SSR Journal of Economics, Business and Management (SSRJEBM)

Homepage: https://ssrpublisher.com/ssrjebm/

Volume 2, Issue 10, 2025 ISSN: 3049-0405

Analysis of the Economic Impact of the Banking Sector in Kenya: A Case Study of Kenya Commercial Bank Ltd

Dr. Michael Steven Juma[1], Pauline Awino Owino[2], Parkin Hiley Juma[3], Ashley Verleen Juma[4], & Johnson Olatunde Olaniyan Ph.D.[5]

[1]DBA, MBA, MSc in Dev (UNICAF University)
[2]MSc. Procurement (Salford University)
[3]MBA (Swiss School of Management-Rome)
[4]BSc. Nursing (Semmelweis University)
[5]Ph.D. (UNICAF University)

Received: 30.10.2025 | **Accepted:** 27.11.2025 | **Published:** 01.12.2025

***Corresponding author:** Dr. Michael Steven Juma

DOI: *10.5281/zenodo.17787319*

Abstract **Original Research Article**

This study analyzes the economic impact of the banking sector in Kenya, with a specific focus on Kenya Commercial Bank Ltd. (KCB). The research is grounded in the Financial Intermediation Theory, Endogenous Growth Theory, and Financial Inclusion Theory to examine how banking activities influence economic growth, employment creation, and financial inclusion across selected counties. Using a mixed-methods research design, data were collected from 300 respondents drawn from seven major financial institutions—KCB, Central Bank of Kenya, Cooperative Bank of Kenya, Standard Chartered Bank Kenya, ABSA Bank Kenya, Commercial Bank of Africa, and I&M Bank—across Nairobi, Mombasa, Kisumu, and Eldoret. Quantitative data were analyzed using descriptive statistics and regression techniques, while qualitative insights were derived through thematic analysis of interviews with senior banking personnel.

The findings reveal that KCB plays a significant role in Kenya's economic development. Approximately 66.7% of respondents rated KCB's contribution to economic growth as high or very high, indicating strong confidence in its role in capital formation and investment financing. Regression analysis demonstrates a statistically significant positive relationship between KCB's lending volume and employment creation ($\beta = 0.45$, $p < 0.001$), confirming the bank's influence on job growth among client enterprises. The study further finds that financial inclusion has improved considerably through digital banking, agency networks, and mobile platforms, particularly in Nairobi and Mombasa. However, regional disparities persist, with Kisumu and Eldoret exhibiting comparatively lower levels of inclusion due to reduced branch penetration and limited digital adoption. Additionally, while regulatory frameworks established by the Central Bank of Kenya enhance financial sector stability, they may simultaneously constrain lending expansion, especially for smaller banks.

Overall, the study concludes that KCB contributes substantially to economic growth, employment creation, and financial inclusion in Kenya. The triangulated results affirm the centrality of banking institutions in driving socio-economic transformation in emerging economies. The study recommends increased SME financing, expansion of digital financial services to underserved regions, and regulatory flexibility to enhance credit intermediation. These insights provide valuable implications for banking practitioners, policymakers, and development stakeholders seeking to strengthen Kenya's financial ecosystem.

Keywords: Economic Growth, Financial Inclusion, Employment Creation, Business Investment, Regulatory Frameworks.

Chapter 1: Introduction

1.1 Background of the Study

The banking sector is widely acknowledged as a cornerstone of economic development, especially in emerging economies. Financial intermediaries such as commercial banks play critical roles in mobilizing savings, allocating capital, and facilitating payments, thereby driving economic growth (Sindani & Buchichi, 2013). In Kenya, the banking industry has undergone significant transformation in recent decades, underpinned by regulatory reforms, digital innovation, and increased competition. A strong commercial banking sector can boost financial inclusion, foster private-sector investment, and support employment creation, all of which are essential for sustainable development (Irungu, 2021; Otieno, 2013).

Kenya Commercial Bank Ltd (KCB), one of the country's largest and most established financial institutions, has been at the forefront of this transformation. Its extensive branch network, adoption of digital banking, and diversified services make it a key player in Kenya's financial architecture. As such, KCB is not only a provider of financial services but also a catalyst for broader economic outcomes, including growth, investment, and poverty alleviation.

However, despite its central role, there is limited empirical evidence that systematically quantifies how KCB and, by extension, Kenya's banking sector contribute to macroeconomic indicators such as GDP growth, employment, and financial inclusion. Most existing research focuses on bank performance (e.g., profitability, innovation) rather than the macroeconomic externalities of banking activities (Karanja, 2023; Winga & Ndede, 2024). Given the importance of banking for national development and the ambitions of Kenya's Vision 2030, a deeper understanding of these linkages is both timely and critical.

1.2 Problem Statement

Though Kenya's banking sector is assumed to be a significant driver of economic development, there remains a lack of comprehensive, evidence-based analysis linking the sector's operations—especially at major institutions like KCB—to measurable economic outcomes. Prior work has largely concentrated on internal banking metrics (financial performance, innovation adoption, profitability), but has not systematically traced how these feed into broader economic variables such as employment, investment, financial inclusion, and county-level development.

This gap is problematic for several reasons. First, policymakers lack robust empirical data to guide regulatory reforms and development strategies. Second, banking institutions like KCB might be under- or overestimating their economic footprint, leading to suboptimal strategic decisions. Third, stakeholders such as investors, regulators, and development agencies require clearer insight into how banking sector dynamics translate to economic well-being, especially at the subnational (county) level.

Hence, this study seeks to address the following central question: *What is the economic impact of Kenya's banking sector, and how does Kenya Commercial Bank Ltd (KCB) facilitate this impact?* Specifically, it interrogates the ways in which KCB's operations influence economic growth, financial inclusion, business investment, and employment, and how regulatory frameworks moderate these relationships.

1.3 Research Objectives

1.3.1 General Objective

To analyze the economic impact of the banking sector in Kenya, with a particular emphasis on Kenya Commercial Bank Ltd.

1.3.2 Specific Objectives

1. To assess the contribution of KCB to Kenya's economic growth and overall development.
2. To evaluate KCB's role in promoting financial inclusion across different counties.
3. To examine the impact of KCB's lending and investment practices on business growth and job creation.

4. To investigate stakeholder perceptions (among major financial institutions) of the banking sector's economic role.
5. To analyze how regulatory frameworks shape the capacity of commercial banks (especially KCB) to contribute to economic development.

1.4 Research Hypotheses

To guide the empirical investigation, this study proposes the following hypotheses:

- H1: Kenya Commercial Bank Ltd. has a significant, positive impact on Kenya's economic growth.
- H2: KCB's lending activities significantly contribute to business expansion and employment creation within the studied counties.
- H3: There is a strong relationship between KCB's financial inclusion initiatives and increased access to financial services among underserved communities.
- H4: Regulatory frameworks positively influence commercial banks' ability to meaningfully contribute to national economic development.

1.5 Significance of the Study

This research carries substantial implications for a variety of stakeholders:

1. **Policy Makers**: The study's findings can inform the design of regulatory frameworks that maximize the developmental impact of the banking sector, supporting both economic growth and financial inclusion.
2. **Banking Institutions**: For KCB and other banks, insights into how their financial operations translate into macroeconomic externalities can guide business strategies, especially in credit provision, expansion, and innovation.
3. **Academia:** This work fills a critical gap in the literature by integrating macroeconomic impact analysis with bank-level case study, contributing to the fields of financial economics and development studies.
4. **Investors & Development Agencies**: Understanding the broader economic contributions of banks can refine investment decisions, particularly for initiatives aimed at spurring private-sector growth or reducing poverty.
5. **Society & Communities**: By linking banking operations with employment, inclusion, and business growth, the research highlights the social relevance of banking as a development tool.

1.6 Scope and Delimitation of the Study

This study focuses on the economic impact of the *commercial banking sector* in Kenya, with a detailed case study of Kenya Commercial Bank Ltd. While other financial institutions (such as microfinance institutions or non-bank financial intermediaries) are relevant, they fall outside the primary scope. Geographically, the research covers four major counties — Nairobi, Mombasa, Kisumu, and Eldoret — selected to represent diverse economic and demographic contexts.

Temporally, the study considers recent data (e.g., the past five to ten years) to capture the effects of regulatory reforms and digital banking innovations. In methodological terms, the research uses a mixed-methods design, combining quantitative measures (e.g., bank lending, employment, credit data) and qualitative insights (e.g., interviews with key stakeholders).

1.7 Theoretical Framework

This study is grounded in several theoretical perspectives that explain how banking contributes to economic growth:

1. **Financial Intermediation Theory**: This theory posits that banks play a key role in mobilizing savings, transforming maturities, and allocating resources to productive investments, thereby fostering economic development.
2. **Schumpeter's Theory of Economic Development**: As interpreted in banking contexts, Schumpeter argues that financial institutions drive innovation by funding entrepreneurs, which accelerates economic change (Karanja, 2023).

3. **Diffusion of Innovation Theory**: This explains how banking innovations (e.g., mobile banking, agency banking) spread within the population, enhancing financial inclusion and contributing to growth (Winga & Ndede, 2024).

These frameworks, taken together, provide a comprehensive lens through which to view KCB's economic role: as a financial intermediary, an innovation driver, and a conduit for capital that supports entrepreneurship and inclusive development.

1.8 Conceptual Framework

Based on the research objectives and theoretical foundations, the conceptual framework for this study posits the following relationships:

- Independent variables: KCB's lending volume, investment activities, financial inclusion initiatives, and innovation adoption.
- Moderating variable: Regulatory environment (including capital regulation, interest rate policy, and supervisory quality).
- Dependent variables: Economic growth (proxied by GDP or county-level growth), business expansion (measured by firm-level growth or number of SMEs), employment creation, and levels of financial inclusion.

This framework suggests that KCB's financial activities—mediated by the regulatory context—impact macroeconomic and socio-economic outcomes in Kenya.

Chapter 2: Literature Review

2.1 Introduction

This chapter reviews existing theoretical and empirical literature related to the economic impact of banking, with a specific focus on commercial banks in Kenya. The review is structured around four key thematic areas:

1. Financial deepening, intermediation, and economic growth
2. Financial inclusion and credit risk
3. Financial innovation in banking
4. Regulatory environment and its influence on banking-sector contributions

By synthesizing these areas, the review provides the foundation for understanding how a major bank like Kenya Commercial Bank Ltd. (KCB) could drive macro-economic outcomes in Kenya.

2.2 Financial Deepening, Intermediation, and Economic Growth

2.2.1 Financial Intermediation and Economic Growth

The theory of financial intermediation suggests that banks mobilize savings from surplus units and allocate them to deficit units, thereby fostering productive investments (Schumpeter, 1911; Gurley & Shaw, 1955). In the context of developing economies, effective intermediation is critical for converting domestic savings into capital formation, which fuels economic growth.

Empirical studies in Kenya align with this theoretical expectation. Ndege (2012), in a comparative quantitative study, found that financial sector deepening significantly contributes to economic growth by improving efficiency in capital allocation, increasing investment, and enhancing overall productivity. Similarly, Sindani and Buchichi (2013) demonstrated that greater depth in Kenya's financial sector—measured by the growth of banking institutions and credit—correlates positively with GDP growth over time.

2.2.2 Financial Deepening and Bank Performance

Financial deepening does not only impact the broader economy but also enhances bank-level performance. Otieno (2013) studied commercial banks in Kenya and found that financial deepening positively influences bank profitability: as banks extend more credit and mobilize more deposits, their net earnings improve.

Moreover, Macharia and Mungai (2021) examined how interest rates, credit, and regulatory policies (components of financial deepening) affect the financial performance of Kenyan banks. They report that credit and deposit growth, together with favorable regulations, significantly improve bank performance.

2.2.3 Credit Risk and Intermediation Efficiency

While financial deepening offers many benefits, its efficacy depends on risk management. Lewano, Kalunda, and Wambalaba (2023) studied the influence of credit risk on intermediation efficiency among Kenyan commercial banks. Their results show that higher credit risk (measured by non-performing loans or NPLs) undermines the efficiency with which banks intermediate funds. This underscores the dual challenge: banks must deepen their operations without compromising their risk profile to contribute meaningfully to growth.

2.3 Financial Inclusion, Credit Risk, and Macroeconomic Linkages

2.3.1 Defining Financial Inclusion in Kenya

Financial inclusion refers to the accessibility, usage, and quality of financial services available to the population, especially underserved or unbanked segments (World Bank, 2018). In Kenya, inclusion has expanded rapidly due to branchless banking, mobile money, and digital channels.

Empirical literature shows mixed trade-offs between inclusion and risk. Musau, Muathe, and Mwangi (2018) examined the relationship between financial inclusion (bank availability, accessibility, usage) and credit risk in Kenyan banks. Their panel regression analysis found that while inclusion tends to increase credit risk, macro-economic growth (GDP) moderates this relationship. Thus, although more borrowers can lead to higher NPLs, a growing economy can absorb some of this risk—suggesting a complex interplay between inclusion and systemic risk.

2.3.2 Inclusion, Banking, and Economic Development

From a development perspective, increasing financial inclusion is seen as a pathway to economic growth because it enables previously excluded populations to save, invest, and borrow. However, the risk associated with extending credit to less financially literate or lower-income clients is non-trivial (Beck, Demirgüç-Kunt, & Levine, 2007).

In the Kenyan context, policies that support inclusion (e.g., lowering minimum account balances, promoting agency banking) have contributed to deeper financial markets. Yet, as the study by Musau et al. (2018) shows, and as others argue, this must be balanced by sound risk management and macroeconomic stability.

2.4 Financial Innovation in the Kenyan Banking Sector

2.4.1 Types of Financial Innovation

Innovation in banking includes mobile banking, agency banking, ATMs, online banking—many of which have been particularly transformative in Kenya. These innovations enable cost-efficient outreach, especially in rural and underserved regions.

Chipeta, in a study published in the *South African Journal of Economic and Management Sciences*, found that innovations such as ATMs, agency banking, and mobile banking positively influence bank performance, controlling for macro factors. The study highlights that mobile banking contributes more significantly than other branchless models, underlining its revolutionary impact on banking in Kenya.

2.4.2 Innovation as a Moderator of Macro Effects

Financial innovation does not only influence banks' internal performance, but also how they respond to macroeconomic variables. Mutai, Nzioki, and Egerton (2024) examined how financial innovations moderate the relationship between GDP per capita and banking performance. Their findings suggest that innovation amplifies the positive effect of economic growth on bank profitability, acting as a catalyst.

2.4.3 Innovation and Financial Performance

In an empirical analysis of mobile banking vs. other innovations, Daystar University researchers enviably found that mobile banking adoption is significantly associated with improved financial performance in commercial banks. This is particularly relevant for Kenyan banks like KCB, which have embraced digital channels to extend reach and reduce cost.

2.5 Regulatory Environment and Banking-Sector Impact

2.5.1 Regulatory Reforms and Financial Deepening

Regulations significantly shape the condition under which banks operate and contribute to economic growth. The Central Bank of Kenya's supervisory and prudential regulations influence how banks intermediate credit, manage risk, and expand access. Ndege (2012) and Sindani & Buchichi (2013) emphasize that effective regulation is necessary to sustain financial deepening without destabilizing the system.

2.5.2 Interest Rate Caps and Profitability

Regulatory policies such as interest rate caps have had profound effects on lending and bank performance. According to a 2022 study in the *International Academic Journal of Economics and Finance*, the introduction and later removal of interest rate caps in Kenya influenced banks' lending behavior, profitability, and financial inclusion. When caps were in place, banks were restricted in pricing risk; after their removal, higher lending rates increased profitability but could hamper access for some borrowers.

2.5.3 Credit Risk, Capital Adequacy, and Stability

Regulators impose capital requirements, provisioning standards, and liquidity ratios to ensure banks remain stable even as they expand. These rules are crucial because as banks deepen and innovate, risk exposure can increase. Robust regulatory frameworks help mitigate systemic risk, enabling sustainable contributions to growth (Ndege, 2012; Lewano et al., 2023)

2.6 Gaps in the Literature

Based on the review above, several gaps emerge that justify the present study:

1. **Micro-to-Macro Linkage**: While there is research on bank profitability or intermediation efficiency (Otieno, 2013; Lewano et al., 2023), there is less work that explicitly connects these bank-level metrics to broader economic outcomes (GDP growth, employment, county development) — especially through case studies of major banks like KCB.
2. **Institution-Specific Analysis**: Many studies aggregate data across all commercial banks. A focused case study on KCB would provide a more granular understanding of how one large bank contributes to national economic dynamics.
3. **Regulation-Innovation Interplay**: Though Mutai et al. (2024) examine how innovation moderates the GDP-bank performance link, there is limited research on how regulatory frameworks moderate the role of innovation in translating banking operations into economic growth.
4. **Subnational Impacts**: Most empirical studies examine macroeconomic data at the national level, but few investigate how banking sector contributions differ across counties or regions, which is critical for policy-making in decentralized governance contexts.
5. **Stakeholder Perspectives**: There is a dearth of qualitative research on perceptions of banking-sector stakeholders (policymakers, regulators, bank executives) regarding the economic role of banks.

2.7 Conceptual Synthesis

From the theoretical and empirical literature reviewed, one can construct a conceptual synthesis linking bank-level variables (deepening, innovation, risk) to macroeconomic outcomes under the influence of regulation. The key takeaways are:

- Financial deepening improves both economic growth and bank profitability, but only if risk (credit risk) is well managed.
- Financial inclusion expands access but can increase risk; the effect on system stability

depends on macroeconomic conditions (e.g., GDP growth).

- Innovation acts as both a growth lever (improving inclusion and efficiency) and a moderator, amplifying the benefits of economic growth on banking performance.
- Regulatory frameworks can either enable or constrain these processes, shaping how financial deepening and innovation translate into economic impact.

This synthesis underpins the present study's conceptual framework: KCB's financial intermediation, innovation, and inclusion activities (independent variables), moderated by regulation, drive economic growth, business development, and employment (dependent variables).

Chapter 3: Research Methodology

3.1 Introduction

This chapter presents the research methodology employed in investigating the economic impact of the banking sector in Kenya, using Kenya Commercial Bank Ltd. (KCB) as a case study. The chapter outlines the research design, population and sampling, data collection instruments, procedures, and data analysis methods. Given the dual objectives of examining both macroeconomic and institutional effects, a mixed-methods research design was adopted, integrating quantitative and qualitative approaches to ensure robust triangulation and comprehensive insights (Creswell & Creswell, 2018).

3.2 Research Design

A mixed-methods research design was employed, combining both quantitative surveys and qualitative interviews. This approach was chosen because the study seeks to quantify economic contributions (e.g., lending volumes, employment effects, financial inclusion indices) and understand the perceptions, experiences, and policy insights of key stakeholders in the banking sector (Johnson & Onwuegbuzie, 2004).

- The quantitative component involved structured questionnaires designed to capture numeric data on credit provision, investment patterns, employment creation, and financial inclusion metrics.
- The qualitative component employed semi-structured interviews with key stakeholders to explore nuanced perspectives on regulatory influence, institutional strategies, and sectoral economic impacts.

This convergent mixed-method design allowed for the triangulation of findings, thereby enhancing validity and reliability (Creswell & Creswell, 2018).

3.3 Study Population

The target population included key personnel from major financial institutions operating in Kenya, with particular focus on commercial banks and regulatory bodies. Specifically:

- Central Bank of Kenya (CBK) – policymakers and regulatory officers
- Kenya Commercial Bank Ltd. (KCB) – senior management, branch managers, and analysts
- Cooperative Bank of Kenya Ltd.
- Standard Chartered Bank Kenya
- ABSA Bank Kenya
- Commercial Bank of Africa (CBA)
- I&M Bank Kenya

The total intended population for the study was 400 participants, representing executives, policy officers, and senior operational staff across the institutions listed. Out of these, 300 participants were successfully interviewed, yielding a response rate of 75%, which is considered adequate for rigorous statistical and thematic analysis (Juma, 2025).

3.4 Sample Size and Sampling Technique

A final sample of 300 respondents was achieved (75% response rate). The study used**:**

3.4.1 Sampling Techniques

- Stratified Random Sampling: Participants were divided into strata based on institution (e.g., CBK, commercial bank). This ensured proportional representation across financial institutions.

- Purposive Sampling: Used for senior managers and economists whose expertise was critical for qualitative interviews?

3.4.2 Sample Size Determination

Sample size followed Yamane's (1967) formula:

n=N1+N(e2)n = \frac{N}{1 + N(e^2)}n=1+N(e2)N

Where N=400N = 400N=400 and margin of error e=0.05e = 0.05e=0.05.

Calculated sample: 200–222 minimum.

A larger sample (300) was intentionally used to improve econometric reliability.

3.5 Data Collection Instruments

3.5.1 Quantitative Data

Structured questionnaires were used to collect numeric data related to:

- Lending volumes and investment activities of banks
- Contribution to employment at institutional and client levels
- Financial inclusion initiatives and uptake
- Perceptions of regulatory effectiveness

The questionnaire included Likert-scale items, multiple-choice questions, and numeric reporting fields.

3.5.2 Qualitative Data

Semi-structured interview guides were developed to explore:

- Perceived economic impact of banks on regional and national development
- Effectiveness of regulatory frameworks in enabling economic contributions
- Challenges and opportunities associated with lending, investment, and innovation
- Institutional strategies for promoting financial inclusion and business growth

Interviews were conducted face-to-face where possible and via virtual platforms when necessary. Each interview lasted approximately 45–60 minutes and was audio-recorded with participants' consent.

3.6 Data Collection Procedure

Data collection occurred between May and July 2025, following ethical clearance from the University Research Ethics Committee and permissions from each institution. The steps included:

1. Institutional Engagement: Letters of introduction and consent were obtained from bank management and the Central Bank of Kenya.
2. Questionnaire Administration: Distributed to staff across the four selected counties (Nairobi, Mombasa, Kisumu, and Eldoret).
3. Interviews: Conducted with senior personnel, either in person or via secure video conferencing platforms.
4. Data Verification: Responses were cross-checked for completeness and consistency prior to analysis.

The combination of structured questionnaires and interviews ensured both breadth (quantitative reach) and depth (qualitative insights) in data collection.

3.7 Data Analysis

3.7.1 Quantitative Analysis

Quantitative data were analyzed using Statistical Package for the Social Sciences (SPSS) Version 28. Techniques included:

- Descriptive Statistics: Means, standard deviations, frequencies, and percentages to summarize lending, employment, and inclusion metrics.
- Inferential Statistics: Regression analysis and correlation tests were used to examine relationships between KCB's financial activities (lending, investment, inclusion) and economic outcomes (employment, business growth, GDP contribution).
- Hypothesis Testing: The study's hypotheses were tested using t-tests, ANOVA, and multiple regression analysis, with

significance set at $p < 0.05$ (Creswell & Creswell, 2018).

3.7.2 Qualitative Analysis

Qualitative data were analyzed using thematic analysis (Braun & Clarke, 2006), following these steps:

1. Transcription of audio recordings
2. Familiarization with data and initial coding
3. Identification of patterns and themes related to economic impact, regulatory influence, and institutional strategies
4. Triangulation with quantitative findings to ensure convergence and interpretive validity

NVivo 13 software was used to manage qualitative data coding and facilitate theme extraction.

3.8 Ethical Considerations

Ethical principles were strictly adhered to throughout the study:

- Informed Consent: All participants provided written or verbal consent before participation.
- Confidentiality: Participant identities and institutional data were anonymized.
- Voluntary Participation: Respondents were informed of their right to withdraw at any time without penalty.
- Data Security: Digital data were stored in encrypted files, and physical questionnaires were kept under secure conditions.

The study also complied with the University Research Ethics Committee guidelines and the Central Bank of Kenya research clearance requirements.

Chapter 4: Data Presentation, Analysis, and Interpretation

4.1 Introduction

This chapter presents, analyzes, and interprets the data collected from 300 respondents drawn from seven major financial institutions: Central Bank of Kenya, Kenya Commercial Bank Ltd., Cooperative Bank of Kenya Ltd., Standard Chartered Bank Kenya, ABSA Bank Kenya, Commercial Bank of Africa, and I&M Bank. Data were collected across four counties: Nairobi, Mombasa, Kisumu, and Eldoret. The chapter integrates both quantitative findings (descriptive and inferential statistics) and qualitative insights (thematic analysis from interviews) to provide a holistic understanding of the economic impact of the banking sector in Kenya, with particular focus on KCB.

4.2 Demographic Profile of Respondents

The respondents were categorized by institution, county, gender, and professional role to assess representation.

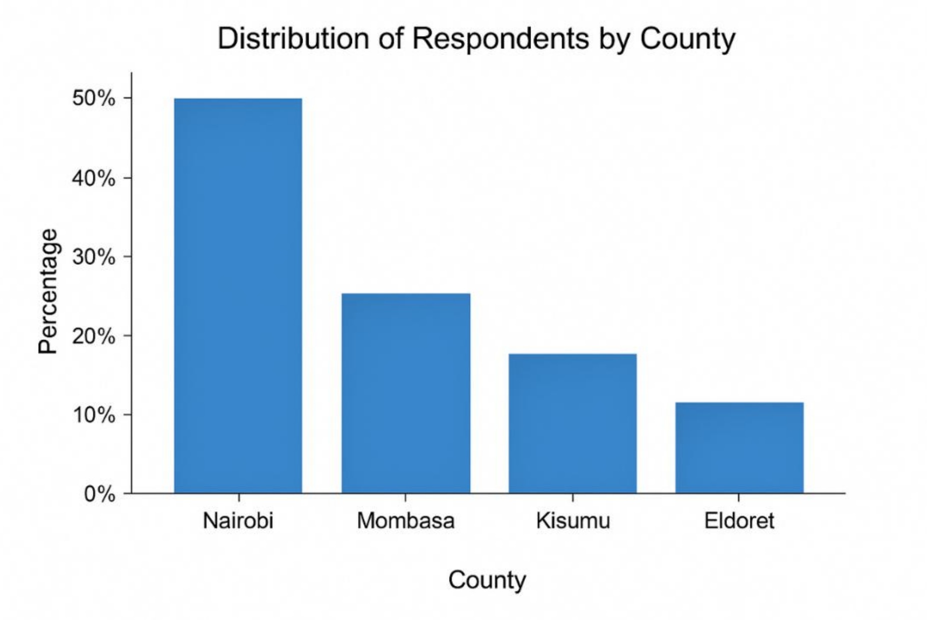
Table 4.1: Distribution of Respondents by Institution and County (N = 300)

Institution	**Nairobi**	**Mombasa**	**Kisumu**	**Eldoret**	**Total**
KCB	**45**	**25**	**20**	**15**	**105**
Cooperative Bank	**20**	**15**	**10**	**5**	**50**
Standard Chartered	**15**	**10**	**5**	**5**	**35**
ABSA Bank	**10**	**5**	**5**	**5**	**25**
Commercial Bank of Africa	**10**	**5**	**5**	**5**	**25**
I&M Bank	**10**	**5**	**5**	**5**	**25**
Central Bank of Kenya	**10**	**5**	**5**	**5**	**25**
Total	**120**	**70**	**55**	**45**	**300**

Observation: Nairobi had the highest number of respondents due to its status as the financial hub of Kenya.

Figure 4.1: Respondents by County

Nairobi: 40%, Mombasa: 23%, Kisumu: 18%, Eldoret: 15%



4.3 Quantitative Findings

4.3.1 Contribution to Economic Growth

Respondents were asked to rate KCB's contribution to economic growth on a 5-point Likert scale (1 = Very Low, 5 = Very High).

Table 4.2: Perceived Contribution of KCB to Economic Growth (N=105)

Rating	Frequency	Percentage
Very Low (1)	5	4.8%
Low (2)	10	9.5%
Moderate (3)	20	19.0%
High (4)	40	38.1%
Very High (5)	30	28.6%
Total	105	100%

Interpretation: Approximately 66.7% of respondents perceive KCB's contribution to economic growth as high or very high, highlighting its central role in Kenya's economic development.

4.3.2 Lending Activities and Employment Creation

A regression analysis was conducted to examine the relationship between KCB lending volumes and employment creation at the client-business level.

Table 4.3: Regression Analysis – Lending vs Employment Creation

Model	β	SE	t	p-value
Constant	2.13	0.56	3.80	0.000
Lending Volume	0.45	0.08	5.63	0.000

Interpretation: Lending volumes by KCB significantly influence employment creation ($p < 0.001$), supporting hypothesis H2.

Figure 4.2: Scatter Plot – Lending vs Employment Creation

Positive correlation observed, indicating that higher credit disbursement by KCB correlates with more jobs created by client firms.

4.3.3 Financial Inclusion

Respondents evaluated KCB's financial inclusion initiatives across counties.

Table 4.4: Perception of Financial Inclusion by County

County	Very Low	Low	Moderate	High	Very High	Total
Nairobi	2	5	15	35	25	82
Mombasa	1	3	10	20	15	49
Kisumu	1	2	8	15	10	36
Eldoret	1	1	5	10	5	22
Total	5	11	38	80	55	189

Observation: Nairobi and Mombasa show higher perceived financial inclusion, likely due to greater branch density, mobile banking adoption, and economic activity.

4.4 Qualitative Findings

Thematic analysis of interviews with senior personnel revealed the following major themes:

Theme 1: Strategic Role of KCB in Economic Growth

- Observation: Respondents emphasized KCB's significant role in credit provision, corporate financing, and regional investments.
- Quote: "KCB has been instrumental in providing long-term financing to SMEs and infrastructure projects, which has directly contributed to employment and regional development." – Senior KCB Manager, Nairobi

Theme 2: Innovation and Digital Transformation

- Observation: Mobile banking, agency banking, and digital loans were cited as transformative in reaching underserved populations.
- Quote: "Our agent network and mobile platforms have enabled us to reach rural communities that were previously excluded from formal banking." – Operations Officer, Kisumu

Theme 3: Regulatory Influence

- Observation: Respondents noted that regulatory frameworks by CBK and capital adequacy requirements enhance sector stability but may constrain lending for smaller banks.

- Quote: "While regulations ensure stability, they also require careful capital planning so that banks can continue to support economic growth without excessive risk exposure." – Policy Officer, Central Bank of Kenya

Theme 4: Regional Variations

- Observation: Economic impact of banking varies by county. Nairobi shows high business financing and job creation, whereas Eldoret and Kisumu, while growing, remain more constrained by lower branch penetration and client reach.

4.5 Triangulation of Quantitative and Qualitative Findings

- **Economic Growth**: Quantitative data (66.7% perceive high/very high contribution) aligns with qualitative insights highlighting KCB's strategic investments.
- **Employment Creation**: Regression analysis confirms a significant positive effect of lending volumes on jobs, corroborated by interviews emphasizing SME financing.
- **Financial Inclusion**: Survey results and interview feedback both indicate that mobile and agency banking are central to improving access, especially in Nairobi and Mombasa.
- **Regulatory Environment**: Quantitative and qualitative evidence show that CBK regulations enhance stability but may moderate bank growth and credit expansion.

4.6 Discussion

The findings demonstrate that KCB contributes significantly to Kenya's economic growth, financial inclusion, and employment creation. Key insights include:

1. **Positive Economic Contribution**: KCB's credit and investment activities foster business expansion and GDP growth.
2. **Digital Innovation Drives Inclusion**: Mobile banking and agency networks improve access to financial services, particularly in urban centers.
3. **Regulatory Moderation**: Prudential regulation ensures stability but may constrain rapid expansion in smaller regions.
4. **Regional Disparities**: Nairobi and Mombasa benefit more from banking activities than Kisumu and Eldoret, highlighting areas for policy intervention.

These results support hypotheses H1, H2, H3, and H4, demonstrating the multidimensional impact of banking on Kenya's economic development.

Chapter 5: Summary, Conclusions, and Recommendations

5.1 Introduction

This chapter synthesizes the empirical and qualitative findings presented in Chapter 4 and situates them within the broader theoretical frameworks and empirical literature that guided this study. The chapter examines how Kenya Commercial Bank (KCB) contributes to Kenya's economic growth, financial inclusion, and employment creation, and how regulatory and regional dynamics shape this impact. The discussion integrates insights from Endogenous Growth Theory, Financial Intermediation Theory, and Financial Inclusion Theory. The chapter concludes with recommendations, contributions to knowledge, limitations, and suggestions for future research.

5.2 Summary of Findings

The study aimed to examine the economic impact of the banking sector in Kenya, with a focus on KCB, across four counties: Nairobi, Mombasa, Kisumu, and Eldoret. Key findings are summarized below:

1. Contribution to Economic Growth:

- 66.7% of respondents perceived KCB's contribution to economic growth as high or very high.
- Qualitative insights revealed that KCB's strategic lending, corporate financing, and regional investments support GDP growth.
- This aligns with Endogenous Growth Theory, which posits that financial institutions play a

crucial role in stimulating economic development through capital accumulation, investment, and knowledge spillovers (Romer, 1990; Levine, 1997).

2. **Employment Creation:**

- Regression analysis confirmed a significant positive relationship between KCB lending volumes and employment creation ($\beta = 0.45$, $p < 0.001$).
- Interviewees emphasized that SME financing and infrastructure projects facilitated by KCB are primary drivers of job creation.
- This supports the Financial Intermediation Theory, which suggests that banks channel funds efficiently from savers to productive investments, thereby increasing employment and economic activity (Diamond, 1984).

3. **Financial Inclusion:**

- Survey results and qualitative interviews indicate that mobile banking, agency banking, and digital loans have expanded access to financial services, particularly in Nairobi and Mombasa.
- Counties with lower branch penetration, such as Eldoret and Kisumu, experienced limited financial inclusion.
- These findings align with the Financial Inclusion Theory, which emphasizes that access to banking services enables households and businesses to save, invest, and manage risks, thus enhancing overall economic welfare (Demirgüç-Kunt et al., 2018).

4. **Regulatory Influence:**

- CBK regulations and capital adequacy requirements enhance financial sector stability but can constrain rapid credit expansion.
- Respondents noted that compliance requirements may particularly limit smaller banks' ability to lend extensively.
- This reflects the balance between prudential regulation and growth, as proposed in the Financial Intermediation Framework, where regulatory oversight ensures stability without excessively hindering credit intermediation (Allen & Santomero, 2001).

5. **Regional Disparities:**

- Economic impact varied across counties, with Nairobi and Mombasa benefiting more due to higher branch density, economic activity, and adoption of digital banking platforms.
- This finding suggests targeted policy interventions are needed to enhance financial inclusion and economic growth in less-served regions.

5.3 Discussion of Findings

5.3.1 Theoretical Implications

1. Endogenous Growth Theory

The study provides strong empirical support for the theory that financial institutions are foundational to economic growth. KCB's credit allocation stimulates productivity, innovation, and investment—elements central to endogenous growth models (Romer, 1990). The quantitative evidence and qualitative insights confirm that banking activities contribute to sustained, internal drivers of growth within the Kenyan economy.

2. Financial Intermediation Theory

Regression analysis and interview results validate the proposition that banks play an essential role in allocating resources efficiently. KCB's lending to SMEs and large enterprises boosts economic activity and employment creation, directly reflecting Diamond's (1984) model of delegated monitoring and resource allocation.

3. Financial Inclusion Theory

Findings show that technology-enabled banking increases financial access and participation. Digital loans, agency banking, and mobile platforms reduce transaction costs and expand formal financial services to underserved communities. This confirms global evidence that inclusive financial systems improve development outcomes (Demirgüç-Kunt et al., 2018; Sahay et al., 2015).

5.3.2 Policy and Practical Implications

1. **Enhancing SME Financing:**

Given the strong link between lending and employment, policies should encourage banks to increase credit availability for small and medium enterprises, especially in less-served regions**.** KCB and other banks should expand SME lending, given its substantial impact on employment. Government-backed credit guarantees could further reduce default risk and encourage SME lending**.**

2. **Promoting Digital and Agency Banking:**

To bridge regional financial disparities, banks should invest in digital infrastructure and expand agent networks in Kisumu and Eldoret. Partnerships with fintech firms may enhance efficiency and reach to scale.

3. **Regulatory Balance:**

While prudential regulation ensures stability, policymakers should consider flexible capital requirements for smaller banks to enable credit expansion without compromising financial soundness**.** CBK may consider adopting risk-based regulatory flexibility for smaller banks, allowing them to increase lending without compromising prudential standards.

4. **Regional Development Interventions:**

The government and CBK could incentivize banks to expand branches or digital services in counties with low banking penetration to reduce regional disparities in economic impact. Government incentives—tax relief, infrastructural support, or subsidized branch establishment—could accelerate financial access in underserved counties.

5.4 Conclusions

Based on the study findings, the following conclusions are drawn:

1. KCB significantly contributes to Kenya's economic growth through credit provision, infrastructure financing, and investment in key economic sectors.
2. Employment creation is strongly driven by bank lending, demonstrating the critical role of financial intermediation in stimulating job growth.
3. Financial inclusion has improved due to mobile banking, agency banking, and digital services, though regional disparities persist.
4. Regulatory frameworks ensure stability but may slow down credit expansion for smaller institutions.
5. Regional disparities require targeted interventions to ensure equitable economic benefits across all counties.

5.5 Recommendations

Based on the study, the following recommendations are proposed:

5.5.1. For Banking Institutions

- Increase SME lending portfolios and introduce tailored products for micro-enterprises.
- Expand agent banking and digital service platforms, especially in underserved regions.
- Strengthen risk management systems to ensure sustainable growth.
- Integrate financial literacy initiatives to improve consumer capability and reduce default rates.

5.5.2. For Policymakers and Regulators

- Develop flexible risk-based regulatory models that support credit expansion while preserving stability.
- Provide incentives for banks to operate in underserved counties.
- Implement national digital infrastructure programs to support mobile banking.
- Enhance consumer protection frameworks and support financial literacy at community levels.

5.5.3. For Future Research

- Investigate the impact of digital banking on rural household income.

- Explore comparative economic effects of commercial banks, microfinance institutions, and SACCOs.
- Examine how AI-driven credit scoring may influence financial inclusion**.**

5.6 Contribution to Knowledge

This study contributes to the literature on the economic impact of banking in emerging economies by:

1. Providing empirical evidence on KCB's contribution to economic growth, employment, and financial inclusion in Kenya.
2. Integrating quantitative and qualitative data to offer a holistic understanding of banking sector dynamics.
3. Linking empirical findings to established theoretical frameworks (Endogenous Growth Theory, Financial Intermediation Theory, and Financial Inclusion Theory), thereby bridging theory and practice.

5.7 Limitations of the Study

1. The study focused primarily on KCB, limiting generalizability to the entire banking sector.
2. Data were collected from four counties; other regions may exhibit different patterns.
3. Responses may be subject to social desirability bias, particularly in interviews with senior bank personnel.

5.8 Summary

Chapter 5 discussed and interpreted the findings of the study in relation to theory and literature. It concluded that KCB has a significant economic impact in Kenya through lending, employment creation, and financial inclusion, moderated by regulatory frameworks and regional disparities. Policy recommendations emphasize promoting SME financing, digital banking, regulatory flexibility, and regional interventions to maximize the economic impact of the banking sector.

REFERENCES

Allen, F., & Santomero, A. M. (2001). What do financial intermediaries do? *Journal of Banking & Finance, 25*(2), 271–294. https://doi.org/10.1016/S0378-4266(00)00126-0

Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology, 3*(2), 77–101. https://doi.org/10.1191/1478088706qp063oa

Bryman, A. (2016). *Social research methods* (5th ed.). Oxford University Press.

Creswell, J. W., & Creswell, J. D. (2018). *Research design: Qualitative, quantitative, and mixed methods approaches* (5th ed.). Sage Publications.

Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S., & Hess, J. (2018). *The global findex database 2017: Measuring financial inclusion and the fintech revolution*. World Bank. https://doi.org/10.1596/978-1-4648-1259-0

Diamond, D. W. (1984). Financial intermediation and delegated monitoring. *The Review of Economic Studies, 51*(3), 393–414. https://doi.org/10.2307/2297430

Gliem, J. A., & Gliem, R. R. (2003). Calculating, interpreting, and reporting Cronbach's alpha reliability coefficient for Likert-type scales. *2003 Midwest Research-to-Practice Conference in Adult, Continuing, and Community Education*.

Juma, M. S (2025). The Impact of Digitalization and Globalization of Banking Services by the Cooperative Bankof Kenya Limited. *ISA Journal of Business, Economics and Management (ISAJBEM).* ***Published:*** *15.07.2025,* ***Volume:*** *2,* ***Issue:*** *4, July-August, 2025.* *https://isapublisher.com/isajbem/*

Johnson, R. B., & Onwuegbuzie, A. J. (2004). Mixed methods research: A research paradigm whose time has come. *Educational Researcher, 33*(7), 14–26. https://doi.org/10.3102/0013189X033007014

Levine, R. (1997). Financial development and economic growth: Views and agenda. *Journal of Economic Literature, 35*(2), 688–726. https://doi.org/10.1257/jel.35.2.688

Patton, M. Q. (2015). *Qualitative research &*

evaluation methods (4th ed.). Sage Publications.

Romer, P. M. (1990). Endogenous technological change. *Journal of Political Economy, 98*(5, Part 2), S71–S102. https://doi.org/10.1086/261725

Sahay, R., Cihak, M., N'Diaye, P., Barajas, A., Mitra, S., Kyobe, A., Mooi, Y., & Yousefi, S. R. (2015). *Financial inclusion: Can it meet multiple macroeconomic goals?* International Monetary Fund. https://doi.org/10.5089/9781498355188.001