

Agency Banking and the Performance of Small and Medium Enterprises (SME) In Gombe State: A Conceptual Review

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Abstract

Small and medium enterprises (SMEs) are pivotal to economic growth, significantly driving employment, innovation, and income generation across both developed and emerging economies. However, in many developing nations, the operational sustainability and growth of SMEs are constrained by limited access to effective and efficient financial service delivery systems, a symptom of inadequate traditional banking infrastructure. It is against this backdrop, this paper conceptually examines the effect of agency banking on SME performance, focusing specifically on service accessibility, usage intensity, and the financial inclusion effect. Adopting a conceptual research design, the study systematically reviews and synthesizes contemporary scholarly literature, institutional reports, and policy documents published between 2020 and 2025. Through critical content analysis, the paper argues that agency banking enhances SME performance by dismantling financial access barriers, optimizing transaction efficiency, strengthening liquidity management, and integrating enterprises into formal financial systems. The study concludes that agency banking is a vital financial innovation capable of driving enterprise performance through improved accessibility, sustained service utilization, and enhanced financial inclusion. Consequently, the paper recommends that financial institutions and policymakers fortify agency banking infrastructure and expand financial inclusion policies to improve SME access to decentralized financial services in developing economies.

Keywords: Agency Banking, SME Performance, Financial Inclusion, Accessibility of Banking Services, Usage Intensity.

I. Introduction

The performance of small and medium enterprises (SMEs) is a fundamental determinant of economic development. Globally, SMEs contribute substantially to employment generation, innovation, income creation, and national productivity (World Bank, 2023). So, SME performance is typically evaluated by the extent to which these enterprises achieve desirable outcomes, including profitability, business growth, operational efficiency, market expansion, and long-term sustainability (OECD, 2023). Empirical evidence consistently demonstrates that robust SME performance accelerates poverty reduction, industrial development, and economic diversification, particularly in emerging economies where small businesses constitute the bulk of economic activity (Ayyagari et al., 2021; IMF, 2022).

Despite these contributions, access to formal financial services remains a formidable challenge for SMEs in developing economies, like Nigeria and specifically Gombe state. The efficacy of financial transactions, working capital management, credit accessibility, and business continuity relies heavily on the efficiency of available financial service delivery systems (Demirgüç-Kunt et al., 2022). Traditional banking systems in many developing countries are plagued by structural limitations, including inadequate branch penetration, prolonged processing times, geographical inaccessibility, and high transaction costs. These factors collectively create insurmountable financial barriers for small business operators (World Bank, 2023).

To bridge this gap, agency banking has emerged as a transformative financial innovation. It operates by allowing authorized third-party agents to deliver banking services outside the confines of conventional bank branches (Central Bank of Nigeria [CBN], 2024). Through this model, businesses and individuals can execute deposits, withdrawals, transfers, and bill payments via local agents, a development that has taken root in Gombe State, Nigeria (Alliance for Financial Inclusion [AFI], 2022). Literature indicates that agency banking significantly reduces financial access barriers and enhances transaction efficiency, especially among underserved populations and SMEs operating in infrastructure deficient areas (Donovan, 2021; GSMA, 2023).

In Nigeria, and specifically in Gombe State, agency banking has expanded rapidly following aggressive financial inclusion reforms and the widespread adoption of financial technology (fintech) platforms (Nigeria Inter-Bank Settlement System [NIBSS], 2024). The proliferation of agency banking operators has redefined financial service delivery, reducing SMEs' reliance on traditional banking channels and positively impacting their performance (CBN, 2024). This is because SMEs rely on frequent financial transactions for inventory acquisition, customer payments, and working capital management. Thus, improved access to agency banking inherently influences their performance outcomes (Ozili, 2023).

Nevertheless, despite this rapid expansion, a significant proportion of SMEs in Gombe State remain unable to fully leverage these services. Difficulties arise from inconsistent usage patterns, limited agent availability, and low financial literacy, leading to suboptimal performance (GSMA, 2021). These challenges raise critical questions regarding the actual effectiveness of agency banking in driving SME growth. Furthermore, empirical studies present mixed findings; while some report significant positive effects via improved financial inclusion, others argue that the impact is contingent upon usage intensity and accessibility conditions (Simatele et al., 2022; IMF, 2020).

Although, the existing literature suggests that variations in service accessibility, usage intensity, and financial inclusion outcomes dictate the degree to which SMEs benefit from agency banking (Demirgüç-Kunt et al., 2022). However, while previous studies have primarily examined agency banking through the lens of broad financial inclusion and banking sector development, limited conceptual attention has been paid to how specific dimensions of agency banking directly influence SME performance outcomes. It is against this contextual and theoretical backdrop that this paper conceptually examines the effect of agency banking on SME performance. Specifically, to examine the effect of agency banking accessibility on SME performance in Gombe state, to evaluate the influence of agency banking usage intensity on SME performance in Gombe state and to assess the effect of the financial inclusion generated through agency banking on SME performance in Gombe state.

II. Conceptual and Literature Review

SME Performance

SME performance denotes the degree to which small and medium enterprises actualize desired business outcomes, encompassing profitability, sales growth, market expansion, customer retention, operational efficiency, and long-term sustainability (Richard et al., 2021). As primary drivers of economic growth, SMEs stimulate entrepreneurship and industrial productivity (World Bank, 2023). Literature consistently identifies financial access as a critical determinant of SME performance; conversely, limited access to efficient financial services frequently cripples liquidity management, stifles expansion, and threatens the operational continuity of small businesses (Ayyagari et al., 2021; OECD, 2023).

Agency Banking

Agency banking is a financial service delivery model wherein licensed financial institutions contract third party agents to provide specific banking services outside conventional branch networks (CBN, 2024). The model was conceived to

enhance financial service accessibility, diminish transaction costs, and propagate financial inclusion among underserved populations marginalized by traditional banking systems (AFI, 2022). Agency banking has revolutionized digital finance by enabling businesses to access essential banking services conveniently within their local communities (GSMA, 2023; Ozili, 2023). For this study, agency banking is conceptualized across three distinct dimensions:

Accessibility of Agency Banking

Accessibility of agency banking refers to the ease with which business operators can physically reach and utilize agency banking services without encountering geographical, operational, or procedural barriers (Demirgüç-Kunt et al., 2022). Overcoming spatial barriers is a core objective of agency banking, as financial services yield optimal results when businesses can transact without traveling long distances to traditional branches (World Bank, 2023). Enhanced accessibility reduces transaction delays, improves convenience, and bolsters operational efficiency for SMEs that rely on daily financial interactions (Donovan, 2021; GSMA, 2023).

Usage Intensity of Agency Banking

Usage intensity of agency banking denotes the frequency and consistency with which business operators utilize agency banking for their financial and operational needs (Ozili, 2023). High usage intensity reflects a deep reliance on agent networks for routine deposits, withdrawals, transfers, and bill payments (AFI, 2022). Empirical evidence suggests that businesses with high adoption rates of digital and agent-based financial services experience superior transaction efficiency, faster processing times, and enhanced operational performance due to the minimization of transaction bottlenecks (Demirgüç-Kunt et al., 2022).

Financial Inclusion Effect

The financial inclusion effect describes the extent to which agency banking integrates previously unbanked or underbanked businesses and individuals into the formal financial system (World Bank, 2023). Financial inclusion is a fundamental goal of agency banking, as broader access to formal financial systems empowers small business operators with secure savings mechanisms, robust payment infrastructure, and credit opportunities (AFI, 2022). Literature demonstrates that enhanced financial inclusion directly strengthens SME performance by optimizing liquidity access, eradicating transaction inefficiencies, and expanding market participation (GSMA, 2023; IMF, 2022).

Theoretical Framework

This paper is anchored in the Financial Intermediation Theory. The theory was originally developed to explain how financial institutions facilitate the efficient allocation of resources between economic surplus and deficit units (Gurley & Shaw, 1960). The theory posits that financial intermediaries minimize transaction costs, enhance service accessibility, and facilitate seamless financial exchange, thereby driving overall economic productivity (Allen & Santomero, 2021). In contemporary settings, intermediary mechanisms are increasingly vital in developing economies where conventional banking infrastructure is deficient (Demirgüç-Kunt et al., 2022).

So, agency banking serves as a modern extension of financial intermediation. So, by delegating banking functions to third party agents, licensed financial institutions effectively bypass the spatial and structural limitations of traditional branches (CBN, 2024). This decentralized intermediary structure optimizes financial accessibility, curtails operational inefficiencies, and integrates businesses in underserved locations into the formal financial system (World Bank, 2023). This is because SMEs depend heavily on continuous access to payment systems and liquidity management for survival, agency banking enhances enterprise performance by strengthening the efficiency of these intermediation channels (Ozili, 2023).

While the theory assumes that improved intermediation inherently reduces transaction friction and enhances productivity (Allen & Santomero, 2021), it has faced criticism for overlooking structural challenges such as technological limitations, regulatory bottlenecks, and behavioral disparities among users (Demirgüç-Kunt et al., 2022). Despite these critiques, Financial Intermediation Theory remains highly relevant in conceptualizing how agency banking influences SME performance via decentralized financial delivery.

Conceptual Relationship Discussion

This section delineates the theoretical relationships between the independent variables (agency banking dimensions) and the dependent variable (SME performance).

Accessibility of Agency Banking and SME Performance

The accessibility of agency banking is theoretically linked to SME performance through the reduction of geographical and operational friction. Businesses operating in environments with high financial accessibility experience accelerated transaction processing and reduced operational downtime, which directly enhances enterprise performance (Donovan, 2021). Accessibility empowers SMEs to deposit revenues, settle suppliers, and transfer funds without incurring the implicit costs such as time and transport fares that is associated with traditional banking (GSMA, 2023). Consequently, improved

accessibility to decentralized financial services strengthens business continuity and enhances profitability for SMEs heavily reliant on frequent, high-volume transactions (Demirgüç-Kunt et al., 2022).

Usage Intensity of Agency Banking and SME Performance

Usage intensity of agency banking influences SME performance by embedding agency banking into the routine operational fabric of the enterprise. Frequent utilization of these decentralized services enhances transaction velocity and strengthens operational continuity (Ozili, 2023). Businesses that habitually use agency banking benefit from rapid payment processing and optimized liquidity circulation, effectively eliminating the bottlenecks that disrupt operations (AFI, 2022). Furthermore, high usage intensity allows SMEs to integrate agent banking into their cash flow management strategies, improving their agility and responsiveness to market demands (GSMA, 2023). Therefore, sustained utilization of agency banking channels is conceptually posited to drive superior SME performance outcomes.

Financial Inclusion Effect and SME Performance

The financial inclusion effect represents a macro level channel through which agency banking impacts SME performance. Financial exclusion stifles business growth by denying enterprises access to structured payment infrastructures, secure savings vehicles, and credit facilities (World Bank, 2023). Agency banking mitigates this by extending formal financial services to underserved SMEs in remote or semi-urban areas like Gombe State (AFI, 2022). This inclusion enables SMEs to participate seamlessly in digital payment ecosystems, manage liquidity with greater precision, and build the transaction histories required for future credit access (Demirgüç-Kunt et al., 2022). Thus, robust financial inclusion outcomes generated via agency banking are conceptually integral to sustainable SME performance.

Conceptual Framework

The conceptual framework visualizes agency banking (operationalized through accessibility, usage intensity, and financial inclusion effect) as the independent variable driving SME performance (measured by profitability, operational efficiency, business growth, and sustainability). The framework postulates that optimizing these three agency banking dimensions enhances financial accessibility and transaction efficiency, ultimately yielding improved SME performance. The conceptual framework is presented in the below figure.

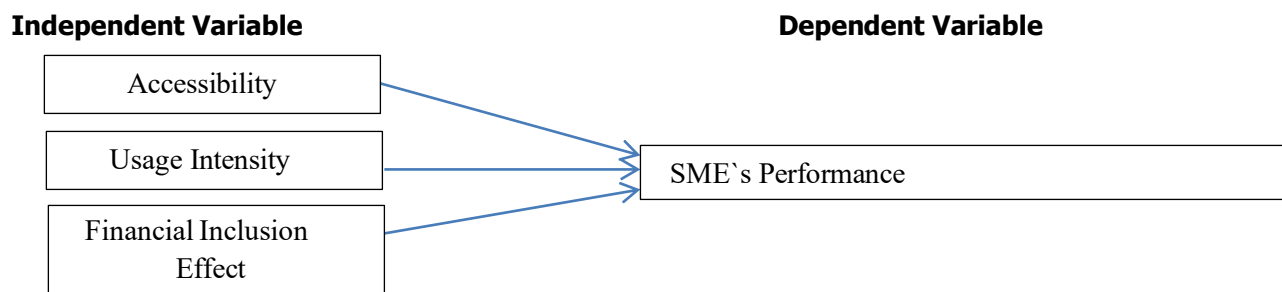


Figure 1: Conceptual Framework: Adapted from Allen & Santomero, (2021)

III. Methodology

This study adopted a conceptual research design grounded in the systematic review and synthesis of existing literature. Relying exclusively on content analysis, secondary data and review of related data. The paper sourced the data from peer-reviewed journal articles, institutional reports, and policy documents from recognized academic databases. Relevant literature published between 2020 and 2025 was subjected to critical content analysis. This analytical approach facilitated the identification of recurring theoretical arguments, the establishment of conceptual linkages between the variables, and the subsequent development of testable propositions regarding how agency banking influences SME performance in developing economies (OECD, 2023; World Bank Group, 2023; Ozili, 2023).

IV. Conclusion, Propositions and Recommendation

Conclusion

Agency banking has established itself as a critical financial innovation for expanding decentralized banking access across developing economies, such as Nigeria, with reference to Gombe state. As conceptualized in this paper, SME performance is highly contingent on the efficiency of the financial service delivery systems that support their liquidity and payment system and the needs. The accessibility of agency banking enhances business convenience by dismantling spatial barriers. Similarly, usage intensity drives operational efficiency through habitual financial service utilization. Lastly, the financial inclusion effect formally integrates SMEs into broader economic systems necessary for survival and sustainable growth. Consequently, this paper concludes and infers that agency banking possesses strong conceptual potential to significantly elevate SME performance.

Research Propositions

Based on the conceptual arguments synthesized in this study, the following propositions are advanced for future empirical testing:

- i) Proposition 1: Accessibility of agency banking has a significant positive effect on SME performance.
- ii) Proposition 2: Usage intensity of agency banking significantly enhances SME performance.
- iii) Proposition 3: The financial inclusion effect generated through agency banking positively impacts SME performance.

Recommendations

Drawing from the conceptual evidence presented, financial institutions and agency network providers are urged to aggressively expand the geographical footprint of agency banking services in underserved business environments, such as rural and peri-urban areas in Gombe State. This expansion will dismantle the financial access barriers that currently constrain SME operations and growth.

Furthermore, financial institutions should implement targeted interventions to promote higher usage intensity among SMEs. This can be achieved by guaranteeing transaction reliability, improving service speed, and deploying digital literacy programs that encourage SMEs to integrate agency banking into their daily operational routines.

Finally, policymakers and financial regulators must fortify financial inclusion policies that lower the barriers to entry into the formal financial system for small businesses. Creating an enabling regulatory environment will ensure that the financial inclusion effect of agency banking translates into tangible enterprise development and long-term economic sustainability.

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