

Assessing The Effect of Financial Inclusion on Economic Growth in Zambia: A Case of Lusaka Province

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Abstract

The FiniMark Trust developed FinScope Zambia, which carried out a survey report (2020) in collaboration with the Bank of Zambia to assess the levels of financial inclusion in Zambia. The Bank of Zambia uses such survey reports to assess the levels of depth of financial inclusion in Zambia. This study aimed to assess how financial inclusion affects economic growth in Zambia. The specific objectives of the study were to assess the impact of financial inclusion on economic growth in Zambia, to identify the channels through which financial inclusion influenced economic growth in Zambia, and to evaluate the effectiveness of the National Financial Inclusion Strategy interventions in fostering economic growth in Zambia. The researcher adopted a mixed approach and employed qualitative and quantitative research designs. The study employed purposive sampling techniques to mobilize the quantitative and qualitative data. The purposive method was used to identify and select a homogenous sample of Lusaka Province citizens that met the predetermined criterion of importance. The research comprised questionnaires and interview schedules. The questionnaires were used because they are the main means of collecting quantitative primary data. The questionnaires enabled the quantitative data to be collected in a standardized manner, ensuring that the data were consistent and coherent for the analysis. From the findings, the study concludes that 130 respondents, representing 59.1%, have very easy access to banking services, and 57 respondents, representing 25.9%, have somewhat easy access to banking systems. Further, the study shows that mobile banking is covering a big market share compared to conventional banking. The growth in agency services on mobile money platforms has facilitated improvements in financial inclusion. The rise in mobile money accounts has been particularly impactful, facilitating financial transactions for previously unbanked and underserved populations. This study has shown that there is a link between financial inclusion and economic growth. That financial inclusion significantly contributes to economic growth by strengthening the financial system and positively impacting GDP per capita. The research indicates that an inclusive financial sector propels economic development. This relationship works by providing broader access to financial services, which fosters investment, entrepreneurship, and consumption. However, the study indicates that only 33 respondents, representing 15%, had savings accounts; 43, representing 19.5%, had access to credit facilities; and 30, representing 13.6%, had insurance products. The study further shows that 163 respondents, representing 74.1%, had no access to finances for agricultural productivity. The study found that 213 respondents, representing 96.8%, showed that access to formal savings has influenced their consumption patterns. The study further concludes that SMEs with access to financial services are better positioned to invest in their businesses, create jobs, and contribute to overall economic diversification. Furthermore, the broader adoption of digital financial services has been shown to stimulate economic activity, particularly among low-income populations, by reducing transaction costs and increasing efficiency.

Keywords: Financial Inclusion, Financial Technology, SMEs, Entrepreneurship, and GDP

1. Introduction

Having a diverse and competitive financial system with various types of financial institutions can help to advance financial inclusion. Financial inclusion can help reduce poverty and inequality by aiding people to invest in the future, smooth their consumption, and manage financial risks (Demirgüç-Kunt, 2017). Finscope (2020) describes financial inclusion as the access and usage of a wide range of quality and affordable savings, credit, payment, insurance and investment products and services which meet the varying requirements of both individuals and companies. Financial inclusion is an area of concern in recent years where attempts have been made to bring people outside the banking sector into the financial system (Finscope, 2020). In a well-functioning system, inclusive financial systems provide access to financial services to benefit poor people and other disadvantaged groups (Ibid).

In countries where financial inclusion is high, there are more people saving, borrowing, making and receiving payments and also managing risks. They further postulate that it is in the interest of every government in a country to have many of their people have wide access to financial systems to help alleviate poverty and inequalities found among them (ibid). A well-functioning financial system is one that removes physical, bureaucratic and financial barriers which inhibit the citizens of respective countries from accessing and making use of financial systems. The people need to increase awareness and financial literacy to capture the unbankable population and have access to cheap and flexible financial packages.

The Bank of Zambia (2022) points out that they have a mandate of administering financial sector development which ensures that there is improved efficiency and competitiveness in the sector while at the same time providing increased choices to the citizens and companies of financial products and services. Hence, the Zambian financial sector has to offer increased financial inclusion through the use of different institutions operating in the financial sector while providing enhanced regulation and stability in the sector and offering high level financial intermediation in the financial system too. In executing the regulatory role of the financial sector, it is the institution which is mandated to regulate the various providers of financial services in the country including commercial banks, building societies, leasing and finance companies, credit and forex bureaux, development finance institutions, mobile money services and microfinance institutions (Zambia, 2022).

According to FinScope (2020) Zambia, there has been an increase in the levels of financial inclusion in the country's population from 2009 to 2020. The comparative figures during this period indicate that in 2009, financial inclusion stood at 37.3 percent while financial exclusion was at 62.7 percent. There was an improvement in financial inclusion from 2009 to 2015 when it increased from 37.3 to 59.3 percent while financial exclusion decreased from 62.7 to 40.7 percent. As of 2020, improvements in financial inclusion rose from 59.3 to 69.4 percent with financial exclusion decreasing from 40.7 to 30.6. Such developments indicate that there have been some successes achieved in financial inclusion except that it is the urban areas which recorded the high improvements at the expense of the rural areas where financial inclusion takes place as low as 35 percent with the majority of the population still being excluded at 65 percent. On one hand, financial inclusion is higher in male adults compared to female adults such that in 2015 and 2016 it stood at 61.3 and 71.2 percent while for female adults it stood at 57.4 in 2015 and 67.9 percent in 2016. However, it is the statistics coming from urban areas which give an improved position about financial inclusion as the rural population have much lower rates for women engaged in financial inclusion with the majority of them being financially excluded.

Financial inclusion as a phenomenon is geographically distributed in Zambia. There are more people who are financially included in urban areas and more people who are financially excluded in rural areas. In addition to that it is women in rural areas who are more excluded than their urban counterparts whose statistics show a high proportion of financial inclusion. The rate of financial exclusion for rural women in Zambia stands at 65 to 75 percent while their rural male counterparts are at about 45 to 60 percent. Beck et al (2014) argued that financial inclusion has continued to grow in prominence in African policy circles mainly because of the recent African renaissance in which several countries are pledging to move the vast majority of their populations out the myriads of abject poverty through sustainable financial empowerment and financial literacy. This would involve taking a pivotal role in cross-border banking in financial deepening and access together with financial innovation of products and services which supports the households in their daily livelihoods.

Financial inclusion is vital for economic development, especially in developing countries. It entails integrating unbanked individuals into the formal financial system, providing them with essential financial services. This inclusion facilitates access to finance, boosts business activities, and ultimately enhances people's incomes and quality of life. Various strategies, including microfinance institutions, FinTech providers, and government policies, can promote financial inclusion (Naseer and Azam, 2019; Ozili, 2018; Silue, 2021). Moreover, financial inclusion fosters better welfare outcomes and social inclusion, contributing to poverty reduction and shared prosperity (Nanziri, 2016; Ozili, 2020b). Scholars are increasingly studying how financial inclusion influences economic growth, sparking debates on measurement methods and determinants of growth (Ozili, 2020). Recognized by the United Nations as essential infrastructure, financial inclusion addresses the needs of 1.7 billion unbanked individuals worldwide and over 200 million underserved small and medium-sized businesses. By providing affordable financial services, financial inclusion accelerates economic growth, promotes employment, and enhances financial well-being. It particularly benefits low-income and marginalized populations, facilitating their access to various financial products beyond traditional banking (World Bank., 2023). Policy makers acknowledge financial inclusion as a fundamental component of a country's financial infrastructure, essential for driving economic growth and development (AFI., 2022). Access to affordable financial services improves living standards, stimulates production activities, and uplifts vulnerable groups out of poverty. Moreover, by expanding access to insurance and deposit products, financial inclusion increases funds in financial markets, encouraging long-term investments and employment generation. Ultimately, financial inclusion contributes to income distribution and poverty alleviation (Ozili, 2020). When the view is narrowed to Zambia, financial inclusion has gained significant attention due to its potential to unlock economic opportunities for a large segment of the population. The Zambian government has actively promoted financial inclusion through various initiatives, including the development and implementation of National Financial Inclusion Strategies. These strategies aim to address the barriers to financial access, such as geographical constraints, lack of financial literacy, and inadequate infrastructure, particularly in rural areas (Zambia NFIS, 2024-2028).

Despite the progress made, hinderances remain in achieving widespread financial inclusion in Zambia. These challenges include the need to further expand access to financial services in rural and underserved areas, promote the adoption of

digital financial services, and enhance financial literacy among the population. Addressing these challenges is crucial for ensuring that all Zambians can benefit from the opportunities that financial inclusion provides, ultimately contributing to sustainable and inclusive economic growth (Zambia NFIS, 2024-2028).

1.2 The Statement of the Problem

Utkiewicz & Ellis (2018) postulated that almost all the countries are still lagging behind in terms of gender equality and that out of 10 countries, it would be found that 9 of them have laws which still discriminate against women to be economically active, therefore, women are far more financially excluded than men. The FiniMark Trust developed FinScope Zambia which carried out a Survey Report (2020) in collaboration with the Bank of Zambia in assessing the levels of financial inclusion in Zambia. Such a Survey Report is used by the Bank of Zambia to assess the levels of depth for financial inclusion in Zambia. The information provided by the FinScope Survey Report helps countries through their respective central banks in providing credible national information on demand, access, usage of and behaviour of the adult population towards financial services. This information is highly needed by both policy makers and the financial service providers themselves in order to develop an enhanced mitigation response to the gaps and barriers that were identified in the adult population with regards to access, usage and depth of the financial services. Makoni (2023) called for increased emphasis on embracement of financial inclusion by developing countries as it is a phenomenon whose impact culminates into improved livelihoods for the citizens in every country. The growth of enhanced financial inclusion feeds into the high-level support in the activities of the growth of microfinance institutions in respective countries. The biggest problem lies with the people who are in the lower income bracket; marketeers, hawkers, peddlers and many others earning earnings. They are the ones keeping much of their monetary savings in their merchandise they use in daily trading errands so that when they earn something excess, they save in mobile money centres and withdraw it maybe the following day in order to cash in on new orders for new merchandise for sale on this particular day. Although there has been significant improvement in financial inclusion levels among the adult population in Zambia by about 10% margin from 59.3% in 2015 to 69.4% in 2020 implying that 31.6% of the population is still being financially excluded. The levels of financial inclusion are segmented between adults who use financial products / services in their financial lives (the financially included adults) and those who do not use financial products / services in their financial livelihoods (financially excluded adults). Despite significant developments which Zambia has recorded in financial inclusion from 2009 to 2020, more work remains to be done. As in 2009, only 37.3% of the population in Zambia were financially included while 62.7% were financially excluded, in 2015 the statistics rose up to 59.3% for the financially included adult population and financially excluded stood at 40.7% and in 2020 the statistics rose to 69.4% were financially included while 30.6% were financially excluded. Even if the financially included population showed a marked increase in 2020, the vast majority of the people financially included lived in urban areas standing at 70.3% while at 50.2% in rural areas in 2015 and 84.4% in urban areas while it was at 55.9% in rural areas in 2020. There is still a big gap of about 35% which still has to be filled in order to level the degree of financial inclusion in rural areas to urban areas. In addition to that, financial inclusion by gender or sex among the male population was at 61.3% in 2015 and 71.2% in 2020 but for the female population it was at 57.4% in 2015 and 67.9% in 2020. In spite of the increases in the statistics for financial inclusion in both sexes in Zambia, a gender gap in financial inclusion of 3.3% (71.2% - 67.9%) pitching male population higher than the female population. Therefore, a research question is coined around investigating the major barriers causing gender financial inclusion to financial services among communities in the rural and urban areas of Zambia? It is the aim of this research paper to propose and suggest a panacea to greatly improve financial inclusion levels in Zambia so that it leads to massive growth for financial inclusion in the Zambia communities so that many households are financially empowered thereby driving out poverty levels. It is presumed that when communities are financially empowered, they are then capable of making more sound decisions to help them in improving their livelihoods.

2. Literature Review

2.1 Previous Studies

Financial inclusion initiatives encompass diverse strategies, policies, and interventions aimed at reducing barriers to formal financial services, especially for marginalized populations. In Zambia, these initiatives have evolved over time to address widespread financial exclusion. Regulatory reforms play a crucial role, fostering a conducive environment for financial service provision, including the establishment of microfinance institutions (MFIs) and community banks (Adams, 2020). MFIs are instrumental in Zambia's financial inclusion efforts, catering to the needs of micro-entrepreneurs and low-income households through tailored financial products (Mulenga and Bhargava, 2018). Mobile money services have revolutionized financial access, leveraging mobile technology to reach remote communities (Munyegera et al., 2019). Financial literacy programs are essential for empowering individuals to make informed financial decisions (Makina and Enock, 2019). Innovative banking models like agent banking overcome physical infrastructure challenges (Chilonda and Tembo, 2020). The genesis of financial inclusion around the world is said to be the late 1990s and early 2000s when several organisations saw the need for diversification from solely offering microcredit services to offering basic access to financial services such as savings and insurance. Hence many non-governmental organisations extended their services by obtaining further licences from authorities to allow them to accept deposit savings and also provide other added financial services especially

to the lower income people in their communities where they operate. World bank (2022) states that financial inclusion is a pathway through which households are able to improve their livelihoods by obtaining the means and tools for saving their finances which they have access to at any other time (Bank, 2022).

World Bank (2022) further observes that there are lower levels of financial inclusion in Africa due to the following reasons: Long distances to be covered by would be depositors or clients and lower population densities in some locations especially the rural areas of villages or smaller towns.

There have been historically high bank costs relative to incomes which populations in the disadvantaged groups needed to use or save in such institutions.

Also, there are low education levels and illiteracy such that the population would not comprehend the benefits of engaging in financial services transactions.

At times the financial products and services are poorly designed or are not well aligned to the needs of the low-income groups instead would be suited to middle- and high-income groups.

On one hand, there are factors bordering on gender and access to financial inclusion, there are major challenges facing women are:

Women have competing demands on their time and they tend to focus on unpaid domestic work as their priority.

They are the major culprits lacking assets for collateral to access finances for investments in financial services activities.

They have reduced mobility due to time constraints and social norms limiting them from going for some business ventures.

Women often engage in lower paying economic activities such as domestic work, farming in non-cash crops or focusing on nurturing their families.

2.2 What are the channels through which financial inclusion influenced economic growth in Zambia?

Financial inclusion is under the financial services which are regulated by authorities falling under the ministry of finance. Hence, disadvantaged and low-income groups historically excluded from the financial sector need to access credit from the formal financial institutions of commercial banks, capital markets, insurance companies, pension funds, microfinances and mobile money services. The major players easily accessible by the unbanked and underbanked populations are mobile money services and microfinances which are formal financial services while they would have difficulties dealing with commercial banks, capital markets, pension funds, and insurance companies whom they would feel that they have high conditions which they would not afford to abide to if they borrowed finances from them.

Regulations of the financial system

Financial systems are one of the most heavily regulated sectors by governments through central banks. Government regulates financial markets mainly for two (2) reasons:

It is a way of increasing information which is available in the public domain for investors to be motivated to invest their money in a market showing a high sense of organisation.

It is a way of ensuring that there is soundness and decency in the financial systems of a respective country.

There is asymmetry information when financial institutions do not know their customers and their needs at any given point in time. This is very common nowadays such that financial institutions have at times failed to lend out their finances due to ignorance of the right customers to lend the money to. Sometimes this has culminated into adverse selection of clients to lend money to and then this has led to moral hazards when the customers have failed to pay back the borrowed finances from financial institutions, thereby hindering the efficient operations of financial institutions in the respective country. It is the adverse selection of borrowers in financial markets in which the borrowers produce the most undesirable outcomes which results in bad credit risk management on the part of the lending institutions. The presence of transaction costs in financial markets which are incurred by intermediaries and indirect financiers perpetuates the asymmetric information to a high degree that they fail to make accurate decisions about their clients or customers.

Technology and Financial inclusion in Zambia

International Banker (2021) postulates that technology is an enabler and accelerator to financial inclusion in that it helps firms to reach out to both unbanked and underbanked who are predominantly found in remote locations of nations. It should be the goal of financial institutions to ensure that they reach out to the hugely unbanked and under banked populations of the rural areas as ways of enhancing their activities of financial services so that they would be accessible, available and deep in permeating both urban and rural areas (Banker, 2021). Asian Development Bank (2017) agrees that digital technology occurs to be a most significant driver of innovation, competition and economic growth in the world. It further observes that there are many people who are still financially excluded from the digital economy and would need to be brought into the fold in order to broaden the financial inclusion phenomenon to the vast majority of the population, especially in developing countries. Digital technology happens to be a tool which would clearly revolutionise the financial services platform by spreading to many places at a high speed. For the developing countries in the Asia and the Pacific Rim nations, they keep seeking for better modalities of encouraging all of their populations to actively use the four key instruments of financial inclusion of the availability of payment systems, credit, insurance and investment (Bank, 2017).

Cull et al (2017) observed that it is access to financial services in a country which are highly regarded as essential economic programmes which uplift the livelihoods of households of the low-income countries. This is done through access to credit, savings and payments which are made available at any time to facilitate household consumptions. In addition to that, the Asian Development Bank (2017) observed that digital technology has become a special purpose vehicle in the world to spur economic innovation, competition and economic growth. It is cognisant of the fact that many people globally still

remain excluded from the digital economy which needs to be used as a tool for broadening the financial inclusion drive of the vast majority of their populations. Hence digital technology remains a key driver for transforming the financial services sector of the country when it comes to empowering people with the levers for jump-starting their livelihoods. It is for this reason that some developing countries in Asia and in the Pacific rim decided to explore modalities of encouraging their populations to regularly use the four key instruments of financial inclusion viz a viz access to payment systems, credit, insurance services and investments.

Yunus (2003) and his Bangladeshi Grameen Bank contributed to the microfinance revolution which has pushed to greater extent the financial markets and introduced new products, new providers of credit or finance and introduced new markets for the credit providers. This revolution has been a global one whose drive in the field microfinance spread globally and has now been supported by other initiatives such as the worldwide spreading of mobile banking which has brought about an increase in the activities of financial inclusion with great penetration in developing countries too after its high success in the developed countries (Yunus, 2003).

2.3 What was the impact of financial inclusion on economic growth in Zambia?

NFIS, (2024), there are many pointers in Zambia which attest the high-level efforts from both the private and public sectors of sensitising members of the public about benefits of financial inclusion. The common case of financial inclusion is the widely used mobile money which has helped many people in the communities in Zambia to transact at every point in the country with the use of mobile phones.

Financial inclusion is a key priority for the Zambian government, recognized as a vital enabler of wealth creation, poverty reduction, and gender equity, all contributing to the nation's Vision 2030 of becoming a middle-income country (NFIS, 2024). The National Financial Inclusion Strategy (NFIS) serves as a roadmap for achieving this vision, outlining specific objectives, thematic areas, and implementation frameworks. The Zambian approach emphasizes collaboration between financial sector regulators, the private sector, and various cooperating partners to expand access to and usage of affordable and quality financial services for all Zambians.

Progress Under the Previous NFIS

The implementation of the previous NFIS yielded notable achievements in expanding financial inclusion across Zambia. As highlighted in the NFIS, overall financial inclusion (both formal and informal) increased from 59.3 percent in 2015 to 69.4 percent in 2020, demonstrating significant progress in reaching previously unbanked and underserved populations. Key interventions, such as the launch of the National Financial Switch, greatly strengthened the interoperability between financial service providers, resulting in enhanced access and usage of the formal financial services. This interoperability has facilitated easier and more affordable transactions, benefiting both individuals and businesses. The NFIS (2024), builds upon the successes of the previous strategy while addressing remaining challenges and emerging opportunities in the financial sector (Zambia NFIS, 2024-2028), focusing on several key thematic areas: financial inclusion for Micro, Small, and Medium Enterprises (MSMEs) by expanding access to tailored financial products and services, which highlights firms' obstacles to credit access; financial inclusion in rural areas by addressing the unique challenges faced by rural communities and expanding access to financial services through innovative delivery channels, with rural/urban financial access standings; financial inclusion for the underserved population by targeting marginalized groups and promoting financial literacy; financial inclusion for agriculture by enhancing access to financial services for farmers and other agricultural stakeholders; digital financial services and financial infrastructure by leveraging technology to expand access to financial services and reduce costs, as seen in the increased mobile money transaction; and financial consumer protection and capability by ensuring consumers are protected and have the knowledge to make informed decisions.

2.4 How is the effectiveness of the National Financial Inclusion Strategy interventions in fostering economic growth in Zambia?

The overall effect of financial inclusion on economic growth in Zambia has been notably positive, primarily driven by increased access to financial services and the proliferation of digital platforms. This trend aligns with broader findings across Africa, indicating that financial inclusion significantly contributes to economic development (Mwakalila, 2024). According to the Zambia National Financial Inclusion Strategy (NFIS) 2024-2028, financial inclusion in Zambia increased from 59.3% in 2015 to 69.4% in 2020, highlighting the progress made during the previous strategy period (Zambia NFIS, 2024-2028). This expansion has enabled marginalized groups to participate more fully in the economy, fostering a more inclusive growth model.

The rise in mobile money accounts has been particularly impactful, facilitating financial transactions for previously unbanked and underserved populations (ibid). As noted in the NFIS (2024-2028), a key achievement of the previous strategy was the launch of the National Financial Switch, which has strengthened interoperability between financial service providers, thereby enhancing access and usage of formal financial services (Zambia NFIS, 2024-2028). Simultaneously, the increased access to credit for small and medium enterprises (SMEs) has been linked to improved business performance, which is crucial for economic growth in Zambia. Studies have shown that SMEs with access to financial services are better positioned to invest in their businesses, create jobs, and contribute to overall economic diversification (Paliwal, 2024). Furthermore, the broader adoption of digital financial services has been shown to stimulate economic activity, particularly among low-income populations, by reducing transaction costs and increasing efficiency (Fundji, 2024).

To further enhance the positive impact of financial inclusion, policymakers are encouraged to implement strategies that

promote financial literacy and expand access to digital financial services, particularly in rural areas, (ibid). The NFIS (2024-2028) emphasizes the importance of tailoring financial products and services to meet the specific needs of key sectors, including agriculture and MSMEs, and addressing barriers to access such as geographical constraints and lack of financial literacy. Continued support for SMEs through targeted financial inclusion initiatives can lead to job creation and economic diversification, further driving sustainable growth (Paliwal, 2024). While the evidence strongly supports the positive impact of financial inclusion on economic growth, challenges such as digital literacy and infrastructure limitations remain significant barriers that need to be addressed to maximize these benefits and ensure equitable access to financial services across all segments of Zambian society.

Financial inclusion, particularly through enhanced access to credit and digital financial services, has significantly impacted the investment levels of Micro, Small, and Medium Enterprises (MSMEs) in Zambia. The National Financial Inclusion Strategy emphasizes the importance of these services in fostering economic growth and empowering MSMEs, which are crucial for job creation and innovation. By reducing barriers to financial access, financial inclusion initiatives have allowed MSMEs to leverage formal financial services to expand their businesses, innovate, and contribute to broader economic growth.

Sichuundu, (2023), observes that increased access to credit has been a key driver of this positive impact. Financial inclusion initiatives have enabled MSMEs to access formal credit, reducing reliance on informal lending systems that often charge exorbitant interest rates. The establishment of microfinance institutions (MFIs) has been instrumental in providing tailored financial products, allowing MSMEs to invest in their operations and expand. Furthermore, the NFIS (2024-2028) specifically highlights the importance of developing financial products and services that meet the unique needs of MSMEs, recognizing the crucial role they play in the Zambian economy.

The rise of mobile money platforms and other digital financial services has also played a significant role. Digital financial services have facilitated easier transactions and savings, integrating previously excluded individuals into the formal financial system (Sichuundu, 2023). Additionally, these services have improved financial literacy, enabling MSMEs to manage finances more effectively and make informed investment decisions (Paliwal, 2024). This aligns with the NFIS, which prioritizes the promotion of digital financial services to enhance financial inclusion and drive economic growth. Financial inclusion has the potential to enhance the financial performance of NBFIs by expanding their customer base and diversifying revenue streams, particularly through outreach to underserved populations (Cull et al., 2014). However, studies caution that rapid expansion without proper risk management can lead to increased defaults and financial instability (Beck et al., 2015). In Zambia, where NBFIs play a key role in advancing inclusion, the challenge lies in balancing outreach with sustainability. Bank account penetration, a key indicator of financial inclusion, is linked to improved institutional performance through increased deposits, liquidity, and customer engagement (Demirgüç-Kunt et al., 2015; Sahay et al., 2015). Yet, high costs of service delivery and the need for tailored financial products remain barriers. Addressing these barriers requires innovative models that integrate technology, risk assessment, and customer-centric services. This study therefore explores how NBFIs in Zambia can strategically leverage financial inclusion while managing associated risks to achieve sustainable financial outcomes.

Mahmood et al., (2024) found that enhanced financial inclusion has led to increased investment levels among MSMEs, contributing to overall economic resilience and growth in Zambia. Studies indicate that MSMEs engaging with MFIs experience improved livelihoods, which correlates with higher investment levels in their businesses, (ibid). However, while financial inclusion has shown positive impacts, challenges remain, such as structural barriers and varying levels of access across different demographics, particularly in rural areas. This highlights the need for continued efforts to ensure equitable access to financial services for all MSMEs, addressing issues such as digital literacy and infrastructure limitations, as emphasized in the NFIS.

2.5 Main Challenges and Limitations Encountered During the Implementation of the NFIS

The implementation of the National Financial Inclusion Strategy (NFIS) faced several significant challenges that hindered its effectiveness in promoting economic growth. These challenges primarily stemmed from structural gaps and a lack of targeted focus on the most vulnerable populations. As noted in the NFIS (2024-2028), despite the progress made in overall financial inclusion rates, disparities persist across different segments of the population, particularly in rural areas and among underserved groups. These disparities underscore the need for more targeted and inclusive financial inclusion initiatives.

One of the key challenges encountered was the digital divide. Rural areas experienced limited access to digital financial services, exacerbating existing inequalities (Machaca et al., 2024). The lack of reliable internet connectivity and limited access to mobile devices in rural communities hindered the adoption and usage of digital financial platforms, preventing these areas from fully benefiting from financial inclusion initiatives. This issue is explicitly addressed in the NFIS (2024), which emphasizes the importance of expanding digital infrastructure and promoting digital literacy in rural areas to bridge the digital divide and enhance financial inclusion.

Another significant challenge was the financing limitations faced by Micro and Small Enterprises (MSEs). MSEs struggled with inadequate financing options, which stifled their growth potential (Machaca et al., 2024). The limited availability of suitable financial products and services tailored to the specific needs of MSEs hindered their ability to access credit and invest in their businesses. This issue is highlighted in the NFIS, which recognizes the importance of developing innovative financial solutions for MSEs, such as credit guarantee schemes and tailored loan products, to address their financing

constraints and unlock their growth potential.

Machaca et al., (2024) Furthermore, financial education gaps and the rise of digital fraud presented additional obstacles. A lack of financial literacy among the population limited the effective use of available financial services. Without adequate financial knowledge and skills, individuals and businesses may struggle to make informed financial decisions and effectively manage their finances. Additionally, the increased reliance on digital platforms led to a rise in financial fraud, undermining trust in financial systems, (ibid). The NFIS (2024-2028) emphasizes the importance of promoting financial literacy and strengthening consumer protection mechanisms to address these issues and ensure the safe and effective use of financial services.

These challenges collectively restricted the NFIS's ability to foster inclusive economic growth, particularly among marginalized groups. The strategy's failure to explicitly address the needs of the poorest populations limited its overall impact on poverty reduction and economic empowerment, (ibid). Conversely, some argue that the NFIS's broad objectives may have diluted its focus, suggesting that a more targeted approach could yield better results. This perspective emphasizes the need for tailored interventions that directly address the unique challenges faced by vulnerable communities. As such, the NFIS seeks to address these gaps through a more focused and targeted approach, prioritizing financial inclusion for specific sectors and underserved populations.

2.6 Gaps in the Literature

While the existing literature highlights the positive impact of financial inclusion on economic growth and MSME development in Zambia, several gaps remain that warrant further investigation. A primary gap concerns the limited exploration of the heterogeneous effects of financial inclusion across different types of MSMEs.

2.7 Theoretical Framework

Financial Intermediation Theory

Financial intermediation theory asserts that financial institutions play a vital role in channelling funds from savers to borrowers, stimulating investment and economic growth (Levine, 1997). In Zambia, an efficient financial intermediation system facilitates access to credit and capital, encouraging investment in productive activities and contributing to economic growth (Adams and Canagarajah, 2020).

Access Theory

The access theory emphasizes that expanding access to formal financial services empowers individuals and businesses to participate more actively in the economy, leading to increased investment, savings, and overall economic growth (Demirgüç-Kunt and Klapper, 2019). In Zambia, improving financial services access, particularly in rural and low-income areas, can unlock entrepreneurial potential, stimulate investment, and spur economic growth.

2.8 Conceptual framework

The conceptual framework shows the proposed link of the study variables. Economic growth (such as GDP growth rate, unemployment rate, poverty reduction) is dependent on macro-economic factors, therefore it is the dependent variable. Similarly, the independent variables are the financial inclusion variables which are financial accessibility, financial usage and financial development. The financial inclusion variables (such as access to credit, savings, mobile money services) are believed to influence the economic growth in Zambia. Moderating Variables: These could be factors like education level, infrastructure, or government policy that affect the relationship between financial inclusion and economic growth.

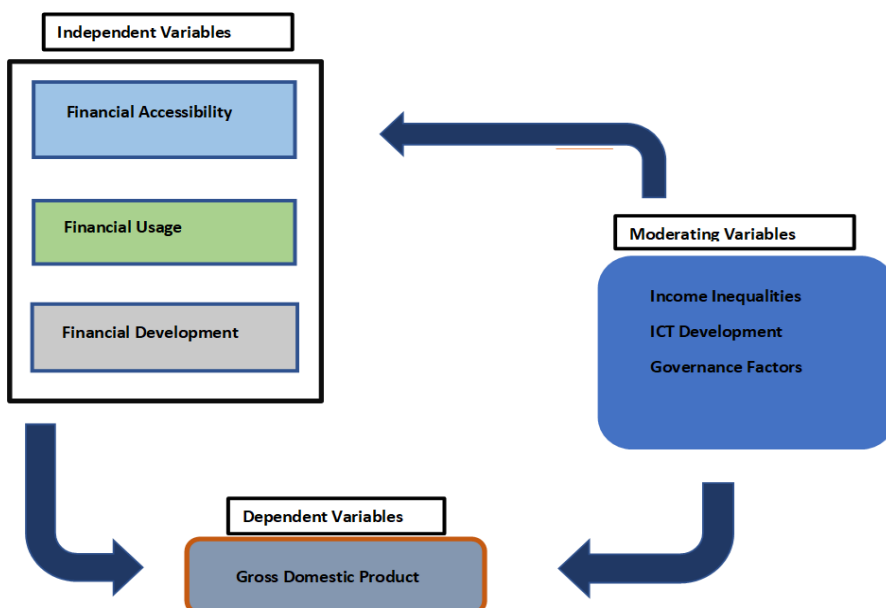


Figure 1: Conceptual Framework (Source: Authors)

3 Research Methodology

This study employed a mixed-methods research design, combining both quantitative and qualitative methodologies to provide a comprehensive understanding of how financial inclusion impacts economic growth in Zambia, (Creswell, 2018). This approach is supported by studies that have successfully used mixed methods to explore complex issues like mobile money adoption (Kabala, 2023). In research, a sample refers to a subset of the population that is selected for study purposes. The sample represents a smaller, manageable group that researchers use to make inferences and draw conclusions about the entire population (Taherdoost, 2018). Since studying the entire population can be impractical, time-consuming, and costly, the researcher will use 200 samples to gather data and conduct analyses that provide insights into the characteristics and behaviours of the bank (Ponto, 2015). Roscoe's (1975), set of guidelines for determining sample size has been a common choice in the last several decades. The logic behind the rule of 30 is based on the Central Limit Theorem (CLT). Therefore, sample size of 400 is appropriate for a population of 3,079,964 when aiming for a 95% confidence level and a 5% margin of error. This is a standard approach for quantitative research studies. Yamane (1967) provides a simplified formula to calculate sample sizes. A 95% confidence level and $e = 0.05$ are assumed. $n = N / [1 + N(e)^2]$ Where n is the sample size, N is the population size, and e is the level of precision (Yamane, 1967). Table 3.1 below shows the distribution of population and sample size:

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

$$n = 3,079,964 / (1 + 3,079,964(0.05)^2)$$

$$n = 400$$

For this study, selecting an appropriate sampling technique is crucial to ensure that the sample is representative and reliable. Given the diverse nature of Zambia's population and the focus on financial inclusion across different demographic groups (e.g., rural communities, women, youth), a combination of probability and non-probability sampling methods could be employed (Berndt, 2020; Farrugia, 2019).

Quantitative data was counter-checked and coded. The quantitative data was being doublechecked, cleaned, and then coded. Coding of quantitative data was followed by entering it on statistical package for social sciences software for analysis. The goal is to produce statistics called descriptive, and finally micro soft excel was used where some statistics were manipulated to make figures and graphs. Data was turned into tables, allowing for a variety of graphical presentations. After the statistics are used to create tables, graphs, and figures, objectivity in terms of interpretation, valid conclusions, and recommendations became possible.

4 Findings

4.1 What are the channels through which financial inclusion influenced economic growth in Zambia?

The study found that 213 respondents representing 96.8% shows that access to formal savings has influenced their consumption patterns, 100% who have access to mobile money facility, with 61 respondents representing 27.7% used mobile money on weekly daily, 83 representing 37.7% weekly, 67 representing 30.5% monthly. Furthermore, the study found that 74 respondents representing 33.6% had excellent financial services, 97 representing 44.1% had good services, 40 representing 18.2% had fair services. This finding agrees with what Wilson, (2019), that mobile phone market is an important part of the financial services sector in Zambia. According to the finding by Wilson (2019), the mobile market comprises of about 8 million internet users and approximately 17 million active mobile phone subscribers.

The study further found that 130 respondents representing 59.1, and 57 respondents representing 25.9% had easy access to banking services. However, the study shows that only 33 respondents representing 15% had savings account, 43 representing 19.5% had access to credit facilities, 30 representing 13.6% with insurance products, 114 respondents representing 51.8% with mobile money transactions. This result shows that mobile banking is covering a big market share as compared to conventional banking. The growth in agency services on mobile money platforms has facilitated improvements in financial inclusion. In particular, mobile money witnessed unprecedented growth in 2019, with the global industry recording over 1 billion registered users. The biggest growth was in sub-Saharan Africa, where digital financial services are being used to reach all people with products and services to improve their livelihoods and quality of life (UNCDF, 2020).

These findings align with access theory which emphasizes that expanding access to formal financial services empowers individuals and businesses to participate more actively in the economy, leading to increased investment, savings, and overall economic growth (Demirgüç-Kunt and Klapper, 2019). In Zambia, improving financial services access through mobile banking, particularly in rural and low-income areas, can unlock entrepreneurial potential, stimulate investment, and spur economic growth.

4.2 The Impact of Financial Inclusion on Economic Growth in Zambia

The findings shows that 130 respondents representing 59.1, 57 have very easy access to banking services and

57 respondents representing 25.9% have somewhat easy access to banking system. Further the study shows that 206 respondents representing 93.6% agreed that increased access to credit boosted their business investment while 213 respondents representing 96.8% shows that access to formal savings has influenced their consumption patterns. Most importantly, 57 representing 25% had access to agriculture finances. This align with Mwakalila (2024) who found that the overall effect of financial inclusion on economic growth in Zambia has been notably positive, primarily driven by increased access to financial services and the proliferation of digital platforms. This trend aligns with broader findings across Africa, indicating that financial inclusion significantly contributes to economic development. According to the Zambia National Financial Inclusion Strategy (NFIS) 2024-2028, financial inclusion in Zambia increased from 59.3% in 2015 to 69.4% in 2020, highlighting the progress made during the previous strategy period (Zambia NFIS, 2024-2028). This expansion has enabled marginalized groups to participate more fully in the economy, fostering a more inclusive growth model. The rise in mobile money accounts has been particularly impactful, facilitating financial transactions for previously unbanked and underserved populations.

Therefore, the study responds to the conceptual framework which shows the proposed link of the study variables. Economic growth such as GDP growth rate, unemployment rate, poverty reduction) is dependent on macro-economic factors, therefore it is the dependent variable. Similarly, the independent variables are the financial inclusion variables which are financial accessibility, financial usage and financial development. The financial inclusion variables (such as access to credit, savings, mobile money services) are believed to influence the economic growth in Zambia. Moderating Variables: These could be factors like education level, infrastructure, or government policy that affect the relationship between financial inclusion and economic growth. Mahmood et al., (2024) found that enhanced financial inclusion has led to increased investment levels among MSMEs, contributing to overall economic resilience and growth in Zambia. Studies indicate that MSMEs engaging with MFIs experience improved livelihoods, which correlates with higher investment levels in their businesses. The Capabilities theory for this study confirms that individuals' capabilities and freedoms to lead valued lives, including access to financial resources and opportunities (Sen, 2020). In Zambia, financial inclusion can empower individuals to invest in education, health, and entrepreneurship, improving productivity, income levels, and overall economic growth (Mulenga and Bhargava, 2018).

4.3 The Effectiveness of the National Financial Inclusion Strategy interventions in Fostering Economic Growth in Zambia

Using the thematic analysis; Mobile money, Agent Banking and Bank to wallet were determined as the most popular NFIS tools in Zambia. The respondents indicated that these tools have made it easy for both rural and urban communities to transfer money, purchase airtime, and pay bills. They also mentioned that these tools are less time-consuming, with low transaction costs for receiving and sending payments within and outside the country. According to the thematic analysis the following themes were detected;

- Job creation: Mobile money services have enabled small business owners to expand their operations and, in the process, create employment for the youth.
- Enhanced financial access for households, MSMEs, and informal services.
- Reduced transaction costs and time lags: Transactions can be conducted in the comfort of homes or by walking/traveling a short distance to the service centres.
- Laying the infrastructure for digital commerce and credit expansion: Consumers are able to access credit easily and meet their daily needs using tools like mobile money, Siliza and Zamcash.

However, studies caution that rapid expansion without proper risk management can lead to increased defaults and financial instability (Beck et al., 2015). In Zambia, where NBFIs play a key role in advancing inclusion, the challenge lies in balancing outreach with sustainability. Bank account penetration, a key indicator of financial inclusion, is linked to improved institutional performance through increased deposits, liquidity, and customer engagement (Demirgüç-Kunt et al., 2015; Sahay et al., 2015). Yet, high costs of service delivery and the need for tailored financial products remain barriers. Addressing these barriers requires innovative models that integrate technology, risk assessment, and customer-centric services. This study therefore explores how NBFIs in Zambia can strategically leverage financial inclusion while managing associated risks to achieve sustainable financial outcomes.

4.4 Regression analysis

The Research question to determine the channels through which financial inclusion influenced economic growth in Zambia was subjected to a regression analysis. The regression model based on the ANOVA table 1 was found insignificant with F value=1.96, p value=0.072 which implies that the group of independent variables does not show a statistically significant relationship with the dependent variable, or that the group of independent variables does not reliably predict the dependent variable. Taking note that this is an overall test of significance to assessing whether the group of independent variables when used together reliably predicts the dependent variable and does not address the ability of any of the independent variables to predict the dependent variable. The ability of each independent variable to predict the dependent variable is addressed in the table below where each of the individual variables is listed.

In the table the estimated regression, standard errors and p-values for financial inclusion are given. SME growth and consumption were not a significant variable for determining financial inclusion ($p=0.15$) and ($p=0.08$) respectively. However, increase in investment ($p=0.044$) was significantly variable to the level of income. This shows that there was

relationship between the level of income and the use of financial inclusion. The squared multiple correction provides a measure of the contribution of all the variables taken together. The collective variables accounted for about 1.6%. which is very low therefore, the contribution of these variables to predict economic growth is very low.

Table 1: ANOVA Summary output

SUMMARY OUTPUT									
<i>Regression Statistics</i>									
Multiple R	0.209441								
R Square	0.043866								
Adjusted R Square	0.016853								
Standard Error	7293.429								
Observations	220								
<i>ANOVA</i>									
		<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	6	5.22E+08	87042672	1.963586	0.072174				
Residual	214	1.14E+10	53194109						
Total	220	1.19E+10							
		<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	12025.28	4719.184	2.54817	0.01153	2723.247	21327.32	2723.247	21327.32	
Increased investment:	-5004.79	2474.537	-2.02251	0.044368	-9882.38	-127.199	-9882.38	-127.199	
Influenced consumption:	-2058.58	1165.233	-1.76667	0.07871	-4355.38	238.2265	-4355.38	238.2265	
SME growth:	6687.574	4612.515	1.449876	0.148557	-2404.21	15779.35	-2404.21	15779.35	

5 Conclusions and Recommendations

This study has shown that there is a link between financial inclusion and economic growth. That financial and inclusion significantly contributes to economic growth by strengthening the financial system and positively impacting GDP per capita. The study suggests that an inclusive financial sector drives economic development. This relationship works by providing broader access to financial services, which fosters investment, entrepreneurship, and consumption. Increased access to financial resources for individuals and businesses can lead to increased economic activity and, ultimately, economic growth. Therefore, the access theory which emphasizes that expanding access to formal financial services empowers individuals and businesses to participate more actively in the economy, leading to increased investment, savings, and overall economic growth. In Zambia, improving financial services access, particularly in rural and low-income areas, can unlock entrepreneurial potential, stimulate investment, and spur economic growth. This result shows that mobile banking is covering a big market share covering as compared to conventional banking. The growth in agency services on mobile money platforms has facilitated improvements in financial inclusion. The rise in mobile money accounts has been particularly impactful, facilitating financial transactions for previously unbanked and underserved populations. The study further concludes that SMEs with access to financial services are better positioned to invest in their businesses, create jobs, and contribute to overall economic diversification. Furthermore, the broader adoption of digital financial services has been shown to stimulate economic activity, particularly among low-income populations, by reducing transaction costs and increasing efficiency (Fundji, 2024). The study further concludes that Mobile money, Agent Banking and Bank to wallet were determined as the most popular NFIS tools in Zambia. The respondents indicated that these tools have made it easy for both rural and urban communities to transfer money, purchase airtime, and pay bills.

Declaration of Competing Interests

The authors declare that they are not aware of any competing financial interests or personal relationships that may have influenced the work described in this document.

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Ethical considerations

The article followed all ethical standards appropriate for this kind of research.

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