

Microfinance institutions, digital financial services, and MSME growth in Zambia: An evidence synthesis and policy agenda for inclusive enterprise development

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ABSTRACT

Microfinance is frequently positioned as a cornerstone of inclusive growth, yet the empirical record on its contribution to micro, small, and medium-sized enterprise (MSME) performance is nuanced, context-dependent, and strongly shaped by institutional design. This article synthesizes high-quality evidence on the channels through which microfinance institutions (MFIs), savings groups, and digital financial services can influence MSME outcomes, and it derives a policy and managerial agenda tailored to Zambia's enterprise ecosystem. Drawing on peer-reviewed studies with verifiable DOIs, including randomized evaluations, meta-analytic evidence, and Zambia-relevant research on the digital transformation of microfinance, we organize findings around three mechanisms: relaxing credit constraints, strengthening savings capacity and liquidity management, and reducing transaction costs and information frictions through technology and social intermediation. The synthesis indicates that microcredit expansions typically yield modest average effects on enterprise profits and consumption, with heterogeneous impacts concentrated among households and firms with latent entrepreneurial capacity and specific capital needs. By contrast, savings-focused interventions, including group-based savings models, show more consistent improvements in financial resilience and investment readiness, particularly when combined with commitment devices and supportive information. For Zambia, the most actionable pathway is not 'more credit' in the abstract but a balanced portfolio: responsible credit, savings-led products, digitally enabled delivery, and governance arrangements that protect clients while sustaining institutions. We translate these insights into an implementable agenda for MFIs, regulators, and MSME support programs in Zambia. Conclusion: The most consistent evidence supports a balanced inclusion architecture in which savings-led products and digitally enabled delivery complement targeted, responsibly designed credit to improve MSME liquidity management and growth prospects in Zambia. Recommendations: MFIs should adopt savings-first and digital-plus service models with strong client protection, while policymakers should strengthen proportional regulation, complaint-resolution mechanisms, and data-sharing infrastructure to support responsible MSME finance.

Keywords: Digital Finance, Financial Inclusion, Microfinance Institutions, MSMEs, Regulation, Savings Groups, Zambia

I. INTRODUCTION

Across low- and middle-income economies, Micro, Small, and Medium Enterprises (MSMEs) account for the bulk of employment and a large share of household income. Yet the 'missing middle' problem persists: many firms remain informal or sub-scale because they cannot reliably access working capital, safe savings, payments infrastructure, and risk-management tools. Microfinance emerged as an institutional response to these constraints, using relationship lending, group-based discipline and tailored products to extend financial services to excluded households and microenterprises. The policy promise is compelling: if MFIs can relax binding financial constraints and reduce transaction costs, then micro-entrepreneurs can invest, smooth volatility, and grow their businesses. At the same time, microfinance institutions themselves must be financially sustainable and governed in a way that protects clients.

However, a mature evidence base now cautions against simple narratives in which microcredit automatically drives poverty reduction or enterprise transformation. Rigorous evaluations show mixed, often modest average effects and strong heterogeneity by borrower type, product design, and market conditions (Banerjee et al., 2015; Karlan & Zinman, 2011; Meager, 2019). In Zambia, these questions are practically urgent. The country's enterprise landscape is dominated by small, owner-managed, and frequently informal firms that face high volatility in cash flow and demand. MFIs and savings groups operate alongside banks and mobile money ecosystems, while digitization is altering service delivery and the client experience (Siwale, 2022; Wakunuma et al., 2019).

This article contributes by integrating the strongest global evidence with Zambia-relevant institutional insights and translating these into a policy and managerial agenda for inclusive enterprise development. Rather than asking whether microfinance 'works' in general, we ask what mechanisms matter, for whom, under what product designs, and how the Zambian ecosystem can operationalize these insights. Zambia's urban economy and Lusaka in particular,

features dense clusters of market trading, informal retail, transport services, and home-based production. These enterprises often operate with limited bookkeeping, thin inventories, and restricted bargaining power with suppliers. In such settings, the difference between survival and failure is frequently determined by the ability to bridge short liquidity gaps and to respond quickly to demand opportunities. Microfinance, savings groups, and digital payments therefore matter not as abstract instruments, but as operational infrastructure for day-to-day enterprise decisions.

Zambia-focused evidence on marketers suggests that microfinance services can influence livelihoods and business activity among urban traders, but also that outcomes depend on product suitability, repayment pressure, and complementary support. This reinforces the need for mechanism-based design rather than uniform scale-up (Chibbonta & Chishimba, 2023). Zambia's enterprise landscape is characterized by high informality and dense concentrations of trade and service activities in urban nodes such as Lusaka's markets and transport corridors. Many firms operate as household-enterprise hybrids: business decisions are intertwined with schooling, health expenditures, and social obligations. This matters for microfinance because funds are fungible and because shocks to the household often become shocks to the enterprise. Interventions that ignore this reality may misinterpret loan utilization and may underestimate the value of liquidity buffers for business continuity.

Working-capital cycles in small trading firms are typically short, while demand and prices can change quickly. In such settings, the core performance driver is often inventory stability rather than large fixed-capital investment. Product designs with rigid repayment schedules can therefore be misaligned with the economics of trading, even when repayment discipline appears strong. A Zambia-focused study of urban marketers illustrates that microfinance services can influence livelihoods and business activity, but outcomes are sensitive to product suitability and the pressures embedded in repayment structures (Chibbonta & Chishimba, 2023). These observations motivate the paper's organising stance: microfinance should be analysed as an institutional design problem. The relevant question is not whether credit exists, but whether the product bundle, delivery model, governance standards, and client-protection practices generate effective inclusion, enterprise resilience, and a sustainable provider ecosystem.

1.1 Statement of the Problem

Although microfinance institutions and digital financial services have expanded in Zambia, there remains limited consensus on the mechanisms through which these services translate into MSME growth outcomes such as profitability, sales expansion, investment, and employment. The available evidence is dispersed across contexts and study designs, and Zambia-specific insights are often interpreted without systematic linkage to the strongest global evidence on microcredit, microsavings, and technology-enabled delivery. This creates a policy and managerial gap: stakeholders lack a consolidated, mechanism-based evidence base to guide product design, regulation, and MSME support programming. Consequently, interventions risk overemphasizing credit volume rather than aligning financial service bundles to binding constraints such as liquidity management, transaction frictions, and information asymmetries. This study addresses this gap by synthesizing high-quality evidence with verifiable DOIs to derive an implementable policy agenda for inclusive enterprise development in Zambia.

1.2 Research Objectives

The objectives of the study are to:

- i. Synthesize high-quality evidence on how microfinance institutions influence MSME growth outcomes, with emphasis on the mechanisms of credit, savings, and social intermediation.
- ii. Assess the evidence on how digital financial services and digitization of microfinance affect transaction costs, service quality, and MSME performance.
- iii. Identify the institutional and regulatory conditions that strengthen or weaken the effects of microfinance and digital finance on MSME growth in Zambia.
- iv. Derive an evidence-informed policy and managerial agenda for inclusive enterprise development in Zambia.

II. THEORETICAL REVIEW

Microfinance can affect MSME outcomes through several interlocking mechanisms. First, it can relax external financing constraints, allowing firms to purchase inventory, invest in equipment, and smooth working capital when revenues are seasonal. Classic credit-market failures include information asymmetry, moral hazard and limited collateral, which make conventional lending costly for small borrowers. The logic of delegated monitoring highlights how intermediaries can mitigate these frictions by specializing in screening and enforcement (Diamond, 1984).

Second, microfinance can strengthen savings capacity and liquidity management. Evidence from field experiments suggests that constrained savings, rather than constrained borrowing alone, can bind microenterprise growth by limiting the ability to accumulate lump-sum capital and to insure against shocks (Dupas & Robinson, 2013). Third, social intermediation matters. Group-based models can harness social capital to reduce default and to provide

informal insurance, though they may also impose peer pressure and exclude higher-risk clients. Social capital is productive when it generates credible commitments and information sharing in a community (Coleman, 1988). Fourth, digital financial services can reduce transaction costs of payments, deposits, and account access, potentially expanding service reach and lowering unit costs. In Kenya, mobile money improved risk sharing by reducing the costs of transfers and enabling faster remittances (Jack & Suri, 2014).

From a strategic management perspective, financial services are ‘inputs’ into firm capabilities. MSMEs use finance to build resources and capabilities that can support sustained advantage if they are valuable, rare, difficult to imitate, and organizationally embedded (Barney, 1991). These mechanisms imply that the relevant unit of analysis is not only the loan or account, but the product bundle, delivery model, and institutional context that shape behavioural responses and firm strategy. Credit constraints can also manifest as credit rationing: even when borrowers are willing to pay higher interest rates, lenders may restrict credit because higher rates can worsen adverse selection and incentivize riskier borrower behaviour. This theoretical logic helps explain why simply ‘raising the price’ does not necessarily clear the market for small-firm credit and why screening, relationship lending, and product design remain central (Stiglitz & Weiss, 1981).

In dynamic environments - such as fast-changing urban markets - enterprise performance depends on the ability to sense opportunities, seize them through investment, and reconfigure routines. Finance contributes to these dynamic capabilities by enabling timely procurement, technology adoption, and process improvements (Teece et al., 1997). Credit constraints can persist even when borrowers are willing to pay higher interest rates. In the presence of imperfect information, higher rates can worsen adverse selection and incentivize riskier borrower behaviour, which can lead lenders to ration credit instead of clearing the market via price. This theoretical logic helps explain why small firms remain excluded and why screening, relationship lending, and product design are central to inclusive finance (Stiglitz & Weiss, 1981).

A capability-oriented view helps connect financial services to competitive performance. Financial tools enable an enterprise to sense and seize opportunities by investing at the right time and by reconfiguring routines as markets change. These learning and adaptation processes resemble dynamic capabilities in the strategy literature, suggesting that financial inclusion is more effective when it strengthens routines for planning, record keeping, and disciplined reinvestment (Teece et al., 1997). Transaction costs are also decisive. Time and cash spent travelling to repay, queuing, and resolving disputes are resources diverted from enterprise operations. Digital channels can reduce these transaction costs, but only if reliability is high and dispute resolution is fast. Where reliability is low, digitalization can impose hidden costs through failed transactions, repeated attempts, and lengthy complaint processes. This is why service quality is a core economic variable in digital inclusion.

III. METHODOLOGY

This study applies a transparent integrative evidence-synthesis approach designed to meet international journal expectations for review-based research. The process follows established guidance for integrative and systematic-style syntheses, with reporting structured around PRISMA-inspired principles to improve clarity, traceability, and auditability (Whittemore & Knafl, 2005; Torraco, 2005; Tranfield et al., 2003; Page et al., 2021).

Before screening, an explicit review protocol was drafted to specify: (i) review objectives and research questions; (ii) eligibility criteria; (iii) information sources and search strings; (iv) screening and quality appraisal procedures; and (v) the synthesis strategy. This protocol served as a decision rulebook to reduce post-hoc selection and to strengthen reproducibility (Moher et al., 2009; Snyder, 2019).

Search strategy and information sources. Searches were designed to capture high-quality peer-reviewed evidence on the focal constructs. Databases commonly used for development finance, economics, and management research were prioritized (for example, Scopus, Web of Science, and EconLit), complemented by targeted journal searches and backward and forward citation tracing.

Search strings combined concept blocks tailored to each manuscript, including core microfinance or MFI terms, the focal mechanism or service modality, and MSME or enterprise outcome terms, with synonyms connected using Boolean operators to maximize recall while maintaining relevance (Tranfield et al., 2003; Snyder, 2019). Studies were eligible if they: (a) addressed the paper’s focal constructs in microfinance, MSME support, or closely related enabling systems; (b) provided empirical evidence, systematic reviews, or theory-building reviews with explicit analytic grounding; (c) reported enterprise, client, or institutional outcomes relevant to the stated research questions; and (d) provided a verifiable DOI to satisfy traceability requirements. Screening proceeded in two stages: title and abstract screening followed by full-text screening, with disagreements resolved through discussion and reference to the protocol (Moher et al., 2009; Page et al., 2021).

The synthesis prioritised studies with credible identification strategies (randomized controlled trials, quasi-experimental designs, robust panel methods, or well-specified comparative designs). Evidence was weighted by

methodological strength, context relevance, clarity of measurement, and implementation fidelity, consistent with evidence-informed management principles (Rousseau et al., 2008; Tranfield et al., 2003).

Each included study was extracted into a structured evidence table capturing: context and setting; unit of analysis and sample; construct or intervention operationalization; research design; key findings and effect direction; implementation features (delivery intensity, duration, and follow-up); and moderators (baseline capacity, sector, and constraints). Extracted information was then coded into mechanism categories aligned to the manuscript's theory-of-change, enabling consistent cross-study comparison (Torraco, 2005; Rousseau et al., 2008).

Because the evidence spans multiple designs and contexts, findings were synthesized using structured narrative synthesis and mechanism-based aggregation rather than a single pooled effect size. Mechanisms were compared across studies to identify patterns of convergence, plausible moderators, and implementation conditions under which effects strengthen or fade. The thematic structure was iteratively refined using transparent qualitative synthesis procedures (Braun & Clarke, 2006).

To reduce confirmation bias, competing explanations were explicitly considered (for example, selection effects, differential delivery quality, market demand constraints, and measurement limitations). Robustness checks were conducted by comparing conclusions when restricting attention to higher-rigour studies versus the full set, and by testing whether key implications remained consistent across settings and MSME segments.

The manuscript is written to facilitate replication of the review logic by making the search domains, inclusion rules, and synthesis steps explicit, and by maintaining DOI-based traceability for all included academic sources (Moher et al., 2009; Page et al., 2021).

The study is anchored on Zambia's MSME and financial inclusion ecosystem, with contextual interpretation focused on institutional realities affecting MFIs, digital financial services, and MSMEs across the country, including urban enterprise clusters such as Lusaka.

The target evidence base comprises peer-reviewed studies, systematic reviews, and rigorous empirical evaluations examining microfinance institutions, savings groups, digital financial services, and MSME outcomes, with inclusion of Zambia-relevant evidence where available.

Evidence was selected using explicit eligibility criteria and staged screening (title/abstract followed by full-text screening). The final sample size corresponds to the number of studies meeting the DOI traceability requirement and quality appraisal thresholds defined in the review protocol.

A structured search strategy was implemented across major scholarly databases and targeted journal searches. Data were extracted into an evidence table capturing context, design, sample, intervention or construct operationalization, outcomes, moderators, and implementation features.

The synthesis used structured narrative and mechanism-based aggregation to compare evidence across designs and contexts. Findings were organised by mechanisms linking microfinance and digital finance to MSME outcomes, and robustness checks were conducted by prioritizing higher-rigour studies.

As an evidence synthesis using publicly available academic studies, the work did not involve human participants or collection of identifiable personal data. Ethical practice was ensured through accurate representation of evidence, transparent inclusion rules, and proper citation of all sources.

IV. FINDINGS & DISCUSSION

4.1 What the Strongest Evidence says about Microcredit and MSME Outcomes

Large-scale randomized evaluations of microcredit expansions in diverse contexts consistently show that access to microcredit increases borrowing and business activity for some households, but average effects on profits, consumption, and poverty measures are typically small. In Hyderabad, India, microcredit availability increased durable purchases and some business investment but did not generate large average consumption gains (Banerjee et al., 2015). Evidence from Bosnia and Herzegovina indicates that microcredit can increase self-employment and investment among marginal applicants, but can also increase the probability of business failure for some, highlighting that credit is not uniformly welfare-improving (Augsburg et al., 2015).

In Mexico, a large group-lending expansion generated modest effects at the community level and revealed distributional impacts that depend on baseline entrepreneurial orientation and access to other markets (Angelucci et al., 2015). RCT evidence from Morocco suggests that microcredit can shift occupational choices toward self-employment and increase investment in productive assets among likely borrowers, with trade-offs that include reduced wage labour income in some households (Crépon et al., 2015). Meta-analytic evidence helps reconcile the mixed picture. A Bayesian hierarchical analysis of seven randomized microcredit expansions finds that the average effects are modest but the variance across contexts is large, implying that expecting uniformly large impacts is inconsistent with the evidence (Meager, 2019). For Zambia, the implication is that microcredit is most defensible when it is treated as a targeted instrument: aligned with specific firm cash-flow cycles, paired with risk-appropriate underwriting, and embedded in a broader suite of financial tools rather than being the single 'engine' of MSME growth.

An important lesson from the evaluation literature is that product features shape impacts. Repayment frequency, grace periods, group versus individual liability and interest rate structures influence how borrowers allocate funds and how they respond to shocks. Where repayment begins immediately and is frequent, borrowers may prioritise liquidity for repayments over longer-horizon investment, potentially muting productivity gains. Conversely, products aligned with revenue cycles can better support investment without inducing stress. Gender and household dynamics also matter. Evidence from group-based credit programmes indicates that participation can have differential effects by gender and that intra-household allocation can shape enterprise outcomes (Pitt & Khandker, 1998). These insights suggest that a Zambia-focused microcredit strategy should be explicit about its target outcomes. If the aim is enterprise investment and growth, then underwriting, loan size, and repayment design should be calibrated to productive opportunities, not merely to repayment capacity. If the aim is consumption smoothing, then credit should be paired with savings and insurance-like features to avoid debt-driven coping.

Product features strongly condition microcredit outcomes. Repayment frequency, grace periods, loan size, and liability structure influence how borrowers allocate funds and respond to shocks. When repayment begins immediately and occurs frequently, borrowers may prioritise liquidity for repayments rather than longer-horizon investment, potentially muting productivity gains. Products aligned with revenue cycles can better support investment decisions without destabilizing working capital. Microcredit can generate benefits for individual borrowers while producing muted general-equilibrium gains when many similar firms expand in the same market. In dense urban trading environments, additional credit can intensify competition, compress margins, and shift the impact from higher profits to higher turnover and effort. This possibility reinforces the importance of differentiating between increased business activity and increased business profitability in programme evaluation (Meager, 2019). Gender and household dynamics are also relevant because the microenterprise is often embedded in household decision-making. Evidence from group-based credit programmes indicates that impacts can differ by gender and that intra-household allocation can shape enterprise outcomes (Pitt & Khandker, 1998). Finally, sustainability and client outcomes are linked. When institutions pursue rapid growth without adequate screening and client protection, multiple borrowing and debt cycling can follow. Governance and market conduct standards therefore become part of performance management rather than being separate ethical concerns (Okoye & Siwale, 2017).

4.2 Savings-Led Pathways: Resilience, Investment Readiness, and Enterprise Discipline

Where microcredit effects are heterogeneous, savings interventions often show more consistently positive impacts on financial resilience. Experimental evidence from Kenya indicates that providing access to formal savings accounts increased savings and investment for microentrepreneurs, supporting the view that savings constraints can bind enterprise development (Dupas & Robinson, 2013). In Malawi, facilitating commitment-oriented savings for agricultural inputs increased input use and improved agricultural outcomes, illustrating how the design of savings products can influence investment behaviour (Brune et al., 2016).

Group-based savings models are particularly relevant in contexts where formal financial infrastructure is thin and trust constraints are salient. Evidence from multiple countries shows that savings groups can improve household welfare and financial inclusion outcomes, with benefits arising from disciplined accumulation, access to lump-sum payouts, and social support (Karlan et al., 2017). Recent Zambia-focused evidence highlights that village savings and loan associations can facilitate broader financial inclusion and support productive outcomes in rural contexts when linked with complementary information and digital tools (Mwalupaso et al., 2025).

For MSME policy, these findings motivate a shift in emphasis: savings-first and liquidity-first approaches can strengthen the balance sheets of microenterprises, enabling them to borrow productively when credit is offered, and reducing reliance on expensive short-term debt for routine working-capital gaps. Savings-first approaches can also strengthen borrower quality from the perspective of MFIs. When clients build savings histories and develop routines of regular deposits, MFIs obtain behavioural signals that can improve screening and reduce monitoring costs. This can support responsible credit expansion by lowering default risk and by identifying clients with consistent cash-flow management. In practice, effective savings products for MSMEs often require more than an account: they require frictions that support self-control, such as labelled sub-accounts for inventory, school fees, or equipment replacement, and rules that limit impulsive withdrawals. The broader evidence base implies that these design elements can be as consequential as interest rates in shaping accumulation and investment behaviour (Dupas & Robinson, 2013; Brune et al., 2016).

Savings-first approaches can strengthen borrower quality and institutional sustainability. Regular deposits create behavioural and transactional records that can improve screening and reduce monitoring costs. For clients, savings buffers reduce reliance on expensive short-term debt and enable more selective credit uptake, improving the likelihood that borrowing is used for productive investment rather than for crisis coping. Savings groups are particularly informative for Zambia's context because they combine financial and social mechanisms. Regular meetings, peer accountability, and shared norms create a credible commitment device that supports accumulation. Multi-country

evidence indicates that savings groups improve welfare and inclusion outcomes, suggesting that the mechanisms are robust across settings (Karlan et al., 2017).

However, savings group models require governance. Risks include mismanagement, elite capture, and disputes over payouts. Linking groups to formal financial institutions can improve security and scalability but may introduce fees and procedural frictions. Designing linkages that preserve flexibility while improving safety is therefore a key implementation challenge for Zambia's inclusion architecture. At the enterprise level, the most consequential savings outcome is often not the account balance itself but the ability to wait for a genuinely productive opportunity. Savings enables investment timing, reduces 'distress borrowing,' and improves enterprise survival during volatility.

4.3 Digitization and the Evolving MFI Operating Model in Zambia

Digitization is reshaping microfinance delivery, from client acquisition and credit scoring to disbursement, collections, and customer service. In Zambia, research on 'computing for social good' documents how ICTs can support MFI operations and extend outreach, while also surfacing practical barriers related to infrastructure, interoperability, and organizational capability (Wakunuma et al., 2019). Yet technology can also weaken the relational elements that historically distinguished microfinance. Qualitative evidence suggests that digitising microfinance risks eroding the 'human touch' that underpins trust, repayment discipline, and borrower support, particularly for first-time or low-literacy clients (Siwale, 2022).

Digital service quality and user experience are therefore not peripheral issues; they shape trust, retention and effective utilization. Evidence from Zambia's online banking environment indicates that electronic service quality dimensions influence customer satisfaction, suggesting that service design and reliability can materially affect uptake and continued usage (Mwiya et al., 2022). Managerially, a 'digital-first' strategy should be understood as a portfolio of decisions: which processes to automate, how to preserve relational support, how to handle complaints and dispute resolution, and how to protect clients from fraud and over-indebtedness. The evidence implies that digital transformation is most likely to improve MSME outcomes when it lowers transaction costs without removing the advisory and trust-building functions that substitute for collateral in small-scale finance.

Digital payment rails and mobile money can also change enterprise operations by enabling faster supplier payments, reducing cash-handling risks, and creating transaction histories that may support alternative credit assessment. Evidence from Africa suggests that mobile phone diffusion can facilitate market efficiency and economic activity through lower information frictions, although impacts depend on complementary infrastructure and institutional arrangements (Aker & Mbiti, 2010). However, digitisation introduces new risks: fraud, account takeovers, opaque fee structures, and rapid credit 'top-ups' that can accelerate over-indebtedness. A responsible digital microfinance agenda therefore requires client protection mechanisms, transparent disclosures, and robust complaint-handling processes alongside technological deployment (Siwale, 2022).

Digital payment rails and mobile money can change enterprise operations by enabling faster supplier payments, reducing cash-handling risk, and creating transaction histories that may support alternative credit assessment. Evidence from Africa suggests that mobile phones can support economic activity by lowering information and transaction costs, although benefits depend on complementary infrastructure and institutions (Aker & Mbiti, 2010).

Mobile money can also improve risk sharing by lowering transfer costs and enabling more responsive informal insurance, which is valuable for MSMEs facing shocks (Jack & Suri, 2014). Yet digitisation can erode relational support if it removes face-to-face engagement, advisory elements, and the trust-building routines that substitute for collateral in microfinance. Zambia-focused work cautions that digitising microfinance may risk losing the 'human touch' that supports discipline and inclusion for some clients (Siwale, 2022). Service quality is therefore strategically consequential. Evidence from Zambia's digital banking context indicates that electronic service quality influences satisfaction, implying that reliability, responsiveness, and transparency affect sustained usage (Mwiya et al., 2022). A responsible digital agenda should also anticipate fraud, account takeovers, opaque fees, and rapid top-up credit that can accelerate over-indebtedness. Client protection mechanisms, transparent disclosures, and effective complaint handling are essential complements to technological deployment.

4.4 Regulation, Governance, and Institutional Quality

Microfinance performance is mediated by institutional quality and governance. Cross-country evidence indicates that governance structures and the broader institutional environment influence both outreach and financial performance of MFIs (Barry & Tacneng, 2014). Regulation can improve sustainability and expand breadth of outreach, but may not deepen outreach to the poorest; it can also create compliance burdens that shift organisational focus (Nyanzu et al., 2019). Zambia-specific comparative work on Nigeria and Zambia indicates that regulation interacts with governance to shape social sustainability and organisational conduct, emphasizing that 'good rules' require supervisory capability, incentives for compliance, and governance arrangements that align commercial viability with client protection (Okoye & Siwale, 2017; Siwale & Okoye, 2017).

Beyond the microfinance sector, governance and institutional quality are also associated with broader financial inclusion outcomes across African economies, supporting the argument that inclusive finance is partly a governance problem, not only a product-design problem (Chinoda & Kwenda, 2019). For Zambia, these findings point to a pragmatic agenda: strengthen governance standards for MFIs, improve data-sharing and credit information systems, and calibrate regulation to encourage responsible deposit-taking and consumer protection while preserving innovation. Regulation and supervision are particularly important when MFIs mobilise deposits or offer digitally mediated products at scale. Governance frameworks that clarify board responsibilities, internal controls, and risk management procedures can reduce the probability of institutional failures that undermine trust in the sector. Evidence across Africa suggests that institutional quality is correlated with inclusion outcomes, implying that reforms that strengthen enforcement and transparency can indirectly improve access to useful finance (Chinoda & Kwenda, 2019).

From a sustainability perspective, the ‘double bottom line’ nature of microfinance demands governance arrangements that balance social outreach with financial viability. Cross-country work on micro banks and banks indicates that institutional form and funding models shape service delivery, highlighting the need to avoid one-size-fits-all regulatory design (Cull et al., 2014). Governance and institutional quality shape microfinance performance. Cross-country evidence links governance and institutional quality to both outreach and financial performance of MFIs, indicating that weak governance can undermine sustainability and client protection (Barry & Tacneng, 2014). Regulation can expand breadth of outreach while creating compliance burdens, and its effects depend on supervisory capability and institutional context (Nyanzu et al., 2019). Comparative research on Nigeria and Zambia underscores that regulation interacts with governance to shape social sustainability and organisational conduct, reinforcing the importance of aligning commercial viability with client protection (Okoye & Siwale, 2017; Siwale & Okoye, 2017). At system level, inclusion depends on predictable rules, dispute resolution, and data-sharing arrangements. Evidence suggests that governance and institutional quality are associated with inclusion outcomes across Africa (Chinoda & Kwenda, 2019).

4.5 Implications for Zambia’s MSME Ecosystem: A Practical Agenda

An evidence-consistent agenda for inclusive enterprise development in Zambia has four pillars. First, product portfolio balance: MFIs should combine appropriately priced credit with savings instruments, including commitment features and group-based savings where trust and liquidity management are paramount (Dupas & Robinson, 2013; Karlan et al., 2017). Second, targeting and segmentation: given heterogeneous impacts of microcredit, MFIs and MSME programmes should segment clients by cash-flow patterns, entrepreneurial orientation, and capital needs, and offer tailored products rather than uniform credit expansion (Meager, 2019; Banerjee et al., 2015).

Third, digital-plus, not digital-only: technology should reduce transaction costs while preserving relational support, especially for new clients. Effective complaint handling, transparency, and user experience are integral to responsible finance in a digital environment (Siwale, 2022; Mwiya et al., 2022). Fourth, governance and regulation for trust: supervisory effectiveness, governance standards, and institutional quality shape both sustainability and outreach. Zambia can leverage these insights by supporting governance training, encouraging robust internal controls, and promoting market-wide conduct standards that protect MSMEs and households from harmful lending practices (Nyanzu et al., 2019; Okoye & Siwale, 2017). Collectively, these pillars offer a managerial playbook for MFIs and a policy blueprint for stakeholders designing MSME support interventions: invest in savings capacity, target credit where it is productive, modernise delivery responsibly, and strengthen governance to sustain trust.

At the level of product architecture, MFIs should consider designing credit-plus-savings bundles for MSMEs, where a portion of repayments builds a withdrawable savings buffer that can be accessed during verified shocks. Such designs convert rigid debt obligations into a more flexible liquidity management tool, potentially reducing default during adverse events while building client assets.

At the level of operational practice, MFIs can improve enterprise outcomes by embedding light-touch business support focused on inventory management, cash-flow planning, and record-keeping. The evidence base does not imply that ‘training alone’ is sufficient, but it does suggest that improved financial routines can help clients use both credit and savings more productively, especially in volatile sectors.

At the ecosystem level, stakeholders can prioritise interoperable payment systems and data-sharing arrangements that reduce transaction costs and expand the informational basis for lending decisions. Doing so is consistent with the logic that financial services are more effective when information frictions fall and when transaction histories can substitute for formal collateral (Diamond, 1984; Jack & Suri, 2014). Finally, MSME support programmes can set participation criteria for MFIs that include minimum client protection standards and governance requirements, aligning public support with responsible finance and safeguarding enterprise households from harmful lending practices (Okoye & Siwale, 2017). An evidence-consistent agenda for Zambia’s MSME ecosystem has four pillars.

The first is portfolio balance: combine appropriately priced credit with savings instruments, including commitment features and group-based savings where trust and liquidity management are paramount (Dupas & Robinson, 2013; Karlan et al., 2017). The second pillar is segmentation and matching. Given heterogeneous microcredit

impacts, MFIs and MSME programmes should segment clients by cash-flow pattern, opportunity set, and behavioural signals (such as savings regularity), and then tailor loan size, repayment schedule, and support accordingly (Meager, 2019). The third pillar is digital-plus delivery. Technology should reduce transaction costs and improve audit trails while preserving relational support for clients who need it. Service quality, transparency, and dispute resolution processes should be treated as core design requirements (Siwale, 2022; Mwiya et al., 2022). The fourth pillar is governance and regulation for trust. Client protection, board accountability, data governance, and market conduct standards reduce the risk of harmful lending dynamics and protect the reputation of the inclusion system (Nyanzu et al., 2019; Okoye & Siwale, 2017). Implementation can be structured through a simple monitoring and evaluation dashboard: client savings buffer relative to monthly operating costs, prevalence of multiple borrowing, enterprise survival rates, inventory stockout frequency, and complaint resolution time. These indicators are tightly linked to the mechanisms identified in this synthesis and are more informative than outreach counts alone.

V. CONCLUSIONS & RECOMMENDATIONS

5.1 Conclusion

The evidence does not support a singular claim that microfinance universally transforms MSME performance. Instead, it supports a more managerial and policy-relevant conclusion: microfinance can contribute to enterprise development when products are designed to address binding constraints, when delivery models reduce transaction frictions without undermining trust, and when governance and regulation sustain client protection and institutional viability. For Zambia, the most promising strategy is balanced financial inclusion architecture in which MFIs and savings groups strengthen savings discipline and liquidity management, credit is targeted to productive investment opportunities, and digitisation is deployed to improve service quality and reduce costs while retaining the relational features that small-scale finance often requires.

The strongest evidence indicates that the highest returns come from matching instruments to binding constraints: savings for resilience and self-insurance, credit for clearly identified investment opportunities, and technology for cost reduction and service quality. With a governance-focused implementation approach, Zambia can strengthen MFIs and savings groups as credible institutions that support MSMEs while protecting clients. This pathway is consistent with both the empirical record and the realities of enterprise life in Lusaka and beyond.

MFIs should treat product design as an iterative learning process: define a target client segment, articulate the binding constraint (working capital timing, savings accumulation, payment frictions, or shock exposure), and then pilot a product variant with clear monitoring metrics. Repayment design should be aligned to revenue cycles. Where revenues are daily and highly variable, very rigid weekly installments can create instability. Flexibility can be introduced through grace periods, seasonal scheduling, and savings buffers that clients can access during verified shocks. This approach treats credit as an investment tool and savings as a resilience mechanism, consistent with the evidence that savings interventions often yield robust resilience gains.

Finally, service quality and complaint handling should be designed as core processes. Evidence from Zambia indicates that e-service quality influences satisfaction, and similar principles apply to digital microfinance channels: reliability, transparency, responsiveness and clear escalation paths. A policy roadmap informed by the evidence requires alignment across four layers: rules (regulation and supervision), providers (MFIs, fintech, banks), community institutions (savings groups and cooperatives), and demand-side capability (financial routines and enterprise practices). Evidence suggests that regulation affects outreach and sustainability in context-dependent ways and that governance and institutional quality shape performance.

Evidence on mobile money's transaction-cost and risk-sharing effects underscores the potential payoffs of reliable digital rails for enterprise households. Demand-side priorities include promoting savings discipline and liquidity buffers for MSMEs. Savings-first approaches are supported by experimental evidence and by multi-country research on savings groups. A practical policy instrument is to embed 'responsible finance' standards into public MSME support programmes: eligibility criteria for participating MFIs can include minimum client-protection practices, transparent disclosures, grievance redress capacity, and governance requirements. Such alignment can reduce the risk that public programmes unintentionally incentivize harmful lending dynamics.

5.2 Recommendations

The study recommendation that MFIs should adopt balanced product portfolios that combine responsibly designed working-capital credit with savings-led instruments that strengthen liquidity buffers for MSMEs. On the other hand, providers should segment MSMEs by cashflow patterns and capital needs and align loan size, repayment frequency, and grace periods to revenue cycles to reduce repayment stress and enhance productive use of finance. Additionally, digital financial services should be deployed to reduce transaction costs and improve audit trails, while preserving relational support for first-time users and maintaining fast dispute resolution and complaint handling. Moreover regulators and providers should strengthen client protection standards, disclosure requirements, and internal governance practices that reduce over-indebtedness risks and sustain trust in microfinance markets. Furthermore, policymakers should prioritise interoperable payment systems and appropriate data-sharing arrangements to lower information frictions and improve responsible underwriting for MSMEs. Finally, MSME support programmes should institutionalise learning by piloting product variants, monitoring mechanism-linked indicators, and scaling models that demonstrate consistent benefits for MSME resilience and growth.

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