristics

According to findings in table 4.1 below, there is a notable difference in the number of males and females that participated in the study. The findings indicate that 68.6% are male while females constitute only 31.4%. This suggests that men are more likely to access and or utilize agency banking services. Additionally, majority of the respondents are between 21 and 40 years (68%) with the 31-40 age group accounting for 37.9%. This age group is known for being the most economically productive segment of the population, often with ability to adopt new innovations that enhance financial inclusion. The minority of the respondents are below 20 years (11.1%) and above 40 years (20.9%); this implies the young people and mature adults are slow at adopting financial inclusion initiatives. Furthermore, 78.4% of respondents hold at least a diploma with 34%

having a bachelor’s degree and 14.4% possessing postgraduate qualifications. This relatively high level of education suggests a user base that is likely financially literate and technologically adoptive which is closely linked to financial service adoption. Also, 77.8% have used financial services for more than one year, suggesting a high level of sustained engagement. In addition, 27.5% have used services for 2-3 years and 24.8% for over three years. This pattern suggests an increase in financial literacy and trust in financial systems. Finally, 44.4% of respondents indicated a preference for agent bank points, 26.8% preferred mobile money agents, 21.6% preferred traditional bank branches and other E-commerce channels (7.2%) . This clearly indicates the need for a more decentralized approach to financial inclusion.

Table 4.1: Demographic Characteristics

Demographics	Frequency	Percent (%)
Gender		
Male	105	68.6
Female	48	31.4
Sub Total	153	100
Age		
Below 20 years	17	11.1
21 - 30	46	30.1
31 – 40	58	37.9
Above 40 years	32	20.9
Sub Total	153	100
Education Level		
Certificate	33	21.6
Diploma	46	30.0
Bachelors	52	34.0
Postgraduate Qualification	22	14.4
Sub-Total	153	100
Length of Usage		
Less than 1 Year	34	22.2
1-2 Years	39	25.5
2-3 Years	42	27.5
3 years and above	38	24.8
Sub Total	153	100
Preferred financial services		

Bank branches	33	21.6
Agent Bank points	68	44.4
Mobile money agents	41	26.8
E-Commerce	11	7.2
Sub total	153	100

Source: Primary Data, 2025

4.3 Correlation analysis

The results in Table 4.2 indicate that there is a significant positive relationship between agency banking practices and financial inclusion ($r=.631, p<0.01$). This implies that increased access to and usage of agency banking services is closely associated with improved financial inclusion.

Additionally, there is a positive relationship between financial literacy and financial inclusion ($r = 0.681, p<0.01$). This suggests that there is strong relationship between individuals' understanding of financial concepts and their level of inclusion in formal financial systems.

Finally, the results in the Table 4.2 below indicate a positive correlation between agency banking and financial literacy ($r = 0.527, p<0.01$). This may suggest that individuals who are financially literate are more likely to utilize agency banking.

Table 4.2: Correlation results

	(1)	(2)	(3)
Agency Banking (1)	1		
Financial Literacy (2)	.527**	1	
Financial inclusion (3)	.631**	.681**	1

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

Source: Primary data, 2025

4.4 Regression Analysis

4.4.1 Agency banking Practices and financial inclusion

The Table 4.3 below indicates that agency banking practices significantly predict financial inclusion (Adj. $R^2 = 0.394$, $p < 0.01$). This implies that 39.4% of variation in financial inclusion is accounted for by agency banking practices. Additionally, The F-statistic ($F = 99.667$, $p < .001$) confirms the model's overall statistical significance, signifying that the predictor (agency banking practices) meaningfully improves the prediction of financial inclusion compared to a null model.

The standardized beta coefficient ($\beta = 0.631$) further suggests a strong positive effect of agency banking on financial inclusion in standardized terms. Also, the high t-value ($t = 9.983$, $p < .001$) confirms the statistical significance of the predictor, implying that the observed relationship is highly unlikely to have occurred by chance. These findings support the hypothesis that agency banking practices significantly influence financial inclusion (H1).

Table 4.3: Agency Banking Practices and Financial Inclusion

Model	Coefficients				t	Sig.
	Unstandardized Coefficients		Standardized Coefficients	df		
	B	Std. Error	Beta			
(Constant)	1.300	.281		1	4.621	.000
1 Agency Banking Practice	.682	.068	.631		9.983	.000
	$R = .631^a$	$R^2 = .398$	Adj. $R^2 = .394$		$F = 99.667$.000

a. Dependent Variable: Financial Inclusion

Source: Primary Data, 2025

4.4.2 Financial literacy and financial inclusion

The Table 4.4 below indicates that financial literacy significantly predicts financial inclusion (Adj. $R^2 = 0.460$, $p < .01$). This implies that 46.0% of the variation in financial inclusion is accounted for by financial literacy. Additionally, the F-statistic ($F = 130.357$, $p < .001$) confirms the model's overall statistical significance, signifying that the predictor (financial literacy) meaningfully improves the prediction of financial inclusion compared to a null model.

The standardized beta coefficient ($\beta = 0.681$) suggests a strong positive effect of financial literacy on financial inclusion in standardized terms. Also, the high t-value ($t = 11.417$, $p < .001$) confirms the statistical significance of the predictor implying that the observed relationship is highly unlikely to have occurred by chance. These findings support the hypothesis that financial literacy significantly predicts financial inclusion (H2)

Table 4.4: Financial Literacy and Financial inclusion

Model	Coefficients						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.		
	B	Std. Error	Beta	df			
(Constant)	1.293	.248		1	5.210	.000	
1 Financial literacy	.689	.060	.681		11.417	.000	
	R = .681 ^a		R ² = .463		Adj. R ² = .460	F = 130.357	.000

a. Dependent Variable: Financial Inclusion

Source: Primary Data, 2025

4.4.3 Agency banking practices and financial literacy

The table 4.5 below indicates that agency banking practices significantly predict financial literacy (Adj. $R^2 = 0.273$, $p < .01$). This implies that 27.3% of the variation in financial literacy is explained by agency banking practices. Additionally, the F-statistic ($F = 57.991$, $p < .001$) confirms the

model's overall statistical significance signifying that the predictor (agency banking practices) meaningfully improves the prediction of financial literacy compared to a null model.

The standardized beta coefficient ($\beta = 0.527$) further suggests a strong positive effect of agency banking on financial literacy in standardized terms. Also, the t-value ($t = 7.615, p < .001$) confirms the statistical significance of the predictor, implying that the observed relationship is highly unlikely to have occurred by chance. These findings support the hypothesis that agency banking practices significantly influence financial literacy (H3).

Table 4.5: Agency Banking Practices and Financial Literacy

Model	Coefficients				t	Sig.
	Unstandardized Coefficients		Standardized Coefficients	df		
	B	Std. Error	Beta			
1 (Constant)	1.749	.312		1	5.610	.000
Agency Banking Practice	.577	.076	.527		7.615	.000
	R = .527 ^a		Adj. R ² = .273		F = 57.991	.000

a. Dependent Variable: Financial Literacy

Source: Primary, 2025

4.5 Mediation analysis

To ascertain the mediation role of financial literacy in the relationship between agency banking practices and financial inclusion, mediation analysis was conducted using SPSS Process Macro model 4. The findings in Table 4.6 below show that path a (Agency banking => financial inclusion) is significant ($\beta = 0.6825, p < 0.01$), indicating that agency banking practices have a strong and positive influence on financial inclusion. Path b (Financial Literacy=> Financial Inclusion) is also significant ($\beta = 0.5856, p < 0.01$), suggesting that financial inclusion enhances financial literacy.

The total effect (path c) of agency banking on financial literacy is $\beta = 0.5771$, implying that agency banking on its own has a substantial positive influence on financial literacy outcomes.

However, when the mediator (financial inclusion) is introduced into the model, the direct effect (path c') of agency banking on financial literacy drops to $\beta = 0.1774$, though it remains statistically significant ($p < 0.05$). The reduction in the beta coefficient from 0.5771 to 0.1774 while maintaining significance implies that financial literacy partially mediates the relationship between agency banking practices and financial inclusion. Furthermore, the indirect effect of agency banking practices on Financial Inclusion through Financial literacy is $\beta = 0.3997$, and the bootstrap confidence interval (BootLLCI = 0.2641, BootULCI = 0.5594) does not contain zero, confirming that the mediation is statistically significant. Also, a mediation ratio index of 69.3% (Indirect effect / Total effect $\times 100$) indicates that 69.3% of the influence of agency banking practices on financial inclusion is through financial literacy. This supports the hypothesis that financial literacy mediates the relationship between agency banking practice and financial inclusion (H4).

Table 4.6: Mediation

Path	Coefficient (B)	Standardized Error (SE)	t-value	P-value
Indirect effects (Path a and b)				
Agency banking practices (X) → financial Literacy (M) (a)	0.6825	0.0684	9.9833	0.000
Financial Literacy (M) → Employee Financial Inclusion (Y) (b)	0.5856	0.0769	7.6200	0.000
Total effect (Path c)				
Agency banking practices (X) → Financial Inclusion (Y) (c)	0.5771			
Direct effect (Path c')				

Agency banking practices (X) → Financial Inclusion (Y)	0.1774		0.005
Mediation effect		BOOT LLCI	BOOT ULCI
Agency banking practices (X) → Financial literacy (M) → Financial inclusion (Y) (a*b)	.3997	0.2641	0.5594

Source: Primary Data, 2025

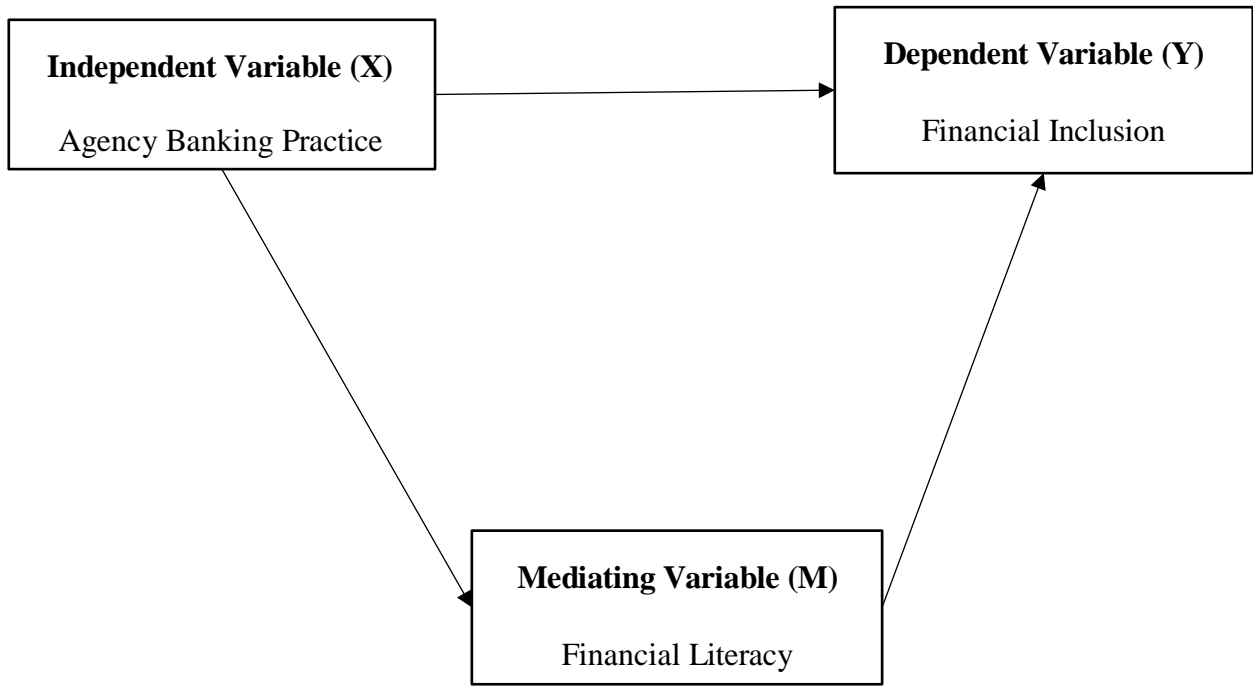


Figure 4.1: Mediation

CHAPTER FIVE

DISCUSSIONS OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents discussions, conclusions and recommendations based on the findings in the previous chapter. The chapter is organized into four sub chapters which includes discussions related to the objectives of the study, the conclusions, the recommendations, and limitations of the study and areas of further research.

5.1 Discussion

5.1.1 Agency banking practices and financial Inclusion

This study sought to examine the relationship between agency banking practices and financial inclusion. The findings indicate that there is a positive association between agency banking practices and financial inclusion in Pallisa. The findings demonstrate that agency banking serves as a critical mechanism for extending formal financial services to populations particularly in rural and semi-urban regions. The findings seem to suggest that cash deposits & withdrawal, utility payments, account opening, and fund transfer using agency banking has a positive impact on financial access, usage, and quality & affordable financial services.

These findings are in alignment with prior research that underscores the crucial role of agency banking in promoting financial inclusion (Nisha & Bushra, 2020; UBA, 2024; Barasa & Mwirigi, 2013). Previous studies have identified agency banking as a reliable strategy for deepening financial services and expanding access in underserved communities. For instance, Nisha and Bushra (2020) noted that it fosters rural economic development by enabling the poor to access

basic banking services. United Bank of Africa (2024) similarly highlighted how the expansion of agency networks improved the volume and frequency of transactions while reducing the cost burden on consumers. Furthermore, the work of Barasa and Mwirigi (2013) emphasized the contribution of agents in disseminating financial knowledge and building consumer confidence as an essential aspect that underpins long-term inclusion. The positive relationship observed in this study can be attributed to the unique advantages agency banking offers over traditional banking systems. By decentralizing service delivery and utilizing local agents as banking touchpoints, banks are able to reduce operational costs and improve outreach, especially in geographically remote or economically marginalized communities (Nisha & Bushra, 2020). These improvements enhance convenience, lower transaction barriers, and provide consumers with localized, accessible financial services which is fundamental to financial inclusion.

The findings of this study contribute significantly to the theoretical framework of financial inclusion particularly the Public Good Theory and Dissatisfaction Theory as proposed by Ozili (2020). From the Public Good perspective, agency banking transforms financial services into non-excludable and non-rivalrous public goods by decentralizing access and embedding services within communities. This enables broader economic participation and supports financial inclusion as a collective societal benefit. Also, the findings align with the Dissatisfaction Theory, which suggests that limitations within traditional banking such as inaccessibility, high costs, and inefficiencies drive individuals toward alternative solutions. In Uganda, agency banking effectively addresses these dissatisfactions by offering more convenient, localized, and user-friendly access to financial services. Thus, the study affirms that both the need for equitable access and responses to systemic dissatisfaction support the growth of agency banking as a key enabler of financial inclusion.

5.1.2 Financial literacy and financial inclusion

This study sought to examine the relationship between financial literacy and financial inclusion in Pallisa district. The findings indicate a positive relationship between financial literacy and financial inclusion. These findings suggest that individuals with higher levels of financial literacy are more likely to access and effectively use financial services, including savings, loans, and mobile money platforms. The results further suggest that financial literacy contributes to better decision-making in financial matters such as selecting suitable financial products, budgeting, and managing risk thereby enhancing financial access, usage, and the overall quality of financial services.

These findings are consistent with existing literature that emphasizes the role of financial literacy in improving financial inclusion. For instance, Hussain et al. (2018) and Hasan et al. (2021) argued that financial literacy, especially when supported by education on financial products and services, significantly improves a person's ability to navigate complex financial markets and gain access to credit and other financial tools. Likewise, Bongomin (2018) found that financial literacy has a direct and positive influence on rural financial inclusion in Uganda, supporting the argument that understanding financial concepts leads to increased use of formal financial services among households and small business owners. Furthermore, Mutlu and Gökhan (2021) identified financial literacy as both a driver and moderator of financial inclusion which enables individuals to better assess financial risks, manage resources, and develop financial strategies that enhance financial inclusion outcomes. Similarly, Lusardi and Mitchell (2011) linked financial literacy to positive savings behaviours, wealth accumulation, and informed investment decisions. The results of this study reflect this broader scholarly agreement that financially literate individuals are more likely

to build and sustain financial relationships that contribute to inclusion. This is particularly relevant in rural areas like Pallisa, where the lack of financial knowledge has hindered access to formal financial systems.

Theoretically, these results support both the Public Good Theory and the Dissatisfaction Theory of financial inclusion as proposed by Ozili (2020). From a public good perspective the findings affirm that in rural settings like Pallisa district, promoting financial literacy enhances collective access to financial services which benefits not only individuals but also society through increased economic participation and stability. In parallel, the Dissatisfaction Theory which provides insight into why individuals seek out financial literacy as a response to dissatisfaction with previous experiences involving complex, opaque, or untrustworthy financial systems. Improved literacy helps rebuild trust and empowers users to engage with financial institutions more confidently and effectively.

5.1.3 Agency banking practices and financial literacy

This study also intended to investigate the relationship between agency banking practices and financial literacy in Pallisa district. The findings reveal a significant positive relationship between agency banking and financial literacy which suggests that as agency banking practices improve financial knowledge, skills, attitudes, and behaviour in rural settings like Pallisa district. Specifically, the findings seem to suggest that extending banking services such as cash deposits & withdrawals, utility payments, accounts opening, and funds transfer through banking agents is a key driver for financial literacy.

These results are supported by literature emphasizing the role of agency banking in promoting financial literacy (Idoko & Chukwu 2022; Arpit, 2023; Kwesiga, 2018; UBA, 2024). According to the UBA (2024), gaining financial independence and knowledge is largely through interactions with bank agents. Barasa and Mwirigi (2013) similarly noted that agent-driven communication such as radio programs and activation drives has broadened the reach of financial education and fostered better understanding of financial products. This is especially impactful in regions with high illiteracy rates, where conventional methods of financial education are less effective. Furthermore, Idoko and Chukwu (2022) highlighted how agency operations, including financial literacy clinics and tailored advisory services have empowered rural customers to engage more confidently with financial systems. Also, Arpit (2023) pointed out that agency banking enhances consumer understanding of financial products through simplified, contextualized, and accessible education. These agent-client interactions function not just as service transactions, but also as ongoing financial learning opportunities.

Despite these positive impacts, the literature notes challenges that moderate the influence of agency banking on financial literacy. Kwesiga (2018) argued that building trust with rural customers remains a key obstacle, which limits the effectiveness of agents in delivering financial knowledge. Similarly, Malinda et al (2018) emphasized that unless agents are well-trained and actively supported by financial institutions, their capacity to influence literacy outcomes diminishes. These findings suggest that while agency banking contributes meaningfully to financial education, its effectiveness is contingent upon sustained institutional support, agent competency, and community trust.

Furthermore, the findings of this study also findings align with Ozili's (2020) Public Good Theory, which emphasizes the universal right to financial education and services as non-excludable benefits. Agency banking facilitates this by delivering education and services to underserved populations thereby bridging the literacy gap.

5.1.4 Mediating role of financial literacy in the relationship between agency banking practices and financial inclusion

This study explored the mediating effect of financial literacy in the relationship between agency banking practices and financial inclusion in Pallisa district. The finding provides significant support for the proposed hypothesis (H4) showing that financial literacy partially mediates the relationship between agency banking and financial inclusion. Specifically, agency banking practices significantly predicted financial inclusion both directly and indirectly through financial literacy, with 69.3% of the total effect occurring through financial literacy. This suggests that while agency banking practices directly enhance financial inclusion, their impact is greatly amplified when financial literacy is present.

The significant mediation effect implies that without adequate financial knowledge and awareness, the benefits of agency banking may remain underutilized. This is in tandem with the observations by Sendyona and Mercerina (2024) who argued that agency banking alone is insufficient for fostering inclusive finance in rural areas due to low levels of financial and digital literacy. Additionally, Bhatia and Arnav (2010) similarly observed that even in settings where agent banking was accessible and affordable, financial exclusion persisted due to prevailing

misconceptions and lack of trust which could be addressed through financial education. Furthermore, the significant direct relationship between agency banking practices and financial literacy reinforces findings from UBA (2024) and Barasa & Mwirigi (2013), who noted that bank agents have increasingly assumed an educational role through engagements like radio talk shows, literacy clinics, and advisory interactions. These platforms not only deliver services but also enhance clients' understanding of financial products, promoting confident participation in the formal financial system. Also, Arpit (2023) and OECD (2013) noted that financial literacy improves financial decision-making, enabling individuals to choose appropriate products, understand risks, and budget effectively.

Theoretically, the mediation findings provide deeper insight into the Public Good Theory and Dissatisfaction Theory of financial inclusion (Ozili, 2020). The Public Good Theory emphasizes that financial literacy should be universally accessible. This study confirms that when financial literacy is integrated into service delivery through agent networks it enhances the inclusive potential of these services. This study confirms that financial literacy is not just a parallel outcome of agency banking practices, but a critical pathway through which these practices achieve their full effect.

5.2 Conclusions

This study sought to examine the mediating role of financial literacy in the relationship between agency banking practices and financial inclusion in Pallisa district. Specifically, the research aimed to: (1) examine the relationship between agency banking and financial inclusion; (2) analyze the relationship between financial literacy and financial inclusion; (3) assess the influence of agency

banking on financial inclusion; and (4) investigate the mediating effect of financial inclusion on the relationship between agency banking and financial literacy. Based on the findings presented, the researcher draws the following conclusions.

Firstly, the study established a positive and significant relationship between agency banking practices and financial inclusion. The results indicate that agency banking practices (Cash deposits & withdrawals, utility payments, funds transfer, and accounts opening) have a substantial influence on financial inclusion (Financial access, Usage, and Quality & affordable financial services). Hence, it is concluded that agency banking practices directly contributes to improved financial inclusion.

Secondly, the study found that financial literacy is a significant predictor of financial inclusion. Individuals who are financially knowledgeable, skilled, and have good attitudes towards financial products are more likely to access financial services. Thus, the researcher concludes that financial literacy plays a vital role in enhancing financial inclusion.

Thirdly, a strong and positive relationship was observed between agency banking practices and financial inclusion. The results show that agency banking significantly improves financial access, Usage, and quality & affordable services. The researcher, therefore, concludes that agency banking practices are crucial drivers of financial inclusion.

Finally, the mediation analysis demonstrated that the direct effect of agency banking on financial inclusion decreased with the inclusion of financial literacy as a mediating variable. However, both the direct and indirect effects remained statistically significant which indicates partial mediation. This implies that while agency banking practices have a direct effect on financial inclusion, a

substantial portion of its influence is transmitted through increased financial literacy. The study thus concludes that financial literacy is a mechanism through which agency banking practices influence financial inclusion.

5.3 Recommendations

In view of the findings and conclusions drawn from this study, the researcher makes the following recommendations.

Firstly, the researcher recommends that commercial banks should expand the geographical reach and operational capacity of agency banking, especially in rural and underserved regions. This can be done by facilitating the opening of agency banking points and partnering other agency banking outlets in rural or underserved areas. Doing this will not only promote financial access but also create opportunities for individuals to build their financial capabilities through regular interaction with formal financial systems.

Secondly, commercial banks are encouraged to not only equip agent banking with technical competencies but also with the capacity to deliver financial education to customers in their areas of operation. Financial institutions can collaborate with financial education experts and NGOs to develop simplified educational materials and digital content in local languages to ease the financial knowledge acquisition process. Furthermore, embedding financial knowledge dissemination into everyday agency banking transactions such as guiding clients on savings strategies, budgeting, understanding loan terms, and digital financial safety can significantly elevate the financial literacy levels of users.

Thirdly, given that the findings confirm financial literacy as a mediator between agency banking and financial inclusion, interventions aimed at enhancing financial knowledge, skills, and behavior are essential. Therefore, tailored financial literacy programs such as financial literacy clinics, community forums, and radio programs should be developed to address the needs of different customer groups, especially women, youth, and low-income earners. These programs should be delivered through multiple channels including mobile platforms, agent networks, and community-based sessions.

Finally, financial institutions should implement robust monitoring and evaluation mechanisms that track improvements in clients' financial knowledge, behavior, and access to quality, affordable financial services. This can be done through adoption of digital analytical tools and conducting periodic household surveys to keep track of the impact of its efforts in enhancing financial inclusion.

5.4 Limitations and areas for future research

While the findings of this study offer valuable insights into the mediating role of financial literacy in the relationship between agency banking practices and financial inclusion, several limitations must be acknowledged.

First, the study employed a cross-sectional research design, which captured data at a single point in time. This approach limits the ability to capture changes in the relationships between variables over time. Therefore, future research should consider adopting a longitudinal design to monitor these relationships over extended periods and provide stronger evidence of causality.

Second, the research was confined to Pallisa district which may be characterized by unique characteristics such as, culture and practices. These factors could have influenced the observed relationships thereby limiting the generalizability of the findings to other universities or sectors. To address this limitation, subsequent studies should consider a wider scope to accommodate contextual variations so as to enhance external validity.

Third, the study focused exclusively on rural areas in Pallisa district. This narrow scope may have overlooked insights from urban setting which affects the generalizability and validity of the findings. Therefore, future research should aim to replicate the study across urban settings to enhance the generalizability of the findings.

Finally, the study relied solely on quantitative approach, it used a structured questionnaire. While this approach facilitated the measurement and statistical analysis of variables, it ignores the rich, contextual, and experiential insights that qualitative approaches such as interviews and focus group discussions offer. These methods are particularly valuable for uncovering nuanced perceptions of financial behavior, barriers to inclusion, or subjective experiences with agency banking. Therefore, future studies should employ a mixed approach in order to get a holistic understanding of the relationship between agency banking practices, financial literacy, and financial inclusion.

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Appendix I: Questionnaire

Dear Respondent

I am glad to inform you that you have been chosen to participate in this study that seeks to examine the ‘‘Mediating effect of financial literacy on the relationship between Agency banking practices and financial inclusion in Pallisa’’. Please note that all the information provided should be considered purely for academic purposes and should be treated as confidential as possible. Thank you for taking the time to fill in the questionnaire and for your cooperation.

SECTION A: Demographic Information

Please tick the appropriate

a) Kindly indicate your Gender

- 1. Male [1]
- 2. Female [2]

b) Kindly indicate your age bracket

- 1. Below 20 years [1]
- 2. 21-30 years [2]
- 3. 31-40 years [3]
- 4. 41 years and above years [4]

c) Please indicate your Highest level of Education attained

- 1. Certificate [1]
- 2. Diploma [2]
- 3. Bachelors [3]
- 4. Postgraduate [4]

d) Kindly indicate how long you have used Agency banking services

- 1. 0-1 years [1]
- 2. 1-2 years [2]
- 3. 2-3 years [3]
- 4. 3 years and above [4]

e) Indicate your preferred financial services channel

- 1. Bank branches [1]
- 2. Agent Bank Points [2]
- 3. Mobile money agents [3]
- 4. E-commerce [4]

Section B: Agency Banking Practices

Please indicate the extent to which you agree or disagree with each of the following statements by ticking the most appropriate box on the right-hand side of the statement that ranges from. 1= strongly disagree, 2 = Disagree, 3 =Neutral, 4 = Agree and 5 = Strongly Agree.

CODE	Agency Banking Practices					
ABP1	I am satisfied with the quality of services offered by bank agents	1	2	3	4	5
ABP2	I am satisfied with the quality of products offered at bank agent points	1	2	3	4	5
ABP3	Agency banking uses the latest technology in serving clients	1	2	3	4	5
ABP4	I often transact with bank agents	1	2	3	4	5
ABP5	Transaction fees charged at agent points are friendly	1	2	3	4	5
ABP6	I am satisfied transacting with bank agents	1	2	3	4	5
ABP7	Customer attitude towards agency banking practices is positive	1	2	3	4	5
ABP8	Agency banking offers convenience to customers	1	2	3	4	5
ABP9	My financial information is well protected at bank agent points	1	2	3	4	5
ABP10	Bank agents are responsive to customer needs	1	2	3	4	5
ABP11	Bank agents are confidential with my transactions	1	2	3	4	5
ABP12	I spend less time while transacting with bank agents	1	2	3	4	5
Section C: Financial Literacy						
	Financial knowledge					

FK1	I know about the basics of managing personal finance	1	2	3	4	5
FK2	I am aware about details regarding investments	1	2	3	4	5
FK3	When deciding on which financial products I will use , I consider options from various financial institutions and organizations	1	2	3	4	5
FK4	I have knowledge on how to acquire a loan and compute interest	1	2	3	4	5
FK5	I have knowledge about credit scores done by financial institution	1	2	3	4	5
FK6	I clearly understand the details of my bank statements	1	2	3	4	5
FK7	When I deposit money, I reduce the cost of the loan facility					
	Financial skills					
FS1	I can analyze and interpret my financial statements	1	2	3	4	5
FS2	I have the knowledge and expertise on how to prepare budgets	1	2	3	4	5
FS3	I set financial goals that are realistic and achievable	1	2	3	4	5
FS4	I keep track of my incomes and expenses to control overspending	1	2	3	4	5
FS5	I analyze business situations and identify potential risks to my finances	1	2	3	4	5
	Financial attitudes					

FA1	I set long term financial goals, and I strive to achieve them	1	2	3	4	5
FA2	If borrow money, I have the responsibility to pay it back	1	2	3	4	5
FA3	I keep a close personal watch of my financial affairs	1	2	3	4	5
FA4	The way I manage my money today will affect my future	1	2	3	4	5
FA5	I am sensitive to interest rates when deciding how much to save	1	2	3	4	5
FA6	I prefer to use financial institutions that have strong ethical foundation	1	2	3	4	5
FA7	Keeping my money in the bank is safer even if the bank fails	1	2	3	4	5
FA8	I prefer to follow my personal instincts rather than make detailed financial plans	1	2	3	4	5
FA9	I am satisfied with my present financial situation					
	Financial Behaviors					
FB1	Whenever I receive some money each month, I save some for future needs	1	2	3	4	5
FB2	I feel secure keeping my money in a bank account than at home	1	2	3	4	5
FB3	I compare prices when shopping for major expenses	1	2	3	4	5

FB4	Before I buy something, I carefully consider whether I can afford it	1	2	3	4	5
FB5	Before I access money from a financial, I budget for it before spending	1	2	3	4	5
FB6	Before buying a financial product, I check if the provider is regulated in my country	1	2	3	4	5
FB 7	Before I buy something, I consider whether the company strives to improve its social or environmental impact	1	2	3	4	5
FB8	I set goals to guide my financial decisions	1	2	3	4	5
FB9	I do not borrow money from family, friends, relatives of employers	1	2	3	4	5
FB10	I don't use credit facilities even for daily use	1	2	3	4	5
Section D: Financial Inclusion						
	Financial Access					
FA1	I have access to a bank account & atm card	1	2	3	4	5
FA	I have access to a bank account through my family members	1	2	3	4	5
FA3	I pay my utility bills through the bank/ formal financial institution	1	2	3	4	5
FA4	I have made or received an international remittance in the past one year through an account	1	2	3	4	5

FA5	I receive income, salary and fund transfers through direct deposit into an account in a bank or formal financial institutions	1	2	3	4	5
FA6	I have cash savings in the bank other than livestock, gold or land	1	2	3	4	5
FA7	I Invest money in instruments such as term deposits, bonds and stocks	1	2	3	4	5
FA8	During the last three years I applied and received a loan from a bank, savings group, cooperative or other formal Institution.	1	2	3	4	5
Financial Usage						
FU1	Bank accounts are a safer option to keep my money safe	1	2	3	4	5
FU2	I use my bank account to save my money	1	2	3	4	5
FU3	Bank accounts can be used in securing loans from banks	1	2	3	4	5
FU4	Bank accounts can be used to send money to and receive money from other people	1	2	3	4	5
FU5	Bank accounts can be used to pay utility bills	1	2	3	4	5
FU6	My bank account can be accessed through websites and mobile apps	1	2	3	4	5
FU7	If I borrow money , I have the responsibility of paying it back	1	2	3	4	5

FU8	The terms of repayment of loans provided by financial institutions if favorable to me	1	2	3	4	5
FU9	The cost of financial services influences my ability to consume					
Quality and Affordable Financial services						
QF1	Internet banking services are reliable and stable when transacting online	1	2	3	4	5
QF2	Fees charged by banks are affordable and friendly	1	2	3	4	5
QF3	Deposit and loan products offered by banks are relevant to my needs	1	2	3	4	5
QF4	I can qualify for a large loan facility despite my level income	1	2	3	4	5
QF5	I am satisfied with the quality of banking services I receive while depositing and withdrawing money	1	2	3	4	5
QF6	My privacy is not compromised because of keeping money in the bank	1	2	3	4	5

Thank you for your participation!

Appendix II: Kregcie and Morgan (1970) Sample size determination table

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	276	4500	351
35	32	150	108	360	181	1100	285	5000	357
40	36	160	113	380	186	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	320	8000	367
55	448	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Appendix III: List of Agent Banking Facilities

Agent Points	Location
Emma Com Africa ltd	Pallisa T/c
Massa Commercial Capital ltd	Tirinyi Road
Chrisma Agro Business Enterprises	Pallisa T/c
Moru air Enterprises ltd	Agule T/c
Orish Technical services	Pallisa T/c
Experta Gen Supplies	Nangaiza, Pallisa Mbale Road
Katu Enterprises	Iki Iki , Pallisa – Mbale Road
Bizman Enterprises	Trinyi Road, Pallisa
Amigos Akonya Agency	Pallisa T/c
Ateuicent Enterprises	Gogonyo T/c Pallisa
Bawidaka Uganda company ltd	Kakoro T/c
Ligassion Business solutions 1	Pallisa T/c
Ligassion Business Solutions 2	Agule Road
Okia John Business Solution	Pallisa T/c
Omaido Business Venturea	Pallisa T/c
Freyal Venture	Pallisa T/c
Jomick Traders	Pallisa T/c
Stephen & Martha Family Business	Akisim, Pallisa
Osajo Farm Enterprises	Kameke T/c Pallisa
Katula Ronals & Sons Enterprises	Bulangira, Pallisa – Mbale Rd
Katunice Property consultants ltd	Buseta , Pallisa – Tirinyi Rd
Nabugolola trade Links	Kasasira T/c

Source. Centenary Bank (2024), accessed 04 September 2024

Appendix IV: Introduction Letter