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HOW FINANCIAL INCLUSION FUNCTIONS BETWEEN AGENCY BANKING AND PERFORMANCE OF POS MERCHANTS IN JOS METROPOLIS

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ABSTRACT

Nigeria's digital financial services performance gradually improved from 63.2% to 64.1% between 2018 and 2020 but still falls short of the targets of 80% and 95% adopted for 2023 and 2024 financial inclusion strategy, respectively. Scholarly reasons for any such inclusion gaps have not been fully understood. The study utilised the concepts of agency banking, and financial inclusion to investigate the performance of SMEs. The study employed a quantitative method using a cross-sectional design, which included a sample of 374 Point-of-Sales (POS) operators/merchants in the Jos metropolis. The SmartPLS algorithm, version 4.0.8, was used to analyse data collected from the survey. Results of the study reveal that there was a positive and insignificant relationship between agency banking and the performance of SMEs; a negative and significant link exists between agency banking and financial inclusion, which in turn is positively and significantly related to performance. Additionally, financial inclusion functions as a full mediator in the relationship between agency banking and performance. The outcomes also identified the usefulness of improving financial inclusion if issues raised can become of national policy imperatives.

KEYWORDS: Agency Banking, Financial Inclusion, Performance, POS Merchants

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INTRODUCTION

Achieving superior performance is crucial for all small and medium enterprises (SMEs) due to the roles they play in every economy. Globally, SMEs are economies' growth engines, representing about 90% of businesses and more than 50% of employment worldwide (Small Business Administration, 2022; World Bank, 2021). In sub-Saharan countries, they account for 95% of all registered businesses and contribute about 50% to the total gross domestic product - GDP (World Economic Forum, 2023). In Nigeria, formal SMEs contribute up to 48% of the GDP and about 84% of employment (Ogidi & Peterson, 2021). Given these, Nimfa et al. (2021) noted that SMEs' uprising rates varied across business contexts, suggesting unstable performance that needs continuous improvement. Performance is deliberated as the efficiency and effectiveness of businesses (Yunus et al. 2023), providing insights on competitiveness and success (Akande et al. 2023). Performance is considered in this study as favourable profit, customer satisfaction, and an increased customer base, which constitute critical success factors of SMEs in recent times (Chibuzor et al., 2018; Leclercq-Machado et al., 2022). Seeking a model to achieve these aspects of performance is the rationale for integrating agent banking, and financial inclusion (Ojobo et al., 2023; Syauqi et al., 2023).

The agent banking is a third-party banking system, created to deliver financial services outside the conventional bank spaces by using non-bank retail outlets (Mahato & Goet, 2021). Agent banking concept has been used synonymously with digital finance and financial technology terminologies (Akande et al. 2023; Ogunode & Akintoye, 2023). It uses technology infrastructures such as point-of-sale (POS) and mobile phone applications for the banked customers, while the un-banked can only transfer and receive cash from the agents or opens an account. Agent banking is currently used as a veritable instrument for financial inclusion, particularly in developing nations.

Financial inclusion means the provision of basic financial services to all categories of individuals and businesses. Financial inclusion is enhanced through the continued implementation of financial technologies via financial innovations in agent banking (Karsh & Abufara, 2020). Just within a decade, the number of financially included adults has increased by 0.8 billion globally. In Nigeria, the World Bank Report of 2019 noted that 73.2 million adults (41.6%) of the adult population are not financially included. Meanwhile, the financial inclusion rate grew to 64.1% in 2020 from 63.2% in 2018, below the 80% target of 2020 and 95% for 2024 (CBN, 2023). Ele and Ogbonna (2023) asserted that persons not financially included may not have a safe place to keep money, and cannot function in the ever-dynamic technological financial ecosystem.

Arising from the aforementioned discussions, there are numerous studies that established consistent significant findings between agent banking and performance (Akande et al. 2023; Dotun & Adesugba, 2022; Msomi & Kandolo, 2023; Mwarir & Awuor, 2020). This calls for the introduction a mediating mechanism. Considering the possibility of enhancing business viability to improve poor performance of SMEs, the present study is motivated to investigate the roles of financial inclusion in the relationship between agent banking and performance at Jos Metropolis. The study is anchored on agency and innovation diffusion theories.

METHODS

This study adopted the cross-sectional survey design rooted in a quantitative research approach (Creswell, 2014). Also, the population comprised of 22,342 POS operating SMEs in Plateau State, among which there are over 973 agent banking merchant SMEs (businesses

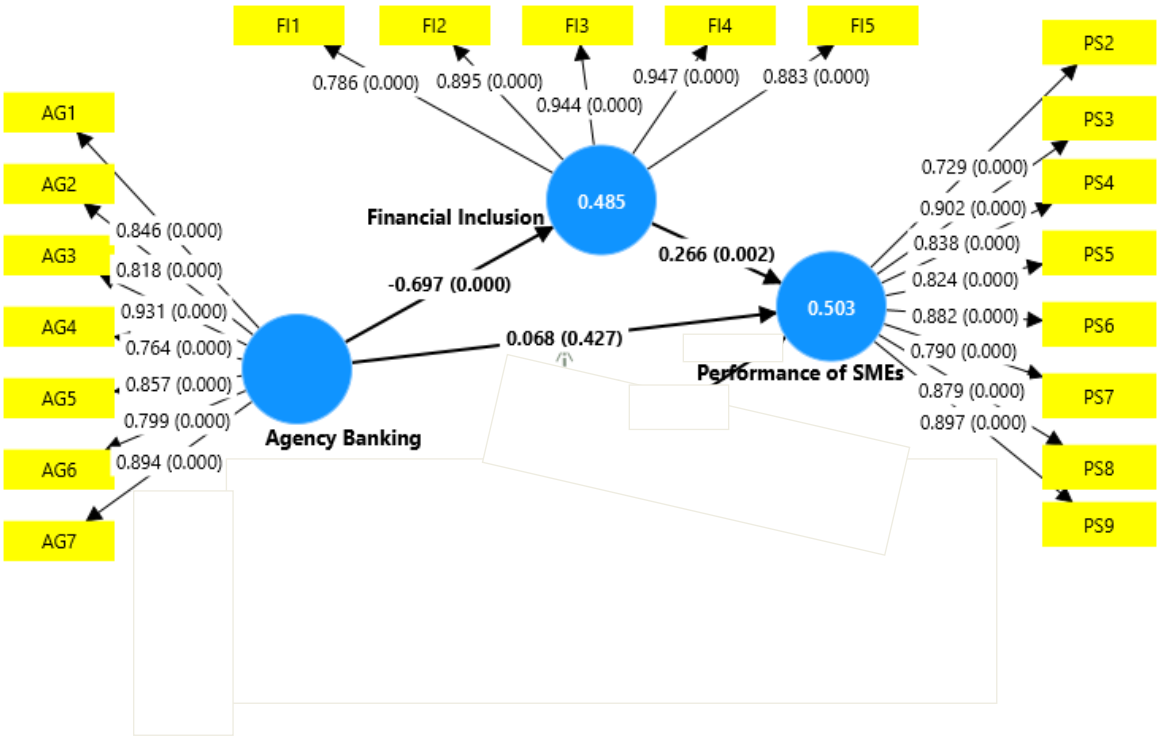
that make use of POS in business transactions) (from Plateau State POS Operators Association, 2024; SMEDAN, 2021). In addition, the sample size consisted of 374 SMEs, determined from the Boyd's (2006) table for a representative sample size computation. The purposive non-probability sampling was used in selecting the respondents because of the difficulty to find the POS operators in all selected locations. While a 5-Likert scale questionnaire instrument was used for data collection, all the variables were adapted from previous scales to suit current context. As such, the agency banking scale was modified from Chawla and Joshi (2019), the financial inclusion scale from Natarajan and Suleiman (2021), and the performance scale from Jaber and Nashwan (2022) balanced score card validation. Consequently, data analysis was performed with SmartPLS software.

RESULTS

Respondent Profile Report

Out of the 374 (100%) questionnaires distributed to respondents during the survey, an86.3% response rate was achieved. Furthermore, demographic details show that majority (51.1%) of the employees who participated in the study were female, somewhat more than male (48.9%). The view provided can be said to represent both genders sensitive. Furthermore, the majority (55.1%) age range of respondents 31-43 years old. Likewise, the work position of the respondents was majorly (44.6%) managers who operate the businesses for the owners. Lastly, the workplace constitutes 98.8% majority of 49 employees and below.

Figure 1: Path Model



Measurement Model

The process of evaluating the measurement model is known as reflective model analysis in PLS-SEM. A reflective measurement approach evaluates internal consistency, focusing on composite reliability, indicator reliability, discriminant validity, convergent validity—also referred to as the average variance expected—and indicator reliability (Hair et al., 2021).

Table 1: Convergent Validity Result

Item & Construct	Factor Loading	AVE	CR	Cronbach's Alpha
AG1 <- Agency Banking	0.846	**0.758**	**0.956**	**0.946**
AG2	0.818			
AG3	0.931			
AG4	0.764			
AG5	0.857			
AG6	0.799			
AG7	0.894			
FI1 <- Financial Inclusion	0.786	**0.838**	**0.963**	**0.952**
FI2	0.895			
FI3	0.944			
FI4	0.947			
FI5	0.883			
LI2	0.892			
PS2 <- Performance of SMEs	0.729	**0.750**	**0.960**	**0.951**
PS3	0.902			
PS4	0.838			
PS5	0.824			
PS6	0.882			
PS7	0.790			
PS8	0.879			
PS9	0.897			

The results of table 1 established that convergent validity acceptable criteria by are satisfactorily met as: (i) the statistical significance of each factor loading is confirmed by a P-value of 0.5 (0.000, see figure 1); (ii) construct reliability exceeds 0.7; and (iii) average variance extracted (AVE) is greater than 0.5 and 0.7 (Albers, 2010). In other words, with the global variables of AVEs (AG = 0.758, FI = 0.838, and PS = 0.750) largely exceeded the 0.5 threshold suggests that the latent constructs generated in the exploratory procedure genuinely converged to measure the intended outcomes of the variables (Fornell & Larcker, 1981).

Table 2: Heterotraits and Monotraits (HTMT) Discriminant Criterion

	Agency Banking	Financial Inclusion	Performance of SMEs
Agency Banking			
Financial Inclusion	0.694		
Performance of SMEs	0.401	0.276	

From table 2, there is high discriminant validity since the values of global variables in the construct are less than the threshold of 0.85 and 0.9 and the acceptable region of -1 and 1 as prescribed by Heterotraits and Monotraits (HTMT) Criterion (Clark & Watson 1995; Kline 2011). The aforementioned realizations allow for an evaluation of the structural model.

Structural Model

Using a structural model, the links between the latent or unobserved variables and their errors or disturbances are examined. Basic analysis procedures for PLS-SEM structural model

analysis include goodness-of-fit (GoF) assessment, collinearity assessment, relationship significance and relevance assessment, level of coefficient of determination (R^2), level of effect size (F^2), and predictive relevance (Q^2) assessment (Hair et al., 2014; Henseler et al., 2014).

Model fit results yielded SRMR = 0.054; NFI = 0.752fortheestimated model, which is deemed suitable for analysis since it does not surpass the fit index. Notably, the SRMR, or square root of the discrepancy between the sample and model covariance matrices, indicates how well the postulated or theorised model replicates the observed relationships between the variables (Henseler et al., 2015; Hu & Bentler, 1999). The model fit implies there is a discrepancy between the chi-square values of the null model and the hypothesised model for the NFI. Similarly, collinearity of the structural model indicates there is the absence of collinearity problem since the VIF values are within the threshold of less than 4 (within 3.099 and 1.000).

Additionally, assessing the coefficient of determination, this study has a substantial R-Squared effect 0.503 (R-Squared adjusted 0.497) of agency banking, and mediating role of financial inclusion predicting performance of SMEs as suggested by Cohen (1988). This means that AG and FI can accurately predict the performance of SMEs at 50.3%. Moreover, the effect size of the study falls within the medium category of 0.002 and 0.242, suggesting a small and moderate contribution of the model's endogenous latent variables (agency banking, and financial inclusion) to the performance of SMEs. Besides, the predictive relevance (Q2) results yielded an excellent value of 0.502 on the performance of SMEs which is greater than zero (Antonakis et al., 2014).

Table3: Coefficientsfor Test of Hypotheses

Hypothesis	Relationship	Standard Beta	T-statistics	P-value	Decision
H01	Agency Banking ← Performance of SMEs	0.068	0.794	0.427	Decline to reject Ho
H02	Agency Banking ← Financial Inclusion	-0.697	12.924	0.000	Reject Ho
H03	Financial Inclusion ← Performance of SMEs	0.266	3.097	0.002	Reject Ho
H04	Agency Banking ← Financial Inclusion ← Performance of SMEs	-0.185	2.717	0.007	Reject Ho

Field Survey Result 2024

DISCUSSION

Ho1: There is no significant relationship between agency banking and the performance of SMEs in Plateau State. The results of hypothesis one in table 3 indicate a positive and insignificant (β=0.068, t-value = 0.749, p 0.427 > 0.05) relationship between agency banking and the performance of SMEs. The finding is consistent with the result of Ayunku and Pakepinene (2023) that discovered agency banking services to inhibit SME performance. Similarly, Muttai et al. (2023) found mobile banking and agency banking to be negatively insignificant with financial performance, whereas internet banking and bank size were

positively insignificant with financial performance. Several other studies that did not conform to current finding hold that banks and fintechs perform greatly better as a result of agency banking activities of SMEs (Ashiru et al., 2023). For Muhammed and Bello (2022), agency banking enabled several customers to obtain financial services at their comfort zones. The current finding aligns with the assumption of agency theory of self-interest to maximise one-sided goal attainment (Kauda, 2021).

Ho2: There is no significant relationship between agency banking and financial inclusion among SMEs in Plateau State. The results of hypothesis two demonstrate that agency banking negatively and significantly (β= -0.697, t-value = 12.924, p 0.000 < 0.05) affect financial inclusion. This means that agency banking activities tend to create fear (especially of cybersecurity fraud) on the unbanked population, thus hampers financial inclusion. In other words, performing customers' transactions on time, and convincing people without bank accounts to use of internet/mobile banking do not make customers satisfied with the current charges or make people to love internet/mobile banking. This finding is in a mixed consonance with several studies because agency banking significantly influences financial inclusion but not in the negative way (e.g., Gona et al., 2023; Stanley et al. 2023).

Ho3: There is no significant relationship between financial inclusion and the performance of SMEs in Plateau State. The results of hypothesis three establish that financial inclusion is a positive and significant (β= 0.266, t-value=3.097, p 0.002 < 0.05) predictor of performance of SMEs. This means that more financial inclusion of the unbanked populace and business operators leads to increase in the performance of SMEs. In addition, as people across all age brackets love using internet/mobile banking, the number of customers who use POS will not only increase but profit will be better than what it used to be. This finding is in conformity with the results of Fomum and Opperman (2023); Oke and Adamson (2023); and Yunus et al. (2023). Specifically, Yu et al. (2023) found that digital inclusive financial areas significantly influence financial performance of SMEs. Though digital financial inclusion drives the performance of SMEs, it is dependent on the generation of individuals involved.

Ho4: The results established the presence of mediation as the effect of -0.185 is negatively significant (p 0.007 < 0.05). We therefore conclude that financial inclusion fully mediates the relationship between agency banking and the performance of SMEs in Plateau state but in a negative way. Full or complete mediation demonstrates the absolute necessity of financial inclusion in ensuring agency banking transmit positive and significant performance to SMEs. Recall that agency banking did not predict performance directly in H1 and predicted financial inclusion negatively in H2 due to various reasons identified; financial inclusion has to be achieved through other means before agency banking can make appropriate impact through it. This finding aligns with the mediated result of financial inclusion in the link between financial technology and the development of SMEs in a creative economy (Syauqi et al. 2023). Furthermore, the theoretical integration fit well into the full mediation of financial inclusion in the sense that innovation diffusion enhances compatibility of users of financial inclusion innovations with their values, making it less complex to carry out transactions, while agency banking solidifies a contractual relationship between the super-agents, sole-agents and sub-agents.

CONCLUSION AND RECOMMENDATIONS

A full mediation of financial inclusion in the nexus between agency banking and performance has a negative implication. In the perspective of this study, the negative financial inclusion mediation suggests that agency banking practices pose fear of transaction risk in the minds of

citizens. Despite this, the study's primary constraint is the use of a cross-sectional research design to investigate the issue within a short time frame. Nevertheless, the findings of the study highlight the need to re-evaluate current strategies and consideration of alternative approaches that prioritise affordability, accessibility, and consumer protection.

Therefore, there is the need to implement effective cyber-security solutions on agency banking issues to restore the confidence of existing customers and unbanked citizens to be able to revert the insignificant effect of agency banking on SME performance. Devise and implement flexible and hybrid cashless policies, increase transaction tracking, reduce transaction costs as well as improve the regulation of agency banking to be able to redress the negative influence of agency banking practices on financial inclusion. SMEs in the financial technology sector should sustain and improve on the existing practices between financial inclusion and performance of SMEs in Plateau State. To revert the negative mediation effect of financial inclusion in the relationship between agency banking and performance of SMEs, there should be deliberate policy formulation on financial technology literacy and fraudulent activities associated with agency banking.

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