



## An assessment of the role of non-banking financial institutions in enhancing financial inclusion in Zambia

Mukonka Mulumbwa\*, Attridge Mwelwa

Department of Business Administration, Graduate School of Business, University of Zambia, Lusaka, Zambia

### Abstract

This study evaluated how non-banking financial institutions (NBFIs) contribute to financial inclusion in Zambia. The research aimed to assess the strategies used by NBFIs to promote financial inclusion, identify the obstacles they face when serving unbanked populations, and propose solutions for overcoming these challenges. The study employed an exploratory research design with a mixed-methods approach. Participants were selected through purposive sampling, and data collection involved a self-administered questionnaire. The qualitative data were analysed thematically, while the quantitative data were analysed using SPSS version 27. The study identified several initiatives employed by NBFIs to enhance financial inclusion, including agent banking, providing small loans, partnerships with community organizations, financial literacy programs, and mobile-based financial services. The challenges faced by NBFIs in promoting financial inclusion included technological issues, regulatory constraints, a lack of financial infrastructure, limited financial literacy, and inadequate product variety. The study suggested that NBFIs could improve financial inclusion by offering affordable services, promoting gender inclusivity, providing financial education, focusing on underserved regions with agent networks, and ensuring their services are easily accessible. Recommendations from the study included that NBFIs in Zambia should leverage technology to reach remote and marginalized communities, collaborate with government agencies and NGOs to offer financial literacy programs, and expand their physical branch networks and access points in underprivileged areas.

**Keywords:** Financial inclusion, enhancing, non-banking financial institutions, banks

### Introduction

Financial inclusion is defined as the capacity of individuals, households, or groups to access a comprehensive range of formal financial services that are delivered responsibly, priced affordably, and conveniently accessible. When people lack this access, they are considered financially excluded. Those who are financially excluded might struggle to access affordable credit, lack home insurance, find it difficult to manage their budgets, have trouble planning for unexpected events, and might not know how to maximize their financial resources (FSD, 2010).

Evidence indicates that financial inclusion is critical for reducing household economic vulnerability, fostering economic growth, alleviating poverty, and enhancing the quality of life (Christen, Lauer, Lyman & Rosenberg, 2011) [6].

In Zambia, non-banking financial institutions (NBFIs) play a vital role in promoting financial inclusion by providing a variety of financial services to individuals and businesses that might not have access to conventional banking services. These institutions include microfinance institutions, savings and credit cooperatives, insurance companies, and pension funds.

NBFIs in Zambia contribute to financial inclusion by extending access to financial services, encouraging savings, offering credit to underserved populations, and providing insurance products to manage risks. By delivering a range of financial products and services tailored to the diverse needs of different groups, NBFIs enhance financial literacy and promote financial inclusion in the country.

The purpose of this study was to examine the role of non-banking financial institutions in advancing financial inclusion in Zambia. The research concentrated on the Non-banking Financial Institutions Sector in Zambia, which

included Bureaux de Change, Consumer Lending Microfinance Institutions, Enterprise Lending Microfinance Leasing Finance Institutions, Building Societies, Credit Reference Bureaux, Savings and Credit Institutions, and Development Finance Institutions.

### Background

Financial inclusion is increasingly viewed as essential for achieving inclusive and sustainable development, a concept central to the United Nations' Sustainable Development Goals (SDGs). Zambia's approach to developing its financial sector has involved creating and implementing policies and strategies that foster financial inclusion, with a focus on rural areas. According to the FinScope Zambia 2015 Survey, the country has reached a financial inclusion rate of 59%.

Globally, approximately 2 billion adults lack access to formal financial services, which represents nearly 30% of the world's population (Park & Mercado, 2018). This stark reality has led to a growing recognition of the importance of focusing on financial inclusion rather than solely on traditional financial sector development. This aligns with a broader shift in global development philosophy away from the neoclassical Washington Consensus, which emphasized a "trickle-down" approach, and towards more inclusive strategies. These inclusive strategies are outlined in the United Nations' 2030 Agenda, which sets out the Sustainable Development Goals (SDGs) with a commitment to ensuring no one is left behind (UNDP, 2018) [23].

A robust and dynamic financial system is crucial for a country's economic growth and development (Ebong, 2005) [7]. The expansion of a nation's financial structure positively impacts economic development (Fase and Abma, 2003). In a diverse country like Zambia, a major focus should be on

ensuring financial access to drive development and support entrepreneurial ventures. Non-banking financial institutions (NBFIs) offer a wide array of financial services, playing an important role in Zambia's financial landscape. Their services encompass a variety of banking-related offerings, including credit and loan facilities, retirement benefit schemes, wealth management, underwriting, and support for mergers and acquisitions. The past two decades have seen a significant increase in the number of NBFIs due to the entry of industrial companies, venture capital firms, and retail businesses into the lending sector. NBFIs have become instrumental in meeting the financial needs of those who are not well-served by traditional banks, especially in semi-urban and rural areas. They maintain strong grassroots connections and are able to effectively engage with these segments of the population to provide needed financial services.

Financial inclusion involves delivering financial services, including banking and credit, at affordable costs to large segments of disadvantaged and low-income groups who are often excluded (Chhabra, 2015). It prioritizes the inclusion of vulnerable groups, such as weaker segments of society and low-income populations, by providing access to services like savings accounts, payment accounts, credit, insurance, and pensions (Singh *et al.*, 2014). These services encompass savings, loans, insurance, and remittance facilities from formal financial institutions. This aspect of financial inclusion is critical in providing economic security for individuals and families (Kelkar, 2014) <sup>[10]</sup>.

Globally, NBFIs provide complementary services alongside traditional financial institutions, including banks, to meet societal funding needs. They help to fill the gaps where banks might not reach. This context sets the stage for a study on the role of NBFIs in enhancing financial inclusion in Zambia.

### Statement of the problem

Non-banking financial institutions in Zambia have been viewed as a development device for lessening poverty as well as enhancing country's economic development by ensuring financial inclusion through the provision of financial services accessibility to all. Despite Zambian government having undertaken several reforms in financial sector to ensure that NBFIs make financial services accessible to low-income households, statistics show that at least 25% of Zambia's population lack access to any form of recognized financial facilities provider (Ministry of Finance, 2017) <sup>[13]</sup>. Though the Zambian government recognizes the significance of Non-Banking Financial Institutions in the enhancement of financial inclusion in the country, Non-Banking Financial Institutions face various challenges in the enhancement of financial inclusion which include cost of providing financial services, long distances between people's homestead and physical infrastructure of NBFIs, the lack of tangible collateral security, provision of unsuitable products for clients with low, uneven income, alleged high risk, insufficient information, increased costs as well as premiums placed on the poor people. According to World Bank (2018), despite the use diverse initiatives to ensure financial inclusion in Zambia by NBFIs, the problem still persists because statistics indicate that the limited access to Non-Banking Financial Institutions in Zambia contribute to the high financial exclusion rate in Zambia. Against this background, the research focuses on assessing the role of non-banking financial institutions in enhancing financial inclusion in Zambia.

## 1. Objectives of the research

Research Objectives:

1. To assess the initiatives used by non-banking financial institutions to enhance financial inclusion.
2. To establish the challenges non-banking financial institutions face in serving the unbanked population.
3. To determine measures that non-banking financial institutions can employ to enhance financial inclusion.

## 2. Significance of the study

This study will provide knowledge on the vitality of financial inclusion as a factor in economic growth and improves GDP. It will help understand that NBFIs in financial inclusion make growth more inclusive which achieved through economic participants being able to make investments and take part in long term consumption, productivity, and be able to cope with unexpected shocks. This study will aid the Zambian government to develop policies that will promote greater financial inclusion in order to contribute to reducing income inequality by raising the incomes of the poorest income quintile and consequently contribute to financial stability by increasing the diversity of, and thereby decreasing the risk of, bank assets and by increasing the stable funding base of bank deposits.

The study will act as a basis for greater financial access to support shifts by governments toward cash transfer programs rather than wasteful subsidies, and the greater transparency associated with electronic funds transfers can help reduce corruption. Furthermore, this study will contribute to the body of existing literature on the role of NBFIs in financial inclusion and will also act as basis for further research on related studies.

## Literature review

This section presents both the theoretical and empirical literature pertaining to the study.

### 1. Theoretical literature

This study was anchored on the following theories: dissatisfaction theory, vulnerable group theory, systems theory and public good theory.

#### 1.1. Dissatisfaction theory

The dissatisfaction theory of financial inclusion argues that financial inclusion programs in a country should first be targeted to all individuals who were previously in the formal financial sector but left the formal financial sector because they were dissatisfied with the rules of engagement in the formal financial sector, or had some unpleasant personal experience when dealing with firms and agents in the formal financial sector (Klapper, 2013) <sup>[11]</sup>. This theory suggests that it is easier to bring back people who left the formal financial sector because they were dissatisfied if the areas of dissatisfaction in the formal financial sectors have been completely resolved. The theory argues that it is easier to bring back this group of individuals into the formal financial sector through persuasion than to bring in those who have never been in the formal financial sector. The implication of this theory is that the members of the population that left the formal financial sector should be the first target of financial inclusion before extending financial inclusion programs to other members of the population. Banked adults may become dissatisfied for several reasons such as when they are victims of financial fraud, debit or credit card fraud,

financial theft, long waiting hours before depositors are able to withdraw funds, taking too long before payments are cleared, high transaction costs, excessive bank charges, etc. The dissatisfaction theory of financial inclusion has some merits. Firstly, the theory makes a deliberate attempt to deal with the 'voluntary financial exclusion' problem. It reduces the level of voluntary financial exclusion by using persuasion to bring back those who left the formal financial sector due to dissatisfaction. Secondly, it is easy to identify the financially-excluded members of the population. Previously banked adults who are now unbanked can be easily identified because their personal data are stored with financial institutions. They can be reached to be persuaded to return to the formal financial sector. Kamath (2015) opines that it is easier to achieve financial inclusion by reaching out to previously banked adults than to reach out to members of the population that have never joined the formal financial sector. Thirdly, under this theory, achieving financial inclusion does not require the use of public funding since it relies strongly on interpersonal persuasive skills and abilities.

The dissatisfaction theory of financial inclusion has some demerits. Firstly, the theory does not prioritize financial inclusion for everybody in the population. It excludes people who have never been in the formal financial sector. Secondly, the dissatisfaction theory implicitly assumes that financial exclusion is caused by customers' dissatisfaction with the rules of engagement in the formal financial sector. This may not be the case under certain circumstances because individuals can voluntarily exit the formal financial sector for other reasons such as religious and personal reasons (Ozili, 2018) <sup>[18]</sup>. Finally, individuals who are dissatisfied with the behavior of financial institutions in the formal financial sector may have no choice but to remain in the formal financial sector if societal culture relies too much on the formal financial sector to live a comfortable life.

### 1.2. Vulnerable group theory

According to Mullen (2011), the vulnerable group theory of financial inclusion argues that financial inclusion programs in a country should be targeted to the vulnerable members of society who suffer the most from economic hardship and crises, such as poor people, young people, women, and elderly people. The theory argues that vulnerable people are often the most affected by financial crises and economic recession, therefore, it makes sense to bring these vulnerable people into the formal financial sector. One way to achieve this is through government-to-person (G2P) social cash transfers into the formal account of vulnerable people. Making G2P social cash transfer payments into the formal account of poor people, young people, women, and elderly people can encourage other vulnerable people – poor people, young people, women, and elderly people – to join the formal financial sector to own a formal account to take advantage of the G2P social cash transfer benefits, thereby, increasing the rate of financial inclusion for vulnerable groups. Also, when social cash transfer is working, and other tools for achieving financial inclusion are provided to vulnerable people in society, it can make vulnerable people feel that they are being compensated for the existing income inequality that affect them, and it gives them an opportunity to catch up with other segments of society. The implication of theory is that financial inclusion efforts should be the targeted to vulnerable people in society (Ozili, 2018) <sup>[18]</sup>.

The vulnerable group theory of financial inclusion has some merits. Firstly, the theory makes an attempt to reduce the financial exclusion problem by targeting vulnerable groups to bring them into the formal financial sector. Secondly, under this theory, it is easy to identify the financially-excluded members of the population. The vulnerable members of the population can be identified by their degree of vulnerability in terms of income level, gender, age, and other demographic characteristics. Thirdly, it may be cost effective to target only the vulnerable members of the population for financial inclusion compared to achieving financial inclusion for the entire population.

The vulnerable group theory of financial inclusion has some demerits. Firstly, the theory does not prioritize financial inclusion for everybody in the population. Secondly, it ignores non-vulnerable people outside the formal financial sector. Non-vulnerable people also need access to formal financial services. Thirdly, it assumes that women are a vulnerable group, which implies that men are not a vulnerable group. This idea is critical because in modern societies women and men compete for equal opportunities, therefore, labelling women as a vulnerable group to the exclusion of men may have unintended consequences for financial and social inclusion. It could lead to societal resentment among the men towards women. Finally, achieving financial inclusion by targeting only vulnerable people may increase social inequality when social policies, and financial policies, are designed to favour vulnerable people over others. It may also lead to income inequality if vulnerable people receive better access to formal financial services for a sustained period of time than others.

### 1.3. Systems theory

The systems theory of financial inclusion states that financial inclusion outcomes are achieved through the existing sub-systems (such as the economic, social and financial systems) which financial inclusion rely on, and as a result, greater financial inclusion will have positive benefits for the sub-systems it relies on (Ozili, 2018) <sup>[18]</sup>. A significant change in a sub-system (one part of the system) can significantly affect the expected financial inclusion outcome. For instance, imposing regulation on financial sector agents (who are a part of the financial system) can align their interest with that of the users of basic financial services, and can compel financial sector agents to offer affordable and quality financial services to users within defined rules that protect users of formal financial services from exploitation and price discrimination.

On the other hand, a significant change at the full system level – such as replacing the existing national financial inclusion plan with a completely new plan – does not necessarily lead to a change in the existing sub-systems because a change in the sub-system must be done at the sub-system level. According to Spackman (2002) <sup>[21]</sup>, the theory suggests that (i) the efficiency and effectiveness of the sub-systems will determine the success or failure of a national financial inclusion agenda, and (ii) the existing sub-systems (economic, financial or social) in a country are the ultimate beneficiaries of financial inclusion, under the systems theory perspective. The systems theory of financial inclusion has some merits. Firstly, the systems theory recognizes the role of existing economic, financial and social systems or structures in a country in promoting financial inclusion. Secondly, it provides a macro

perspective on financial inclusion compared to other theories with a micro-perspective. Thirdly, the systems theory of financial inclusion considers how financial inclusion outcomes are affected by the interrelationship among the sub-systems that financial inclusion relies on.

The systems theory has some demerits. Firstly, the existing sub-systems are a reflection of the environment. In some environments, the existing sub-systems may not function properly, and as a result, the expected financial inclusion outcomes may not be fully achieved. Secondly, the systems theory of financial inclusion does not recognize the influence of factors outside the full system that could affect financial inclusion outcomes, rather it focuses on the effect of the sub-systems on financial inclusion outcomes. Thirdly, the systems theory of financial inclusion assumes that there is a direct relationship between financial inclusion outcomes and the systems it relies on.

#### 1.4. The public good theory

According to Swamy (2014), the public good theory of financial inclusion argues that the provision of formal financial services should be treated as a public good. The theory argues that formal financial services is a public good, and should be provided to everyone for the benefit of all. There should be unrestricted access to finance for everyone. As a public good, access to formal financial services to one individual does not reduce its availability to others. This means that all members of the population can be brought into the formal financial sector and everyone will be better-off. Under this theory, all members of the population are beneficiaries of financial inclusion and nobody is left out. Under the public good theory of financial inclusion, an individual or small business that opens a formal bank account can be offered free debit cards. They can use the Automated Teller Machines (ATMs) to perform transactions without being charged a transaction fee. Suppliers of formal financial services, such as financial institutions, will bear the cost of offering formal financial services as a sunk-cost of doing business. The government can grant subsidies to financial institutions to help them cope with any resulting cost problems that arise from offering free formal financial services to citizens (Swamy, 2014).

The public good theory of financial inclusion has three merits. Firstly, the public good theory suggests that everyone will benefit from financial inclusion regardless of status, income level or demographic differences. Secondly, as a public good, the government will subsidize the cost of providing formal financial services to citizens. Thirdly, as a public good, it gives the government an opportunity to take responsibility for promoting financial inclusion.

The public good theory of financial inclusion has three demerits. Firstly, treating the provision of formal financial services to citizens as a public good does not address the real cause of financial exclusion. Secondly, treating the provision of formal financial services to citizens as a public good will require the government to subsidize the cost of providing formal financial services to citizens. Such subsidy can deplete public funds, and lead to insufficient public funds to execute other important public projects. Thirdly, the public good theory assumes that the provision of formal financial services as a 'public good' is free-of-charge or comes at a very low cost to users of formal financial services. Ozili (2018) <sup>[18]</sup> is of the view that when the provision of formal financial services is treated as a public

good, the level of financial inclusion may not be sustainable in the long-term even when supported with public funding if the cost of formal financial services is underpriced.

## 2. Empirical literature

This section provided empirical studies done from other countries as well as from Zambia on the effect of training on employee performance.

### 2.1. Global studies

Following the studies of Atieno (2001) and Zins and Weill (2016) <sup>[24]</sup> which used World Bank data to analyze trends among non-banking financial institutions in African countries. The authors indicate a stark divide between formal and informal institutions in the examined countries due to government intervention and increased financial costs for individuals because of failure to recognize the significance of non-banking financial institutions in financial inclusion. The studies revealed that non-banking financial institutions play a significant role in financial inclusion because they make funds available to all classes of people unlike banking institutions that promote widespread discrimination because they prevent large parts of the population in many African countries from using formal financial systems and forces them to use only informal financial systems, a trend that widens gaps in income distribution and increases the proliferation of poverty.

A study by Udell (2006) <sup>[22]</sup> among European countries found out that NBFIs supplement banks in providing financial services to individuals and firms. They can provide competition for banks in the provision of these services. While banks may offer a set of financial services as a package deal, NBFIs unbundle these services, tailoring their services to particular groups. Additionally, individual NBFIs may specialize in a particular sector, gaining an informational advantage. By this unbundling, targeting, and specializing, NBFIs promote competition within the financial services industry.

Having a multi-faceted financial system, which includes non-bank financial institutions, can protect economies from financial shocks and recover from those shocks. NBFIs provide multiple alternatives to transform an economy's savings into capital investment, which act as backup facilities should the primary form of intermediation fail (Udell, 2006) <sup>[22]</sup>.

However, a study by Allen (2016) in Asia established that in countries that lack effective regulations, non-bank financial institutions can exacerbate the fragility of the financial system. While not all NBFIs are lightly regulated, the NBFIs that comprise the shadow banking system are. In the runup to the recent global financial crisis, institutions such as hedge funds and structured investment vehicles, were largely overlooked by regulators, who focused NBFIs supervision on pension funds and insurance companies. If a large share of the financial system is in NBFIs that operate largely unsupervised by government regulators and anybody else, it can put the stability of the entire system at risk. Weaknesses in NBFIs regulation can fuel a credit bubble and asset overpricing, followed by asset price collapse and loan defaults.

Another study Chen and Divanbeigi (2019) <sup>[5]</sup> revealed that non-banking financial institutions (NBFIs) play a crucial role in enhancing financial inclusion at a global level by providing financial services to individuals and businesses

who are not served by traditional banks. NBFIs offer a wide range of services such as microfinance, insurance, leasing, and investment funds, which can help to bridge the gap in access to financial services for underserved populations. These institutions often have a deeper understanding of the needs and preferences of their target customers, and they are able to design products and services that are more suitable for those with limited access to traditional banking. By offering tailored financial solutions, NBFIs can help to bring more people into the formal financial system, thereby promoting economic growth and reducing poverty.

## 2.2. African studies

According to a study by Beck *et al* (2015) <sup>[2]</sup>, non-banking financial institutions (NBFIs) play a crucial role in enhancing financial inclusion in Africa by providing a range of financial services to individuals and businesses who are not served by traditional banks. NBFIs such as microfinance institutions, insurance companies, and mobile money operators offer innovative and tailored financial products that cater to the needs of underserved populations, including those in rural and remote areas. These institutions help to expand access to credit, savings, insurance, and payment services, which are essential for economic development and poverty reduction. By leveraging technology and alternative delivery channels, NBFIs are able to reach a wider customer base and provide financial services at lower costs. Some key initiatives and partnerships that highlight the role of NBFIs in enhancing financial inclusion in Africa include the African Financial Inclusion Policy Initiative (AfPI), the Alliance for Financial Inclusion (AFI), and the African Microfinance Network (AFMIN) (Beck *et al.*, 2015) <sup>[2]</sup>.

Studies such as Al-Tamimi (2009) and Peng *et al.* (2007) <sup>[19]</sup> established that some of the most important factors for financial inclusion are access and financial literacy which largely provide too many people in developing countries by non-banking financial institutions. According to Hannig and Jansen (2010) <sup>[9]</sup>, financial inclusion in developing countries depends on non-banking financial institutions because these institutions are always in touch with the common person. Klapper (2013) <sup>[11]</sup> reveal that although more than half of the world's adults have a bank account at an official financial institution, the majority of account holders are located in developed countries.

Mzobe (2015) <sup>[15]</sup> emphasize that non-banking financial institutions cannot be ignored when it comes financial inclusion because these NBFIs plays a significant role in people's decisions to use the services of formal institutions. The study additionally highlight the key role of gender in having a bank account and receiving credit from an official financial institution. The researcher indicate that gender is essential to one's credit background, one's use of financial services and the constraints that one faces in interactions with the financial system. Due to the negative impact of sexism, women in developing countries alike are more likely to use non-banking financial institutional services than official options.

Abel *et al.* (2018) <sup>[1]</sup> evaluated the role of NBFIs in enhancing financial inclusion in Zimbabwe and found empirical evidence that there is a positive relationship between NBFIs and financial inclusion in the country mediated by demographic factors, access, usage, financial

literacy, income and internet connectivity. Olaniyi and Adeoye (2016) <sup>[17]</sup> observed that the presence of NBFIs in most developing countries have provided for enhanced financial inclusion because majority of them fail to financial business with the banking institutions due to widespread restrictions and discrimination in the banking institutions.

## 2.3. Zambian studies

In his study Klapper (2013) <sup>[11]</sup> show that non-banking financial institutions play a vital role in financial inclusion in developing countries like Zambia because in most African countries, only 10% of people have a bank account at an official financial institution, and less than 5% of people save money in a formal institution.

In their study Sishumba and Mulonda (2019) <sup>[20]</sup> found that non-banking financial institutions (NBFIs) play a crucial role in enhancing financial inclusion in Zambia by providing a wide range of financial services to individuals and businesses that are not served by traditional banks. NBFIs such as microfinance institutions, credit unions, and insurance companies offer access to credit, savings, insurance, and other financial products to underserved populations, thereby helping to expand financial access and promote economic development.

Haabazoka *et al* (2021) <sup>[8]</sup> established that NBFIs often have a strong presence in rural and remote areas of Zambia, where traditional banks may not have a presence, and they cater to the specific needs of low-income and marginalized communities. By offering tailored financial products and services, NBFIs contribute to increasing financial literacy, promoting savings, and facilitating access to credit for small businesses and entrepreneurs.

## 3. Literature gap

The literature above and the various studies have provided vital information on the role of NBFIs in enhancing financial inclusion. It has been found that despite the existence of banking institutions, the NBFIs provides the most basic access to finances and hence playing a critical role in financial inclusion. However, despite the information above, none of the studies address the role of NBFIs in enhancing financial inclusion in Zambia. This gives the researcher even more reason and desire to carry out a study on the role of non-banking financial institutions in enhancing financial inclusion in Zambia.

## Conceptual framework

The study was guided with the aid of the following conceptual framework. This conceptual framework is based on various reviewed literature and will be used to establish the different factors that cause low financial inclusion as well as challenges faced by non-banking financial institutions in enhancing financial inclusion. The identified independent variables are products, infrastructure, regulations, technological innovations, and financial literacy with the financial inclusion as a dependent variable.

Non-banking financial institutions play an important role in elevating financial inclusion however, as observed from Figure 5.1 below, factors such as products, infrastructure, regulations, technological innovations, and financial literacy impact non-banking financial institutions on delivering financial services to the unbanked population.

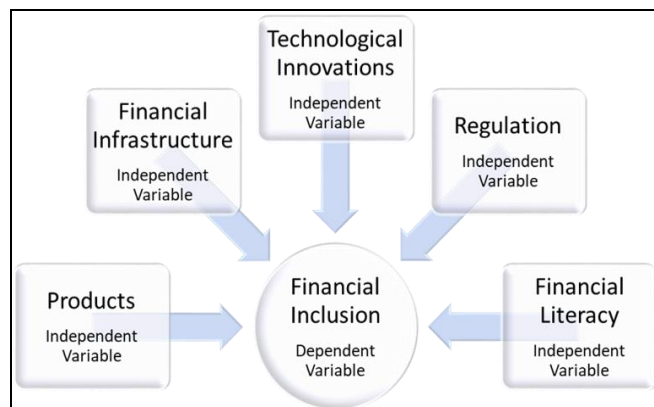


Fig 1: Conceptual framework

**Products:** One of the major factors that influence financial inclusion is the type of products provided by financial institutions. Products should be simple to use and affordable for the locals however, according to Morawczynski & Sean (2011), there is a product gap in most countries between the services being offered and the services that are needed by the unbanked population. This results in financial exclusion as most financial products are not convenient and tailor-made for the poor who are mostly the unbanked.

**Financial infrastructure:** Non-banking financial institutions face financial infrastructure constraints which restrict financial inclusion which limits the benefits and confines of financial inclusion. For instance, National Payment Systems (NPS) Act does not cover all electronic payment instruments and most of the non-banking financial institutions and service providers do not have direct access to Zambia Electronic Clearing House Ltd (Ministry of Finance, 2017) <sup>[13]</sup>.

**Regulations:** Regulations define the way non-banking institutions operate and are critical to achieve financial inclusion objectives. Legal and regulatory reforms that are fundamental to expanding financial inclusion include enhanced consumer protection, particularly on digital finance products and child-and-youth products; regulations on dormant accounts; tiered KYC requirements to encourage basic bank accounts and digital finance; adoption and implementation of the Credit Reporting Bill; deposit insurance; and reform of insolvency legislation that balances protections afforded to creditors and debtors (Ministry of Finance, 2017) <sup>[13]</sup>.

**Technological innovations:** Technology plays an important part in improving the financial inclusion efforts because it helps to reduce transaction cost, enhances customer accessibility, and makes products more affordable.

**Financial literacy:** Financial literacy is an important tool in expanding financial inclusion. Having a good product and good technology is not sufficient to improving financial inclusion efforts. People need to be aware and imparted with knowledge so that they can upgrade their skills to make well informed financial decisions about savings, investments, borrowings, and expenditure (Damodaran, 2013). They also need to be conversant with the use electronic gadgets like mobile phones and Automated Teller Machines (ATMs).

## Research methodology

The study adopted the exploratory research design to assess the role of non-banking financial institutions in enhancing financial inclusion. An exploratory research design is particularly useful when the problem of the research is not clearly defined because the area of study is new or vague and the researcher wishes to clearly develop concepts (Cooper & Schindler, 2011). The design was appropriate because there are very few studies that have been done on the role of non-banking institutions in enhancing financial inclusion. Therefore, this study explored factors that cause low financial inclusion and challenges faced by non-banking financial institutions in enhancing financial inclusion in Zambia.

The study adopted a mixed method approach. The research instrument that were used contained both open and closed ended questions to cater for both qualitative and quantitative data. The mixed method used in this research is the explanatory sequential design. The researcher opted to use the explanatory sequential design due to straightforward nature because it is conceptually easy to design, logistically simple to implement, and ease of reporting. Furthermore, it allows the researcher base the qualitative phase on the quantitative phase/data due to its emergent approach.

According to Kombo and Tromp (2006), the target population is the group of individuals that the intervention intends to conduct research in and draw conclusions from. The target population of the study were people from Lusaka comprising of those from non-banking financial institutions, from banking institutions and the general public.

Purposeful sampling was used for the identification and selection of information-rich respondents related to the phenomenon of interest. When the researcher uses this technique, the researcher is said to have a purpose in mind, is intentional (Lawrence, 2007). With purposeful sampling respondents were selected according to the researcher's own judgment of the respondents in order to provide reliable and accurate information.

The sample size is the number of subjects included in a sample size. This group of subjects is selected from the general population and is considered a representative of the real population for that specific study. In light with the above, the sample size from this study will be 60 respondents. On these respondents, 20 will be selected from the NBFIs, 20 from banking institutions and the other 20 from the general public. The small sample size was selected because the nature of the study require a manageable number which can be used for statistical analysis that can help in reaching more valid conclusions than mere generalizations. Additionally, the nature of the research requires the use of purposeful sampling and it may be difficult or impractical to obtain a large sample size, making a small sample more feasible for research purposes. Those which were selected from the NBFIs gave insight what they are doing towards financial inclusion, those from the banking institutions provided their own view on what has been the role of NBFIs in promoting financial inclusion and the general public provided answers whether NBFIs really play a role alongside banking institutions in promoting financial inclusion in the Zambia. Above all, the sample size above was chosen because considering the nature of the study, working with a small sample size allowed for a more focused and in-depth analysis of the data, leading to more nuanced insights.

The following registered NBFIs were sampled:

1. Agora Microfinance Zambia Limited
2. Altus Financial Services Limited
3. ASA Microfinance Limited
4. Bayport Financial Services Limited
5. Dimes Bureau de Change Limited
6. FINCA Zambia Limited
7. Madison Finance Company Limited
8. Unifi Credit Limited T/A Unifi
9. Vision Fund Zambia Limited
10. Xtenda Finance Limited

Secondary data make up the literature review of this research study. This was obtained from various sources which include: Published Journal Articles, Conference Proceedings, as well as reports of other researchers on topics similar to the study topic. The internet also linked the researcher to a lot of relevant information related to the topic of study. Secondary data is vital in this research study as it assists the researcher to get background information, insights and also have a better understanding of the study so as to make meaningful interpretation of the findings of the research.

Primary data included the data that was collected in the field from the research participants. This data that was collected from the target population using interview data collection tool(s) which eventually was analysed and interpreted to form the basis of this study.

Data was collected by means of questionnaires. The respondents were required to fill in the question containing questions on the role of NBFIs in enhancing financial inclusion.

One of the instruments of primary data collection for the study is a self-administered questionnaire with few open-ended and more closed-ended questions. It was used to collect data from the sample. The closed ended questions mostly had information in regarding the background/characteristics of the sample population and the other research questions on the research variables for easier data analysis. A few open-ended questions allowed respondents to express themselves freely and further elaborate some of their views. The questionnaire enabled the collection of large amounts of information in the shortest possible time and also ensured privacy and maximization of time and costs during the research process.

The data was analysed using statistical tools such as Statistical package for the Social Science (SPSS) and excel. These tools allowed the researcher to draw correlations between the independent and dependent variables and to develop critical evaluations. The tools are also relatively easy to use and save time.

**1. Ethical considerations**

Ethics were upheld from the initial stage of recruiting research participants. In recruiting research participants, the researcher endeavoured to ensure that there is voluntary participation of potential participants of the research study. In so doing, the researcher explained the research topic and purpose to the research participants so as to enhance voluntarism in light of participation. The researcher also ensured that the sampling design is adhered to when recruiting research participants. This helped to enhance fairness and avoid biasness when recruiting the research participants.

In addition, the researcher ensured that there is no harm to participants either physically or emotionally. This was upheld through privacy, anonymity and confidentiality. The researcher also upheld ethics by avoiding plagiarism of other writers’ work and avoidance of doctoring any part of the research findings during data analysis and interpretation after the data collection process is completed.

**Presentation of results**

The section begins by presenting the demographic information first and the rest of the information is presented according to the research objectives. Presenting information according to research objectives is important because it ensures that the data and findings are aligned with the original purpose of the research. This helps to maintain the focus and relevance of the study, and allows for a clear and concise communication of the results to the intended audience.

**1. Demographic analysis**

The participant's gender, age group and the level of education, and kind of work are all included in the demographic data. According to the study findings, 63.3% of the respondents were male while 36.7% were female. This was attributed to the fact the many workers who were found working with non-banking financial institutions were male. There were 43 respondents who were above the age of 26 while the other 17 were age between 18 and 25 years. This represented 71.7% and 28.3% respectively. The study findings in established that the majority of the respondents were university graduates. These were followed by college graduates and finally those who only attained secondary education. There were 27 (45%) university graduates, 20 (33.3%) college graduates and 13 (21.7%) secondary school leavers.

**2. The initiatives used by non-banking financial institutions to enhance financial inclusion**

Table 7.1, shows that the initiatives used by non-banking financial institutions include agent banking (40%), provision of small loans (31.7%), partnership with community organizations (16.7%), use of financial literacy programs (10%) and the provision of mobile based financial services (1.7%).

**Table 1:** Initiatives used by Non-banking financial institutions

Initiatives	Frequency	Percent	Valid Percent	Cumulative Percent
Agent banking	24	40.0	40.0	40.0
Financial literacy programs	6	10.0	10.0	50.0
Partnership with community organizations	10	16.7	16.7	66.7
Provision of small loans	19	31.7	31.7	98.3
Provision of mobile based financial services	1	1.7	1.7	100.0
Total	60	100.0	100.0	

**3. Effectiveness of the initiatives used by NBFIs in enhancing financial inclusion**

According to figure 7.1 below, majority of the respondents agreed that the initiatives being used by NBFIs in enhancing

financial inclusion are effective. These represented 78.4% of the respondents. 13.3% remained neutral and only 8.3% said no. therefore, it can be concluded that the initiatives are effective.

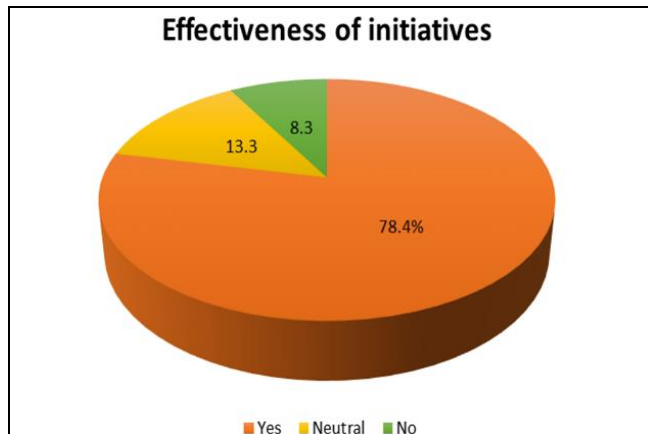


Fig 2: Effectiveness of the initiatives

**4. The challenges non-banking financial institutions face in serving the unbanked population**

Figure 2 shows that from among the challenges the findings of the study revealed that majority of the NBFIs are faced with technological challenges when trying to enhance financial inclusion. This represented 17 (28.3%) of the respondents. This was followed by regulations 16 (26.7%). The other challenges were lack of financial infrastructure, financial literacy and type of product. These each had 9 (15%) respondents.

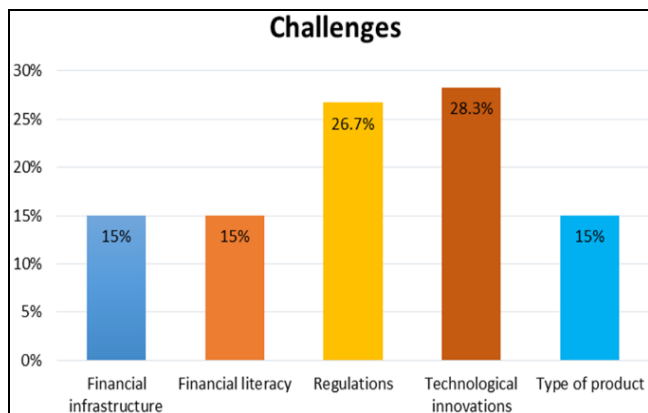


Fig 2: Challenges

**5. Impact of the challenges on financial inclusion**

According to the study findings in table 7.2, the identified challenges in the study, if not attended to can lead to financial exclusion, financial inequality and lack of access to credit by majority of the citizenry.

Table 2: Impact of the challenges

Impact of the challenges				
	Frequency	Percent	Valid Percent	Cumulative Percent
Financial exclusion	10	16.7	16.7	16.7
Financial inequality	23	38.3	38.3	55.0
Lack of access to credit	27	45.0	45.0	100.0
Total	60	100.0	100.0	

**6. Measures that non-banking financial institutions can employ to enhance financial inclusion**

The findings according to figure 7.3 below shows that some of the measures that can be used by non-banking financial institutions is by providing affordable financial services (45%), promoting gender inclusivity (1.7%), providing financial education (28.3%), target underserved areas using agents (20%) and ensuring that non-banking financial institutions are easily accessible (5%).

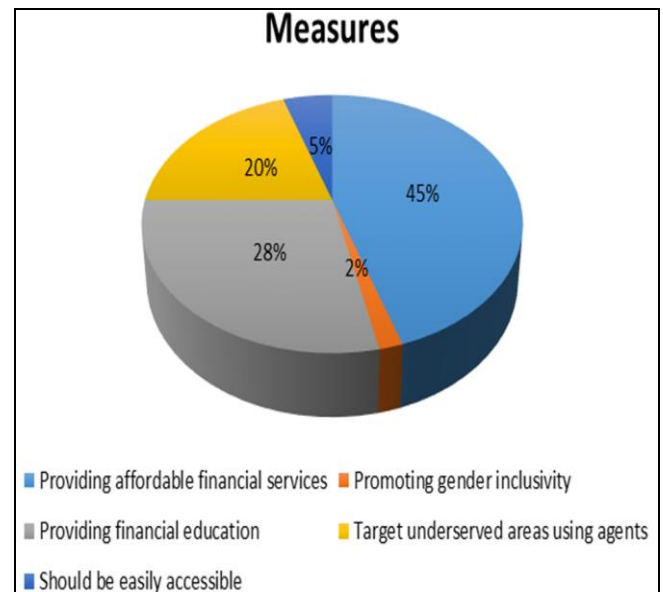


Fig 3: Measures

**7. Regression coefficient**

The study findings in table 7.3 reveal that Product, Financial infrastructure, Technological innovations, Regulations and Financial literacy had a positive and statistically significant B values of the analysis. Therefore, it can be stated that Product, Financial infrastructure, Technological innovations, Regulations and Financial literacy had a positive and significant relation with financial inclusion.

Table 3: Regression coefficient

Model		Coefficients <sup>a</sup>				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
B	Std. Error	Beta				
1	(Constant)	1.014	.441		2.286	.028
	Product	.060	.244	.041	.244	.009
	Financial infrastructure	.283	.131	.365	2.141	.038
	Technological innovations	.242	.149	.265	1.523	.114
	Regulations	.210	.148	.011	.065	.002
	Financial literacy	.231	.141	.013	.074	.006

a. Dependent Variable: Financial inclusion

**Discussion of results**

**1. Introduction**

This section discusses in detail the results presented in the previous section.

## 2. The initiatives used by non-banking financial institutions to enhance financial inclusion

According to the study findings, the initiatives used by non-banking financial institutions include agent banking, provision of small loans, partnership with community organizations, use of financial literacy programs and the provision of mobile based financial services.

The above findings are supported by several previous studies have demonstrated the role of agency banking in promoting financial inclusion. Gardeva and Rhynea (2011) in their survey show that one of the key obstacles in developing financial inclusion is cost structure and branching costs. Agency banking can drastically reduce such obstacles. Otherwise banks and other financial institutions would establish their branches, which involve larger buildings and other infrastructure. A study conducted by Afande *et al.*, on Nyeri Town, Kenya looked into four aspects- geographical coverage, cost of services, security and availability of liquidity to evaluate role of agent banking in financial inclusion. Study reveals that all these factors have positive and significant relationship to financial inclusion. The study also concluded that greater geographical coverage brought about by agent banking is the strongest predictor of financial inclusion. Similar results have also been observed in Tanzania.

According to Lotto (2016), agent banking has accelerated the financial inclusion in Tanzania by reducing the distance for customers to reach service point. Again, the cost of agent banking is reported lower than that of traditional banking services. Anyanzwa (2012), in the study of Brazil, showed that, in 2008 agents transacted 75% of the volume and 70% of the value of total bill payments. The study further showed that, rural agents transact more deposits and withdrawals as a percentage of total transactions (38%) than that of their urban counterparts (8%).

Just like the study findings, another study by Koomson *et al.*, (2020), beneficiaries of financial literacy training are more likely to intensify their financial inclusion and the intensity of inclusion is higher for male and young beneficiary households. The results highlight the need to strengthen financial literacy training in order to close the gender financial inclusion gap.

According to the study findings, partnership with community organizations and non-banking financial institutions can promote financial inclusion by providing access to financial services and products to underserved communities. These partnerships can help educate and empower individuals to make informed financial decisions, increase access to credit and savings opportunities, and support entrepreneurship and economic development. In tandem with the above findings, Kelly *et al* (2017) argues that the partnership of non-banking financial institutions and community organizations plays a pivotal role in reducing gender bias and promoting financial inclusion.

## 3. The challenges non-banking financial institutions face in serving the unbanked population

The challenges that NBFIs are faced with in trying to enhance financial inclusion include technological challenges, regulations, and lack of financial infrastructure, financial literacy and type of product. The study findings show that technological innovations can greatly impact non-banking financial institutions in enhancing financial inclusion by providing new and improved ways for individuals to access and manage their finance through the

use of mobile banking, digital wallets, and online lending platforms are just a few examples of how technology has expanded the reach of non-banking financial institutions and improved financial inclusion. Financial regulations significantly affect the enhancement financial inclusion by NON-banking financial institutions because they involve restrictions and other guidelines that need to be followed.

In tandem with the above findings, a study by Ediagbonya and Tioluwani (2023) established that the financial inclusion gap has expanded despite the government, regulators, and financial institutions' various efforts by developing various digital platforms, including encouraging the use of smartphones for mobile payments and automated teller machines (ATMs) and mobile money. Several reasons are responsible for the gap in financial inclusion: illiteracy, poor infrastructural facilities, intermittent power supply, poor mobile receptions, especially in rural areas, constant banks' network failures, unnecessary charges, and information asymmetry and data privacy breaches, amongst others.

Another study by Carmichael and Pomerleano (2002), they established that financial regulations play a crucial role in enhancing financial inclusion for non-banking financial institutions (NBFIs). These regulations help create a level playing field for NBFIs to operate and provide financial services to underserved populations. They also ensure that NBFIs adhere to certain standards and practices that promote financial stability and consumer protection. One example of a financial regulation that affects NBFIs in enhancing financial inclusion is the requirement for NBFIs to provide affordable and accessible financial products and services to low-income individuals and small businesses. This can include regulations related to the types of products offered, the pricing of those products, and the accessibility of NBFIs' physical locations or digital platforms. Another example is the regulation of NBFIs' customer due diligence and know-your-customer requirements, which can help ensure that NBFIs are reaching underserved populations and providing them with appropriate financial services. The study conclusively stipulated that financial regulations can help NBFIs expand their reach and impact in promoting financial inclusion by providing a supportive regulatory environment that encourages innovation and responsible financial service provision (Carmichael and Pomerleano, 2002).

Furthermore, Ajide (2017) in the study on determinants of financial inclusion in sub-Saharan Africa established that the lack of financial infrastructure can significantly impact non-banking financial institutions (NBFIs) in their efforts to enhance financial inclusion. Without proper financial infrastructure, NBFIs may struggle to provide basic financial services to underserved populations, such as access to credit, savings, and insurance products. This can hinder the overall goal of promoting financial inclusion and reducing poverty. According to Ajide (2017), some of the ways in which the lack of financial infrastructure can affect NBFIs include limited access to payment systems, inadequate regulatory frameworks, and a lack of credit information systems. These challenges can make it difficult for NBFIs to reach and serve marginalized communities, ultimately hindering efforts to promote financial inclusion.

From the above, it can be noted that some of the problems arising from not addressing challenges that affect non-banking financial institutions in enhancing financial inclusion include limited access to financial services for underserved populations, lack of regulatory support for

innovative financial products, and inadequate infrastructure for digital financial services. These challenges can hinder the efforts of non-banking financial institutions to reach and serve marginalized communities.

#### **4. Measures that non-banking financial institutions can employ to enhance financial inclusion**

According to the study findings, some of the measures that can be used by non-banking financial institutions is by providing affordable financial services, promoting gender inclusivity, providing financial education, target underserved areas using agents and ensuring that non-banking financial institutions are easily accessible. The study findings revealed that providing affordable financial services by non-banking financial institutions can enhance financial inclusion by reaching populations that are underserved by traditional banks. These institutions can offer services such as microloans, savings accounts, and insurance products to individuals and businesses who may not have access to traditional banking services. This can help to improve financial literacy, increase access to capital, and promote economic development in underserved communities. Additionally, the study established that providing financial education by non-banking financial institutions to enhance financial inclusion is an important aspect of promoting financial literacy and access to financial services for underserved populations. Non-banking financial institutions such as microfinance institutions, credit unions, and fintech companies play a crucial role in reaching out to communities that may not have access to traditional banking services.

In line with the above findings, a study by Birochi (2016) <sup>[4]</sup> The importance of affordable financial services provided by non-banking financial institutions in enhancing financial inclusion is well recognized. Non-banking financial institutions, such as microfinance institutions, cooperatives, and fintech companies, play a crucial role in reaching underserved and unbanked populations, providing them with access to essential financial services such as savings, credit, insurance, and remittances. By offering affordable and accessible financial products, non-banking financial institutions can help individuals and small businesses participate in the formal financial system, build assets, and manage financial risks (Birochi, 2016) <sup>[4]</sup>. This, in turn, contributes to economic growth and poverty reduction.

The study findings revealed that targeting underserved areas using agents can be very vital in enhancing financial inclusion by non-banking financial institutions. Similarly, a study by Bhuvana and Vasantha (2016) <sup>[3]</sup> revealed that targeting underserved areas using agents by non-banking financial institutions can enhance financial inclusion by providing access to financial services to those who may not have easy access to traditional banking services. This can help to bridge the gap between the unbanked population and the formal financial system, leading to increased financial literacy, access to credit, and overall economic development in these communities. Non-banking financial institutions can leverage their agent networks to reach remote and rural areas, where traditional bank branches may not be present. By offering services such as savings accounts, microloans, and insurance through these agents, they can help to bring more people into the formal financial sector and improve their financial well-being.

## **Conclusion and recommendations**

### **1. Conclusion**

According to the study findings, the study had hundred percent response rate. According to the study findings there more male respondents compared to female ones. The study revealed that the initiatives used by non-banking financial institutions include agent banking, provision of small loans, and partnership with community organizations, use of financial literacy programs and the provision of mobile based financial services. The challenges that NBFIs are faced with in trying to enhance financial inclusion include technological challenges, regulations, and lack of financial infrastructure, financial literacy and type of product. Furthermore, according to the study findings, some of the measures that can be used by non-banking financial institutions is by providing affordable financial services, promoting gender inclusivity, providing financial education, target underserved areas using agents and ensuring that non-banking financial institutions are easily accessible. From the study findings, it can be concluded that NBFIs supplement banks in providing financial services to individuals and firms. They can provide competition for banks in the provision of these services. While banks may offer a set of financial services as a package deal, NBFIs unbundle these services, tailoring their services to particular groups.

### **2. Recommendations**

1. There is need for non-banking financial institutions to take into account financial education and providing affordable financial services in order to enhance financial inclusions in Zambia.
2. Non-banking financial institutions should learn to offer simplified and accessible financial products and services tailored to the needs of underserved populations.
3. Non-banking financial institutions in Zambia should begin leveraging technology to reach remote and marginalized communities, such as through mobile banking and digital financial services.
4. Non-banking financial institutions should be collaborating with government agencies, NGOs, and other stakeholders to develop and implement financial literacy and education programs.
5. Non-banking financial institutions in Zambia should begin to expand the network of physical branches and access points in underserved areas.
6. The study also recommends further studies to establish other factors that influence the role played by non-banking financial institutions in enhancing financial inclusion.

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