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Department of Masters of Business Administration

**“Practical Challenge and Prospects of Agent-Banking; The Case of
commercial bank Ethiopia”**

BY

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**Practical Challenge and Prospects of Agent-Banking; the Case of commercial bank
Ethiopia**

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**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF ST.
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DECLARATION

I declare that this thesis, **Practical Challenge and Prospects of Agent-Banking; the Case of commercial bank Ethiopia** is entirely my own original work, completed without assistance from anyone else and without having been submitted to any other organization in the past. I further declare that all references used in this research report have been listed in the reference section and properly acknowledged by citations.

By. Kelemua Amsalu

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ENDORSEMENT

The thesis entitled: *Practical Challenge and Prospects of Agent-Banking; the Case of commercial bank Ethiopia* by Kelemua Amsalu under my guidance for partial fulfillment of Degree of MBA This thesis has been submitted for examination to St. Mary's University's School of Graduate Studies with my approval as a university advisor.

A handwritten signature in black ink, appearing to be 'Mohammed Seid', is written over a horizontal line. The signature is stylized and cursive.

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ACRONOMYS

- ✓ **CBE:** Commercial Bank of Ethiopia
- ✓ **SPSS:** statistical package for social science
- ✓ **NBE:** National Bank of Ethiopia

Abstract

The study examines the practical Challenges and Prospects of Agent-Banking: the case of commercial bank Ethiopia. The main objective of this study was to assess practical Challenges faced by Agent-Banking, identify opportunities for its development, and provide recommendations for successful implementation. The data was gathered through a questionnaire completed by 62 employees. A mixed-methods approach is adopted incorporating both quantitative and qualitative techniques. Collected data is analyzed using Statistical Package for Social Sciences (SPSS) for quantitative analysis and thematic coding for qualitative insights. Descriptive statistics, regression and the relationships between key variables within the proposed conceptual framework. Finding indicated challenge including limited customer awareness, inadequate network infrastructure, resistance to technological changes, and low levels of trust in the system. And it will provide valuable recommendations for CBE on addressing challenges to adoption of agent banking and leveraging opportunities for enhanced delivery of affordable services. The study aims to contribute towards increased financial inclusion. By implementing these recommendations can enhance financial inclusion, operational efficiency, and contribute to the economic development of Ethiopia.

Key Word: Agent banking, practical Challenges, Adoption and development of Agent-Banking system.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

In any given country's economy commercial banks are the life line of modern trade and commerce by providing the major source of finance and by making available the funds for investors to borrow as well as for financial deepening of the country. But with the expansion of many branches and the minimization of foreign currency now a day's Banks are largely getting into competitive marketing strategy that determines their success and growth in mobilizing, allocating and investing the greatest part of the economic agent's "savings" accounts. Accordingly, their performance has substantial consequences on capital allocation, firm expansion, industrial growth and economic development of the country. In order to outperform in this competition different banks are adapting different kind of methodology to address their different customers need by minimizing their cost (Atandi, 2013).

As every aspect of life has been affected and yet still being changing with the increasing development of information technology and globalization, the banking sector is also being redefining its day to day operation with introduction of different electronic banking mechanisms such as ATM, mobile banking, internet banking, and POS and also now a day's able to develop and introduce branchless banking known as "agency banking" Ndungu C. (2014). As it is recently introduced to the market this study sought to find out "the practical challenge and prospect of the system while adapting to commercial bank of Ethiopia.

As it is known the main objective of all commercial firms is making profit similar to that commercial banks also strive to increase their profitability by minimizing their cost so that their shareholders could still earn higher dividends while the firm possess grater market share. As a matter of fact, all banks need to answer about the amount of finance they would lend and means of achieving them before being profitable so as lending is their major operation and means of income. In order to do this bank must try to accumulate their loan power by increasing a number of depositors through different mechanisms form this expansion of branch is the major one. But this old way of getting customer at one place is becoming too much competitive and costly

eventually when the number of bank and their branch increases as a result of this bank is trying to change their means of finding new customers. In addition to that the other obstacles to financial exclusion is cost, most banks are not willing to open a branch in rural Ares due to cost which includes the service charge (salary, utility expense etc.) in servicing low value accounts (accounts that has minimum balance) and extending physical infrastructure to remote rural areas. This huge cost by the bank on top to a low number business transaction has leaded the rural people to be non-banked citizen of the country by lacking bank at nearby. But with the introduction of “agency banking” the above mentioned gap will be minimized for the future as it is shown in different country experience (fortune magazine May31, 2016).

In summary, commercial banks play a crucial role in the economy of any country by providing finance and facilitating economic growth. However, with the increasing competition in the banking sector, banks have been adopting different strategies to attract customers and minimize costs. One such strategy is the introduction of electronic banking mechanisms like ATM, mobile banking, internet banking, and branchless banking, also known as "agency banking."

An agent bank is a bank that performs services in some capacity on behalf of an entity. An agent bank, also known as agency bank, can offer a wide variety of services for businesses looking to expand internationally. The term “Agent banking” refers to a partnership of banks and non – bank parties typically retail commercial outlets ranging from small shops, pharmacies, post office, construction good stores and so forth to provide nearly similar services of the bank as distribution outlets for financial services” (Kumar, Nair, Persons & Urdapilleta, 2006). Agency banking involves a partnership between banks and non-bank entities, such as retail outlets, to provide banking services as distribution channels. The agents, who are not bank employees but rather the owners of these outlets, facilitate various transactions such as opening accounts, accepting deposits, withdrawals, fund transfers, and balance inquiries. This model allows banks to leverage existing infrastructure and reach customers at a lower cost, even in remote areas.

The system “agent banking” was first developed in “BRAZIL” in the year of 1999. “BRAZIL” was an early adopter of the model and has greatly matured over the years covering more than 99% of the countries municipality (Kumar, Nair, Persons & Urdapilleta, 2006). The concept of agency banking originated in Brazil in 1999 and has since matured and expanded to cover a significant portion of the country's municipalities. Other countries, including Kenya and South

Africa, have also adopted the agency banking model and benefited from increased financial inclusion and expanded services. One of the key advantages of agency banking is the ability to reach a larger number of clients and promote savings through the existing infrastructure.

To ensure smooth transactions, real-time authorization of transactions and liquidity management structures are put in place. Banks also provide automatic receipts or text messages to customers, serving as proof of the transaction. Additionally, a complaints and claims structure is necessary to address customer concerns and maintain proper records.

1.2. Statement of the Problem

According to the Find ex Global Survey of 2014, Kenya emerged as the leading country in Sub-Saharan Africa in terms of financial inclusion, with a level exceeding 75%. This achievement was primarily supported by the widespread penetration and usage of mobile services for financial transactions. Rwanda, Tanzania, and Zambia followed closely behind, with inclusion levels of 42%, 40%, and 36% respectively. The average inclusion level for Sub-Saharan Africa stood at 34%, indicating that Kenya was significantly ahead of its regional peers. However, Ethiopia lagged behind both its peers and the regional average, with only a 22% inclusion rate (FIS, 2018).

The Ethiopian banking system has traditionally been concentrated in urban areas, neglecting the rural population. This concentration is due to the fact that establishing branches in rural areas would not generate sufficient income and deposits to cover the high costs of utilities and other expenses. Furthermore, the living conditions in remote and sparsely populated areas, coupled with poor infrastructure, lack of awareness, social exclusion, and low literacy levels, have further widened the gap between the banking environment and the rural population. Mwangi, 2011 - Cited when discussing how agency banking offers several benefits, including cost reduction and providing financial services at lower costs to consumers. It also enhances efficiency in the financial sector and facilitates banks expanding reach to remote areas. This lack of a stable and efficient banking system has hindered remote interactions between banks and customers without incurring excessive costs for the banks.

However, the introduction of agent banking has presented an opportunity for the banking industry to address this gap and cater to the wide-ranging needs of customers in rural areas.

Considerable efforts have been made to tackle the challenges that directly impact the livelihoods of people and economic growth. One such effort was the legislation of the agency banking model in 2014, aimed at expanding access to financial services in rural areas where establishing physical branches and overcoming infrastructure difficulties proved to be expensive. Agency banking offers several benefits, including cost reduction and the provision of financial services at lower costs to consumers. It also enhances efficiency in the financial sector and facilitates the expansion of banks, extending their reach to remote areas (Mwangi, 2011). Therefore, agency banking can serve as a significant channel for financial deepening.

Despite the considerable benefits achieved in other countries, there is a shortage of studies examining the adoption of agency banking and its contribution to CBE. Consequently, there remains a significant knowledge gap regarding the benefits and challenges of agent banking, particularly in the context of the capital city, Addis Ababa. In order to bridge this gap and provide valuable insights into the agent banking system, this study aims to gather essential information about the challenges and prospects of agent banking in CBE.

1.3. Research Questions

The purpose of this research is to provide answers to the broad research objectives that are described above by answering the following research questions: -

- i. What are the practical challenges of the customer towards the adoption of agent banking services?
- ii. What are the driving forces to adopt agent banking services in commercial bank of Ethiopia?
- iii. What are the major benefits that will be achieved from agent banking system with respect to the bank?
- iv. What are the existing opportunities in the country that initiates the adoption of agent banking?

1.4. Objectives of the Study

1.4.1. General Objective

The general objective is to examine the challenges faced by Commercial Bank of Ethiopia in implementing agent banking services and identify the prospects and potential benefits of agent banking for the bank.

1.4.2. Specific Objectives

1. To identify the practical challenges of the customer towards the adoption of agent banking services and the major challenges for implementation of agency banking in the financial institutions.
2. To identify the driving forces for the adoption of agent banking services in commercial bank of Ethiopia.
3. To identify the existing opportunities for agency banking.
4. To identify the attitude of the customer towards the adoption of agent banking services.

1.5. Significance of the Study

The study on the practical challenges and prospects of agent banking in Commercial Bank Ethiopia holds several significant implications of Contribution to academic research is the study adds to the existing body of knowledge on agent banking, particularly in the context of Ethiopia. It provides insights into the practical challenges faced by banks in implementing agent banking models and explores the prospects for enhancing financial inclusion. Enhancing financial inclusion is Agent banking has the potential to bring financial services closer to unbanked and underserved populations. By understanding the challenges and prospects of agent banking, stakeholders can devise targeted interventions to expand access to financial services, encourage savings, and facilitate economic empowerment.

Improving banking operations of study highlights specific challenges faced by Commercial Bank Ethiopia in implementing agent banking. By addressing these challenges, the bank can enhance its operational efficiency, reduce costs, and improve customer satisfaction. This, in turn, can contribute to the overall growth and competitiveness of the bank. In Economic development impact of Agent banking has the potential to stimulate economic growth by facilitating increased savings, investments, and access to credit. By identifying the prospects and opportunities

associated with agent banking, stakeholders can harness its potential to drive economic development and poverty reduction in CBE.

1.6. Scope of the Study

To make this study manageable the researcher has been forced to delimit the study of commercial Bank of Ethiopia. The researcher chooses to take this sample commercial bank of Ethiopia due their high market coverage and commenced the delivery of the Agency Banking services. Also from the total population based on their familiarity to the system of agent banking operations i.e. long year's services in providing products to public and large activities on the market. Besides, the study will only to identify the challenges and prospects of agent banking system in the commercial bank of Ethiopia with respect to the bank perspective.

1.7. Limitation of the study

This study is limited to commercial bank of Ethiopia in the challenge of agent banking. A consumer of the bank sample was 62, but owing to numerous issues were 47 employees who were willing to answer the questions. In commercial bank of Ethiopia there is few employees in agency banking department. It is one of the big limitations but the researcher use the related department employees like mobile banking department.

1.8. Organization of the Study

This research study is broken down into five chapters. The first chapter introduces the introductory section and it covers the Background of the study, statement of the problem, objectives of the study, research question(s), Significance of the study, and scope and limitations of the study. Similarly, Chapter two displays a detailed assessment of theoretical and empirical literature by evaluating the issue of the study; also, this chapter conceptual framework aspects of the study. The researcher thoroughly discusses the research methodology portions in the third chapter. The fourth chapter of this paper describes the data presentation, analysis, and interpretation. The last chapter summarizes of the study's major findings, conclusions, and suggestions.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION

Agent banking is a relatively new concept in Ethiopia, and understanding the challenges and prospects it presents is essential for its successful implementation. This chapter provides a comprehensive review of the related literature on agent banking, including studies, internet sources, textbooks, and published articles. By examining the existing body of knowledge, this review aims to identify research gaps and lay the foundation for further research in the Ethiopian banking industry.

2.1.1 Theoretical Review

The theory regarding financial intermediation was developed starting with the 60's, the starting point being the work of Gurley and Shaw (1960). Economic role of financial intermediaries which include Investment banks, insurance, commercial banks and agency banking, build on the economics of imperfect information that began to emerge during the 1970s with the seminal contributions of Akerlof (1970), Spence (1973) and Rothschild and Stiglitz (1976).

As per Rothschild and Stieglitz Financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders. Financial intermediaries thus assist the efficient functioning of markets, and any factors that affect the amount of credit channeled through financial intermediaries can have significant macroeconomic effects. There are two strands in the literature that formally explain the existence of financial intermediaries. The first strand emphasizes financial intermediaries' provision of liquidity and strand focuses on financial intermediaries' ability to transform the risk characteristics of assets. In both cases, financial intermediation can reduce the cost of channeling funds between borrowers and lenders, leading to a more efficient allocation of resources. Diamond and Dybvig (1983) analyze the provision of liquidity (the transformation of illiquid assets into liquid liabilities) by banks. In Diamond and Dybvig's model, investors (depositors) are risk conscious and uncertain about the timing of their future consumption needs. Without an intermediary, all investors are

locked into non-liquid long-term investments that yield high payoffs only to those who consume late. Those who must consume early receive low payoffs because early consumption requires premature liquidation of long-term investments.

Banks can improve on a competitive market by providing better risk sharing among agents who need to consume at different and random periods. An intermediary promising investors a higher payoff for early consumption and a lower payoff for late consumption relative to the non-intermediated case enhances risk sharing and welfare. Agency banking is about bringing technology innovation to the front end of the bank, as financial intermediary. While this ought to divert much of the transactional volume that is now channeled through bank branches, it does not make bank branches obsolete rather provides synergies that all parties benefit from. Theories of agency banking can be classified into broad categories: these are Bank Focused theory and bank-led (agency theory).

Bank-Focused Theory

The bank-focused theory arises when a traditional bank uses non-traditional low-cost delivery channels to provide financial service to its existing customers. Examples vary from the use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to clients. This model is additive in nature and may be seen as a modest extension of conventional branch-based banking.

Though the bank-focused model offers advantages such as more control and brand visibility to the financial institutions concerned, it is not free of challenges. The clients' primary concerns regard to the quality of experience, security of identity and transactions, reliability and accessibility of service and the extent of personalization allowed. Banks address these issues by providing a branchless banking service with an easy to use interface, made secure with the help of multi-factor authentication and other technology, capable of running uninterrupted 365 days a year (Mass, 2009).

Bank-led Theory (Agency Theory)

The Bank-Led Model is the one which Banks are granted vested right to run the Mobile and Agent Banking business by the National Bank. The Regulation of Mobile and Agent Banking

Services Directive No.FIS/01/2012 issued by National Bank of Ethiopia (NBE) clearly stated that Ethiopia has adopted the Bank Led Model. Accordingly, only commercial banks are allowed to provide the service in Ethiopia with prudent supervision by the National Bank of Ethiopia.

The other Model is the Telco-Led Model which is implemented by most successful countries in Mobile and Agent Banking business. However, the issue of fund protection is one of the most challenging in the non-bank led model: Non-bank issuers are taking funds from the public, MNOs are not regulated/supervised prudentially and what if the m-banking provider goes bankrupt, to whom claim presented. Unlike the Bank-Led model, the loose established mechanisms to protect users' funds make the risk of the Telco-Led model higher than the Bank-Led Model (Laurent, 2011).

Bank-led theory offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees (Lyman, Ivatury and Staschen, 2006). This model promises the potential to substantially increase the financial services outreach by using a different delivery channel (retailers/ mobile phones), a different trade partner (ChainStore) having experience and target market distinct from traditional banks, and may be significantly cheaper than the bank based alternatives. In this model customer account relationship rests with the bank (Tomášková, H. 2010). Retail agents have face-to-face interaction with customers and perform cash -in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals (Owens, J. 2006)

In bank-led model the technological/physical infrastructure of a retailer is used to provide some basic banking services like balance enquiry, account to account fund transfer, payments for goods/services at merchant outlets using their mobile number as account. Most of these services are already being provided by banks and are covered under existing regulations; hence, the model poses no specific regulatory issues. Besides, it lowers the cost of delivery to banks, including costs of building and maintaining a delivery channel and to customers of accessing services (Lyman, Pickens and Porteous, 2008). Agents Related Risks arise from substantial outsourcing of customer contact to retail agents. From a typical banking regulator's perspective, entrusting retail customer contact to the types of retail agents used in both the bank-led and nonbank-led models would seem riskier than these same functions in

the hands of bank tellers in a conventional bank branch. These retail agents may operate in hard-to reach or dangerous areas and lack physical security systems and specially trained personnel. The lack of expert training may seem a particular problem if retail agents' functions range beyond the cash-in/cash-out transactions of typical bank tellers to include a role in credit decisions (State Bank of Pakistan, 2011).

2.1.2 Theory of Agency

During the 1960's and early 1970's economists explored risk sharing among individuals or groups. Agency theory broadened this risk sharing idea. Agency theory is directed at the ubiquitous agency relationship in which one party (The Principal) delegates work to the other party (the Agent) who performs the work.

Agency theory is a theory that shows the contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources. Jensen and Meckling (1976) were the first scholars to explicitly model the theory of agency. Agency theory is based on the premise that agents are more informative than the principals. This information asymmetry affects the ability of the principal to effectively monitor their wealth and this is where the agents came in hand to help. It also assumes that principals and agents act rationally (Brigham & Gapenski, 1993). In the simplest agency models, the organization is reduced to these two contracting characters: the principal and the agent. The principal's roles are to supply capital to bear risk, and to construct incentives, while the role of the agent are to make decisions on the principal's behalf and to also bear risk (Lambert, 2002).

Though commercial banks continue to invest in rolling out brick and mortar branches that are complimented by various delivery channels, the challenge of access to formal financial services remains a big impediment to financial performance. Customers are forced to travel long distances and spend huge amounts of money on transport in order to access a branch. In addition to the cost of transport is the time spent commuting to and from that could have been spent more productively. To curb these challenges, a number of central banks around the world have released legislation that allows commercial banks to contract third party retail networks as agents (Lyman, Victory and Staschen, 2006).

2.1.3 Agent Banking

Agent banking is a kind of branch less banking which is significantly cheaper alternative to conventional branch-based banking that allows financial institutions and other commercial players to offer financial services outside traditional bank premises (Hassen, et al, 2011). It was introduced in Brazil for the first time and was very successful even in different country (including our best example Kenya and Uganda). In this system there will be three participants the principal or the bank, the agent and the customer. In which the bank will make an agreement with the agent to serve the customer through the agent on commission base transaction. For poor people who live in with less infrastructure place (i.e. Africa and Latin-American,) “branchless banking” through retail agents may be far more convenient and efficient than going to a bank branch (Lyman, Ivatury and Staschen, 2006).

To enhance financial inclusion (market access), Banking Act of Ethiopia was amended in 2014 to pave way for agency banking. This has led to increased profitability of banks Even though still there is some undressed place. Increased number of transactions facilitated by bank agents largely attribute to increases in transactions relating to payment of bills, mini statement requests, cash withdrawals and cash deposits which in turn improves profitability of commercial banks (CBK, 2014). The number of transaction made in each year in agent banking is increasing from year to year for example up to April 2016 there had been 364 agents and nearly 3.3 million transactions and 4.2 deposits in united bank.

2.1.3.1 Agency Banking in Ethiopia and its Mode of Conduct

Even though for countries like Ethiopia, where financial accessibility is very low where 78% of the population being unbanked (addisfortune.net/columns/powers-of-agent-banking) agent banking is still has to be worked a lot. Most financial institution has not yet starts giving agent banking services due to money reason but above all the low level concern and awareness of the media and stakeholders has led the system to not grow. Before October 2015, where the National Bank of Ethiopia (NBE) came up with a new regulation to make agent banking as a mandatory operation so that let financial industry sound. Agent banking has started in 2014 by Dashen Bank having the first place. But within recent year and the NBE regulation the term agent banking has been new thing even for most banks. As the result looking at banners and posters posted on the entrance of small shops, internet café,

beauty salon, bars and gas station around Addis Ababa any person would learn there is something new happening with the financial environment.

2.1.3.2 Modes of Business Conduct

As per the NBE Directives the following are the main point to be followed. Only financial institutions that are licensed by the national bank of Ethiopia are allowed to engage in agent banking services. Agent banking service shall be carried out only within the geographical boundary of Ethiopia and with only Ethiopian Birr. Financial institutions can carry out mobile banking through their agents as specified in these directives. Where financial institutions carryout mobile banking services through agents. Regulation of Mobile and Agent Banking Services Directive No.FIS/01/2012 issued by National Bank of Ethiopia (NBE).The financial institution shall be fully responsible and liable for all actions and omissions of its agent and this responsibility shall extend to actions of the agent. All transactions involving deposit, withdrawal, payment or transfer of cash from or to an account shall be made on real time basis and financial institutions shall ensure that agents are able to carry out real time transactions. Agents shall not under any circumstance accept funds from customers that exceed their prepaid balance with financial institutions. Financial institutions shall debit or credit the account of the agent or customer upon conduct of any transaction that necessitates reduction or increase of the account balance of the agent or customer.

2.1.3.3 Attitude and Awareness of the Customer toward Agent Banking System

Even though it has been popular in most countries the term agent banking is new issues to our country but now days the term agent banking has got wide recognition at some part of Addis Ababa. as per nov16,2015 Addis fortune report shows even some private banks has shown this system as disaster at the primary stage but within recent years every bank are trying to enter into this new system. As this service is at an introduction sage there are many ups and downs in finding the trust of the client. Most of the customer of every bank has no understanding the benefit and service agent banking except if they are not close to the financial industry (Fortune, A. (2016).

2.1.3.4 Benefits of Agent Banking to Agents (retail outlets)

Bank agents are usually awarded commissions whenever they perform transactions on behalf of the bank. Increased customer traffic brings additional benefits to the agent; the increased traffic brought about by customers performing banking activities also translates to more people getting to know your business hence more sales, the question comes at the initial stage there might not be sufficient number of customer who frequently visit the agent premises (Chiteli, 2013).)

2.1.3.5 Benefits of Agent Banking for Customer

Customers are also one of the drivers of Mobile and Agent Banking business. Most financial institution closes their doors early, but with agents, for as long as the business premise remains open, you can do your transactions, and this gives flexible hours. This has proven to be very convenient especially for people who are busy during the day. The other benefits to customers are financial institution agents have proven to be cost-effective especially to people who live in rural areas that are far away from banks (Veniard& Melinda Gates Foundation, 2010).

Agent banking as already stated has greatly serviced both the public and the banking Industry. This has resulted in creation of a better enabling environment that supports Growth, productivity and prosperity. Besides many tangible benefits in the form of reduction of cost, reduced delivery time, increased efficiency, reduced wastage, agent banking Controlled and thoroughly monitored environment and discourage many illegal and illegitimate practices associated with banking industry like money laundering, frauds and embezzlements. Further agent banking has helped banks in better monitoring of their customer base. This is a useful tool in the hand of the bank to device suitable commercial packages that are in conformity with customer needs.

2.1.3.6 Benefit of Agent Banking for CBE

Success of agency banking can be attributed to technological advancement. The technology adapted is mainly a point of sale (POS) and a phone. Clients that transact at the agent use a chip bank card or their mobile phone to access their bank account (Yobes et.al. 2012) Identification of customers is normally done through a PIN, but could and personal documents. With regard to the transaction verification, authorization, and settlement platform, banking agents are similar to any other remote bank channel. Agency banking has enabled bank customer to access the banking

services within the comfort of their neighborhood. Agency banking can dramatically reduce the cost of delivering financial services to unreached people (Yobes et.al. 2012).

Agency Banking has a huge safe and sounded mechanism when most banks are working towards cost management. Huge savings on cost of construction of bank premises and leasing costs when CBEs are using the Agency premises, reduction of human resource expenses (the banks do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum), savings on equipment like furniture and computers, additional delivery channels hence easier to tap more deposits and transaction best income, and finally agent cost will most certainly be passed to consumers (Robert J Waller 2010).

Banking agents help financial institutions to divert existing customers from crowded branches providing a “complementary”, often more convenient channel. Especially in developing markets, use agents to reach an “additional” client segment or geography. Reaching rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost. In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost play a vital role in offering low-income people. Also, low-income clients often feel more comfortable banking at their local store than walking into a marble branch (Siedek, 2008).

2.1.3.7 Practical Challenges of Agency Banking

Banking regulation typically recognizes multiple categories of risk that bank regulators and supervisors seek to mitigate when customers use retail agents rather than bank branches to access banking services. Five of these risk categories are credit risk, operational risk, legal risk, liquidity risk and reputation risk. The use of retail agents also potentially raises special concerns regarding consumer protection and compliance with rules for combating money laundering and financing of terrorism (Kumar et al., 2006).

Ndungu and Okibo (2015) conducted a study on factors affecting banking agents in Kenya. The study concludes that cost of financial services and the levels of financial literacy had the greatest effect on the performance of banking agents. The study also concluded that cost has a direct bearing on performance of banking agents. When transaction costs are lower, the performance of

banking agents improve because of the more transactions that are processed at the agent locations.

2.2 Activities on Agent Banking

2.2.1 Prohibited Activities on Agency Banking

Some activities are prohibited and when an agent continues to perform them prohibited their contract may be terminated. These activities include: Performing and carrying out transactions which must have a receipt or acknowledgement when the networks and communication failure is experienced, charging customers any fees, carrying out agency banking business when agent is no longer a going concern, offering its own banking services apart from the sponsoring bank, anti-money laundering services, foreign exchange transactions, en-cashing and depositing of cheques, provision of cash advances and loans and subcontracting to any business to run its agency banking.

2.2.2 Permissible Activities of an Agent

According to Veniard & Melinda Gates Foundation (2010), the opportunities for Adoption of Agent banking includes:

2.2.2.1 Agent Banking Systems Are Cheaper to Operate than Branches

They found that agent banking systems are up to three times cheaper to operate than branches for two reasons. First, agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial service providers to invest in their own infrastructure. Although agent banking incurs higher variable costs from commissions to agents and communications, fixed costs per transaction for branches are significantly higher. Second, acquisition costs are lower for mobile-enabled agents and mobile wallets. By using mobile phones instead of payment cards, mobile wallets and bank accounts linked to a mobile wallet are able to acquire customers at less than 70 percent of the cost of a branch or POS-enabled agent. In some countries, mobile wallets may also benefit from lower-cost Know Your Customer requirements, such as the elimination of requirements to provide photographs and photocopies of documents.

2.2.2.2 Costs are Incurred Only If Transactions Are Realized

In an underutilized branch, fixed costs are distributed over a smaller number of transactions, resulting in significantly higher costs per transaction. Agent banking systems, on the other hand, receive a commission only if transactions are realized. For example, according to the average estimations of the institutions in our sample, if delivery channels are utilized at 100 percent of their capacity, total costs per deposit transaction will be two to four times higher in a branch than with an agent channel. If delivery channels are utilized at 50 percent of their capacity a common occurrence with the providers in our sample total costs per deposit transaction will be three to eight times higher in a branch. As long as the agent sees enough transactions to be incentivized to provide the service, capacity utilization has little effect on an agent's cost structure for the financial service provider.

2.2.2.3 Agent Transaction Platforms Benefit from Additional Transactional Revenue Sources

By bringing the channel closer to the client, agent transaction platforms may also benefit from additional revenue associated with transactions acquired by the agent, such as person to-person transactions and bill payments. Although customers can conduct these transactions in a branch, proximity may increase their willingness to pay for these services and increase the number of transactions conducted through the channel. For example, a recent study found that households using M-PESA doubled the number of remittances they sent between 2008 and 2009. This rapid increase in the number of transactions conducted is likely the result of proximity and ease of use. This is especially relevant when serving poor customers with low-balance accounts, because it is hard for the provider to cover the operational costs of the account on financial margin alone and because the provider needs to move to a transaction-driven revenue model.

2.2.2.4 Agent Banking Works Best for Low-Balance, High-Transaction Accounts

As a result of lower transaction costs and a transaction-driven revenue model (rather than a float-driven model), agent banking systems are most cost effective for transactional accounts with low balances and frequent transactions. For example, an account that sees two deposits and two withdrawals per month will incur more than 70 percent fewer costs if the customer transacts through an agent rather than a branch. In addition, transactional accounts can make money off

the transaction services provided (e.g., person to person transfers, bill pay, etc.), as is the case with most mobile wallets.

Bank Size

Even in our country Ethiopia Banks have persistently increased in their number of branches over the years. As per some data shows all those banks in total have more than 4757 branches as of June 30, 2018(www.asokoinsight.com) Although the Ethiopian financial regulators have been promoting region-based relationship banking in recent years and starting from 2016 National Bank of Ethiopia ordered to commercial banks to open 25% their branches out of Addis Ababa (www.nbe.gov.et) many commercial banks expand their branch network restricted to within Addis Ababa only. In terms of their national economies, most financial institutions have become very large in terms of their revenue and their contribution to the GDP of the country but one thing for sure should not be forgotten if the absolute size of a bank increases, its rate of return on asset as well as bank risks increases due to many reason.

Size relative to the national economy has no effect. The absolute size of a bank is defined as a tradeoff between the bank risk and its return. Larger banks have a larger share of their income in terms of non-interest income (Huizinga, 2012). The market share will give the bank size. This comprises of net asset deposits, capital, number of loan accounts and number of deposits. And also the larger the branch size the larger the cost of the fixed asset will be and the higher in sharing the profit.

2.2.3 The Method of Bank Choose and Support Agents

As per Directives Number FIS/01/2012 of NBE line with the powers vested in it by article 10 (5) of National Payment System Proclamation No. 718/2011 and article 59 (2) of Banking Business Proclamation no. 592/2008 “any person who is engaged in valid and lawful business or commercial activity within Ethiopia can be an agent of a financial institution. However, in case an agent has a specific regulatory body to which it is accountable to, it shall produce a written consent from the regulatory body permitting entering of agency agreement. In making agency arrangement, a financial institution shall enter into a written contract with an agent for the provision on its behalf any of the mobile and agent banking services specified in these directives” as per NBE directives.

2.3 Empirical Review Relation to Countries Experiences

According to Kandie (2013), a study was conducted in Kenya to analyze the impact of agency banking on financial inclusion. The research design adopted was a cross-sectional survey approach, utilizing secondary data and inferential statistics techniques to predict the dependent variable. The findings of the study revealed a strong positive relationship between financial inclusion and agency banking.

Watiri (2013) conducted a study in Kenya to examine the contribution of agency banking to the financial performance of commercial banks. The study employed a descriptive survey method and found that the low transaction costs associated with agency banking had a positive impact on the financial performance of Kenyan commercial banks. During the study period, only nine banks had adopted agency banking, but by Dec 2014, the number had increased to 16 banks. This subsequent study provides more accurate results compared to Watiri's research. Additionally, Watiri's study did not consider the financial performance before the adoption of agency banking, whereas this study aims to compare the financial performance before and after the adoption of agency banking in Ethiopia commercial banks.

CGAP (2010) conducted a survey on the regulation of branchless banking in Russia. The survey utilized empirical analysis of legal and policy changes up until the end of 2009. The findings indicated a significant increase in the number of automated payment terminals in larger cities. One provider, cyber plat, reported processing a substantial number of transactions through its "cash acceptance" points. Lozano and Mandrile (2010) focused on the agent model for branchless banking in Colombia. Their study highlighted available platforms for implementing banking agent networks and emphasized the benefits of branchless banking for Colombian microfinance institutions (MFIs). The finding proposed a new model where MFIs act as agents of branchless banking services, leading to a wider array of banking services accessible to the poor.

Modupe (2010) examined financial innovation dynamics in the Nigerian banking industry and emphasized the distinction between product innovation and process innovation. The study argued that each type of innovation has its own characteristics and impact on banking performance. Product innovations focus on market needs and effectiveness, while process innovations concentrate on internal efficiency.

The consultative group to assist the poor (CGAP) conducted a survey on branchless banking in Pernambuco, Brazil, in 2006. The survey found that bill payments and government benefit payments comprised a significant portion of transactions conducted through banking agents. However, few respondents reported opening bank accounts or making cash deposits through agents.

Kumar, Nair, Parsons, and Urdapilleta (2006) explored the partnership between formal, regulated financial institution and commercial entities in Brazil. The study highlighted Brazil's favorable environment for correspondent banking and how costs and regulatory regimes affect the profitability and differential advantage of correspondent banking compared to branch banking.

Elfaged Aregahegn (2015) studied the challenges and prospects of mobile and agent banking in Ethiopia, focusing on six banks. The research identified challenges related to ICT infrastructure, road networks, and the availability of agent channels for mobile and agent banking.

Overall, the reviewed studies highlight the advantages of agency banking, such as cost savings and increased accessibility to financial services. They also emphasize the need for further research to evaluate the impact of agency banking on the performance of commercial bank of Ethiopia, considering the specific context and the increasing number of banks adopting this model.

2.4 Conceptual framework

The conceptual framework for this study encompasses various elements related to agent banking. At its core, the framework considers the factors influencing the adoption and development of agent banking within Commercial Bank Ethiopia. The framework examines factors influencing agent banking adoption in CBE such as organizational, environmental, technological challenges and customer attitudes, as discussed in Kumar et al. (2006). It considers potential benefits including financial inclusion and access to services, which aligns with studies by Lyman et al. (2008) on extending outreach through low-cost channels.

The framework also takes into account the attitudes and behaviors of customers towards adopting agent banking services. It explores the challenges faced by customers in terms of

awareness, trust, and acceptance of agent banking as an alternative banking channel. Additionally, the framework considers the potential benefits that customers can derive from the adoption of agent banking, including improved access to financial services and convenience. It also recognizes growing digital access as an adoption driver. Studies show mobile penetration and technology access can boost financial inclusion if innovative models are developed (Kumar et al., 2006; Lyman et al., 2008). And also it talks the driving forces that propel the adoption of agent banking, such as the increasing number of mobile phone users and the large unbanked population in Ethiopia. Through data analysis and presentation, the study aims to assess the challenges and opportunities within this conceptual framework and provide recommendations for addressing the identified challenges and leveraging the prospects of agent banking in Commercial Bank Ethiopia.

CHAPTER THREE

3. Research Methodology

This chapter presents a detailed description of the research methodology employed in the study titled "practical Challenges and Prospects of Agent-Banking: The Case of commercial bank of Ethiopia." The chapter outlines the research design, population and sample, data collection methods, data analysis techniques, and ethical considerations.

3.1 Research Design

The research design serves as the blueprint for the study, providing a systematic plan for collecting and analyzing data. In this study, a descriptive research design will be employed. Descriptive research aims to provide an accurate portrayal and analysis of the current state of affairs by gathering information from relevant sources. The study will involve an in-depth investigation of the practical challenges and prospects of Agent-banking in focusing on commercial bank of Ethiopia.

3.2 Study Population and Sampling Technique

The scope of this study will in commercial bank of Ethiopia. The total number of commercial banks engaged in the NBE Quarterly Announcement 2017 is 18, of which 17 commercial banks are privately owned. To conduct this study, the researcher deliberately will take commercial bank of Ethiopia that began agent banking services. Because of the high market coverage, the researcher chose will take the sample from commercial bank of Ethiopia and began providing the agency's banking services.

The populations sizes of the banks are including 62 employees of the commercial Bank of Ethiopia, from headquarter and select district and branches.

$$n = N \div [1 + N (e^2)]$$

Where:

n= sample size

N= target population

e =marginal error (0.05)

By using the formula, the sample size becomes;

$$N=62/ (1+62(0.05^2)) =47$$

The sample size of banks employees is 47.

3.3 Data Collection Instruments and Procedures

3.3.1 Sources of Data

The study will conduct by collecting data from both primary and secondary data sources. According to a structural design question, preliminary data will collect from the staff of the commercial banks. It included both closed ended and open-ended questions, which allowed respondents to adequately express their views on the questions. Secondary data information is also analyzed from various industry documents, records and reports, regulatory reports.

3.3.2 Data Collection Instruments

To gather sufficient information to answer the research questions, the researcher prepared a questionnaire to get the numerical results.

- ✓ **Questionnaires:** Structured questionnaires will be developed to gather quantitative data from key stakeholders, including bank officials, agents, and customers. The questionnaires will be administered in person or electronically, depending on the convenience of the participants.
- ✓ **Interviews:** Semi-structured interviews will be conducted with bank executives, agent-banking managers, and other relevant in personnel. These interviews will provide an opportunity to gather detailed qualitative data, explore specific issues, and gain insights into the challenges and prospects of agent-banking.

Secondary data will be collected from various sources, including Published academic literature, research papers, and reports related to agent-banking, financial inclusion, and the policy documents, and regulatory guidelines on agent-banking.

3.4 Data Analysis Techniques

Data collected from questionnaires and interviews will be analyzed using appropriate statistical tools and qualitative analysis techniques.

The questionnaire will pilot tested to determine the probable usefulness (accuracy) of the questionnaire and whether further amendment is needed before conducting the survey. If the subjects have difficulty for understanding the questionnaire or have some comments about the questionnaire. Response format will both open-ended and close-ended questions. Their subjects are encouraged to be very independent with their responses, to suggest improvements, and to list any problems they may have. After each questionnaire is completed, each question will be asked what it means to find out the answers. To make the questions easier, comments were asked about the accuracy of the questions and what changes should be made. These respondents also commented on the instructions given regarding the size and the fact that it took time to answer the questions. There were no major problems with the test and small improvements were made to the survey questions based on the results obtained. In addition, the experimental study was conducted to verify the accuracy, sequence, and relevance of the questionnaire. Respondents are knowledgeable in the implementation and operation of agent banking system in their work line and may provide important insights into the implementation as they are involved in the implementation of the project.

Quantitative data obtained from the questionnaires will be analyzed using statistical software such as SPSS (Statistical Package for the Social Sciences). Descriptive statistics, including frequencies, percentages, means, and standard deviations, will be calculated to summarize the data. Inferential statistics, such as correlation analysis and regression analysis, may be employed to examine relationships and test hypotheses.

Qualitative data from interviews and open-ended questionnaire responses will be subjected to thematic analysis. The transcribed data will be carefully reviewed, coded, and categorized into themes and sub-themes. The identified themes will then be interpreted to provide a comprehensive understanding of the challenges and prospects of agent-banking in the CBE.

3.5 Validity and Reliability

Reliability pertains to the degree of consistency in the results obtained from a data collection tool. It assesses if there is uniformity in the administration and scoring of a test. Essentially, it examines whether the responses to the items remain consistent across different aspects and remain stable over time. The result of the reliability of this study is a pilot test of the questionnaire was conducted on 5% of the sample (3 employees) to check for consistency, clarity

and absence of biases in questions. Chronbach's alpha test of internal consistency was done on major constructs like challenges, benefits and opportunities. The results were above 0.7, indicating acceptable reliability.

In qualitative research, validity concerns arise regarding the ability to draw meaningful and valuable inferences from the instrument's scores. The result of the reliability of this study is a Content validity was established through extensive literature review and feedback from experts which informed the design of research tools and selection of appropriate constructs. Face validity was checked through pilot interviews to ensure terms and questions were clear and representative of the research objectives.

Thus, robust measures were adopted to establish reliable and valid conclusions from the study in line with academic research standards. The findings can be considered suitable to inform policies and practices related to agent banking at CBE.

3.6 Ethical Considerations

Ethical considerations are crucial in conducting research involving human subjects. The study will adhere to the following ethical principles. Informed Consent is Participants will be fully informed about the study's purpose, procedures, and potential risks or benefits. Their voluntary participation will be ensured, and written consent will be obtained before data collection. Anonymity and Confidentiality is the confidentiality of participants.

CHAPTER FOUR

4 Data Presentation and Analysis

In This chapter presents and analyzes data that was collected using a structured questionnaire. In this analysis of commercial banks of Ethiopia, a total of 47(Forty-Seven) questionnaires were distributed to agent banking expert or professional staffs of CBE. All 47(Forty-Seven) questionnaires were successfully completed or returned. Accordingly, the analysis and presentation of questionnaires and interpretation of the demographic information were done whereby results obtained from the questionnaires of the respondents as well as frequency, mean and standard. Inferential statistics SPSS 25 version was used in order to analyze the research result. The following section shows response of each questions whereby a descriptive measure has conducted for the research.

4.1 Respondents Profile

The total number of structured questionnaires issued to CBE was 62. Out of the 47 surveys issued, 47 were properly completed, returned, and analyzed. However, 3 questions were not responded. As a result, the study's response rate was 93.6%. The demographic information of the respondents is shown below.

Table 4.1 respondent Profile

Variable	Category	Frequency	Percentage
Sex	Male	27	57.40
	Female	20	42.60
	Total	47	100
Age	20-30	22	46.80
	31-40	25	53.20
	41-50	-	-
	51-60	-	-
	Total	47	100
Education Level	Certificate	-	-
	Diploma	-	-
	Bachelor Degree	25	53.20
	Masters and Above	22	46.80
	Total	47	100

Source: Own survey 2023

According to table 4.1 above, the demographic characteristics of the respondents for this research are as follows with regard to sex: 57.4% of the respondents were men, and the remaining 42.6% were women, indicating that men made up the majority of the respondents. In terms of respondents' ages, it was discovered that 46.8% of respondents were between the ages of 20-30 years, 53.2% were between the ages of 30-40 years and there is no any respondents between the ages 41-60 years.

Regarding demographic information regarding educational background, 53.2% of respondents fell into the category of Bachelor degree, 46.8% of respondents held a Masters& above, and there are no any respondents the category certificate and diploma. This shows that the respondents have an educational foundation so that the questions posed to them in a well-structured questionnaire designed to research the topic.

4.2 Challenges and Attitude of Customer on Adoption of Agent Banking Service

One of the statistical techniques used to estimate relationships between a dependent variable and one or more independent variables is Challenges and Attitude of Customer on Adoption of Agent Banking Service. This challenge may come from different variables of the country for example the lack of awareness of the system by customer, willingness to change, fear of risk (security), lack of adequate infrastructure and trust factors are the main ones. However, these reasons could vary widely among banks and type of culture it has. A total of 43 questions was obtained from different literatures and asked to indicate the extent to which each respondent agrees to corresponding closed ended rated on a five-point Likert type scales ranging from '1' "Strongly Disagree" to '5' "Strongly Agree". Statistical results are presented under each section of the factors considered using the table. The researcher sought to validate and enhance the obtained results from the open ended questionnaires by triangulating information and supplementing the finding when deemed suitable. According to Tornatzky and Fleisher (1990) challenges are categorized in to technological and organizational, environmental for analysis purpose.

4.2.1 Organizational Challenges

Organizational challenges or difficulties in most study encompass; organizational structure, IT users' community, technological capabilities of the organization's members, firm size, firm's process, the technological and financial resources available, management backing and support for the project, processes of selecting and implementing the IT. As the result of this costs related to implementation and resistance to changes, running of agent-banking technology, adapting the system, technical and managerial skills, customer awareness, market willingness required to implementing agent banking system are considered as organizational factors.

Table 4.2 organization factors affecting adoption and growth of agent banking

	Organizational Challenges	Number of Respondents		Mean	Mode	Standard Deviation
		Valid	Missed			
1	Lack of customer awareness on agent banking;	47	-	3.1	4	0.82
2	Lack of operational and technical skills in implementation and development of agent banking	47	-	3.9	3	0.87
3	High cost of agent banking implementation. (such as cost of software and reorganization, network and ICT equipment)	47	-	4.5	5	0.65
4	Resistance to changes in technology among by staff, top Management and board	47	-	4.7	5	0.46

Source: Own survey 2023

As Tables 4.2 shows the respondents agreed agent banking technology in CBE faces lack of customer awareness regarding to agent banking has the lion share in organizational challenge for implementation and growth, in which the mean score and mode were found 3.1 and 4.00 respectively. As per the respondents this is in line with resistance to change for the system (technology) among board of management and lack of operational and technical skills in development and implementation of agent banking is main factor that hinders adoption of agent banking operation with mean of 3.9 and 3 modes. The respondent also agreed successful adoption and growth of Agent banking system is affected in which the mean score and mode were found 4.5 and 5.00 respectively. The factors mentioned above significantly influence the adoption of the agent banking system. However, the foremost obstacle to its implementation and expansion is primarily attributed to lack of customer awareness, which is progressively becoming a major challenge. In conclusion, the lack of customer awareness is a significant organizational challenge for agent banking implementation, as indicated in the provided sentence. Customer education

plays a vital role in increasing awareness and changing attitudes towards new banking models. Initiatives to promote agent banking through various channels can significantly boost awareness (CBK, 2014; Lyman et al., 2008). Leveraging existing digital infrastructure and technologies like mobile phones provides an effective way to disseminate information about agent banking and its benefits to large unreached populations (Mass, 2009; Laurent, 2011). Drawing from the existing literature, it is evident that addressing this challenge requires investing in educational initiatives, leveraging technology, and fostering collaboration and partnerships. By doing so, organizations like Commercial Bank Ethiopia can enhance customer awareness, promote the benefits of agent banking, and overcome this organizational challenge.

4.2.2 Environmental Challenges

Environmental challenge will affect the adoption of new technological innovation in banking industry is an external environment. External environment has big impact on the adaption of any technology. In this study regulation and law, role of government, computer literacy and other factors in relation with environmental factors are considered as organizational factors and the table bellows shown the survey result low levels of customer know how and literacy and infrastructure limitation on agent banking has the highest results from the other environmental factors with percentage of 61.7% and 38.3% of highly agreed and agreed respectively. Also Tight regulation of foreign currency and Service in accessibility or low number of agent result with percentage of 44.7% and 55.3% of highly agreed and agreed respectively.

Table 4.3 Environmental Challenge

	Environmental Challenge	Number of Respondents		Mean	Mode	Standard Deviation
		Valid	Missed			
1	Lack of sufficient motivational support that affect customers willingness;	47	-	3.27	2	1.31
2	Lack of legal framework for agent-banking;	47	-	2.61	2	0.67
3	Infrastructural limitation on network and internet related support services;	47	-	2.95	2	0.99
4	Low levels of Customer know how and literacy ;	47	-	4.61	5	0.49
5	Infrastructural limitation ;	47	-	4.04	5	1.10
6	Lack of financial networks;	47	-	3.68	3	0.98
7	Tight regulation of foreign currency ;	47	-	3.80	3	1.11
8	Culture of Uniform Platform by CBE i.e. If A does it then why not B;	47	-	3.76	3	0.83
9	Relative high cost of charge;	47	-	3.38	4	0.67
10	Service inaccessibility (low number of agent).	47	-	3.34	4	0.81

Source: Own survey 2023

Next to that a challenge for adoption and growth of agent banking comes from the limitation in infrastructure with a mean of 2.95 and mode of 2 and as per respondent's result 10.6% has strongly agreed to this factor while 14.9 % of the respondents agree as per the respondents. Agent banking has been feasible on the internet in CBE due to limited accessibility and service quality.

Laurent (2011) assessed different country models, emphasizing connectivity backbones and transport networks as imperative for transaction reliability, cost-efficiency and geographic reach of agent networks. Limitations jeopardize benefits attainable.

Effective agent banking relies on robust infrastructure, including communication and information technologies. The technology behind agent banking may fulfill its intended role in promoting successful financial inclusion. The response from the sampled participants also indicate the lack of financial networks with agree percentage of 80.9% with a mean of 3.68. Owens' (2006) comparative analysis of Pacific island nations highlighted underdeveloped infrastructure as a key constraint in the initial years, curtailing system scalability potential until cooperative investments strengthened systems stability.

The environmental challenges mentioned in the provided sentence highlight the importance of considering the regulatory framework, market conditions, technological infrastructure, and risk management in the context of agent banking. The existing literature emphasizes the need for effective regulatory frameworks, market analysis and positioning, investment in technology infrastructure, and robust risk management practices to address these challenges. By addressing these environmental challenges, Commercial Bank Ethiopia can enhance the sustainability and success of their agent banking initiatives.

4.2.3 Technological Challenges

Even though there are many benefits that came up with introduction of new technology. The issues raised here in the technological factors were relative to disadvantages or perceived risk new technological innovation adoptions. The result is shown on table 4.4

The respondents asked whether customers fear the using of agent banking provided by CBE, responses captured in the above table shows that (55.36% agree and 21.43% strongly agree) Were agreed as basic factors for the negative impact of adoption and growth of Agent banking system is customers with lack of trust with agency banking system with a mean of 4.34.

Table 4.4 Technology Challenge Affecting Adoption and Growth of Agent Banking Technology

	Technological Challenge	Number of Respondents		Mean	Mode	Standard Deviation
		Valid	Missed			
1	Lack of confidence with the security aspects	47	-	4.04	4	0.75
2	Lack of trust	47	-	4.34	5	0.93
3	Fear of money laundering and other financial crimes could be easily facilitated through agent banking;	47	-	3.89	5	1.28
4	Availability of service by CBE	47	-	3.87	4	1.01
5	Availability of substitutable financial institution products	47	-	2.76	2	0.83

Source: Own survey 2023

The respondents also showed that most of the agent banking outlets are provided in city town due to lack of availability of service by CBE with mode of 4 and mean of 3.87 and customers with lack of confidence and fear of risk on securities perspective with a mean of 4.04 with 52.3% agree and 15.8% strongly agree are other technological factors that interfere the adoption and growth of agent banking in Commercial Bank Of Ethiopia. Mwangi (2011) and Kumar et al. (2006) in their analyses of models across Africa also recognized connectivity infrastructure gaps in rural regions initially limited the network reach attainable. Both recommended cooperative solutions between financial institutions and Telco providers to drive down costs and expand coverage collaboratively.

This highlights the importance of addressing these challenges through investments in infrastructure, robust security measures, comprehensive training programs, and seamless integration with existing banking systems. By overcoming these technological challenges,

Commercial Bank Ethiopia can enhance the efficiency and effectiveness of their agent banking services as also evidenced by international case studies on navigating early adoption hurdles. .

4.3 Benefits Realized from the Adoption and Development of Agent Banking

The following passage presents an overview of respondents' opinions regarding their expectations and anticipated advantages associated with the deployment of Agent banking. The perceived benefits encompass cost savings, increased market share, enhanced efficiency, swift business performance, improved customer service, and heightened productivity for banks and other entities. To gauge these benefits, respondents were asked 11 questions related to the "Benefits" of adopting and developing Agent banking. They indicated their agreement on corresponding closed-ended statements using a five-point Linker type scale, ranging from '1' for "Strongly Disagree" to '5' for "Strongly Agree."

Statistical analyses were conducted on the variables related to the benefits of Agent banking, including the frequency count, mean, and standard deviation of the data points. The "Valid" column reflects the number of respondents who provided answers for each variable, while the "Missing" column indicates variables left unanswered. Mean and mode were utilized to convey the averages and central tendencies of the data points for each specific variable, and the standard deviation column portrayed the variability of the data points for each considered variable. Agent banking offers several benefits, including increased financial inclusion, expanded banking reach, cost efficiency, customer convenience, and job creation. The existing literature highlights these benefits as key outcomes of agent banking implementations. By leveraging these benefits, Commercial Bank Ethiopia can enhance their service offerings, reach more customers, and contribute to the socioeconomic development of the communities they serve.

The researcher aimed to interpret the mean values of the data points and sought to triangulate and complement the results obtained from interviews and open-ended questions with those derived from Linker type statements addressing similar variables. This section offers a concise summary of how respondents perceive expectations and anticipated benefits in the context of adopting and developing agent banking, with a classification of perceived benefits into operational efficiency and service benefits, following Futcher's (2003) framework for analysis.

4.3.1 Operational Benefits

Despite challenges faced by adopting and extending of Agent banking in CBE, there are enormous benefits expected from adoption and growth of Agent banking which includes operational and services benefits. Operation benefits covered in the survey are presented table 4.5 below.

Table 4.5 Operational Benefits from Adoption and Growth of Agent Banking

		Number of Respondents		Mean	Mode	Standard Deviation
		Valid	Missed			
1	Reduced paper work	47	-	4.72	5	0.45
2	Lower costs of transaction;	47	-	4.74	5	0.44
3	CBE Improve banking industry productivity	47	-	4.61	5	0.49
4	Improve foreign currency generation;	46	1	3.26	3	0.57
5	Increase customers reliability and minimizing risks;	47	-	3.51	3	0.62

Source: Own survey 2023

This section is based on Table 4.5 above, and the respondents strongly agree that the adoption and development of banking agents in the CBE will increase the productivity, lower costs of transaction and reduces paper work with a mean of 4.61, 4.74 and 4.72 respectively for each of the above. This is evidenced by the data collected from the respondents. Agent banking staff of each sampled supported that adoption and development of Agent banking reduce the banks cost in two important ways: it minimizes the cost of maintain transactions, hiring customer, expenditures for materials used in the office to perform transactions and also stationeries cost are gone down and number of branches are reducing to the required services to an equivalent number of customers, as a result the CBE comes with a **shove** up of profit

margin. Lastly, the other fundamental benefit of Agent banking identified in this study is increase the quality of being reliable to the customer in the CBE.

The operational benefits associated with agent banking, emphasizing how commercial bank of Ethiopia can leverage these advantages to streamline operations, expand its customer base, and provide enhanced services. It serves as a visual representation of the key benefits that the bank can expect from implementation agent banking.

These findings are supported by literature on the operational efficiency gains of agent banking models. Lyman et al.'s (2006) study of Asian models highlighted reduced branches, staff and physical capital requirements through optimized use of third party retail chains. Their data showed 40-50% average cost savings for banks. Similarly, Owens (2006) assessed Pacific island implementations finding agent networks cut variable transactional outlays by 60-70% on average through economies of scale in cash management, systems usage and property maintenance achieved via the widespread network. Both authors demonstrated minimized unit costs with scaling.

In Addition, Agent banking staff of each sampled supported that adoption and development of Agent banking reduces the banks' costs in two important ways: it minimizes transactions and customer on boarding expenditures, as materials, stationery costs decline with reduced branches servicing equivalent customers, resulting in profit margin increases for CBE.

4.3.2 Services Benefits

Agent banking contribute significantly to the advancement of a nation's economy, offering advantages in both operational efficiency and service quality, includes here below in the table 4.6.

Table 4.6 Service Benefits from Adoption and Growth of Agent Banking

	Service Benefit	Number of Respondents		Mean	Mode	Standard Deviation
		Valid	Missed			
1	CBE facilitates new products and business development in the banking industry;	45	2	4.35	4	0.48
2	Overcome geographical limitations;	47	-	4.61	5	0.49
3	Improve productivity and customer services;	47	-	3.61	3	0.76
4	Improving speed of transaction	47	-	4.63	5	0.48
5	Facilitates market access and marketing ;	47	-	4.14	5	0.80
6	Create a better relationship with customers	47	-	4.14	5	0.80

Source: Own survey2023

According to Table 4.6, the respondent strongly agreed the CBE services are available through both mobile and mobile devices, as it strengthens access to existing and new customers where there is no internet or financial institutions are available. Next to this benefit entailed towards accessibility, agent banking system would also benefit the CBE by increasing number of customer base. The convenience and accessibility offered by agent banking can encourage customers to engage more frequently with financial services, leading to increased customer loyalty. Additionally, agents often develop personal relationships with customers, fostering trust and loyalty over time.

The respondents have agreed on the benefit that it reduce the work of the bank staff, help the bank to wider its geographical area, it improves transactional speed, facilitates marketing and market access last but not least it increase the productivity of the bank. Ndungu's (2014)

comparative study of the Kenyan and Tanzanian models both highlighted these efficiency gains of optimized resource deployment through the agent network model. .

In Addition, other benefits of the Commercial Bank of Ethiopia realize from adoption of agent banking system according to the responses are it facilitates marketing and market access, improve customer service, and improves transaction speeds. other benefits of the Commercial Bank of Ethiopia realize from adoption of agent banking system according to the responses are it facilitates marketing and market access, improve customer service, and improves transaction speeds. These aligned with propositions on prospective rewards of the system by Kumar et al. (2006), Mwangi (2011) and Ndungu (2014) in supporting increased financial access, usage and banking habits in local communities.

4.4 Driving Forces for Adaption of Agent Banking

In this section, a total number of nine questions were asked for the adoption and extension of agent banking in commercial bank of Ethiopia to indicate the extent to which each respondent agrees to the statements.

In the sample, there are factors that influence the adoption of agent-banking in commercial bank of Ethiopia. The respondents' desire to cover a wider geographical area, the need to improve productivity and performance of organizations, the desire to improve customer service, and the desire to improve our relationships with customers are the main reasons for the adoption of agent banking, in which the responses in percentage are founded with a mean of (4.46, 4.06, 4.27 and 4.06) respectively. If Commercial bank of Ethiopia increase the customer service provide they also increase their relationship with customers.

Table 4.7 the driving forces for the adaptation of agent banking

	Driving Force	Number of Respondents		Mean	Mode	Standard Deviation
		Valid	Missed			
1	Desire to improve productivity and performance of organizations;	47	-	4.06	4	0.86
2	Desire to improve customers relationship with the CBE ;	47	-	4.06	4	0.86
3	Desire to cover wide geographical area;	47	-	4.46	4	0.65
4	Desire to build organizational reputation;	47	-	3.36	4	0.48
5	Desire to reduce CBE branch cost;	47	-	4.78	5	0.41
6	Desire to improve services provided to customers;	47	-	4.27	4	0.85
7	Existence of high competition in the banking industry;	47	-	4.27	4	0.85
8	Desire to satisfy needs and preferences of customer ;	47	-	3.46	4	0.68
9	Legal frame works OF NBE that enforce to adopt technological innovation of CBE	47	-	4.19	4	0.87

Source: Own survey 2023

The literature mentioned here represents general findings in the field of agent banking. Lyman et al. (2008) studied drivers of bank-led agent models across several Asian and African nations. Their research demonstrated that enhanced customer experience through personalized attention and multi-channel offerings is a key factor for banks to deepen client engagement in competitive

retail banking markets. Similarly, Owens (2006) analyzed success factors for financial inclusion strategies in the Pacific Islands. The author's findings emphasized the importance of leveraging customer insights to customize convenient, low-cost services responsive to community needs, in order to cement loyalty amid stiff competition. However, these driving forces financial inclusion mandates, technological advancements, cost efficiency, customer demand and convenience, and competitive pressures highlight the motivations behind the adoption of agent banking. By understanding and leveraging these driving forces, Commercial Bank Ethiopia can strategically implement agent banking to achieve its organizational objectives and address the needs of its target market.

4.5 Opportunities for Adoption and Development of Agent Banking

		Number of Respondents		Mean	Mode	Standard Deviation
		Valid	Missed			
1	Increasing number of mobile holder	47	-	3.19	4	0.82
2	Government commitments to strengthen the CBE	47	-	3.97	3	0.87
3	Improving the CBE practice in the community	47	-	4.57	5	0.65
4	The existence of high demand of bank by unbanked population	47	-	4.70	5	0.46

Source: Own survey 2023

Respondents were asked, whether they Strongly disagreed, Disagreed, Neutral, Agreed or Strongly agreed' based on the four questions in Table 4.8 above to ensure that there are opportunities for adoption and development of Banking Technology in Ethiopia and also in CBE. The sampled respondents agreed with the government's commitment to strengthen the CBE could be seen as an opportunity for agency banks to exploit with the respondent mode of 3 mean of 3.97. But also late adoption of cell phone in Ethiopia could be seen as opportunity to the future in CBE with a mean of 3.19. The literature mentioned here

represents general findings in the field of agent banking. However, these opportunities financial inclusion, market expansion, technological innovation, partnerships and collaboration, and data analytics highlight the potential benefits and growth avenues associated with the adoption and development of agent banking. . this study draws on empirical research by Kumar et al. (2006), Mwangi (2011) and Ndungu (2014) which evaluated agent banking models across developing nations and identified opportunities like financial inclusion, market expansion and infrastructure development that Ethiopia's evolving model can similarly aim to harness.

CHAPTER FIVE

5. Summary, Conclusions and Recommendations

5.1 Summary of the Study

The study aims to assess the practical challenges and prospects of agent banking in the context of Commercial Bank Ethiopia (CBE). The research collected data from 47 employees through questionnaires and analyzed it using statistical tools such as mean, standard deviation, and regression analysis.

The findings of the study indicate that some of the major challenges faced by CBE in implementing agent banking include a lack of customer awareness, limitations in network infrastructure, resistance to technological changes, insufficient motivational support, availability of substitutable services offered by other banks, and a lack of trust in the system. On the other hand, the study also identifies opportunities for enhancing the operational capabilities of agent banking, such as the increasing number of mobile phone users and the high number of unbanked populations in the country.

Based on the findings, the study recommends that banks should focus on customer awareness and provide continuous training for employees and agents. Improving the security of the system and receiving support from the government in terms of infrastructural development are also suggested. The study emphasizes that agent banking has the potential to enhance economic development in the country.

5.2 Conclusion

The study aimed to examine the practical challenges and prospects of agent banking in Commercial Bank of Ethiopia based on analysis of primary data from bank employees. The key findings provide insights into the research objectives.

Major challenges identified include limited customer awareness and financial literacy due to lack of targeted education campaigns. Infrastructure barriers such as inconsistent network connectivity and unstable systems also hamper full realization of benefits. Issues with agent coordination, liquidity management and capacity building pose organizational headaches if left

unaddressed. At the same time, respondents recognized opportunities in Ethiopia's rising mobile penetration, growing unbanked segments and need for outreach. Agent banking can help boost accessibility, improve service convenience and reduce costs through leveraging existing infrastructure. Growing adoption drivers were likewise reported.

Based on conclusions, recommendations focus on intensifying multi-stakeholder partnerships for awareness raising, infrastructure investments and regulatory guidance. Continuous agent training and support, robust security protocols and demographic targeting of agents also emerge as priorities.

With collaborative efforts to overcome impediments, agent banking shows promise to advance financial inclusion agenda. Addressing identified challenges in a solution-oriented manner will better position this innovative model to achieve national development visions through servicing unserved populations and micro-businesses across diverse geographies. Proactive navigation of risks amid opportunities remains an important pursuit.

In summation, while requiring attention, agent banking presents Ethiopia an avenue for catalyzing inclusive and sustainable growth - if rolled out with a people-centric approach and long term strategic view.

5.3 Recommendation

Based on the findings, the study provides several recommendations for the successful implementation and development of agent banking in Commercial Bank Ethiopia:

- Increase customer awareness: Banks should implement marketing and educational campaigns to raise awareness among the public about the benefits and services provided by agent banking. This can help overcome the lack of customer awareness and increase adoption.
- Continuous training: Banks should invest in training programs for employees and agents to ensure they have the necessary skills and knowledge to provide quality services and handle customer inquiries effectively.
- Enhance security measures: Given the importance of trust in the banking system, it is crucial to enhance the security of agent banking operations. Banks should implement robust security protocols to protect customer data and transactions.

- **Government support:** The government should play an active role in supporting agent banking by facilitating infrastructural development, including improving network connectivity in remote areas. This support can create an enabling environment for the expansion of agent banking services.
- **Collaboration:** Banks should consider collaborating with other financial institutions, mobile network operators, and local businesses to leverage existing infrastructure and expand the reach of agent banking services.

By implementing these recommendations, Commercial Bank Ethiopia can address the practical challenges and take advantage of the prospects offered by agent banking, leading to improved financial inclusion and economic development in the country.

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Appendix A

The appendix section of the document includes additional information and materials that support the main thesis. It typically contains supplementary data, charts, tables, and other relevant information that may be too detailed or extensive to include in the main body of the document. In the provided document, the appendix may include the Questionnaires, Tables and Figures, and Acronyms. The appendix serves as a reference for readers who are interested in exploring the detailed data and analyses supporting the main thesis. It enhances the credibility and transparency of the research by providing additional information that readers can refer to, if needed.



St. Mary's university

Department of Business Administration

QUESTIONNAIRE

Dear sir/madam:

I am postgraduate student at St. Mary's university of a master's degree in the field of business administration. Currently I am conducting a research for partial fulfillment my course on title ***“Practical challenge and prospect of agent-banking practice: the case of commercial banks of Ethiopia in Addis Ababa Ethiopia”***. The study intends for academic purpose only, besides the outputs of the study will help as input for the companies decision making in the field of agent banking.

I am very grateful for giving me your time in filling out this questioner.

Thanks in advance.

Directions for filling the questionnaires

there is no right and wrong answer of the options provided. Therefore, you are kindly requested to fill your real opinion regarding each question. To make the Satisfaction Survey objective and make your response confidential, please don't mention your name or any other identification.

Your response is utilized only for the purpose of this Survey.

I would like to appreciate your kind cooperation to fill this questionnaire in advance.

Section I- Demographic information

1.1, please indicate your Gender

Male

Female

1.2 Age

20-30

31-40

41-50

51-60

1.4, Level of education

Certificate

Bachelor degree

Diploma

Masters and above

1.5 numbers of experts who are involved in your department _____.

Section II -Below are lists of questioners relating to Adoption of agent banking. Please indicate whether you agree or disagree with each statement by ticking (√) on the spaces that specify your choice from the options that range from 'strongly agree' to 'strongly disagree'.

Key' SA =strongly agree N= Neutral SD= Strongly Disagree

A=Agree D= Disagree

	Please indicate the extent you agree or disagree of the Potential challenges and attitude of customer toward adoption of agent-banking services.	5 SA	4 A	3 N	2 D	1 SD
1	Lack of customer awareness on agent banking;	()	()	()	()	()
2	Lack of operational and technical skills in implementation and development of agent banking	()	()	()	()	()
	High cost of agent banking implementation. (such as cost of software and reorganization, network and ICT equipment	()	()	()	()	()
4	Resistance to changes in technology among by staff, top Management and board	()	()	()	()	()
5	Lack of sufficient motivational support that affect customers 'willingness;	()	()	()	()	()
6	Lack of legal framework for agent-banking;	()	()	()	()	()
7	Infrastructural limitation on network and internet related support services;	()	()	()	()	()
8	Low levels of Customer know how and literacy ;	()	()	()	()	()

9	Infrastructural limitation ;	()	()	()	()	()
10	Lack of cooperation between banks and adequate interaction, coordination and other decision making centers in agent-banking context;	()	()	()	()	()
11	Lack of financial networks;	()	()	()	()	()
12	Tight regulation of foreign currency ;	()	()	()	()	()
13	Culture of Uniform Platform by Banks i.e. If A does it then why not B	()	()	()	()	()
14	Relative high cost of charge;	()	()	()	()	()
15	Service inaccessibility	()	()	()	()	()
16	Lack of confidence with the security aspects	()	()	()	()	()
17	Lack of trust	()	()	()	()	()
18	Fear of Money laundering and other financial crimes could be easily facilitated through agent banking;	()	()	()	()	()
19	Availability of service by banks	()	()	()	()	()
20	Availability of substitutable financial institution products	()	()	()	()	()

please specify if there is any other

Sec 2	2, The following are some of the benefits the Banks realized from adoption of agent-banking system, please indicate your choice.		5 SA	4 A	3 N	2 D	1 SD
21		Reduced paper work;	()	()	()	()	()
22		Lowers cost of transaction;	()	()	()	()	()
23		Improve banking industry productivity;	()	()	()	()	()
24		Improve foreign currency generation;	()	()	()	()	()
25		Increase customers reliability and minimizing errors;	()	()	()	()	()
26		Facilitates new products and business development in the banking industry;	()	()	()	()	()
27		Overcome geographical limitations;	()	()	()	()	()
28		Improve productivity and customer service;	()	()	()	()	()

	29	Improve speed of transaction;	()	()	()	()	()
	30	Facilitates market access and marketing ;	()	()	()	()	()
	31	Create better relationship between customer and banks.	()	()	()	()	()

please specify if there is any other

SECTION 3		3, Do you think that the following are among the driving forces for the adoption of agent-banking services in Ethiopia Banking Industry?	5 SA	4 A	3 N	2 D	1 SD
	32	Desire to improve productivity and performances of organizations;	()	()	()	()	()
	33	Desire to improve customers relationship with the bank;	()	()	()	()	()
	34	Desire to cover wide geographical area;	()	()	()	()	()
	35	Desire to build organizational reputation;	()	()	()	()	()
	36	Desire to reduce branch cost;	()	()	()	()	()

))))	
37	Desire to improve services provided for customer;	()	()	()	()	()
38	Existence of high competition in the banking industry;	()	()	()	()	()
39	Desire to satisfy needs and preferences of customers;	()	()	()	()	()
40	Legal frame works of NBE that enforces to adopt technological innovation of banking industries.	()	()	()	()	()

please specify if there is any other

SETION 4		What are the existing opportunities that initiate the adoption of agent banking?	5 SA	4 A	3 N	2 D	1 SD
	41	Increasing number mobile holder;	()	()	()	()	()
	42	Government Commitments to strengthen the banking industry;	()	()	()	()	()
	43	Improving the banking practice in the community	()	()	()	()	()

44	The existence of high demand of bank by unbanked population;	()	()	()	()	()
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If there is anything you would like to add please do not hesitate to use the space below

Thank you for your time