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Effect of Inclusive Financial Inclusion on Economic Growth in Kenya

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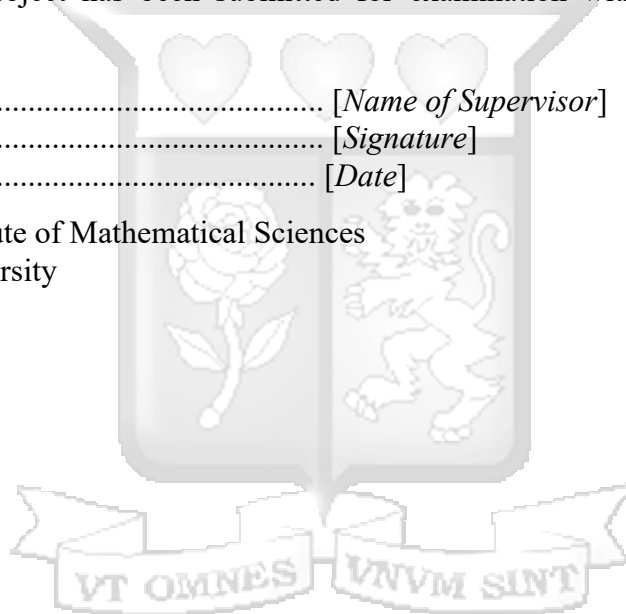
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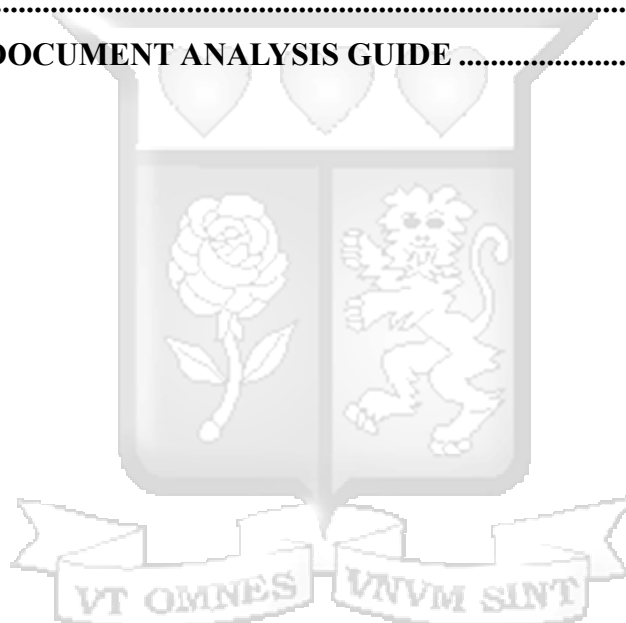
Lastly, I thank my family and friends for their unwavering encouragement which inspired me to achieve this milestone.



TABLE OF CONTENTS

ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS.....	iv
LIST OF TABLES	vi
LIST OF FIGURES	vii
LIST OF ABBREVIATIONS.....	viii
ABSTRACT.....	ix
CHAPTER 1: INTRODUCTION	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem	5
1.3 Objective of the Study.....	6
1.4 Specific Objectives.....	6
1.5 Research Questions	6
CHAPTER 2: LITERATURE REVIEW.....	8
2.1 Introduction	8
2.2 Review of Theories	8
2.2.1 Endogenous Growth.....	8
2.2.2 New Growth Theory.....	9
2.3 Empirical Review.....	10
2.3.1 Financial Inclusion and Economic Growth.....	10
2.3.2 Women Financial Inclusion and Affect Economic Growth.....	12
2.3.3 Financial Inclusion of Men and Economic Growth	13
2.4 Conceptual Framework	15
CHAPTER 3: METHODOLOGY	16
3.1 Introduction	16
3.2 The Research Design.....	16
3.3 Population and Sampling	16
3.4 Data Collection.....	16
3.5 Data Analysis	17
CHAPTER 4: DATA ANALYSIS, PRESENTATION AND DISCUSSION OF FINDINGS.....	19
4.1 Introduction	19
4.2 Descriptive Statistics	19
4.3 Diagnostic Tests	21

4.3.1 Jarque-Bera Test for Normality	21
4.3.2 Autocorrelation Test.....	22
4.3.3 Eigenvalue Stability Condition	22
4.3.4. Unit Root Test.....	23
4.4. Vector Autoregression Analysis	25
4.5 Discussion of Research Findings	27
CHAPTER 5: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION	30
5.1 Summary of Findings.....	30
5.2 Conclusion.....	30
5.4 Further Research Recommendations.....	31
REFERENCES	33
APPENDIX I: DOCUMENT ANALYSIS GUIDE	36



LIST OF TABLES

Table 4.1	Descriptive Results of Study Variables	19
Table 4.2	Jarque-Bera Test for Normality	21
Table 4.3	Autocorrelation Test	22
Table 4.4:	Eigenvalue Stability Condition.....	23
Table 4.5:	Phillips-Perron Unit Root Test.....	24
Table 4.6:	Vector autoregression.....	26



LIST OF FIGURES

Figure 2.1 Conceptual Framework	15
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LIST OF ABBREVIATIONS

CAGR	Compound Annual Growth Rate
CBK	Central Bank of Kenya
GDP	Growth Domestic Product
KNBS	Kenya National Bureau of Statistics
MFI	Microfinance institutions
OIC	Organization of Islamic Cooperation
R&D	research and development
SACCOs	Savings and Credit Cooperatives
SDGs	Sustainable Development Goals
VAR	Vector autoregression



ABSTRACT

Kenya has made significant strides in financial inclusion, yet disparities remain, particularly among rural and underprivileged communities, with an estimated 13.5 million people still excluded from the formal financial system as of 2018. A persistent gender gap also exists, driven by disparities in digital financial inclusion, where men are more likely to own mobile phones and access formal digital credit. The primary purpose of this proposed study is to investigate how financial inclusion can contribute to economic growth, considering the specific barriers faced by women in accessing financial services. That study specifically determined the effect of financial inclusion, women financial inclusion, men financial, women mobile banking on economic growth in Kenya. The study, guided by the Endogenous Growth and New Growth Theories, employed a longitudinal research design to analyze time series data from 2019 to 2023, focusing on men and women in Kenya accessing formal financial services. Secondary data was sourced from institutions such as the World Bank (2024), the Central Bank of Kenya (CBK, 2021), the Kenya National Bureau of Statistics (KNBS, 2024), and the FinAccess Household Survey. Using descriptive statistics and Vector Autoregression (VAR) analysis, the study found that financial inclusion significantly enhances GDP growth ($\beta = 19.087$, $p < 0.001$), with positive contributions from women's financial inclusion ($\beta = 8.050$, $p = 0.003$) and men's financial inclusion ($\beta = 3.173$, $p = 0.041$). Mobile banking usage also positively impacted GDP growth, with women's usage ($\beta = 4.204$, $p = 0.011$) and men's usage ($\beta = 7.331$, $p = 0.003$), though men's impact was more pronounced. The study concludes that financial inclusion is vital for economic growth, particularly through women's economic participation, and recommends targeted interventions to enhance financial access for women, address barriers to mobile banking, invest in human capital, and optimize mobile banking platforms to support higher-value transactions and gender-sensitive economic policies.



CHAPTER 1: INTRODUCTION

1.1 Background of the Study

Since the early 2000s, the notion of "financial inclusion" has garnered increased interest and attention, owing to the challenges identified as being a hindrance to access to finance and its direct link to poverty, as underlined by the World Bank (Maity & Sahu, 2022). Financial inclusion refers to the process of ensuring that people and businesses, particularly those in impoverished or marginalized groups, have equitable and transparent access to appropriate financial goods and services at reasonable prices. These financial services usually consist of payment systems, credit, insurance, and savings. The objective of financial inclusion is to enable every person to enhance their financial status, thereby fostering economic growth and mitigating poverty. It is commonly recognized as the key to achieving seven of the seventeen SDGs. Financial inclusion, according to the World Bank Group, is a critical tool for reducing extreme poverty and promoting shared prosperity. The G20 has reaffirmed its commitment to adopting the G20 High-Level Principles for Digital Financial Inclusion and advancing financial inclusion globally (Buckland & Buckland, 2018).

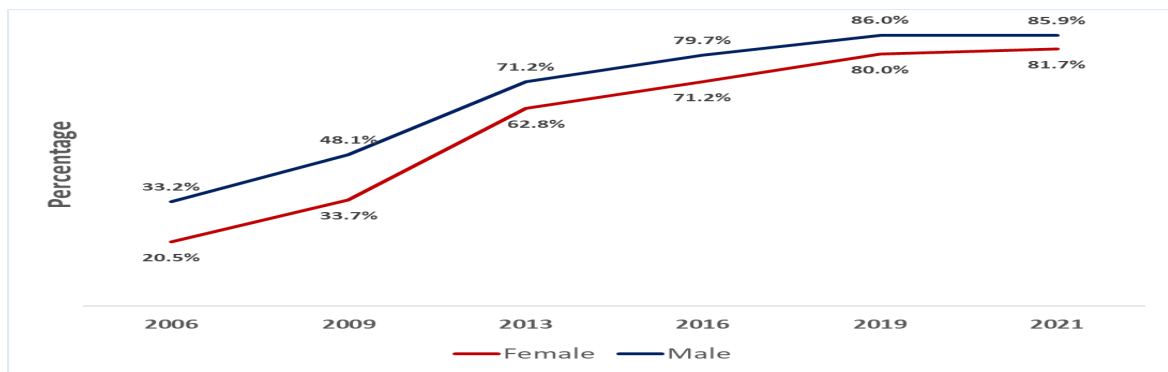
Globally, efforts to increase financial inclusion have gathered considerable traction, with various nations putting plans into place to give marginalized groups more access to financial services. 1.2 billion adults now have access to an account, demonstrating the significant progress made in financial inclusion between 2011 and 2017. But as of 2017, 1.7 billion adults globally, or almost one-third of the adult population, were unbanked (World Bank, n.d.). By 2021, 76% of people on the planet have an account, with 71% of them living in developing nations. After persisting for years, the gender disparity in account ownership in developing nations has shrunk to 6 percentage points from 9. (World

Bank Group, 2023). Financial inclusion is being greatly advanced by mobile money, notably in Sub-Saharan Africa, especially for women (World Bank Group, 2023). Furthermore, roughly 50% of adults in developing nations could obtain additional income in less than 30 days to pay for unforeseen needs.

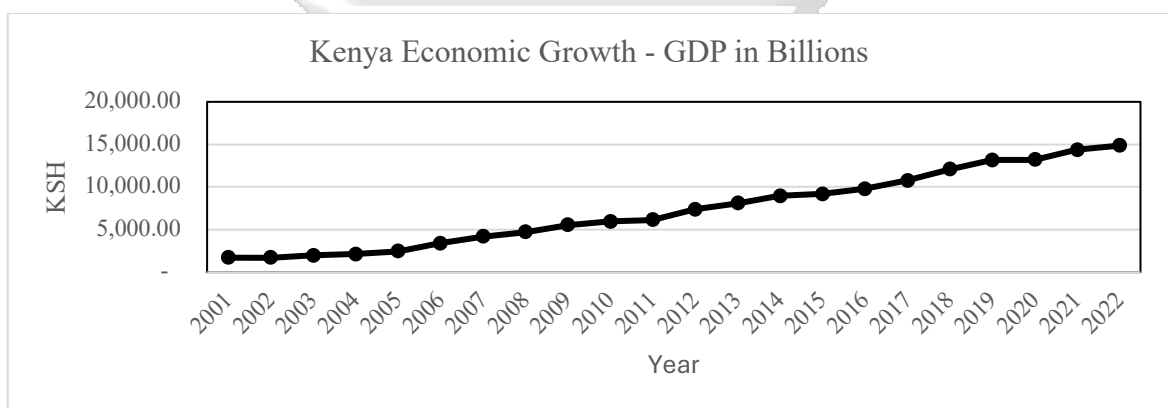
Financial inclusion has been associated with economic growth in various countries. For instance, Huang et al. (2021) highlighted the link between a robust and inclusive financial system and overall economic progress in both old and new Europe. According to Hussain et al. (2024), the impact of financial inclusion on economic growth is more significant in developing countries compared to developed nations. In Organization of Islamic Cooperation (OIC) countries, Kim et al. (2018) found through panel VAR analysis that financial inclusion positively influences economic growth, with mutual causality demonstrated by panel Granger causality tests. Erlando et al. (2020) using Panel Vector Autoregression (PVAR) revealed a strong relationship between financial inclusion, economic growth, poverty reduction, and income distribution in Eastern Indonesia. In Egypt, Boulanouar et al. (2024) utilized autoregressive distributed lag (ARDL) regression models to show that financial inclusion contributes to economic growth. Similarly, in Nigeria, Ezzahid and Elouaourti (2022) provided empirical evidence that financial inclusion significantly and positively impacts investment and economic growth in Africa.

Over the years, Kenya has made great progress in financial inclusion, especially with the widespread use of services like M-Pesa (Ahmad et al., 2020). When Safaricom introduced M-Pesa in 2007, it completely changed the financial scene in Kenya by giving users an easy-to-use mobile money transfer and storage solution. Millions of people who had not previously had access to banking were able to enter the formal financial system, thanks in large part to this innovation (Bekele, 2023). MFIs and savings and credit cooperatives

(SACCOs) have both played important roles in increasing financial inclusion. Through several programs and policies, the Kenyan government is still contributing to the advancement of financial inclusion (Rosengard, 2016). The usage of mobile money for social welfare payments has been promoted by the government, enabling recipients of social stipends to receive benefits straight into their bank accounts or mobile wallets. Furthermore, laws have been implemented to guarantee the security and safety of mobile money transactions, which has contributed to the system's increased credibility. Financial inclusion has increased access to necessary financial tools, including savings, credit, insurance, and payment methods, especially in rural and underserved areas, through programs like mobile money platforms like M-Pesa. Notwithstanding the favorable effects of financial inclusion on Kenya's economic expansion, several obstacles still exist. Uneven distribution of financial services is a major problem, and access to these services is frequently impeded for marginalized and rural people by things like inadequate infrastructure, insufficient financial knowledge, and cultural norms. Furthering the expansion of financial inclusion efforts is hampered by cybersecurity concerns, insufficient technical infrastructure, and legislative restrictions. To fully utilize financial inclusion in promoting equitable and economic growth in Kenya, these obstacles must be overcome. Financial inclusion has been trending upward in Kenya for both men and women (FinAccess Household Survey, 2021). In a similar vein, Kenya's GDP has been growing over time.



Trends in access to formal financial services by year and gender – 2006 to 2021 (Source: FinAccess Household Survey, 2021)



Source: Computation from the World Bank Data

Even while the variables—financial inclusion and Kenyan economic growth—have favorable effects on one another, there are still several challenges. Uneven distribution of financial services is a major problem, and access to these services is frequently impeded for marginalized and rural people by things like inadequate infrastructure, insufficient financial knowledge, and cultural norms. Furthering the expansion of financial inclusion efforts is hampered by cybersecurity concerns, insufficient technical infrastructure, and legislative restrictions.

1.2 Statement of the Problem

Although there is ample evidence linking financial inclusion to economic growth globally, several obstacles impede the relationship's full potential. Kenya has made noteworthy progress in increasing financial inclusion across the nation. However, disparities persist, particularly for underprivileged and rural communities. As of 2018, the World Bank estimated that approximately 13.5 million Kenyans remained excluded from the formal financial system, representing a substantial portion of the population without access to essential financial tools and services (World Bank, 2022). Despite the overall upward trend in financial inclusion for both men and women in Kenya (FinAccess Household Survey, 2021), a significant gender gap exists, with men demonstrating higher levels of financial inclusion. One contributing factor is the disparity in digital financial inclusion, with men being 5.4 percentage points more likely than women to own a mobile phone (CBK, 2021). According to Johnen & Mußhoff (2023), gender differences in formal digital credit usage accounted for at least 3 percentage points of the total 3.7 percentage point increase in the gender gap in formal credit usage between 2012 and 2018.

This lack of inclusive financial services in Kenya may be related to the absence of evidence on the impact of inclusive financial inclusion on economic growth in the country. While studies show that financial inclusion benefits both men and women, there is limited empirical research in Kenya specifically examining the effects of inclusive financial inclusion on economic growth. Therefore, further investigation is necessary to understand how financial inclusion of both men and women impact's Kenya's economic growth.

1.3 Objective of the Study

The primary purpose of this proposed study is to investigate how financial inclusion can contribute to economic growth, considering the specific barriers faced by women in accessing financial services.

1.4 Specific Objectives

- i. To investigate the gender disaggregated effect of financial inclusion on economic growth.

1.5 Research Questions

- i. How does financial inclusion affect Kenya's economic growth?
- ii. How does gender-specific financial inclusion (women and men) impact Kenya's economic growth?
- iii. What is the effect of gender-specific mobile banking (women and men) on Kenya's economic growth?

1.6 Significance of the Research

The primary purpose of this proposed study is to assess the effect of inclusive financial inclusion on economic growth in Kenya. The findings of this research will have significant implications for various stakeholders, including the Kenyan economy, women, men, policymakers, economists, practitioners, and academics/scholars.

Understanding the impact of inclusive financial inclusion on economic growth will provide valuable insights into how financial services can be leveraged to stimulate

economic development. This information was crucial for designing strategies to promote sustainable economic growth in Kenya.

By specifically focusing on the effect of women's financial inclusion on economic growth, the study will highlight the critical role that women play in the economy. This can lead to targeted interventions aimed at improving women's access to financial services, thereby empowering them economically and contributing to overall economic development.

Comparing the financial inclusion of men and women will provide a comprehensive understanding of the disparities and areas that need improvement. This will ensure that strategies for enhancing financial inclusion are inclusive and equitable, benefiting both men and women.

The study's findings was instrumental for policymakers in developing and implementing policies that promote financial inclusion. Evidence-based policy recommendations will help create an enabling environment for financial inclusion, addressing barriers and ensuring that financial services reach all segments of the population.

For economists and practitioners, the research will offer empirical evidence on the relationship between financial inclusion and economic growth. This will aid in the formulation of economic theories and models that incorporate financial inclusion as a significant factor in economic development.

The study will contribute to the existing body of knowledge on financial inclusion and economic growth. It will provide a basis for further research and academic discourse, fostering a deeper understanding of the dynamics between financial services and economic development.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

In this section, the theoretical and empirical literature review was carried out. An empirical review will show the nexus between analyzing the effect of financial inclusion on economic growth in Kenya. The study specifically reviewed literature on effect of women financial inclusion on economic growth and effect of men financial inclusion on economic growth. The theoretical foundations of the study were discussed. Research gaps arising from past studies was documented and how each was addressed will also be discussed.

2.2 Review of Theories

2.2.1 Endogenous Growth

Theoretical frameworks that establish the connection between financial inclusion and economic growth continue to be subjects of ongoing exploration. Among these theories, endogenous growth theory, as formulated by Romer (1980) and Lucas (1988), suggests that economic expansion is primarily driven by dynamic gains. According to this perspective, governance activities play a pivotal role in shaping long-term growth trajectories. Central to endogenous growth theory are several key principles. Firstly, effective government policies such as financial inclusion policies can significantly elevate a country's growth rate by fostering greater competition in markets and encouraging innovation in both products and processes (Ghosh & Sahu, 2022). Such policies aim to enhance accessibility to financial services, stimulate entrepreneurial endeavors, and provide incentives for research and development (R&D) investments (Romer, 1991).

Moreover, investments in infrastructure such as transportation, telecommunication and banking contribute to increased financial inclusion leading to returns to scale, thereby magnifying the impact of capital investment on economic growth (Kwenda & Chinoda, 2019). Private sector innovation is another cornerstone of endogenous growth theory. Investment in R&D by private entities plays a crucial role in driving technological advancements and fostering innovation (Romer, 1991) thus encouraging digital financial inclusion. Additionally, investment in human capital, including financial education and skill development, emerges as a vital component for fostering growth and innovation.

Similarly, Srinivasan (2001) outlined four primary drivers of economic growth: innovation, resource accumulation, high productivity, and knowledge transfer. These drivers underscore the importance of cultivating an environment conducive to innovation and knowledge creation. Robust financial inclusion policies and practices, underpinned by effective governance mechanisms, are integral to unlocking the growth potential inherent in such initiatives. In essence, the relationship between financial inclusion and economic growth is intimately intertwined with governance and innovation issues. By fostering an environment conducive to innovation and knowledge creation, while ensuring equitable access to financial services, societies can harness the transformative power of financial inclusion to propel sustainable economic growth and development.

2.2.2 New Growth Theory

New growth theory by Romer (2001) provides some level of explanation for the economic growth within a particular geographic boundary. However, understanding of economic growth is still incomplete (Romer, 2001), especially concerning the factors influencing growth disparities across countries. In addition to that, the existing growth models fail to provide a complete explanation for the cross-country growth differences (Romer, 2001).

Although human capital accumulation, physical capital accumulation, and technological progress are important determinants of economic growth in the major growth models (Acemoglu, 2009), financial inclusion emerges as a crucial aspect in another view. Hall and Jones (1999) emphasize the importance of social infrastructure and government policies that favor financial inclusion in economic growth. The concept of governance and its importance to economic growth was raised in the early 1990s (Perkins, Radelet, & Lindauer, 2006; The World Bank, 1994). New growth theory identifies the role of technology as a driving force for economic growth (Romer, 2001; Mankiw & Ball, 2011). Notably, the rate of technological progress increases along with the rate of financial knowledge accumulation. In this model, research and development generate knowledge (Romer, 2001), and favorable institutions such as property rights promote investment in research and development, thereby contributing to economic growth. The theory's applicability in studying the effect of financial inclusion on economic growth lies in understanding how governance activities, social infrastructure, and government policies shape the accessibility of financial services and stimulate innovation and technological progress. By promoting financial inclusion through conducive governance and policy frameworks, societies can leverage the transformative potential of inclusive financial systems to drive sustainable economic growth and development.

2.3 Empirical Review

2.3.1 Financial Inclusion and Economic Growth

Financial inclusion has a considerable long-term positive impact on economic growth in Asia, according to Hussain et al. (2024). Their pair-wise causality test, which yields consistent results across many estimate methodologies, shows a bidirectional causal relationship between financial inclusion and economic development. Their results imply

that poor countries are more affected by financial inclusion's impact on economic growth than are developed ones.

The constructive function of development associated to the inclusive financial system in promoting sustainable growth is empirically supported by proponents of the positive correlation between economic advancement and an inclusive financial system (Mushtaq & Bruneau, 2019; Karim et al., 2022). They contend that the development of a more comprehensive, stable, and inclusive financial system ought to be the main goal of government policy since it promotes long-term economic growth. On the other hand, Pradhan and Sahoo (2021) contend that the creation of an inclusive financial system follows sustainable growth. A third viewpoint, presented by Adedokun and Ağa (2023), proposes a reciprocal relationship between a robust and inclusive financial system and general economic advancement, suggesting that they are mutually reinforcing.

With an emphasis on women in particular, Christinal and GT (2024) highlight the importance of access to financial goods and services in ensuring fair economic growth and eliminating poverty. Nevertheless, little research has been done on the factors that influence women's financial inclusion in the nation, and little is known about how financial inclusion particularly affects women's access to banking and microfinance. Even after taking into account other pertinent household and state-level attributes that are essential to describing financial access by households, households with women in charge are, on average, 8% less likely to access formal finance and 6% more likely to access informal finance compared to households headed by males. This is true despite the crucial part that financial inclusion plays in economic growth (Ghosh & Vinod, 2017).

One major issue that is getting more attention is the gender disparity in financial access. Worldwide, 47% of women and 55% of men own or jointly own a bank account (Gender

and Development Unit, 2013). World Bank Findex data indicates that although financial inclusion has increased globally overall, there is still a gender disparity in financial inclusion. Encouraging gender equality—one of the 17 goals for sustainable development that the UN has adopted—requires women to be financially included. Unfortunately, there is a dearth of systematic literature reviews to thoroughly examine the state of the field and pinpoint research gaps, and academic scholarship on financial inclusion for women is dispersed (Roy & Patro, 2022).

2.3.2 Women Financial Inclusion and Affect Economic Growth

Adarsh and Sivasubramanian (2024) conducted a study on the financial inclusion of women and its impact on economic development. This study relies solely on secondary data sourced from published articles and reports, primarily from government entities such as World Bank, and Ministry of Finance. The findings indicate that the government has implemented several initiatives to enhance financial inclusivity. Public sector banks lead the way, with 21.48 crore female accounts, the highest among all banks. In contrast, private sector banks have only 0.76 crore female accounts, while regional rural banks have 5.33 crore accounts. These efforts have contributed to positive economic growth.

Swamy (2014) examined the impact of financial inclusion programs on impoverished households, specifically focusing on the gender disparity between women and men. Their study revealed a significant gender dimension in the effects of these programs, particularly evident in the notable changes in income among the poor, especially women. The impact leaned positively towards women, as evidenced by the income growth (CAGR) net of inflation, which stood at 8.40% for women participants compared to 3.97% for men. These findings highlight the potential contribution of financial inclusion initiatives to not only

income generation but also to overall economic growth, particularly when considering the empowerment and economic advancement of women

Chavan (2020) observed that until 2013, India excluded women from the category of weaker socioeconomic groups, but subsequently included them. Furthermore, it has been argued that women's financial inclusion through digitalization has the potential to enhance their agency, alleviate poverty, promote a more inclusive financial environment, and have a positive impact on growth and productivity in India's developing context (Chatterjee, 2021).

2.3.3 Financial Inclusion of Men and Economic Growth

Lenka and Sharma (2017) investigated the economic impact of financial inclusion in India from a gender perspective. Through the analysis of panel data from 2007 to 2012, the authors identified a positive gender premium effect of financial inclusion on income, particularly favoring women. Notably, financial inclusion programs were found to increase women's incomes by 8.40% compared to 3.97% for men. These findings underscore not only the importance of gender-sensitive financial inclusion policies but also their potential contribution to overall economic growth and development.

Cicchello et al. (2021) investigated the correlation between the financial inclusion index and development indicators in the least developed countries across Asia and Africa, utilizing annual data from 42 nations spanning the years 2000 to 2019. Employing pooled panel regression and panel data analysis techniques, they examined this relationship. The empirical findings revealed that economic growth fosters financial inclusion. Moreover, factors such as unemployment and literacy rates were identified as contributors to financial inclusion, with women being observed as more susceptible to financial exclusion

compared to men. In the context of less developed countries, where the economy heavily relies on agriculture, individuals residing in rural areas tend to experience lower levels of financial inclusion. Additionally, disparities in pay further diminish financial inclusion rates, exerting a detrimental influence on overall development.

In their study spanning from 2004 to 2019 and encompassing 48 developing nations, Wani & Khanday (2024) explore the joint influence of financial inclusion and gender equality on economic growth, employing the generalized method of moments. Their analysis reveals that an upsurge in men accessing banking services correlates with heightened levels of investment, entrepreneurship, and overall economic productivity. Furthermore, employing interaction analysis, the researchers discern a synergistic relationship between gender equality and financial inclusion concerning their impact on economic growth. This implies that advancements in financial inclusion, coupled with improved gender parity, yield a compounded effect on economic growth. The study concludes that gender equality acts as both a catalyst and a facilitator for enhanced financial inclusion, engendering a dynamic interplay conducive to economic advancement.

2.4 Conceptual Framework

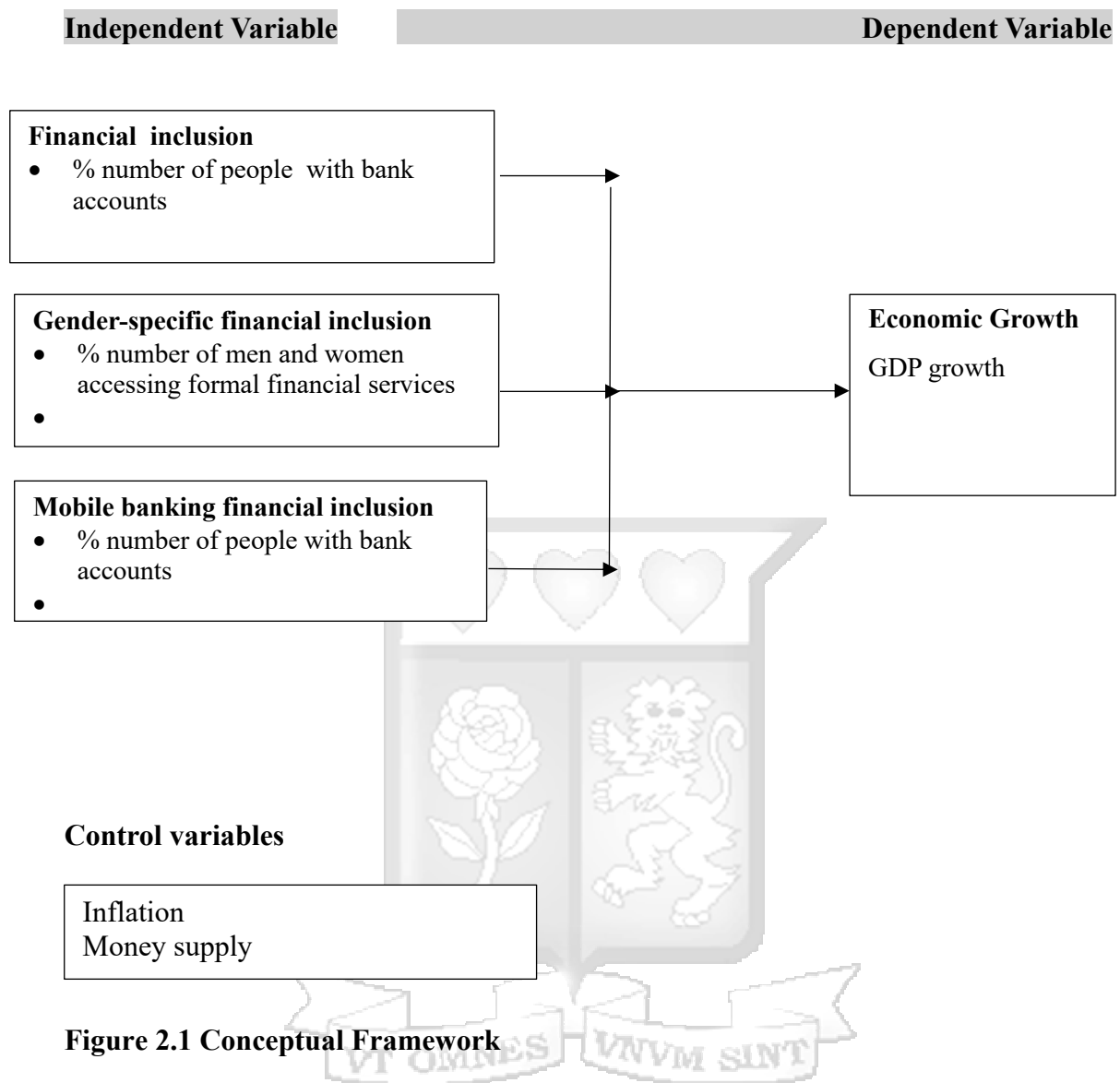


Figure 2.1 Conceptual Framework

CHAPTER 3: METHODOLOGY

3.1 Introduction

This chapter covers the research methodology that guide the study in addressing the formulated objectives and hypotheses. It entails research design, theoretical framework, measurement of variables, data types and sources, diagnostic tests and data analysis.

3.2 The Research Design

Research design is the structure within which research is done from collecting, measuring analyzing and interpreting data, a type of inquiry within quantitative, qualitative, or mixed methods approaches that gives direction for procedures (Kothari, 2015 and Cooper & Schindler, 2014). According to Creswell and Creswell (2018) in research design, the researcher does not only choose quantitative, qualitative, or mixed methods but also decides on the type of design within these choices. The study employed longitudinal research design. The approach is selected because the variables of interest cover a 5-year period from 2019 to 2023.

3.3 Population and Sampling

The study population was women and men in Kenya accessing formal financial services between 2019 and 2023.

3.4 Data Collection

The study utilized time series data from 2019 to 2023, focusing on secondary data sources obtained from reputable institutions. This approach will involve gathering information from the World Bank (2024), the Central Bank of Kenya (CBK, 2021), the Kenya National Bureau of Statistics (KNBS, 2024), and the FinAccess Household Survey. The use of

secondary data is supported by document analysis, a method advocated by Oso and Onen (2009) for extracting and analyzing pre-existing information.

For data on women's financial inclusion, the study relied on the FinAccess Household Survey reports from 2019 to 2023 provided by the KNBS. This data was represented by the percentage of women accessing formal financial services. To ensure accurate data collection, the relevant figures were extracted from the reports and entered into an Excel spreadsheet. The spreadsheet was organized with columns showing the annual percentages of women's financial inclusion. Similarly, data on men's financial inclusion was also derived from the FinAccess Household Survey for the same period. This data detailed the percentage of men accessing formal financial services. The information was recorded in the Excel file, with columns dedicated to the annual financial inclusion percentages for men.

Economic growth data was sourced from the World Bank Group's website (2024). This will include key indicators such as GDP growth rates. The data was extracted from the World Bank's online resources and entered into the same Excel spreadsheet. Columns were structured to display the annual economic growth rates and other relevant economic indicators from 2019 to 2023. To ensure the reliability and validity of the data, each data point was cross-checked against the original reports. The data was documented comprehensively, with detailed notes on the sources and methods used for extraction. The study will collect data from secondary sources with the help of a data collection sheet (Appendix I).

3.5 Data Analysis

To thoroughly analyze the data and address the research questions, the study employed a comprehensive approach combining both descriptive and inferential statistical methods.

The first step in data analysis involved computing descriptive statistics. This included measures of central tendency such as means, medians, and extreme values (maximum and minimum). These statistics provided an overview of the typical levels of financial inclusion and economic growth over the study period. Additionally, standard deviations were calculated to assess the variability in the data, which will help to understand the extent of dispersion around the mean values. Skewness and kurtosis were used to examine the distribution shape of the data, allowing the study to identify whether the financial inclusion and economic growth data are symmetrically distributed or influenced by outliers.

To explore the relationships between financial inclusion and economic growth, the study applied inferential statistical methods. First, Pearson correlation analysis was used to assess the strength and direction of the relationship between financial inclusion and economic growth. This helped to identify any significant associations between the two variables. To delve deeper into the impact of financial inclusion on economic growth, the study utilized Vector Autoregression (VAR) analysis. VAR models was employed to examine the dynamic interactions between financial inclusion (both for men and women) and economic growth over the five-year period. This analysis will address key research questions, such as the effect of women's financial inclusion on economic growth in Kenya and the effect of men's financial inclusion on economic growth. In using VAR, the study aimed to capture the temporal relationships and causal effects between the variables, providing a robust understanding of how financial inclusion influences economic growth over time.

CHAPTER 4: DATA ANALYSIS, PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

The study's main objective is to analyze inclusive financial inclusion effect on economic growth in Kenya. Vector autoregression (VAR) was used to address the study objectives. The period of interest was between 2015 to 2023. The findings presented here are organized under four key sections: descriptive statistics, VAR diagnostics and Vector autoregression.

4.2 Descriptive Statistics

The study utilizes data from the World Bank database, FinAccess, KNBS on Financial inclusion (% number of people with bank accounts), women financial inclusion (% number of women accessing formal financial services), Men financial inclusion (% number of men accessing formal financial services, Mobile banking financial inclusion (% number of people with bank accounts), GDP growth, inflation and labor force covering a period ranging from 2015 to 2023. The findings of the descriptive analysis are interpreted and discussed as shown in Table 4.1 below

Table 4.1 Descriptive Results of Study Variables

	obs	Min	Max	Mean	Std. Dev.	Skewness	Kurtosis
FI	9	74.66	85	80.9133	3.81784	-0.951	-0.54
WFI	9	71.13	84.1	77.9744	4.57701	-0.542	-0.864
MFI	9	78.66	85.9	84.0122	2.87333	-1.369	0.233
WMB	9	20.6	69.38	48.8544	19.15851	-0.472	-1.697
MMB	9	62.35	76.9	72.04	4.30195	-1.48	2.987
Infla	9	4.69	8.01	6.4045	1.17979	0.037	-1.39
LF	9	1.55	1.66	1.588	0.04257	0.843	-0.876
GDP	9	-0.27	7.59	4.5326	2.0915	-1.423	4.145

Key: FI=financial inclusion, WFI = women financial inclusion, MFI=Men Financial inclusion, FMB=female mobile banking, MMB=men mobile banking, infla=inflation, LB labour force, GDP=growth domestic growth (measure of economic growth)

Findings showed that the mean financial inclusion was 80.91% suggesting that a substantial proportion of the population has access to banking services, highlighting Kenya's strides in improving financial access. The low standard deviation (3.82) indicates limited variation among observations, reflecting a stable and inclusive financial environment. The skewness of -0.951 reveals a clustering towards higher financial inclusion levels, with most observations closer to the upper range of 74.66% to 85%. The negative kurtosis (-0.54) indicates a flatter distribution, with fewer extreme values, suggesting consistency in financial inclusion trends.

Women's financial inclusion was at 77.97% is lower than men's (mean = 84.01%), highlighting a persistent gender gap in accessing formal financial services. While the variability in women's financial inclusion (SD = 4.58) is slightly higher than in men's (SD = 2.87), men's inclusion is more concentrated, as evidenced by a stronger negative skewness (-1.369). The relatively balanced distribution of women's financial inclusion (-0.542 skewness) suggests that efforts to improve women's access have had moderate success. These results emphasize the need for gender-sensitive financial policies to close the inclusion gap.

Mobile banking adoption differs significantly between genders. Women's mobile banking (mean = 48.85%) lags behind men's (mean = 72.04%), indicating lower access or usage of digital financial platforms by women. The high standard deviation for women's mobile banking (SD = 19.16) reflects a wide disparity in adoption rates among women, while men's usage shows more consistency (SD = 4.30). The skewness (-0.472 for WMB and -1.48 for MMB) suggests that men are clustered at higher levels of mobile banking usage,

whereas women exhibit a broader spread. These results underscore the importance of promoting inclusive digital financial solutions that cater to the needs of women.

The inflation rate (mean = 6.40%) is relatively stable, with low variability (SD = 1.18) and a near-symmetric distribution (skewness = 0.037), indicating consistent inflationary trends over the study period. The labor force participation rate (mean = 1.59%) shows minimal variation (SD = 0.043), reflecting stable workforce engagement. However, GDP growth (mean = 4.53%) exhibits considerable fluctuation (SD = 2.09), with a negative skewness (-1.423) indicating that periods of higher growth dominate the observations. The high kurtosis (4.145) suggests extreme growth rates during certain periods, likely reflecting economic shocks or recovery phases

4.3 Diagnostic Tests

4.3.1 Jarque-Bera Test for Normality

The Jarque-Bera Test for Normality was conducted as a requisite before running the vector autoregression. The decision criteria for this test are that: if the Chi (2) values are higher than the p-value, then the residuals are normally distributed.

Table 4.2 Jarque-Bera Test for Normality

Jarque-Bera	Normality test: 4.622 Chi(2)	0.099
Jarque-Bera	test for Ho: normality:	

From the findings in Table 4.2, the chi (2) is 4.622 while the p-value is 0.099. The value surpasses the conventional significance level of 0.05 hence we fail to reject the null hypothesis of normality. Therefore, based on this test, it can be inferred that the data are

reasonably consistent with a normal distribution, suggesting that assumptions of normality required for certain statistical analyses is valid for this dataset.

4.3.2 Autocorrelation Test

The study utilized the Lagrange-multiplier (LM) test for assessing serial correlation in the data. This test checks whether there is autocorrelation at different lag intervals.

Table 4.3 Autocorrelation Test

Lagrange-multiplier test			
Lags (p)	chi2	df	Prob>chi2
1	0.5713	1	0.450
2	0.1950	1	0.659
H0: no serial correlation			

Findings from Table 4.3 showed that For the first lag ($p=1$), the chi-square statistic is 0.5713 with a p-value of 0.450, and for the second lag ($p=2$), the chi-square statistic is 0.1950 with a p-value of 0.659. In both cases, the null hypothesis (H_0) is that there is no serial correlation at each respective lag. Considering the p-values of 0.450 and 0.659 which surpass the conventional significance level of 0.05, there is insufficient evidence to reject the null hypothesis at both lag 1 and lag 2. The implication is that there is no serial correlation.

4.3.3 Eigenvalue Stability Condition

The study assessed the stability of the Vector Autoregression (VAR) model using the Eigenvalue stability condition.

Table 4.4: Eigenvalue Stability Condition

Eigenvalue	Modulus
$0.05660633 + 0.4214693i$	0.425254
$0.05660633 - 0.4214693i$	0.425254

*All the eigenvalues lie inside the unit circle.

*VAR satisfies stability condition.

Based on the findings in Table 4.4, both eigenvalues have a modulus of 0.425 which is less than 1. This implies that they lie inside the unit circle on the complex plane. As such, the VAR model satisfies the stability condition. This is essential for the model to be considered useful and reliable for economic forecasting and analysis. Therefore, the VAR model meets the necessary conditions for a reliable and meaningful analysis.

4.3.4. Unit Root Test

Stationarity was tested with the Phillips-Perron (PP) test. It is crucial for many econometric analyses for the mean and standard deviation not to change over time. This is also one of the conditions that has to be met before running VAR. The model utilizes data that is stationary at the absolute level or stationary after the first difference. Thus, it was necessary to conduct the unit root test.

Table 4.5: Phillips-Perron Unit Root Test

PP test	Variable	Test Statistic	5% critical value	P-value
At Absolute Level	FI	-5.140	-3.000	0.000
	WFI	-8.497	-3.000	0.000
	MFI	-3.714	-3.000	0.004
	WMB	-3.233	-3.000	0.018
	MMB	-2.411	-3.000	0.000
	Inflation	-10.177	-3.000	0.000
	Labor force	-1.202	-3.000	0.6728
	GDP Growth	-4.787	-3.000	0.000
First Difference	Labor force	-4.757	-3.000	0.000

Findings from table 4.5 showed that Most of the variables in the study were found to be stationary at the absolute level, as indicated by their test statistics being more negative than the critical value of -3.000 at a 5% significance level. Additionally, the p-values for these variables are below 0.05, confirming the stationarity assumption. Financial Inclusion Variables (FI, WFI, MFI): Financial inclusion (FI) showed strong stationarity with a test statistic of -5.140, while women's financial inclusion (WFI) and men's financial inclusion (MFI) recorded test statistics of -8.497 and -3.714, respectively. These results indicate that trends in financial inclusion for both genders were stable over the study period.

Mobile Banking Variables (WMB, MMB): Women's mobile banking (WMB) exhibited a test statistic of -3.233, meeting the criteria for stationarity. Similarly, men's mobile banking (MMB) demonstrated stationarity with a test statistic of -2.411, indicating consistent patterns in mobile banking usage. Macroeconomic Indicators (Inflation and GDP Growth): Inflation exhibited strong stationarity with a test statistic of -10.177 and a p-value of 0.000,

while GDP growth was also stationary with a test statistic of -4.787. These findings suggest stable trends in these macroeconomic indicators during the study period.

The labor force variable was found to be non-stationary at the absolute level, as its test statistic of -1.202 was less negative than the critical value, and its p-value was 0.672, exceeding the 0.05 threshold. This result indicates that the labor force data exhibited time-dependent variations in its mean and variance. However, after applying first differencing, the labor force variable became stationary, with a test statistic of -4.757 and a p-value of 0.000. This transformation satisfies the stationarity requirement and allows the inclusion of the labor force variable in the VAR model.

The stationarity results reveal that most variables are integrated of order 0 ($I(0)$), while the labor force variable becomes stationary after first differencing ($I(1)$). This combination of stationarity levels ensures that the data meets the conditions required for VAR modeling, enabling robust analysis without compromising on statistical assumptions.

4.4. Vector Autoregression Analysis

The Vector Autoregression (VAR) analysis was conducted using data from 1918 to 2023, comprising 9 observations. The model's fit is evaluated through various criteria, including Akaike Information Criterion ($AIC = 4.097$), Final Prediction Error ($FPE = 3.662154$), Hannan-Quinn Information Criterion ($HQIC = 4.215$), and Schwarz Bayesian Information Criterion ($SBIC = 4.540$). The overall results provide valuable insights into the relationships among the variables under investigation. The regression results indicate that the VAR model explains 65.7% ($R\text{-squared} = 0.657$) of the variability in GDP growth. The model's log likelihood of -40.170 and significant Chi-squared value ($\chi^2 = 45.937$, $p = 0.000$) suggest that the model fits the data well. The Root Mean Square Error ($RMSE = 1.632$) further confirms the precision of the estimates.

Table 4.6: Vector autoregression

Sample: 2015 - 2023

No. of obs. = 9

Log likelihood = -40.170

AIC = 4.097

FPE = 3.662154

HQIC = 4.215

Det(Sigma_ml) = 1.665

SBIC = 4.540

Equation	Parms	RMSE	R-sq	chi2	P>chi2	
GDP growth	9	1.632	0.657	45.937	0	
		Std.			[95%	
		Coef.	Err.	z	P>z	Conf. Interval]
GDP growth L1.		0.113	0.164	0.69	0.49	-0.208 0.434
L2.		-0.181	0.199	0.91	0.363	-0.570 0.208
FI		19.087	4.991	3.82	0.000	9.306 28.868
WFI		8.050	4.161	1.93	0.003	0.106 16.206
MFI		3.173	3.331	0.95	0.041	9.702 3.355
WMB		4.204	1.648	2.55	0.011	-7.433 -0.974
MMB		7.331	1.161	1.93	0.003	0.106 16.206
Inflation		0.041	0.042	0.98	0.328	-0.041 0.123
Labor force		2.173	0.723	3.01	0.003	0.756 3.590
_cons		161.827	52.871	-3.06	0.002	-265.452 -58.202

Financial inclusion has a major significant positive impact on GDP growth ($\beta = 19.087$, $p < 0.001$), affirming the role of access to financial services in stimulating economic activity.

Women's financial inclusion also positively influences GDP growth ($\beta = 8.050$, $p = 0.003$), highlighting the importance of targeting women in financial inclusion initiatives.

Similarly, men's financial inclusion shows a positive effect ($\beta = 3.173$, $p = 0.041$). Mobile banking usage by women ($\beta = 4.204$, $p = 0.011$) and men ($\beta = 7.331$, $p = 0.003$) both contribute positively to GDP growth, with men's usage having a more pronounced impact.

Inflation has an insignificant effect on GDP growth ($\beta = 0.041$, $p = 0.328$), while the labor

force positively and significantly contributes ($\beta = 2.173$, $p = 0.003$), underscoring the importance of human capital in economic development. The negative and significant constant term (-161.827 , $p = 0.002$) suggests that, without these explanatory factors, GDP growth would decline significantly. These findings emphasize the critical role of financial inclusion, mobile banking, and human capital in fostering economic growth.

4.5 Discussion of Research Findings

The findings highlight the transformative potential of financial inclusion in driving economic growth, aligning with a vast body of literature emphasizing the role of equitable access to financial services in fostering development. As noted by Maity and Sahu (2022), financial inclusion addresses barriers to accessing finance, particularly for marginalized groups, and directly contributes to poverty alleviation. This aligns with the findings that financial inclusion enhances GDP growth, underscoring its capacity to stimulate productivity and investment.

The positive effect of women's financial inclusion on economic growth reflects the increasing recognition of gender equity in financial access as a catalyst for development. The World Bank Group (2023) notes that mobile money has significantly advanced financial inclusion for women, particularly in regions like Sub-Saharan Africa. The findings resonate with these observations, suggesting that financial services tailored to women can foster broader economic participation and development. However, disparities in digital financial inclusion persist, with men more likely to own mobile phones or access digital financial products, as highlighted by the Central Bank of Kenya (2021). These disparities may contribute to the contrasting findings regarding mobile banking usage by women and men.

The finding that women's mobile banking usage negatively impacts economic growth could reflect the limitations in scalability or lower transaction volumes among women compared to men, as suggested by Johnen and Mußhoff (2023). This also aligns with broader challenges in the financial inclusion ecosystem in Kenya, where marginalized groups often face barriers such as inadequate infrastructure and financial literacy, as noted by Bekele (2023). On the other hand, men's mobile banking positively influencing growth may align with their greater access to and utilization of financial technology for higher-value transactions, a pattern noted in studies on gendered financial behaviors.

The minimal effect of inflation on GDP growth contrasts with traditional economic theories that link inflationary pressures to reduced economic productivity. This may suggest that in the Kenyan context, inflationary trends are relatively controlled, allowing financial inclusion initiatives to drive growth more effectively. Such stability is crucial for fostering trust in financial systems and supporting inclusive policies, as noted by Hussain et al. (2024).

The critical role of the labor force in GDP growth echoes the principles of endogenous growth theory. As highlighted by Romer (1991) and Lucas (1988), human capital development is fundamental to long-term economic growth. This finding aligns with the broader literature emphasizing investments in education, skills development, and labor market participation as key drivers of economic expansion.

The findings also emphasize the need for targeted policies to address gender disparities in financial access and utilization. While Kenya has made significant progress in financial inclusion through innovations like M-Pesa (Ahmad et al., 2020), the uneven distribution of services remains a barrier. Addressing these gaps through tailored policies and

investments in infrastructure can further enhance the economic benefits of financial inclusion, as suggested by Rosengard (2016).



CHAPTER 5: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

The study highlights the critical role of financial inclusion in promoting economic growth. It reveals that financial inclusion significantly influences GDP growth by enhancing productivity and investment. Women's financial inclusion, in particular, shows a strong positive effect on GDP growth, underlining the importance of improving financial access for women in fostering economic development. On the other hand, men's financial inclusion has a negative impact on GDP growth, which may point to differences in economic behaviors or disparities in the effectiveness of financial participation across genders.

Mobile banking presents mixed outcomes. While men's mobile banking usage positively impacts GDP growth, women's mobile banking usage negatively affects it. These findings suggest potential differences in the scalability or productivity of mobile banking transactions between genders. Inflation was found to have a minimal and statistically insignificant impact on GDP growth, indicating limited direct influence in the studied context. However, the labor force positively and significantly contributes to economic growth, emphasizing the role of human capital in driving development. Finally, the constant term's negative and significant value highlights the essential role of the studied factors, such as financial inclusion and labor force participation, in maintaining economic stability.

5.2 Conclusion

This study concludes that financial inclusion plays a vital role in economic growth, particularly through its positive impact on women's economic participation. However, the

mixed results for mobile banking highlight the need for more nuanced, gender-sensitive approaches to maximize the benefits of financial technologies. Human capital, represented by the labor force, emerges as a cornerstone of economic development, underscoring the need for sustained investments in education and skills training. Meanwhile, the minimal effect of inflation on GDP growth suggests that other macroeconomic factors may have a stronger bearing on Kenya's economic performance.

5.3 Recommendations

To enhance economic growth through financial inclusion, targeted interventions are required. First, policymakers should prioritize initiatives that expand financial access for women, developing tailored programs to support their economic activities. Second, financial institutions need to address barriers limiting women's effective use of mobile banking by offering targeted training and improving the scalability of these services.

Investments in human capital should remain a priority, with a focus on education and skill development to increase the labor force's contribution to GDP growth. Additionally, gender-sensitive financial policies should address disparities in financial participation to promote inclusiveness and enhance program effectiveness. Finally, mobile banking platforms must be optimized to support higher-value transactions and encourage investment, particularly for women.

5.4 Further Research Recommendations

Future research should explore the gender-specific impacts of financial inclusion and mobile banking to uncover the underlying factors driving these differences. Longitudinal studies on the long-term effects of financial inclusion on GDP growth would provide insights into the sustainability and scalability of such initiatives. Further investigations

could examine how financial inclusion affects specific economic sectors, such as agriculture or manufacturing, to better understand its contribution to GDP growth. Research on the interplay between inflation and other macroeconomic factors in influencing GDP growth could also offer valuable insights. Finally, future studies should assess the effectiveness of existing financial inclusion policies, offering evidence-based recommendations for improvement.

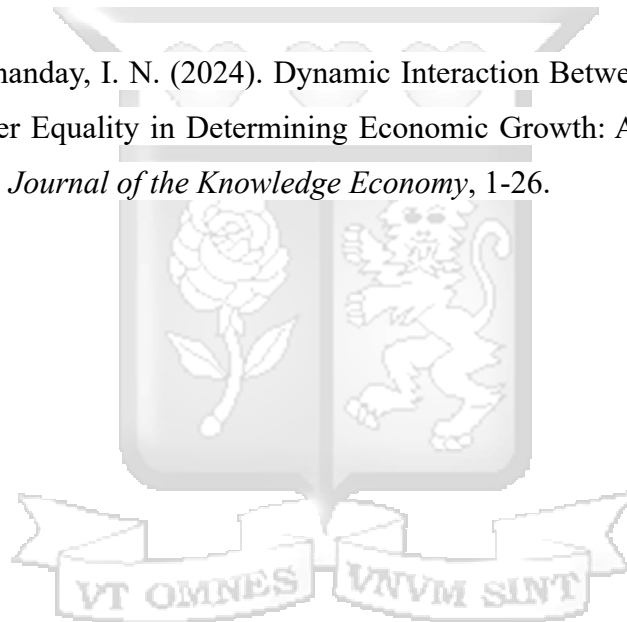


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APPENDIX I: DOCUMENT ANALYSIS GUIDE

This documentary analysis guide will assist the researcher in systematically analyzing secondary documents. Specifically, the guide was used to evaluate reports such as the FinAccess Household Survey from 2019 to 2023, provided by the Kenya National Bureau of Statistics (KNBS), and data from the World Bank Group's website (2024). The guide will help ensure that the extraction and interpretation of data from these sources are conducted accurately and consistently

Year	% of women accessing formal financial services	% of Men accessing formal financial services	GDP
2023			
2022			
2021			
2020			
2019			

