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## Microfinance and social innovation in East Africa

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### Abstract

This article presents a qualitative review of literature and recent cases (2015-2025) concerning how microfinance contributes to social innovation in East Africa through a combination of institutional models, multiple actor collaborations, and technology-driven approaches. The objective is to examine how these different elements contribute to creating and sustaining social innovation and developmental impact such as reducing poverty, increasing gender equality, and enhancing community resilience. Using thematic analysis of over 15 peer-reviewed journal articles, policy documents and recent case studies, we conclude that hybrid financial models combining community-level financial organizations with mobile financial platforms and cross-sector partnerships are producing financial inclusion and social innovation in ways previously unimagined. However, there are still many challenges facing the sustainability of these developments including inadequate regulatory oversight, limited digital infrastructure, and inequitable social outcomes. Recommendations for policy makers include supporting hybrid and mobile-first financial models and developing formalized outcome measurement frameworks that can help to enhance developmental impact across diverse communities.

**Keyword:** Microfinance, social innovation, East Africa, financial inclusion, gender equality, mobile technology, policy frameworks

### Introduction

Millions of people across East Africa continue to be financially excluded from accessing basic financial services such as bank accounts, savings accounts, and loans. Exclusion from financial services limits individuals' ability to mitigate risks associated with income volatility, to invest in education and health care, and to participate in economic opportunities (United Nations, n.d.; Science Direct, 2025). For the last twenty years, microfinance has developed from informal group-based lending and savings associations into an integral part of the regional development strategy (Byiers *et al.*, 2021)<sup>[8]</sup>. Classic models of microfinance such as Savings and Credit Cooperative Organizations (SACCOs) and Village Savings and Loan Associations (VSLAs) have served as foundational components of rural financial inclusion (Byiers *et al.*, 2021)<sup>[8]</sup>. Since 2010 however, microfinance has experienced a digital revolution. The emergence of mobile money platforms and fintech start-ups has transformed the way in which financial services are delivered to clients in East Africa (Mbiti & Weil, 2016; Rural Finance Learning Centre, 2020; PCES, 2025)<sup>[17, 19, 18]</sup>. The digital revolution has not only transformed the delivery mechanism of microfinance but has also generated new social innovation models (Mbiti & Weil, 2016; Rural Finance Learning Centre, 2020)<sup>[17, 19]</sup>. Platforms such as M-Pesa and asset financing companies such as M-Kopa enable low-literate and/or rural clients to access financial services that were previously unavailable to them. Examples of services provided by these digital platforms include enabling clients to save, borrow, insure their livestock or crops, and purchase renewable energy products (Mbiti & Weil, 2016; PCES, 2025; Intel Market Research, 2025)<sup>[17, 18, 14]</sup>. Due to the rapid growth and development of mobile-enabled microfinance, East Africa has emerged as a reference point globally for the effectiveness of mobile-based microfinance (Science Direct, 2025; Blue Orchard, 2025). Alternative credit scoring, lower transaction costs and entrepreneur support are some of the factors contributing to the transformative nature of digital microfinance in East Africa (Science Direct, 2025; Blue Orchard, 2025). Despite the vast potential of digital microfinance to address the development needs of the poor and marginalized, there are concerns regarding the risks associated with the scale of digital microfinance, the regulation of digital microfinance, and the potential for digital

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divides to widen existing inequalities (Mashariki RPC, 2025; Bateman, 2022) <sup>[16, 3]</sup>. As such, identifying solutions to mitigate these risks while maximizing the social innovation potential of digital microfinance represents a major challenge for policy and research agendas for the coming decade.

### Research Objectives

This paper aims to investigate and synthesize how microfinance models, based on institutional models and actor collaborations, lead to social innovation and positive developmental outcomes in East Africa. More specifically, the paper seeks to investigate the following:

1. How evolving microfinance models and technologies are improving financial inclusion in East Africa?
2. What role(s) do non-governmental organizations (NGOs), fintechs, government agencies, and grassroots organizations play in promoting social innovation through microfinance?
3. What are the positive and negative social outcomes associated with these trends and what policies can be implemented to maximize the positive developmental impacts of microfinance in diverse communities?

### Literature Review

#### Evolving Institutional Models

East Africa's microfinance landscape has experienced significant diversity in terms of the types of financial services offered to clients. These include local Savings and Credit Cooperative Organizations (SACCOs) and Cooperatives, regulated microfinance institutions (MFIs), and a growing number of digital financial services providers (Byiers *et al.*, 2021; Rural Finance Learning Centre, 2020) <sup>[8, 19]</sup>. There is an emerging trend of hybrid models, which combine community governance structures with digital financial services and have shown to achieve high levels of financial inclusion and operational efficiency (AFI, 2024; ScienceDirect, 2025) <sup>[1, 20]</sup>.

#### Actor Collaborations and Social Innovation

Collaborative ecosystem models are critical to achieving sustained success in the microfinance sector. NGOs play a central role in supporting the establishment of grassroots group-based microfinance initiatives, providing financial education, and connecting microfinance clients to international networks and other stakeholders (Battilana & Dorado, 2010; Dorado *et al.*, 2019) <sup>[4, 10]</sup>. Fintech start-ups, often in collaboration with telecommunications companies and commercial banks, provide digital infrastructure, innovative product designs and efficient service delivery (Emerald, 2021; Intel Market Research, 2025; Mashariki RPC, 2025) <sup>[11, 14, 16]</sup>. Government agencies establish and enforce the legal and regulatory frameworks that enable the operation of hybrid digital microfinance institutions and protect consumers of digital microfinance services (Byiers *et al.*, 2021; Marti & Mair, 2009) <sup>[8, 15]</sup>.

#### Impact and Sustainability

There is robust empirical evidence that demonstrates that microfinance has contributed to numerous social and economic outcomes such as increased household wealth, increased school enrollment rates, increased micro-

enterprise formation, and improved health and education outcomes for women-headed households (Banerjee *et al.*, 2015; Dorado *et al.*, 2019; United Nations, n.d.; ScienceDirect, 2025) <sup>[2, 10, 20]</sup>. There are however, risks of over-borrowing, commercialization and the importance of rigorously assessing the social outcomes of microfinance initiatives (Buera *et al.*, 2022; Bateman, 2022) <sup>[7, 3]</sup>.

### Methodology

A qualitative library-based research method was used in this review. This method involved a systematic review and thematic analysis of literature, policy documents, industry reports and case studies published between 2015 and 2025 that focus on the linkages between microfinance, social innovation and the East African region (Teddle & Tashakkori, 2009; Braun & Clarke, 2006) <sup>[22, 6]</sup>. Inclusion criteria emphasized recent, peer-reviewed materials and documented case studies that demonstrate the interlinkages between microfinance, social innovation and the East African context. The analysis included themes related to institutional models, actor collaboration, mechanisms of social innovation and observed outcomes.

### Findings and Discussion

#### Financial Services Institutions and Digital Platforms

Modern microfinance in East Africa combines tradition and technology. Local Savings and Credit Cooperative Organizations (SACCOs) and Village Savings and Loans Associations (VSLAs) continue to serve as important components of community trust-building and local lending. However, the institutional reach of these traditional models of microfinance has been significantly expanded by mobile financial services that enable real-time lending, savings and insurance (AFI, 2024; Rural Finance Learning Centre, 2020; ScienceDirect, 2025; BlueOrchard, 2025) <sup>[1, 19, 5]</sup>. By 2024, more than 80 percent of microfinance institutions in East Africa reported having incorporated mobile financial platforms into their operations, thereby greatly increasing the accessibility of financial services to rural, youth and female borrowers (PCES, 2025) <sup>[18]</sup>.

#### Digital Lending and Risks

While mobile lending has greatly increased access to financial services, it has also created new risks. The widespread availability of digital credit can promote a culture of debt dependency, particularly among women and the working poor who may not have access to financial education or consumer protection (Mashariki RPC, 2025) <sup>[16]</sup>. The fragmented regulatory oversight of digital microfinance and the limited digital literacy of many East African citizens create additional barriers to the expansion of digital microfinance (BlueOrchard, 2025; Intel Market Research, 2025) <sup>[5, 14]</sup>.

#### Actor Collaboration and Social Innovation

Successful social innovation in microfinance depends on the existence of dynamic, multi-stakeholder ecosystems. NGOs support the development of grassroots group-based microfinance initiatives, advocate for inclusive financial inclusion campaigns and develop capacity of marginalized communities (Battilana & Dorado, 2010; Dorado *et al.*, 2019) <sup>[4, 10]</sup>. Fintech companies, either alone or in

collaboration with telecommunications and commercial banking institutions, deliver digital financial services, innovate new credit assessment methods and improve service delivery efficiency (Emerald, 2021; Intel Market Research, 2025; Mashariki RPC, 2025) <sup>[11, 14, 16]</sup>. Governments enact legislation and regulatory frameworks that enable the emergence of mobile-first MFIs and provide protections for consumers of digital microfinance (Byiers *et al.*, 2021; Marti & Mair, 2009) <sup>[8, 15]</sup>.

**Social Impact: Positive and Negative Outcomes, Challenges and Equity:** There is substantial evidence of the positive impacts of microfinance on household and individual outcomes such as household assets, school enrollment, microenterprise formation, and the resilience of women-headed households (Banerjee *et al.*, 2015; Dorado *et al.*, 2019; United Nations, n.d.; ScienceDirect, 2025) <sup>[2, 10, 20]</sup>. Case studies of women who have benefited from mobile-enabled microfinance initiatives demonstrate that they use their access to microcredit and other financial services to establish new businesses, invest in the future of their children, and assume leadership roles within their communities (European Investment Bank, 2025) <sup>[12]</sup>. Similarly, youth-oriented credit and entrepreneurship programs demonstrate that digital microfinance can be a powerful tool for stimulating employment, the adoption of technology in agriculture and cross-industry entrepreneurial ventures (African Scientific Journal, 2024).

**Despite the many positive impacts of microfinance, there are several ongoing challenges**

- Digital consumer credit and its attendant cycle of over-borrowing and mental distress among vulnerable populations with little negotiating power (Mashariki RPC, 2025) <sup>[16]</sup>;
- Limited access to digital microfinance services among women due to differential ownership of mobile phones, high data costs, and digital illiteracy in local languages (Mashariki RPC, 2025; Intel Market Research, 2025) <sup>[16, 14]</sup>;
- Scale and operational fragmentation and regulatory complexity limit the emergence of scalable hybrid models of microfinance, potentially excluding the poorest from the full range of benefits of financial innovation (PCES, 2025; Bateman, 2022) <sup>[18, 3]</sup>;
- Underdevelopment of environmental and social outcome measurement frameworks makes it difficult to assess whether microfinance interventions produce socially and environmentally sustainable outcomes (AFI, 2024; BlueOrchard, 2025) <sup>[1, 5]</sup>.

### Conclusion and Recommendations

Based on the evidence presented in this review, it is evident that the greatest social impacts of microfinance occur when traditional community-based models are combined with digital platforms and supported by coordinated cross-sector collaborations. While there are ongoing challenges to the sustainability of these developments, the collaborative model has the potential to increase the resilience of communities in East Africa, to reduce gender inequality and to increase the likelihood of successful livelihood development.

### Policy Recommendations

To capitalize on the social innovation potential of microfinance, policy-makers and practitioners should consider the following recommendations:

- Encourage the formalization and responsible scaling-up of hybrid (community-digital) microfinance institutions (AFI, 2024; BlueOrchard, 2025) <sup>[1, 5]</sup>;
- Increase access to digital financial education and literacy, especially for women, youth and the rural poor (Intel Market Research, 2025; Mashariki RPC, 2025) <sup>[14, 16]</sup>;
- Require microfinance institutions and new mobile lenders to implement participatory social outcome measurement frameworks (Bateman, 2022; AFI, 2024) <sup>[3, 1]</sup>;
- Develop guidelines and regulations to promote safe and transparent digital lending that includes ethical design and fair data practice, and provides financial health safeguards for vulnerable borrowers (Mashariki RPC, 2025) <sup>[16]</sup>.

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