

Unlocking Ethiopia's Financial Future: A Policy Roadmap for a Sustainable Agent

EXECUTIVE SUMMARY

Agent banking is a cornerstone of Ethiopia's financial inclusion strategy, yet its full potential remains untapped. This brief, based on a comprehensive scoping study by the Ethiopian Economics Association, identifies critical barriers and presents a strategic roadmap for regulators, financial service providers, and agents. The sector is characterised by explosive growth in digital payments but is constrained by severe operational inefficiencies, a restrictive regulatory environment, and significant geographic and gender disparities.

Key findings indicate that 66% of agents face chronic liquidity short-ages, 95% of agents are concentrated in urban areas, and female participation is only 30%. While transaction values have seen compound annual growth rates exceeding 200%, agent retention is low, and regulatory processes are perceived as slow and unclear. To harness this potential, this brief recommends:

- For Regulators: Streamline and digitize approvals, promote interoperability, and establish a regulatory sandbox.
- For Providers: Diversify agent networks, modernise liquidity management, and leverage data analytics.
- For Agents: Adopt digital tools, formalize operations, and prioritize customer education.

A coordinated, multi-stakeholder approach is essential to transform Ethiopia's agent banking sector into a powerful engine for inclusive economic growth.

INTRODUCTION AND CONTEXT

Ethiopia's financial inclusion landscape is at a pivotal juncture. Despite progress, a vast portion of the population, particularly in rural areas, remains excluded from formal financial services. With only one bank branch per 11,516 people and digital payment infrastructure heavily concentrated in Addis Ababa, agent banking has



Source: financein africa.com

emerged as a critical channel to bridge this gap (World Bank, 2022). The market is dynamic and rapidly evolving. The liberalisation of the telecom sector, the entry of new players like Safaricom's M-Pesa, and the phenomenal growth of mobile wallets, from 2.31 million transactions in 2019 to 764.88 million in 2024, create an unprecedented opportunity (GSMA, 2023). However, the agent banking ecosystem, still in its nascent stage, is struggling to keep pace with this demand and is held back by systemic challenges. This brief distills evidence from surveys of 220 agents, seven commercial banks, and the National Bank of Ethiopia (NBE) to provide a clear path forward.

FINDINGS

The research reveals a sector poised for transformation but hampered by interconnected constraints.

A. Pervasive Operational Inefficiencies

- **Liquidity & Infrastructure Crises:** 66.36% of agents experience liquidity shortages, primarily managed through inefficient physical trips to bank branches, a challenge also documented in earlier studies (Demeke, 2018). This is compounded by the top operational challenge: network outages (62.27%) and poor signal strength (52.72%), which cripple service reliability.

- **Unsustainable Agent Economics:** Low transaction volumes (cited by 57% of banks as the main challenge to agent profitability) are worsened by delayed commission payments and high startup costs. This leads to low agent retention; 3 out of 7 banks reported that only 11-20% of new agents remain active after one year.

- **Skills and Technology Gaps:**

A lack of financial literacy and digital skills among both agents and customers (a barrier for 75.9% of agents) and the low adoption of Point-of-Sale (POS) devices (9.09%) limit service quality and transaction diversity.

B. Regulatory & Market Structure Hurdles

- **Gap Between Regulatory Intent and Reality:** While the NBE's Use of Agents Directive No. FIS/02/2020 provides a framework, 60.9% of agents find regulations unclear. Slow approval processes and complex licensing hinder growth, creating a perception of a restrictive environment despite the NBE's stated goals, echoing findings from recent

case studies (Asalfew, 2023).

- **High Market Concentration & Urban Bias:** The Commercial Bank of Ethiopia (CBE) dominates the sector, and the agent network is overwhelmingly urban (94.5%). This concentration risks stifling innovation and leaves rural populations underserved.

- **Significant Gender Gap:** Female agents constitute only 30% of the network, indicating a major missed opportunity for women's economic empowerment and more inclusive service design.

C. Significant Untapped Opportunities

- **Massive Digital Payment Growth:** The surge in mobile wallet and POS transactions demonstrates a proven public appetite for digital finance, creating a ready market for agent-based services.

- **"Late-Adopter Advantage":** Ethiopia's agent banking transaction value has grown at a Compound Annual Growth Rate (CAGR) of ~213% since 2017, a steeper trajectory than Kenya's early growth (Atandi, 2013). This allows Ethiopia to leapfrog stages by learning from regional peers.

- **Market-Led Innovation is Already Happening:** Despite a lack of formal authorisation, 5 out of 7 banks already engage in agent sharing, a clear signal from the market for efficiency and collaboration that can be harnessed through supportive regulation.

POLICY RECOMMENDATIONS

A coordinated, multi-pronged strategy is required to address these challenges and capitalise on the opportunities.

For Regulators (National Bank of Ethiopia)

1. Modernize and Streamline Oversight:

- Digitise the agent application and monitoring processes to reduce approval times and enhance transparency.

- Formally recognise and standardise agent-sharing agreements to maximize network efficiency and coverage.

2. Foster Innovation and Competition:

- Prioritise and mandate interoperability between bank-led and telecom-led mobile money systems to create a unified financial ecosystem.

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- Prioritise and mandate interoperability between bank-led and telecom-led mobile money systems to create a unified financial ecosystem.
- Establish a regulatory sandbox to pilot new technologies (e.g., offline transactions, biometric KYC) and business models in a controlled environment.

3. Enhance Consumer Protection and Inclusion:

- Introduce tiered Know Your Customer (KYC) requirements to enable low-income and undocumented populations to access basic financial services.
- Enforce clear guidelines for fee transparency and robust dispute resolution mechanisms at the agent level.

For Providers (Banks & Financial Institutions)

1. Diversify and Strengthen the Agent Network:

- Launch targeted incentive programs to recruit and support agents in rural and underserved areas.
- Implement gender-inclusive strategies, such as quotas and dedicated support, to increase the proportion of female-owned agent outlets beyond the current 30%.

2. Revolutionise Agent Support Systems:

- Shift from cash-based liquidity management to digital solutions, such as mobile-based e-float transfers and expanding the master agent model, which has proven effective in other markets (Ivatury & Mas, 2008).
- Reform commission structures to ensure timely, transparent, and adequate payments and explore hybrid models that provide greater income stability for agents.

3. Leverage Data and Technology:

- Use data analytics to identify high-potential locations

for new agents, monitor network performance in real-time to combat dormancy, and provide proactive support.

- Invest in agent training, particularly on financial literacy, digital tools, and customer service, and ensure the provision of regular refresher courses.

For Agents

1. Enhance Professionalism and Operational Efficiency:

- Adopt digital tools for bookkeeping and liquidity management to reduce reliance on physical bank visits.
- Formalise business operations, maintain clear records, and seek a full understanding of contractual terms with banks.

2. Build Customer Trust and Expand Services:

- Differentiate your outlet by proactively educating customers on services and fees, building long-term loyalty.
- Explore collaborative models, such as clustering with other local businesses, to better manage liquidity and serve a larger customer base.

CONCLUSION

Ethiopia's agent banking sector stands at a crossroads. The dramatic growth in digital payments proves the demand is real. The challenges—liquidity, connectivity, regulation, and inclusion—are significant but solvable. By implementing the stakeholder-specific recommendations outlined in this brief, Ethiopia can move from a nascent, constrained ecosystem to a mature, efficient, and inclusive network that truly serves all its citizens. The time for coordinated action is now to ensure that the promise of financial inclusion becomes a reality for every Ethiopian.

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About ReFinD

ReFinD is a sub-grants-awarding research initiative that aims to support interventions that will effectively expand the reach and efficiency of agent network operations through public policy and commercial solutions that can plausibly be scaled. It is implemented by the Institute of Statistical, Social and Economic Research (ISSER), University of Ghana, with funding from the Bill & Melinda Gates Foundation, with focus on research based in LMICs in Sub-Saharan Africa, South Asia, and Southeast Asia.