

EVALUATING THE CONTRIBUTION OF FINANCIAL LENDING INSTITUTIONS THROUGH ACCESS TO FINANCE, IN ACHIEVING SUSTAINABLE GROWTH OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs); A CASE STUDY OF KASAMA DISTRICT, NORTHERN PROVINCE.

*Submitted*

*By*

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# DECLARATION

Student's declaration

I, the undersigned declare that this research project is my own original work and has not been Presented in any other University or College for award of degree, diploma or certificate.

Signed .....Date.....

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Supervisor's Declaration

This research project has been submitted for examination with my approval as the authorized University Supervisor:

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## **ABSTRACT**

Access to financial services has long been accepted as an important means of improving income generating opportunities, and overall living conditions among households. A wide range of financial institutions have been involved in providing various financial services to households in Zambia over many decades. Small and medium enterprises is an engine for the country's economic development of any healthy nation. These businesses play a pivotal role through creation of employment the most and major of a country population and also through contribution to the country Gross National Product. The study was conducted to evaluating the contribution of financial lending institutions through access to finance, in achieving sustainable growth of Micro, Small and Medium Enterprises (MSMEs); a case study of Kasama district, northern province. The study employed a descriptive research design to achieve the objectives. The following were the research objectives; To evaluate the contribution of Financial Lending Institutions through Access to finance, in achieving Sustainable Growth of Micro, Small and Medium Enterprises in Kasama, to investigate how these Financial lending institutions are contributing to the economy of Kasama District through financing Micro, Small and Medium Enterprises, to assess the performance of Micro, Small and Medium Enterprise sector and key support structures relative to sustainable enterprise growth in Kasama District and to investigate the challenges being faced by SMEs as they receive financing from financial lending institution in Kasama District. The study used a questionnaire to collect the required data. The data collected was coded, quantified and analysed quantitatively and qualitatively. Quantitative data was analysed by the use of statistical package for social sciences (SPSS). The study concluded that access to finance, lack of collateral security, lack of managerial skills experience are the key socio-economic factors affecting the growth of businesses in Kasama. The other key factors that were found to affect access to finance by MSMEs are: access to business information, access to infrastructure and government policy and regulations.

The study recommended that the government should start offering basic business and financial management skills as this will enable entrepreneurs to make informed investment decisions as well as enhance their entrepreneurial skills that enable them to recognize and exploit the available business opportunities. Business owners/managers need to formalize their businesses through registration in order to enjoy the opportunities presented by formalized business.

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## **ABBREVIATIONS AND ACRYNORMS**

**NATSAVE: NATIONAL SAVINGS AND CREDIT BANK**

**ZANNACO: ZAMBIA NATIONAL COMMERCIAL BANK**

**BOZ: BANK OF ZAMBIA**

**NBFI: NON - BANK FINANCIAL INSTITUTIONS**

**CCA: CASUAL CHAIN ANALYSIS**

**BFSA: BANKING AND FINANCIAL SERVICES ACT**

**FI: FINANCIAL INSTITUTIONS**

**B.O.Z. – BANK OF ZAMBIA**

**COMESA – COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA**

**ECOWAS – ECONOMIC COMMUNITY OF WEST AFRICAN STATE**

**SIDO - SMALL INDUSTRY DEVELOPMENT ORGANISATION**

**GDP – GROSS DOMESTIC PRODUCT**

**PACRA- PATENTS AND COMPANIES REGISTRATION AGENCY**

**ILO – INTERNATIONAL LABOUR ORGANIZATION**

**IMF - INTERNATIONAL MONETARY FUND**

**MBA – MASTER OF BUSINESS ADMINISTRATION**

**MSMES – MICRO, SMALL AND MEDIUM ENTERPRISES**

**TAZARA – TANZANIA ZAMBIA RAILWAYS**

**UN – UNITED NATION**

**WB – WORD BANK**

**ZABS – ZAMBIA BUREAU OF STANDARDS**

**ZACSMBA – ZAMBIA CHAMBER OF SMALL AND MEDIUM ASSOCIATION**

**ZANACO – ZAMBIA NATIONAL COMMERCIAL BANK**

**ZDA – ZAMBIA DEVELOPMENT AGENCY**

**ZRA – ZAMBIA REVENUE AUTHORITY**

**SEDB – SMALL ENTERPRISES DEVELOPMENT BOARD.**

**CSO – CENTRAL STATISTICS OFFICE**

**MOF – MINISTRY OF FINANCE**

**UNIDO – UNITED NATION INDUSTRIAL DEVELOPMENT ORGANIZATION**

## **1.0. CHAPTER ONE: INTRODUCTION**

Micro, Small and Medium Enterprises (MSMEs) in growth-oriented sectors are key to Zambia's economic development, but requires both financial and nonfinancial support to participate meaningfully in the economy. Micro, Small and Medium Enterprises cut across all sectors of Zambia's economy and make available one of the most prolific sources of employment and wealth creation thus, they are a breeding ground for industries. Micro, Small and Medium Enterprise's (MSMEs) are a major source for generating employment, creation of wealth and alleviating poverty in the country, especially in the rural regions like Kasama District hence, their access to finance is key to their development, growth sustainability and expansion of this sector. In simple terms, access to financial services has long been accepted as an important means of innovation, entrepreneurship, and improvement of both income generating opportunities, and overall living standards among households. Thus, a wide range of financial institutions have been involved in providing various financial services to households in Zambia over many decades. However despite a significant number of Micro, Small and Medium Enterprises (MSME's) mushrooming in Kasama, and Zambia in general, they contribute very little to manufacturing output. This means that they are unable to develop economies of scale and, at present, they find themselves constrained by limited access to quality finance, which they need urgently to expand, innovate and compete in the product markets.

This study is aimed at *Evaluating the Contribution of Financial Lending Institutions through access to finance, in achieving sustainable growth of Micro, Small and Medium Enterprises in Kasama District of Northern Province, inversely adding to the growth of the economy through investments, production and job creation*. Sustainable Growth in this case, is the implementation of the Policy premised on benefiting current and future generations in the socio-economic transformation agenda. Thus the main research objective is to evaluate access to finance by the Micro, Small and Medium Enterprises (MSMEs), from both Banking financial institutions and Non - Banking Financial institutions of Kasama. The other research objectives are; to investigate how these lending institutions are contributing to the economy of Kasama through financing Micro, Small and Medium Enterprises (MSME's) by assessing their structure and performance relative to the district's economic development, and later investigate the challenges being faced by Micro, Small and Medium Enterprises as they receive financing from Financial lending institution in Kasama so as to further provide an outlook of the sustainability relative to growth of Micro, Small and Medium Enterprises (MSME's). Thereafter, recommendations will be made based on how government through financial lending institutions and other government agencies can help in the sustainability of Micro, Small and Medium Enterprise (MSMEs) sector in Kasama and the country at large.

## **1.1. Background of Study**

Zambia is a huge, landlocked, resource-rich country with sparsely populated land in the Centre of Southern Africa. It bonds its border with Eight Countries namely; Angola, Botswana, Democratic Republic of Congo, Malawi, Mozambique, Namibia, Tanzania, and Zimbabwe, thus advantageously multiplies its regional market for goods and services. Currently, Zambia is experiencing a large demographic shift and is one of the world's youngest countries by median age. Its population, considerably of its urban, is estimated at about 19.6 million (in 2021) with a rapid growth rate of **2.7%** per year, reflecting the relatively high fertility rate, (The World Bank in Zambia, 2023). As the enormous youth population attains reproductive age, the population is anticipated to double in the next 25 years, resulting in additional pressure on the demand for jobs, health care, and other social services.

Historically, the Zambian financial system was/ is made up of the Central Bank thus, the Bank of Zambia (BOZ) which is the regulatory and supervisory authority that supervises commercial Banks (including both local and foreign banks) and numerous non-bank financial institutions (Pembele p.g.1). It was established under s.3 of the Bank of Zambia Act No. 24 of 1985 as amended by act No. 24 of 1996 with an obligation to formulate and implement monetary and supervisory policies that ensures all aspects of the financial system. In the period between 1970 and early 1990s, the Banking sector comprised of four distinct groups thus Old foreign Banks, State Banks, and New foreign and local banks. The three of the key foreign Banks were Barclays Bank, Standard Chartered Bank and Grindlays Bank (Now Stanbic Bank) which were concerned with serving the interests of foreign corporate entities. In order to meet the needs of the local population and redress this imbalance, the government established a number of Banks such as the National Savings and Credit Bank (Natsave), the Zambia National Commercial Bank (now ZANACO), Lima Bank and Cooperative Bank, (Mulimbika 2011). The Government further intervened in the financial sector by establishing government owned Non- Bank financial institutions (NBFI), notably being the Zambia National Building Society (ZNBS) and the Zambia National Provident Fund (ZNPF) which until the early 1990's provided long term mortgage finance and social security services respectively. Leading to the Zambian economy being state controlled, the primary role of the central Bank especially during the period 1970's and 1980's, was to ensure that Banks complied with the policies formulated by the Government. At this time, the government involvement in the financial sector was manifested in the creation of government owned financial institutions, selective credit allocation directives and price control mechanisms.

However due to the deteriorating copper prices on the London metal exchange in the late 1970s, the government recognised the need for and started pursuing the growth of small sectors of business so as to evade against the unemployment which could have been caused by the continued falling copper prices on

the London metal exchange and subsequent downfall of companies dependant on the mineral. Further, the government recognized the need to empower the rural community by initiating the Village Industry in 1975. During the period 1987 and 1990, the financial sector recorded a rise in local Banks which include the Finance Bank (1988), African commercial Bank (1987), New Capital Bank (1989) and Manifold Investment Bank (1987) respectively due to high returns on average investment and easy access for the new Banks by possible Unregulated nature of the Banking entry by the *Bank of Zambia (BOZ)*.

On the other hand, before the economic reforms were undertaken in the early 1980s, Zambia's economy was government driven. This was so, for good and obvious reasons, some of which comprised the duty on the part of the government to offer employment, and the necessary social services that the government was obligated to, soon after independence in 1964. In the quest to attaining these objectives, the government formed a number of companies in which it injected a lot of capital and also had to nationalize a lot other in the program called *nationalization*. Born out this government resourcefulness, corporations such as; Zambia Consumer Buying Corporation (ZCBC), United Bus Company of Zambia (UBZ), INDECO milling etc. were brought on board to provide goods and services to the public (Mwitwa, 2006). Furthermore, the government in 1981 created the Small Industries Development Organization (**SIDO**) through an act of parliament, with an attempt to enhance the effectiveness of the sector's contribution to the national economy. **SIDO** was later renamed to Small Enterprises Development Board (**SEDB**). During this period, the Zambian economy subsided as copper prices had fallen to lower levels which resulted in increased levels of unemployment and prompted some food riots in 1989 because the country had failed to produce food for domestic economy consumption. Chiumya (2006) further augments that, in support of the **SEDB Act**, provisions were made in the Fourth National Development Plan of 1989, to provide infrastructure for the operations of SMEs, promote access to credit by Small and Medium Enterprises so as to facilitate growth potential and to increase manufacturing capabilities of SMEs with the view to increase incomes and employment. However, during this period imports were restricted as the government employed foreign exchange controls and on the other hand, unemployment was also increased as the government introduced the public sector reform program which resulted into massive job losses. Many mining companies and government parastatals were closed and among those that lost jobs included people who were semi-skilled, skilled and professionals whose alternative was now entrepreneurship.

The change in government from a one Party state to a Multi-Partism resulted in radical economic reform from a State controlled economy to a free market or liberalised economy. In the early 1990s, Zambia fully liberalized transactions in the Banking sector and undertook a series of reforms to promote a market-based financial system, which encouraged the entry of new domestic banks and led to the expansion of existing foreign banks. This included reforms to prudential regulation and supervision of financial institutions

through the enactment of new banking laws in 1994. The reforms initially led to the proliferation of financial institutions by 1994 which however, became difficult in maintaining the level of liquidity and profitability enjoyed by the banking sector and thus, resulted in banks engaging themselves in activities such as reckless lending which left banks with irrecoverable loans and consequently made Zambia experience a financial sector distress resulting in the collapse of Nine Commercial Banks between 1995 and 1898. As this is not enough, several government owned financial institutions such as; *Lima Bank, the Cooperative Bank of Zambia* and *Meridien BIAO Bank Zambia* also collapsed.

Similarly, after the economy was liberalised in 1991, the private enterprises were encouraged by government as this was evidenced by the establishment of the Industrial, Commercial and Trade Policy in December 1994. Thus, the main focus of the government during this period was to liberalize the economy and also to privatize most of the companies which were under the arms of government making the economy to undergo massive restructuring and adjustments. This saw the sale of many state owned companies and other parastatal companies such as the non-operational Mansa batteries, the Zambia-China Mulungushi textile (joint venture), and the Livingstone motor assembly which were left to collapse. The move to denationalise nearly all state owned companies also fetched with it consequences which ultimately affected the economy as many monopolies broke down as well as the mines, creating room for Small businesses to emerge to fill in the gap left by these defunct parastatals. Nevertheless, a few years after privatization, many companies were expected to continue with their operations through increased capital injections but only few succeeded and many of them were liquidated thereby creating further unemployment and poverty. The initiation of privatization, consequently, left many people in the country with no formal sources of income and were now forced to find alternative sources of income. As a result of this trend, many people took entrepreneurship as the best alternative source of income which brought a steady rise in the number of entrepreneurs spilling over to the rural community of Zambia, including outlying Districts like Kasama District whose employment source is mainly farming and fishing.

## **1.2. Statement of the Problem**

From independence to date, the Zambian economy has gone through several changes, which were a reflection of the government of the day's economic policies. At independence, the country inherited a very rich national treasury and Zambia then was rated among the richest countries in Africa. Thus, to fulfil the pre- independence promises, the new leaders in 1964, decided to use the reserves they inherited for free services such as Education, water, medical facilities, sanitation and development of general infrastructure (Musonda 2013). The country witnessed the mushrooming of state controlled enterprises and conglomerates such as Zambia Industrial and Mining Corporation (ZIMCO), the Industrial Development Corporation (INDECO), the Mining Development Corporation (MINDECO) and Financial development Corporation (FINDECO) and under each of these conglomerates were several state run enterprises such as Zambia Airways, United Buss Company of Zambia, Zambia consolidated Copper mines (ZCCM), National Import and Export Corporation (NIEC), Zambia Consumer Buying Corporation (ZCBC), Livingstone Motor Assemblers, Mansa batteries, Zambia-China Mulungushi Textile, and Mwinilunga cannery etc. Not until in the early 80s, when a continued economic decline led to an increase in unemployment levels and the privatization of 1991, when the economy become more liberal and resulted in an increase of difficulty for local SME's to grow. Due to lack of systems to support the implementation of the Small Industry Development Organisation (SIDO) Act of 1996, SIDO was transformed into Small Enterprises Development Board (SEDB). In 2006, the Small Enterprises Development Board (SEDB) was among the institutions that were amalgamated to form the current Zambia Development Agency (ZDA).

Coming from this scenario, Micro, Small and Medium Enterprises (MSME's) in Zambian and world over serve as a sources of livelihood to the poor by, creating employment opportunities, generate income and contributing to economic growth. MSME's are a key driver for poverty reduction and improvement of the quality of life for households due to their potential of creating wealth and jobs. According to the World Bank SME Finance Report (2022), SME's account for the majority of businesses worldwide. They represent about 90 percent of businesses and more than 50 percent of employment worldwide. Formal SMEs give up to 40 percent of national income in emerging economies. In the case of Zambia, according to the Financial Scoping Survey Report by the Bank of Zambia and ILO for 2021, MSMEs contribute 70 percent of GDP and 88 percent of employment, and accounts for about 97 percent of all businesses making a significant share of domestic and export earnings and providing a large share of income to the majority of the working population in Zambia. The Report supplements that, the numbers significantly increase when informal SMEs are included as most formal jobs are generated by SME's in most emerging markets.

The Revised National, Micro, Small and Medium Enterprise Development Policy (2023) indicates that, in spite of the contribution of the MSMEs to the growth of the Zambian economy, their full potential has not

yet been tapped into due to a number of constraints impeding their development and access to finance has been noted as a key determinant on the sustainable growth of these enterprises. Access to finance is limited and attributed to high levels of informality, cost of borrowing and collateral requirements. The geographic distribution of the 110,508 enterprises showed that Northern Province stands at the 3<sup>rd</sup> place from the last regarding the total number of MSMEs, recording a 2.9%, beating Western Province with 2.3 % and Muchinga Province with the last position having a 2%, (Zambia Revenue Authority, 2019). The policy (2023) indicates the constraints to include limited access to affordable finance, limited access to local and foreign markets, poor uptake of technology, lack of innovation, weak entrepreneurial culture, inadequate decentralization of services that support MSMEs, poor collaboration among businesses, and fragmented MSME development interventions as a result of overlapping institutional mandates.

Regarding limited access to affordable finance as a constraint, Financial lending institutions such as; banks and other financial intermediaries, are instrumental in providing the necessary capital for MSMEs to thrive. As such, this study aims to evaluate the contribution of financial lending institutions through access to finance, in achieving sustainable growth of MSME's. Thus, this study found it imperative to find out the extent to which MSME's in Kasama, actually access loans and other services rendered by financial lending institutions and further, evaluates the effectiveness of financial lending institutions in facilitating access to finance and their contribution to the sustainable growth of MSMEs in Kasama and Zambia at large. Additionally, it's was also worthwhile to look empirically into the challenges befalling both SME's and Financial lending institutions in their attempt to support SME development in Kasama and Zambia at large thus, contributing to the body of knowledge regarding accessibility of financial resources to meet a variety of operational and investment needs within the SME sectors.

### **1.3. General objective**

To evaluate the contribution of Financial Lending Institutions through Access to finance, in achieving Sustainable Growth of Micro, Small and Medium Enterprises in Kasama.

### **1.4. Specific objectives**

- i. To investigate how these Financial lending institutions are contributing to the economy of Kasama District through financing Micro, Small and Medium Enterprises.
- ii. To assess the performance of Micro, Small and Medium Enterprise sector and key support structures relative to sustainable enterprise growth in Kasama District.
- iii. To investigate the challenges being faced by SMEs as they receive financing from financial lending institution in Kasama District.

## **1.5. Research Questions**

- i. How are these financial lending institutions located in Kasama District contributing to the District's economy through financing Micro, Small and Medium Enterprises?
- ii. What is the state of growth of Micro, Small and Medium Enterprises in Kasama District?
- iii. What are the challenges being faced by SMEs as they receive financing from financial lending institution in Kasama district?

## **1.6. Significance of the Study**

This study was motivated by the notion that access to finance from financial lending institutions could be a key for Micro Small and Medium Enterprises Sector Development especially in developing nations such as Zambia. Therefore, by determining the best ideal ways in which financial lending institution would provide their financial services, it would allow MSME's have access to finances upon providing their business plans and avoiding the much hectic procedures in accessing credits by the basic Small and Medium Enterprises thus, the study will also expose the role SME's play and remain instrumental in transforming the lives of the poor thereby adding to the growth of the economy at large.

Further, in respect of rich historical background which saw the downsizing and closure of big companies in Zambia leading to the emergence and the setting up of MSME's to fill the gap, the research will also provide the upcoming entrepreneur, citizens and government with information and enlighten them on the significance of SME's in world economies as their growth is essential for economic recovery as well as development agenda especially at a time when governments have challenges in creating employment for its nationals. Similarly, an understanding of such a sector would obviously enable its citizens and the government to undertake an inquiry on how they can respond to factors that affect MSMEs in the country. Conclusively, the study will be of value to different stakeholders including scholars and academicians, government agencies, financial lending institution and the policy makers in Zambia. Thus, to scholars and academicians, this study increases the body of knowledge on the contribution of financial institutions on the performance of MSME's in Zambia, and spiked areas for further research so that future scholars can try up these areas and study further. Last but not the least, the study is vital to the government agencies when formulating policies that will enable SME's have easy access to finance.

## **1.7. Scope of Study**

This study was restricted to evaluating the contribution of financial institution on the economy and to be precise, the Micro, Small and Medium Enterprises (MSME's) based in Kasama District of Northern province of Zambia. The study location was selected due to the fact that, Kasama District has no viable industry (or any Manufacturing industry) that supports the district economically like in other provinces and districts within Zambia, which compels the residents to engage in Micro Small and Medium Enterprise

(MSME) as a form of livelihood to support their families. The town has a few modern facilities, among them are; a Shoprite Checkers branch, Ecco Supermarkets, Kasama Best choice supermarket and five bakeries. The town has branches of Zambian commercial banks including; Zambia National Commercial Bank, National Savings & Credit Bank, Access Bank Zambia, ABSA Bank, Indo-Zambia Bank Limited, Zambia National Building Society and Seven other Micro Financial institutions. Further, the town has VISA and ATM services. Most people in Kasama are not formally employed, and they run small businesses to earn a living which is the reason the study was vital to be undertaken. The main activity in Kasama District is farming and Fishing due to its abundant River bodies and Lakes with a moderate to favourable rainfall pattern in the area. It will precisely be conducting an evaluation on the benefits that SME's derive from the financial institution with regards to access to credit, and will further evaluate the criteria financial institutions use in providing such financial services to SME's in Kasama. Further, this research was only conducted on Micro Small and Medium Enterprises (MSME's) and Financial institutions of one region of Zambia thereby limiting the view of how the SME's perform in other Peri-urban and urban areas of country resulting in inclining to the information provided by one region and disregarding the information that might have been provided in other parts of the country.

### **1.8. Limitation of the study**

However, during the course of study, some of the major limitations of the study were that; the branches of financial institutions that were included are those only based in Kasama therefore, may have influenced the results since they had a different point of view that only relates to the uniqueness of their locality. Another limitation of the study was the lack of willingness of some financial institutions to provide statistics and information due to security concerns which could not help in the analysis of the data.

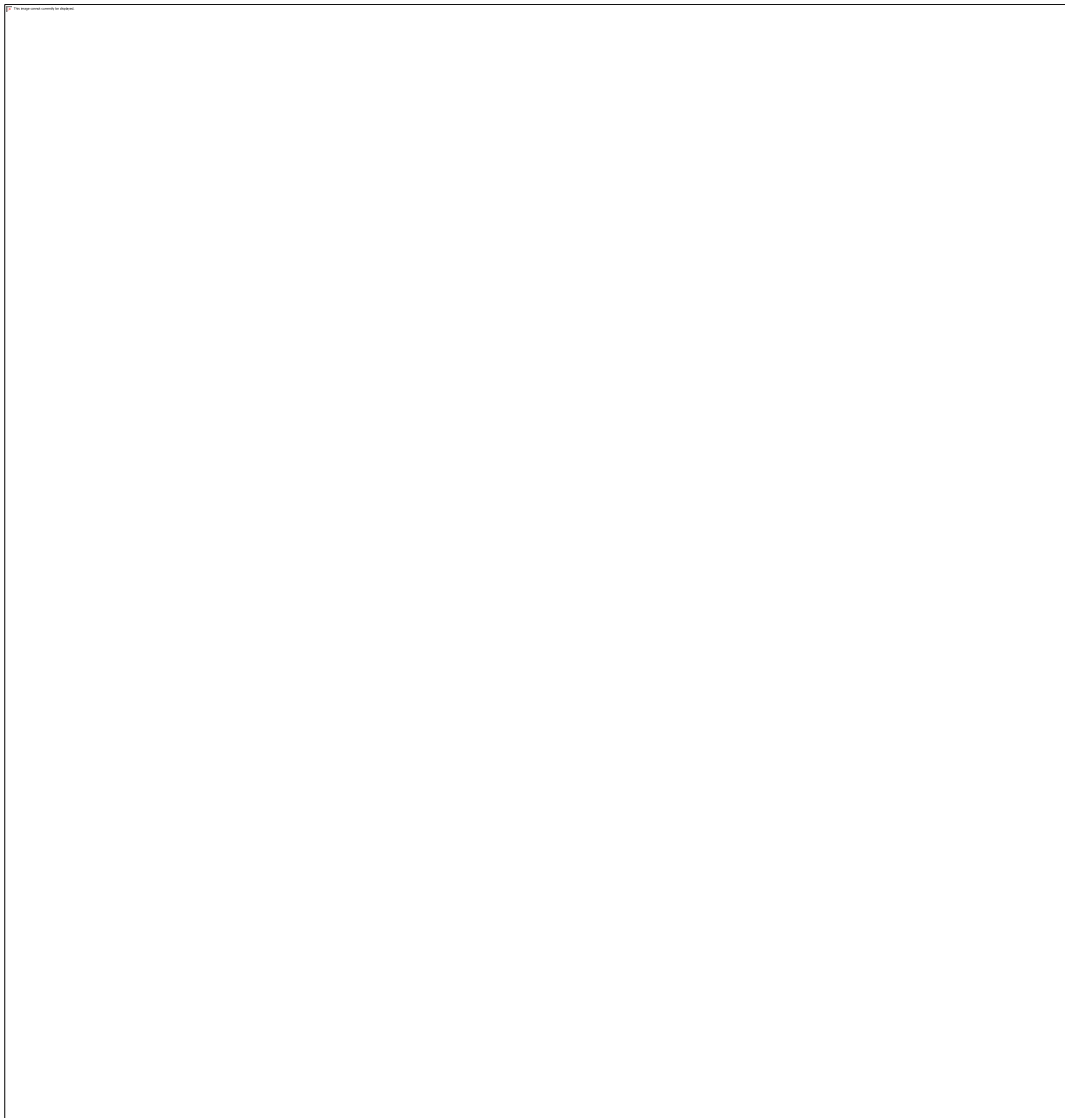
## 1.9. Conceptual Framework

This research is based on what is referred to as *Casual Chain analysis model* and *market failure analysis* that measures the effectiveness and contribution of financial institution in the growth and management of Small and Medium Enterprises. It allows the researcher to identify as to whether the contribution of financial lending institutions have brought about positive or a negative outcomes that enhances the growth of SME's by allowing individuals and firms to have access to finance. This section consists of the conceptual framework, and the operationalization of the *independent* and *dependent variables*. Firstly *Causal Chain Analysis Model* is described as involving the development of a logic model, which outlines graphically a hypothesis of how an intervention leads to a change in an outcome. This logic model is then used to anchor subsequent decisions in the systematic review process, including decisions on synthesis. (London International Development Centre, 36 Gordon Square, WC1H 0PD [www.cedilprogramme.org](http://www.cedilprogramme.org) @CEDILProgramme.)

The section, outlines the steps taken in building a logic model, which usually consists of a series of boxes depicting intervention components and processes, outputs, and outcomes with arrows depicting connecting relationships. The nature of these connecting relationships and their basis in causality are considered, through a focus on complex causal relationships and the way in which contextual factors about the intervention setting or population may moderate these. It also explores the way in which specific combinations of intervention components may lead to successful interventions. Evidence synthesis techniques are discussed in the context of causal chain analysis, and their usefulness in exploring different parts of the causal chain or different types of relationship. The approaches outlined in this paper aimed to assist systematic reviewers in producing findings that are useful to decision-makers and practitioners, and in turn, help to confirm existing theories or develop entirely new ways of understanding how interventions effect change.

“A conceptual framework is an analytical tool with several variations and contexts. It was used to make conceptual distinctions and organize ideas”. The conceptual framework guided the logic of what the researcher was doing in the research. Therefore in this context, the conceptual framework is indicating how the researcher viewed the concepts involved in the study as there exists a relationship between the Financial lending institutions that provide financial support and SME's that seek for such services. This relationship is reflected by the growth and management of SME's provided they have access to finance for investments and the potential they possess to contribute to the country's economic development which further benefits customers, citizens and the communities where they operate.

**Figure 1.10.1.: Conceptual Framework indicating Relation between Independent Variables and Dependent Variables of current study.**



The purpose of conceptual framework proposed in this study above, was to analyse how MSME's access finances through the financial lending institutions, thus through the available criterion (prevailing social and economic factors) for lending finances by financial institutions to SME's, and they stand-in as *independent variable*. On the other hand, Micro Small and Medium Enterprises (MSME's) played a different role as part of the *dependant variable* in this particular study. As such, two key roles are *independent variables* (Financial Lending institutions) and *dependent variables* (MSME's) and related in such a way that; SME's as dependant variables seeking financial access from the independent variable, in this case the financial institutions, through acquiring loans for investment and growth under the prevailing economic factors which make up the criteria for access to finance such as; the required collateral, current interest rates and banking regulations, current structure of MSME's sector, SME's training and the

awareness of funding opportunities by SME's. Thus, the variation in the dependent variable in accessing finances is what the study is tried to explain.

### **1.10. Operational Definitions**

For the purpose and context of the research, it was vital that one gets acquainted with a number of important terms which includes the following include;

**Micro Small and Medium Enterprise (MSME's):** Micro Small and Medium Enterprise is defined as either Micro small or medium using the size and based on the number of employees and the value of total fixed assets excluding land value. (Pour (2006).

**Bank:** a financial institution or organisation that provides financial services to retail customers. Brownbridge, M. (1996).

**Causal chain analysis (CCA):** involves the development of a logic model and its use to anchor subsequent analysis, aiming to provide empirical evidence for parts of the causal chain and information about contextual modifiers. BECKER, B. J. (2001 Pg. 24, 190-217.)

**Logic model:** A graphical representation of intervention processes, and outcomes linked by arrows indicating the direction of effect, which are developed into chains of cause-and-effect relationships. Ibid, (1996).

**Sustainable Growth:** is the implementation of the Policy premised on benefiting current and future generations in the socio-economic transformation agenda. Revised National Micro, Small and Medium Enterprise Development Policy (2023).

**Micro Enterprise:** A micro enterprise is any business enterprise whose annual turnover is up to One Million Kwacha (K1000, 000.00) and employs up to ten (10) persons, Ibid (2023).

**Financial Regulations:** a form of regulation or supervision, which subjects financial institutions to certain requirements, restrictions and guidelines, aiming to maintain the integrity of the financial system <http://dspace.unza.zm/handle/123456789/2410> .

**Monetary Policy:** the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability. Mpembele S. and Mwiya SB. (2007).

**Growth:** In this research, growth would mean having access to finance that would allow SMEs to progress from small to medium and then to large enterprises.

### **1.11. Ethical Consideration**

During the process of the research, the researcher in the data collection procedure, did not include personal details of the respondents such as names as well as participant's addresses on the data collection through research tools like questionnaires and interviews. The researcher did not also disclose the data to both, the nonparticipants and fellow participants. Emotional and psychological statements and questions were not raised or used by the researcher in order not to offend the respondents or raise any suspicions thus, there was a need for the researcher to submit the clearance to the respondent which will be obtained

from the University of Zambia Ethics Committee. Further, the researcher explained fully to the respondent, the importance of the research and how the information submitted was to be of use in policy implementation in the SME's sector.

## **2.0. CHAPTER TWO: LITERATURE REVIEW**

### **2.1. INTRODUCTION**

This chapter seeks to outline the literature reviewed by the researcher in relations to the study at hand. Neuman, (2006), indicated that, doing literature review helps to demonstrate familiarity with the body of knowledge and establish credibility, as well as, showing how the current research project is linked to past research. This chapter looks at historical overview and general structure of financial lending institutions in Zambia, so as to understand their contribution through access to finance in achieving Sustainable Growth of Micro, Small and Medium Enterprises. Which means that, it first examines the structure and the role that financial lending institution play as a source of finance for micro, small and medium enterprises and further, looks at the structure of Micro, Small and Medium Enterprise sector in their quest to access financial assistance from these financial lending institutions which leads to their growth and largely economic development. Later, the section will examine the Zambian perspective regarding Micro, Small and Medium Enterprises (MSME's) and access to finance, African perspective and global perspective of access to funds and finances.

### **2.2. HISTORICAL OVERVIEW AND GENERAL STRUCTURE OF FINANCIAL LENDING INSTITUTION.**

At independence in 1964, Zambia was one of the most prosperous countries in Africa. The country has a population of 17.2 million and GDP per capita of USD 1,513, according to the World Bank, (<http://www.boz.zm/statistics3.htm>). The country has, over the years witnessed a deterioration in its standard of living arising from the decline in the country's economic performance (FSDPZ1, 2004-2009 Pg.1). This is attributed to oil price shocks of the 1970s and the decline in revenues from Copper. Despite economic reforms in the financial sector in the early 1980s and 1990s, the country continues to face the challenge of growing and diversifying its economy, while simultaneously addressing widespread and worsening poverty levels with the recent crisis of Covid19 pandemic, which made Zambia to become predominantly focused on putting up a range of measures to contain the spread of the pandemic within the Zambian economy. Further, in response to the Covid19 pandemic, the Government through Central Bank has used an array of conventional and unconventional tools to ease monetary policy, support liquidity in key financial markets and maintain the flow of credit. This section of the chapter examines the structure of the financial sector by analysing the role and importance of government through the Central Bank and Financial Lending Institutions, play in economic development through SME's.

### 2.2.1. Financial Institutions and the Central Bank

Firstly; Finance can be defined as the art and science of managing money. It is concerned with the process, institutions, markets, and instruments involved in the transfer of money among individuals, businesses, and governments, ([www.aw.com/gitman](http://www.aw.com/gitman)). A financial system comprises institutional units and markets that interact for the purpose of mobilising funds for investment and providing financial services and facilities such as payment systems, for the financing of commercial activity. On one hand, the primary role of financial institutions-units in the system is to intermediate between those that provide funds and those that need the funds, typically transforming and managing risk. On the other hand, financial markets provide a forum within which financial claims can be traded under established rules of conduct.

Under the hospices of government, the *Central Bank* is an independent national authority that conducts monetary policy, regulates banks, and provides financial services, including economic research. Its goals are to stabilize the nation's currency, keep unemployment low, and prevent inflation. As alluded to earlier, The Bank of Zambia (BOZ) is the Zambian central Bank, thus its principal responsibility is to create and implement monetary policy that will maintain the economic stability of the country. The Bank is active in promoting financial inclusion policy and is a leading member of the Alliance for Financial Inclusion. It is also one of the original 17 regulatory institutions to make specific national commitments to financial inclusion under the Maya Declaration, during the Global Policy Forum, held in Riviera Maya, Mexico in 2011 ([www.boz.zm](http://www.boz.zm)). Its main functions includes;

- ✓ To ensure appropriate monetary policy formulation and implementation;
- ✓ To provide banking services to Government, commercial banks and to act as Settlement Agent;
- ✓ To license, regulate and supervise banks and financial service institutions;
- ✓ To ensure a safe and sound financial system and;
- ✓ To manage the banking, currency and payment systems operations of the Bank of Zambia.

Central Banks affect economic growth by controlling the liquidity in the financial system, ([www.boz.zm](http://www.boz.zm)).

### 2.2.2. Financial Institutions (FI)

On the other hand under the hospices of the central bank, *Financial Institutions (FI)* are defined as an organization offering financial services for its clients or members. Unquestionably, one of the most important financial services provided by financial institution is acting as a financial intermediary thus, an organization like a bank, finance companies or brokerage offers financial services such as deposit taking, checking accounts, loans, or various investment services etc., Christopher(1995). This is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange, IMF, (2006). Financial institutions encompass a broad range of business operations within the financial services sector including commercial banks, trust companies, insurance companies, brokerage firms, and investment dealers. Financial institutions serve most people in

some way and play a critical part of any economy, with individuals and companies relying on financial institutions for transactions and investing, Christopher and Beth (2007). Thus, they offer a wide range of products and services for individual and commercial clients and other specific services offered vary widely between different types of financial institutions which includes the following:

- **Commercial Banks:** This is a type of financial institution that accepts deposits, offers checking account services, makes business, personal, and mortgage loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses,(Jean, &. Aristomene; 1996). A commercial bank is where most people do their banking, as opposed to an investment bank thus, they also act as payment agents via credit cards, wire transfers, and currency exchange.
- **Investment Banks:** Investment banks specialize in providing services designed to facilitate business operations, such as capital expenditure financing and equity offerings, including initial public offerings (IPOs). They also commonly offer brokerage services for investors, act as market makers for trading exchanges, and manage mergers, acquisitions, and other corporate restructurings, ibid (1996).
- **Insurance Companies:** Among the most familiar non-bank financial institutions are insurance companies. Providing insurance, whether for individuals or corporations, is one of the oldest financial services. Protection of assets and protection against financial risk, secured through insurance products, is an essential service that facilitates individual and corporate investments that fuel economic growth.
- **Brokerage Firms:** Investment companies and brokerages, such as mutual fund and exchange-traded fund (ETF) provider Fidelity Investments, specialize in providing investment services that include wealth management and financial advisory services. They also provide access to investment products that may range from stocks and bonds all the way to lesser-known alternative investments, such as hedge funds and private equity investments.

A key role of central banks is to conduct monetary policy to achieve price stability (low and stable inflation) and to help manage economic fluctuations. Financial institutions are also important because they provide a marketplace for money and assets, so that capital can be efficiently allocated to where it is most useful. For example, a bank takes in deposits from customers and lends the money to borrowers.

### **2.2.3. Micro - Financial Institutions (MFI's)**

**Microfinance** entails the delivery of financial services to poor and low-income households which live without access to basic financial services for use in both, micro-enterprises or productive purposes (CGAP, 2010), thereby enabling them to raise their income and living standards (Chiu, 2014). Thus, Micro-Financial Institutions (MFIs) of different sizes, types and legal status provide financial services to the poor that are deemed critical for eradicating poverty (Kauffman & Riggins, 2012; Kimmitt & Muñoz, 2017). What once started off as microcredit, a simple service offering micro-loans to the world's unbanked

populations, and in particular women, has evolved into microfinance, offering broader services, such as deposits, insurance, money transfers and payment products, (Bruton, et al, 2011; Hermes, et al, 2011; and Khavul, 2010). According to Louis, Seret and Baesens (2013, p. 209), “*Micro-Financial Institutions (MFIs)*” is merely an *Umbrella Term*. Khavul et al (2013) notes that, MFIs are typically regarded as social enterprises operating in the financial sector that provide financial services including credit, savings, insurance to the poor i.e. individuals previously excluded from financial services. Thus, microfinance institutions tend to be entities of different sizes and legal formats (i.e., non-profit non-governmental organizations (NGOs), for-profit NGOs, self-help groups, credit unions, cooperatives, non-banking financial institutions, banks, and companies, etc.) and have highly diverse lending practices (group lending, village banking, individual lending). Decisively asserting, common to most of these institutions is the aim to provide financial services to poor and low-income people and otherwise marginalized clients, who lack access to formal financial services, to finance their entrepreneurial activities and assist them to advance out of poverty (Armendáriz & Mordoch, 2010; Thrikawala, Locke & Reddy, 2013).

### **2.3. Role of Financial institutions and Micro-Financial Institutions (MFIs) in Economic Development through financing SME’S in Zambia.**

In Zambia and in many other developing countries in the world, Small and Medium Enterprises (SMEs) are perceived to be economic drivers as they reliably create employment by providing opportunities for low-income poor people, increasing tax base for the country and improving incomes for the low earners thereby increasing financial inclusion, (MCTI, 2007; MOF, 2002). Considering the 1996 baseline survey of SMEs in Zambia, the SME sector is estimated to account for 97 percent of all businesses in Zambia and the sector employs about 18 percent of the labour force and a lot of them are women accounting for 47 percent (Parker, 1996). Although 9 out of 10 are said to operate in the informal sector, inevitably both formal and informal SME’s in Zambia contribute to the GDP by creating opportunities for future growth and an innovative diversified economy.

Therefore, in any country a viable financial system is the engine to development hence it is of paramount importance in policy implications. The principal role of financial markets is to channel funds from ultimate lenders to ultimate borrowers. The simplest transaction that takes place is the direct transfer of surplus funds from lenders to borrowers. In a more complex arrangement a middleman matches the needs of different borrowers to those of lenders and this middleman is the financial intermediary (in this case the financial lending Institutions). A financial intermediary borrows from lenders and lends to borrowers and in the process new instruments in the form of claims on the intermediary are formed. Rojas-Suerez and Weisbrod (1995) reported that in developing countries like Zambia, most household savings are held in the form of bank deposits and bank loans which represent the most important source of external finance.

Thus Zambia having a developing economy, of all the types of financial intermediaries, Financial Institutions and Non-Banking financial Institutions like MFI's are the most important groups that perform several types of intermediation.

#### **2.4. Contribution of Financial institutions and Micro-Financial Institutions in financing SME's as a general issue.**

In the previous chapter, the history of Small, Medium Enterprises was drawn and the outcomes presented that SMEs were not growing and had many challenges. The Zambian government had taken measures through many statutory instruments like the enactment of the Small Industries Development (SID) Act of 1981 and the Small Enterprise Development Organization (SIDO) which geared to help improve on the SID Act of 1981 thus, to make the sector more systematic and operative in its quest to resolve some of its challenges. Further, there was a correlation with the investigation on the factors influencing the growth of SME's by Maila muchoka (2020) as it was found that the Zambian government also intervened through the introduction of Microfinance Institutions (MFIs) to complement financial institutions like commercial banks by providing services and products to underserved households (Agri-ProFocus-2014). Thus, it is important to review whether financial lending institutions contribute to economic development through the growth of SMEs in Zambia and the world at large. This is vital in the sense that, it provides first-hand information on the work of financial lending institutions before the current study is undertaken. As such, various literature reviews have been done to investigate how these lending institutions contribute to the country's economy through financing SME's.

According to the section in the report that analysed the new approaches to SME's and Entrepreneurship Financing by Lucia Cusmano (2015), the key findings indicated that, there was a broad concern on credit constraints for SME's and entrepreneurs which has become "the new normal" thus, it is crucial for financial lending institutions to broaden a range of financing instruments available for SMEs and entrepreneurs to enable them continue to play their role in investment, growth, innovation and employment. The broadening of a range of financing instruments is aimed at widening the finance options available to SME's and entrepreneurs and improving understanding about the full range of financing instruments SME's are able to access in varying circumstances. The findings in the report drew a broad range of external financing techniques alternative to straight debt which included, "asset-based finance", "alternative debt", "hybrid instruments", and "equity instruments". The analysis report highlighted the different degrees of uptake by SME's of these instruments and the potential for broader usage by certain categories of firms. For example, asset-based finance has widely been used by SMEs, for their working capital needs, to support domestic and international trade, and partly, for investment purposes. Through asset-based finance, firms are able to obtain funding based on the value of specific assets, including

accounts receivables, inventory, machinery, equipment and real estate, rather than on their own credit standing. In this way, it serves the needs of young and small firms that have difficulties in accessing traditional lending. Asset-based lending also provides more flexible terms than collateralised traditional lending.

Further, a review of a working paper series under the African development bank group by Pietro Calice et al (2012), in the survey on bank financing SME's indicated that most financial institutions interest towards dealing with SME's is not driven by a general desire to take advantage of specific positive government and regulatory programs, but rather appear to largely be motivated by the business objective of profit pursuit. The findings showed that the type of involvement was rooted in basic banking products as most financial institutions revealed that they had both loan and deposit relationships with SMEs even though, some financial institutions extended the relationship to include SME training in order to enhance the quality of their SME loan books. In most of the cases however, the indications were that the deposit relationship usually preceded the loan relationship and that they were indifferent to specific product sequencing in their dealings with SME clients, even though majority of the financial institutions itemised that they preferred a "deposit first" relationship with SMEs before engaging in lending. For instance, some lending institutions stated that they desired most of their SME clients to have been clients for periods varying from 18 months to three years before they could grant them any lending product. Further, the survey findings showed that most financial institutions in Zambia had separate units managing SME's even though it's worth noting to the fact that in almost all instances, the SME unit was not at par with the other core traditional banking division such as retail/consumer banking and commercial/business banking units.

Similarly, a review of literature concerning SME's Access for Finance in Zambia by Chera Deressa (2012), a survey research Journal of Finance and Accounting finding indicated that, commercial banks are the primary source of SME debt finance and nearly 85% of enterprises maintain business accounts with commercial banks, and over half of them expressed satisfaction with their bank services. Further, there were indications that, roughly 15% of such SME's utilized commercial bank facilities with marginally reduced interest rates though were required to pledge collateral in the form of land, building, fixed assets or homes. Nevertheless, the results also showed a number of SME's who still argued to the cost of financing for Zambian business to be very high and ranged around 20% for banks and 42% for MFI. Further, the low utilization of commercial bank financing was attributed to factors such as; Interest rates and collateral requirements which were considered to be excessively high; Banks not having the interest or ability to meet SMEs' long-term financing needs; the commercial banking sector lacking sufficient knowledge of the sector in which SME's operate and most financial lending institutions lacking the

internal expertise to interact with this sector thus, few Zambian commercial banks had an SME department to deal with the needs of SME's.

In addition, there was a correlation with SME Financial Products and Services Directory by Gareth Evans (2022), which was compiled to provide an easy tool for Zambian SMEs to identify appropriate financial products and services, including the requirements and the terms of financial service providers. The literature indicated that the crucial element in the development of the SME sector is access to finance, particularly to bank financing which revealed the relative importance of the banking sector in serving this segment thus, the findings from the survey made a preference for the following financial products and services which financial lending institutions provide in order of preference such as: Collateralised Term Loans, Invoice discounting and order financing, Working capital and overdraft, Equity Finance and Grants, Technical Assistance and Tax Incentives.

In its characterizations, Collateralized term loans are medium-term facilities secured by hard assets financial institution and are provided to SME's that would not be able to access loans and can use collateralized term loans to acquire sector-specific assets required for further growth. Thus, SME's takes a loan from a financial institution to purchase sector specific equipment and repays financial institution over time with equipment as collateral. The findings indicated that, this service enables SME's to improve liquidity as other arrangements often entailed unfavourable payment terms which squeezed liquidity. Thus, SME's use revenue generated from the equipment to repay loan and creates growth opportunities for cash-constrained firms. However, the service is mostly accessed by SME's in equipment intensive sectors such as agriculture, Mining, transportation, and is also suitable for SME's who are not able to access conventional loans. Similarly, Invoice discounting and order financing services are typically aimed at companies that supply a physical product and at the same time, they are a form of short-term borrowing which are often used to improve a company's working capital and cash flow when they have orders to execute. Invoice discounting allows a company to obtain liquidity based on the value of the invoice, in the form of a short-term loan from a financial institution then the loan is repaid, with interest, when the client makes payment on the invoice. As SME's grow, they can use invoice discounting to boost working capital, fulfil more orders and be more competitive.

On the other hand Order finance also allows a business (SME) to draw money against a confirmed purchase order from its customer (off taker) thus SME's can borrow a percentage of the value of the purchase order from financial institution and the amount borrowed is usually sufficient to enable the SME's to acquire goods and services so as to satisfy the orders. The service is mostly suitable for SMEs which need a quick and effective way to finance their purchase orders and those with unfavourable

payment terms. Last but not the list, Working Capital Finance is a facility provided by the bank for the sole purpose of financing the everyday operations of the company. This is owing to the fact that sometimes a company may not have adequate cash on hand or asset liquidity to cover day-to-day operational expenses and, thus, financial institutions are able to secure a loan for this purpose. The literature pointed out that, Working capital loans are not used to buy long-term assets or investments by SME's but are used to finance daily operational needs such as accounts payable, wages, etc., thus working capital facilities enable SME's to efficiently cover any gaps in the working capital expenditures.

## **2.5. The Structure & Performance of SME Sector and the factors that support Enterprise and Economic growth.**

As earlier alluded to, Small and medium enterprises (SMEs) have overtime been at the forefront of accelerating economic growth in many countries and economic blocs. For example, the majority of the SMEs do employ at least about 50 employees in most Southern African countries depending on their sizes and this helps to take a sizeable chunk of the employment burden from states. According to Thamas and Aymes, (1988); they added that SMEs operates in every city and they provide employment for people and about 4 million jobs are created through this sector which in some cases may be regarded as informal sector. Therefore, in understanding the performance of SME's in Zambia, this part of the chapter assesses the importance and the structure of SME's and explores the key support structures (or factors) that assist in the growth of SME's and the economy at large. Firstly, it looks into the Zambian perspective on the SME sector, Africa perspective of the role of SME's and it further examines the global perspective or empirical literature regarding the concept underlying Enterprise and economic growth.

## **2.6. THE ZAMBIAN PERSPECTIVE ON FINANCING AND ROLE OF MSME'S IN ECONOMIC DEVELOPMENT.**

All successful cities and towns of Zambia that are developed, they are mostly productive in their regions of location in terms of the economy and quality of life. Further, it is observed that there are strong industries and enterprises in these towns and cities. Thus, the review of the literature under this section tries to relate the quality of life and the development of the MSME's industry. According to most of the surveys, for example considering the 1996 baseline survey of MSMEs in Zambia, indications in tells that, there has been a correlation between the quality of life and socio-economic development and the existence of investments and manufacturing companies. Thus, if the development policy is not properly instigated, the regions with low quality of life will continue to lag behind the other towns and cities in terms of development. The survey findings indicated that there are remarkable differences between Rural areas (Peri-Urban) and Urban areas in terms of living standards and the contribution of MSMEs to economic

development. This is to the fact that, MSMEs are the main actors in increasing employment and thus, are seen as a key element in achieving the “growth” and “employment” targets in most areas of Zambia.

Following a review of literature survey by Muthuswamy and Kafweta (2022), on the factors that affect the Economic Growth of MSME’s with the main objective of the research paper of identifying the factors that affect the financial growth of SMEs in Lusaka, Zambia. The review of literature indicated that, from the author’s perspective, The “*Term*” Micro Small and Medium Enterprise (MSME) does not necessarily mean only a small struggling business operating from a back street establishment but emphasis was made in that, some SMEs are pretty solid. This in tells that, some MSME’s are just made in such a manner that their set-ups have simple processes and few employees. It was also noted that, most government bodies such as; the Zambia Development Agency (ZDA) through the act of parliament of 2006, The Citizen’s Economic Empowerment Commission (CEEC), Patent and Company Registration Agency (PACRA) do seem not to be having much impact on the promotion of the Zambian entrepreneur through MSMEs at present, and most SME’s in Zambia are ignorant of the provisions and powers given to them through these acts or statutory bodies. It was indicated that, MSME’s are the backbone of virtually all economies in the world however, the process of creating a viable MSME sector for economic benefits is constrained by various factors and one of such constraints is the limited availability and accessibility of financial resources to meet a variety of operational and investment needs within the MSME sectors. Through the data which was collected by methods such as, surveys, observations and interviews with various officers heading the Government agencies, heads of the Micro financing institutions, commercial and procurement managers of the big companies and other Parastatals and the SMEs company managers, the study findings specified that, deficiency in access to finance, absence of managerial skills and experience are the key socio-economic factors that affect the growth of businesses in Lusaka district. Thus, the two factors have the potential of leading to improved business performance. Further, the findings also point out that the other key factors that were found to affect growth of micro and small enterprises in Lusaka district are: access to business information, government policy and regulations and access to infrastructure as categorised below;

<b>SOCIAL ECONOMIC FACTOR</b>	<b>IMPACT</b>	<b>FINDINGS</b>
<b>Access to Business Information Services</b>	The study established that access to business information affects growth of businesses in Zambia to a moderate extent and thus, it was spotted out that such kind information was not available at most government agencies like, ZDA, PACRA,	However, the findings showed that the overall business information services in Lusaka district affect the performance of businesses to a small extent.

	CEEC etc., and deemed to be relevant as the information which was available did not clearly inform these agencies of the changes in the business environment on time.	
<b>Access to Finance</b>	The study established that access to finance exposes businesses in Lusaka district better opportunities to a great extent while it also leads to improved business performance to a great extent.	The study found out that access to capital for businesses is very challenging to a greater extent. Overall, access to finance affects the financial growth of SMEs in Lusaka district to a large extent.
<b>Managerial Skills</b>	The study recognized that availability of managerial skills and experience affects businesses in Lusaka to an huge extent while the respondents felt that training on managerial skills are required in the businesses to a facilitate its growth.	The study findings showed that most SME's do not get trainings on business management skills frequently even though, overall, the availability of managerial experience affected business performance only to an equitable extent.
<b>Access to Infrastructure</b>	On infrastructure, the study established that good road network is available to the business people around Lusaka and it's easy for them to do their business. The respondents' reported that the working space allocated to them is accessible to a great extent but is sufficient only to a moderate extent.	Study findings specified that infrastructure affects the financial growth of businesses to a greater extent in that the road becomes only bad during the rainy season, water also is a real challenge because most business do not have running water and the electricity power possess operational challenges for SME's in times of load shedding.

The study was further affirmed by findings from, Subhan et al., (2013) who clarified that, SMEs are the driving force for the promotion of an economy. Due to their significance, all the countries either, developed or developing, are concentrating on the development of SMEs and argued that, Small enterprises are considered as main driver for innovation, poverty reduction, employment generation, and social integration. MSMEs sector can amplify the production capacity which has significant impact for the promotion of economic and social development. Further, the studies by Avendano (2013) also acknowledged that, MSMEs provide the vast majority of employment and are keystones in the productive structures of emerging economies like that of the Zambian economy. Further, owing to the privatization of 1991, the review of literature showed that the economy become more liberal resulting into an increased difficulty for local SME's to grow and face up to competition being created by foreign companies thus, the fairness of the economic policies governing the way business is conducted in Zambia on the basis of

companies being local SME's and foreign conglomerates was also being questioned. Therefore, the whole purpose of empowering local Zambians is still being defeated because they cannot face up to competition from foreign companies in terms of capacity, quality of goods, and access to financing and general management as elucidated by Chiumya, (2006). Although the SMEs in the private sector in Zambia have such great potential for economic development, equitable wealth redistribution and poverty alleviation, they face many business constraints and challenges which hinder growth and limit their ability to contribute effectively to national economic development.

Similarly, there was a correlation with the findings of a Research by Prof. Alfred Nuwagaba, (2015), on Micro Financing of Small and Medium Enterprises (SME's) in Zambia. The Research objectives were to assess micro financing in Zambia and how they can help in the development of SMEs sector in the country. A test was done on two hypotheses where the H<sub>0</sub> stated that, "business shift from social factor to profit making by Micro finance institution has contributed to poor funding of SMEs in the country", while H<sub>1</sub> also indicated that "micro financing is vital for the growth of SMEs sector in the country". The study was done on two Micro-Financial Institutions and the data was collected using interviews and review of secondary data. During the research process, the findings reflected a strong relationship in a sense that with more micro funds available, then SMEs will get access to finance, otherwise, SMEs will continue to face a drop in funding thus relating to *Access to Finance* as a vital *Social Economic Factor*. Further, the positive test on H<sub>1</sub> proved that Financial lending institutions such as MFI's are not willing to take risks on providing loans to SMEs that may even be lacking collateral thus tends to hamper the development of the sector. This proves that H<sub>0</sub> is correct considering data from the financial lending institutions and in addition, the findings pointed out that the Bank of Zambia in the year 2012, implemented policy changes in the financial sector and one of them was interest caps on commercial banks at 9.75 percent and 42 percent for micro financial institutions (World Bank, 2013). It was also observed in the World Bank, 2013 report on Zambia that, by the end of year 2012, financial institutions were able to lend approximately USD 480 million to SMEs and only USD 20 million were unsecured which implied that SME's in the country would still face a challenge to acquire funding without the right loan security (World Bank, 2013; and Feyen and Kibuuku, 2012).

In another review of literature of a Case study of Lusaka Based SMEs where the study was conducted on the Factors affecting Small and Medium Enterprises (SMEs) Access to Finance by Tiyeyze Chilembo (2021). The study examined some factors that affect SME's access to finance and intended to achieve objectives such as; examining the extent to which collateral requirements and interest rates affect SME's access to finance. The other objective was to examine the extent to which other factors affect SMEs access to finance through the use of a mixed method approach (Qualitative and Quantitative research methods)

in order to come up with the study findings. The indication from the findings exhibited a positive correlation between lack of collateral assets and rejection of credit and interest rates variables. The study noted that SMEs play a vital role in the economy of Zambia owing to the fact that they produce goods and services, create employment and are a source of income for thousands of people. According to the International Trade Centre (ITC) Survey (2018), findings showed that SME's in Zambia represent 70 percent of Gross Domestic product (GDP), 88 percent of employment and contribute 97 percent of all businesses in the economy. These business activities ranges from Barber shops and hair salons, business centres, construction, goods and public transport, metal fabrication, wood processing, and restaurants, amongst many other activities, Chilembo T. (2021). The critical role SMEs play in the economy of Zambia can therefore not be undermined. In addition, the Financial Sector Deepening (FSD) report (2017) also observed and acknowledged the importance of SMEs as economic drivers for employment creation, especially for low-income people and that they perform as a critical route to financial inclusion. The findings from the study designated that the SME sector is estimated to account for 97 percent of all businesses in Zambia and recommended that SMEs make use of practical and unconventional means of alternative sources of finance, given the challenges being faced with traditional sources of finance. Further, Crowd funding was also endorsed coming specifically in a form of crowd funding called "Village Banking" and group partnering of SMEs in order for them to create a critical mass for their operations and for them to enjoy economies of scale for their businesses. In addition, the study encouraged SMEs to improve on their business record keeping such as cash flows and income statements so as to attract potential sources of finance such as venture capital investors and/or angel investors. This correlated with the acquisition of *Managerial Skills* as a *social economic factor*. However, the report bemoaned that 9 out of 10 SMEs operate in the informal sector which was also amplified by the same observations from Nuwagaba (2015) who argued that this makes it difficult for government to support this sector. Furthermore, the literature indicated that access to finance is critical to the formation, growth and survival of SMEs however, baji and Olugu (2014) posited that the biggest hindrance to SMEs access to finance is the collateral required which is pledged against the loan application. Thus, the requirement acts as a constraint to the formation of new SME's and to the development of existing ones. However, it was recommended that it is vital for financial service providers to devise appropriate and affordable products and services which take into consideration the needs of the SME's as they are considered to be the main drivers of the economy (Gondwe, 2012).

### **2.6.1. Research Gaps in Zambian Perspective.**

The Research mainly focussed of the socio Economic factors that attributed to the relationship and coordination between line Ministries and did not look into the aspect of inadequate business infrastructure

and business premises that can facilitate the development of individual enterprises such as markets, industrial yards, incubation centres and economic zones so that they can have meaningful contribution to economic growth. Further, little was stated on external socio economic factors such as lack of collateral requirements, institutional mandatory requirements like, high interest rates in statutory reserve requirements which in turn has an adverse effect on access to finance by MSME's etc. Thus business infrastructure play a critical role in the smooth operations of MSMEs. Nevertheless, the findings pointed out that SME's by nature feed into the conglomerates and provide employment resulting into a strong middle class (the consumption class) which drives the economy as some businesses start off as MSME and graduate into corporates which in time matures into international companies.

## **2.7. The importance of MSME's in Social-Economic Development**

Micro Small and Medium Enterprises (MSME's) contribute greatly in jobs creation and GDP in that they employ 50 percent of the working class, similar to countries like Indonesia, Tanzania and Kenya. SMEs are considered to play a critical role in Zambia's economy and are key source of economic growth, dynamism, flexibility and are able to adapt quickly to changing market demand and supply situation. Small and medium enterprises (SMEs) are very instrument for the development of an economy through for example creation of employment, increasing tax base for the country, improving incomes for the low earners among other benefits. (MCTI, 2007; MOF, 2002). Further World Bank, (2014), indicated that SME's help in diversifying economic activity, contribute significantly to export and trade and enhances competition and entrepreneurship therefore, they have external benefits on an economy's wide efficiency, innovation and aggregate productivity growth. In a review of literature by Tshuma & Jari, (2013), the study stressed that Small and medium enterprises (SMEs) have overtime been at the forefront of accelerating Social and economic growth in many countries and economic blocs. For example, the majority of the SMEs do employ at least about 50 employees in Southern African countries depending on their sizes which assists in taking a sizeable chunk of the employment burden from states. From the previous studies by Kromberg (2005) on South African SME's, it was indicated that SME's have played and continue to play a bigger role in the social economic development of the country as the findings indicated that they contribute 30 percent to gross national product considering SME's that are registered with the government, although the percentage could be higher if other SME's that operate but not formally registered because of fear to pay state taxes are also considered. Thus, supporting SME's in Zambia through finance can help the country to exploit the social and economic benefits from greater competition and entrepreneurship. This is to the fact that SME's are more productive than large firms even though financial market and other institutional failures impends SME's development, thus, by broadening access to financial service by SME's can boost employment more than large firms because SMEs are more labour

incentive. Nevertheless, while there is significant number of academic literatures on SMEs financing, Okezie, et' al., (2014) indicated that the challenges that are faced by SME's and entrepreneurs in Sub Saharan African countries cannot be underrated and are mostly the same across the continent. Such challenges are noted as; poor credit facilities which hinders Prospective entrepreneurs and SME's to easily access credit funding for their investments and higher interest rates which are charged in additional to loan collateral which SMEs may not even have.

### **2.7.1. Factors that make it difficult for MSME's access to Finance from Financial lending institutions.**

From the literature by Chilembo T. (2021), the study findings indicated that lack of Collateral of assets, higher interest rates, and short duration for repayment of loans are factors that were seen as being major hindrances for SME's to access credit facilities from the banks and other financial lending institutions. The literature revealed that since most banks and other financial lending institutions do not have any customised or unique products for the MSME's therefore, they attempt to serve the small businesses with a modified product designed for the so-called 'small' corporate clientele. As such, financial lending institutions require detailed business and financial documentation from the small enterprises as it was observed that most financial lending institutions treat SME's like large corporations thus, demanding all necessary documents like those required by large firms. In addition, it was also noted that some SME's fail to meet banks' collateral requirement simply because they do not have any assets that they could offer as collateral or in some instances, borrowers may have valuable fixed assets which the bank would have difficulty accepting as collateral. Thus, in either cases, banks and financial lending institutions tend to reject loan applications that are not accompanied by the offer of collateral acceptable to them. However, part of findings on collateral assets correlated with findings by Ambrose (2012), who also identified some barriers such as, lack of collateralised security, lack of proper regulatory framework compounded with unavailability of skilled workers and lack of infrastructure act as constraints for financial assistance to SME's. Thus, these factors weigh down on the sustainability and reliability of traditional sources of finance. The findings from the literature indicated that, more than 25 percent of SME's in Africa consider interest rate availability and cost of finance as the most critical obstacle in that, even when funds are available, financial institutions make such funds costly for SMEs. Similarly, Awani (2020) noted that, despite MSME's strong interest in credit, commercial banks' profits orientation deter them from supplying credit to MSME's because of the higher transaction cost and risks involved thus, established that access to finance is the main challenge for MSMEs growth due to risk premiums on their borrowing together with elevated transaction costs.

### **2.7.2. Social Economic Factors that affect the Growth of MSME's**

According to the 8<sup>th</sup> National Development Plan (2022-2026), it indicates that Human and social development is fundamental to inclusive development and is a catalytic ingredient to the transformation of the country. This entails providing equal opportunities for every citizen to develop to their full potential and effectively contribute to the development of the country. According to World Bank Doing Business Indicators (2015), the business environment in Zambia had not changed significantly thus, even though the SMEs in Zambia have such great potential for economic development, equitable wealth redistribution and poverty alleviation, Muthuswamy & Castrol Kafweta (2022) indicated that they face a number of business constraints and challenges which are categorised as social economic factors that hinder growth and limit the ability of SME's to contribute effectively to national economic development.

### **2.7.3. Effect of Demographic Factors on the Growth of MSME's.**

Many researchers have observed that the key demographic factors of the firm which are essential to determine SME growth through access to finance include; size, ownership type, age and sector for the fact that they have influence on SME access to finances, Maila muchoka (2020). Furthermore Reinecke, (2002) amplified that the firm-specific factors such as entrepreneur characteristics, poor management competences, lack of skilled managers, deficiencies in marketing strategies, low efforts, and low technological capacities are also prominent factors responsible for limited growth of SMEs in Zambia. Another review of a literature from the study that was undertaken in Libya by Zarook et al. (2013) on the impact of the demographic factors in accessing finance by SME's in Libya and it was established that demographic factors encompassed age, size, and sector. The findings indicated that these factors had a positive and significant impact on access to finance by SME's and the study demonstrated that small firms have more credit constraints than large firms for the fact that, Small firms are often owned and operated by private individuals who have no legal obligation to report financial performance or to regularly audit their financial accounts. Further, the study revealed that small firms have fewer assets to provide as collateral thus, most SME's are associated with high failure rates compared to large firms. Conclusively these factors increase moral hazard and anticipate risk associated with lending. Ibid (2013), also observed that factors such as Age is an important in accessing finance from Financial lending institutions (MFIs) thus the more years one is in business, the more one can have access to finances for the reason that the firm would have already established some track record or reputation signifying being competitive on average. In another literature by Cook and Nixson (2000), the study indicated that the lack of finances has been made worse by many factors such as interest rate, high collateral requirements, and lack of experience with financial intermediaries and it further enlightened that the size of the SME's determines whether access to industrial real estate is a matter of concern. Thus, Small firms continue to have less access to

industrial real estate and this poses a challenge to the development of SME's as compared to large corporations in the sector. This also implied scarcity of infrastructural facilities where small SME's will have a problem than large firms. Akangbe et al. (2012) also added that lending financial institutions tend to favour industry sectors that are showing growth and require more capital hence, most SME's require more credit to invest in machinery, raw materials, equipment or buildings but face proportionately greater restrictions. It was also noted that service sectors find it hard to access credit as they have less collateral to offer since the main input usually is human capital rather than physical capital. However, if supported, SME development can also contribute to economic diversification and resilience. This is especially relevant for Zambia's copper and agriculture-based economy which is highly vulnerable to copper price fluctuations, and increasingly common climate change shocks (such as drought and flooding) in the agricultural sector. Generally, the potential benefits are particularly high in Zambia, ranging from creating new jobs given the rising labour market, to contributing to achieving environmental sustainability as well as inclusive growth.

#### **2.7.4. Effects of Characteristics of Entrepreneurs on the Growth of MSMEs**

Following the review of literature by Reinecke, (2002), the study noted that, aside demographic factors of a SME's, the characteristics of the entrepreneur are also important the development of SMEs. It was noted that, the entrepreneur's characteristics such as age, gender, motivation, experience, educational background, and risk-taking propensity, preference for innovation, mind-set, personality, survival, and income among others, have a big influence on the firm's performance, success, and the growth of the MSMEs. The findings from the study indicated that aside the serious business environmental challenges in the development of SME's, the firm-specific factors such as entrepreneurial characteristics, poor management competence, lack of skilled managers, deficiencies in marketing strategies, low efforts of Research & Development and low technological capacities are also prominent factors accountable for the limited growth of SMEs in Zambia. Ibid (2002) pointed out that MSME's in Zambia and developing countries in general, lack the managerial skills and connections to effectively conduct their business and deal with the cumbersome legal and regulatory framework. In the review of literature, the study analysed the managerial challenges affecting the development of SMEs in Zambia and the world at large based on management capacity, Weak Managerial Structure, Lack of Management Training and Technological Capacities for the fact that such factors affected the finance of MSME's to facilitate their growth. Following the study by Romjin (1989), the findings perceived education as a crucial agent in promoting long-term employment and economic growth. It was noted that entrepreneurship education and training was importance in facilitating growth of MSME's and this was proved by Pasanen (2007) who postulated that many empirical investigations pointed to the importance of the contribution of entrepreneurship

education and training and were linked to management training following the growth of MSME's thus, entrepreneurial and management training for small business owners and managers allows them to develop the substantial skills to ensure the survival and success of their firms. The study indicated that, despite the numerous institutions providing training and advisory services in Zambia, there is still a skills gap in the SME sector for the fact that most entrepreneurs do not afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to contentment. Similarly, there is a correlation with the findings by Asian (2009) who explained that, it gives a heavy burden on the entrepreneurs in that proper strategic plans for their businesses are prevented from being executed as they are usually affected with the day-to-day problems of running their businesses.

### **2.7.5. Effect of Business Environment on the Growth of MSME's**

Providing conducive enabling environment is the responsibility of any government in the development of SMEs, as well as the wellbeing of society. The performance of all firms whether big or small is largely affected by the business environment in which it operates. A stable macroeconomic, an open trade and investment regime, and a competitive financial sector establishment is the fundamental conditions for a vibrant private sector. A well-developed physical infrastructure transportation, warehousing and port facilities and communications networks expands markets and facilitates transactions throughout the productive sector. Social infrastructure investments in education and health care build the capabilities of the productive sector workforce. This was also highlighted in the eighth national development plan (2022-2026) which focuses on creating a diversified and industrialised economy as a key developmental outcome of the 8NDP. It pointed out that the strategies include enhancing generation, transmission and distribution of electricity, diversifying to other renewable as well as clean alternative energy sources, enhancing the management of petroleum products, improving transport and logistics, up scaling the provision of industry relevant skills, investing in applied research and development, enhancing digital capacity and strengthening management and productive use of water resources. This entails a shift in labour and other resources from low to higher productive activities between and within sectors. Nevertheless, without conducive enabling environment institutions and citizens find it difficult to thrive thus it is the duty of any government to provide good legal and institutional set up even though there are a number of external factors in the environment such as politics, economic, social, technology, environmental and legal factors which are difficult to control by SMEs. Further, a review of literature by Harvie and Lee, (2005), indicated that it is important to have government policies that support SME's, including regulations that enable them to operate efficiently and allows them to reduce their administrative costs. Their study clarified that, even though there have been initiatives by government to promote and support SMEs so as to enhance their

development and reduce poverty, there is a lack of laws and genuine administrative procedures that facilitate financial accessibility and assistance from the government agencies.

In Kosovo, a review of literature by Govori (2013) who carried out a research on the factors affecting the growth and development of SMEs with experiences from Kosovo revealed that external factors such as; access to finance, competition, corruption, and government policies have impact negatively the development of SMEs in Kosovo. The researcher observed that many companies in the region produced products similar to those of Kosovo enterprises and this resulted in weaker and unfair competition and adversely affected investments (World Bank 2010). The findings from the surveyed SME's indicated that unfair competition was an obstacle to the development of SMEs in Kosovo and this was augmented by the attitude of consumers towards local products which were associated with the lack of confidence in the quality of products produced locally thus, it posed a negative phenomenon in the development of SME's, making imported products much more resulting in a negative balance of trade in Kosovo. Besides corruption and unfair competition, the researcher observed that problems with infrastructure, administrations, electricity and water also made it difficult for citizens and SME's to grow. Further, the findings indicated that, there were problems with government policies regarding judicial systems and the implementation of laws and regulations by governmental bodies which adversely affected SME's. Conclusively, these challenges may not be peculiar to Kosovo alone but such challenges are also confronted in countries like Zambia, South Africa, and Nigeria among others which gives a strong indication of the SME's sector standing in Zambia.

## **2.8. The Zambian perspective on the Challenges being faced by MSME's access to Finance.**

Many multilateral institutions like the World Bank and many scholars agree that lack of access to affordable finances limits SME growth showing a big difference when compared to financial access by larger global businesses. SMEs in Zambia are not spared by this challenge as indicated in the survey literature by Formal Bank Credit to Micro & SME's in Zambia, University of Zambia and the Zambia Institute for Policy Analysis and Research, (2013). The finding showed that almost half (49%) of SME's perceive access to credit as a major obstacle to their business operations. Looking at the literature on SME Perceptions of Financial Services Providers as surveyed by the Financial Sector Deepening Zambia (FSDZ), brought to light the various perceptions that exist in the sector and revealed that most financial lending institutions (Banks) in Zambia only lend to SMEs who have adequate security and tend to deny credit facilities to lucrative and viable businesses due to lack of adequate collateral security and mostly, financial lending institutions do not understand that SME's are more risk averse than the banks themselves. Further, findings from the survey revealed that, business owners and SME's require a much faster response

for loans or other financial instruments than banks are generally able to achieve. It was indicated that the average turnaround time for SMEs in Zambia to receive a loan, overdraft, asset finance or any other form of facility from a financial service provider is 30 days and more. However, SMEs tend to be in need of the funds as and whenever they formally apply because their needs are usually urgent. Further, the findings showed that banks treat different businesses in the same way and offer homogenous products to different types of business sectors. For example, overdraft facilities which banks offer to a small holder farmer are structured in the same way as the ones offered to a business that sales motor vehicle spare parts.

## **2.9. AFRICAN PERSPECTIVE ON FINANCING AND ROLE OF MSME'S IN ECONOMIC DEVELOPMENT**

A sampled review of literature relevant to this study and based on African reviews and experiences similar to Zambia were also taken into consideration. The African review on SME's and their contribution to the development of the economy through access to finance has been done because they could have different or similar results on the growth of SMEs as compared to outside Africa. Further, by looking at the review of literature from other countries, it will help the researcher to have information on factors that affect growth of SME's in other African countries as they have their share of problems and successes. In addition, though Zambia is in Africa, there are some differences with other African countries in terms of their social, cultural and economic development thus, the review of literature will also help the researcher to make informed decision by having divers views of the contribution of SME's to the economy through access to finance. To identify academic gaps from the reviewed empirical researches, methodologies, results and recommendations were studied and the empirical researches provided in this section are reviews from Nigeria, Ghana, Kenya, Tanzania, and South Africa.

In Nigeria, it was confirmed in the study that about 57.5 percent of the aged 47 had some sort of secondary education which reflects on *Managerial Skills* as a *Socio Economic Factor*. The findings indicated that secondary education helped SME's to utilize well the funds received from micro finance institutions. Micro financing was affordable for small holds and it makes families and small institutions make ends meet. The literature was also amplified by the study which was established in Ghana on funding of SMEs and it is asserted that education must be a key factor to the beneficiaries of micro financing by (Gabriel Brafu-Insaidoo and Ahiakpor, 2011; Bank of Ghana, 2007) thus, the financial education given to investors in small start- ups is very crucial (Olalekan and, Oluwaseun, 2010; Areola, 2007). In another review of literature by Taiwo JN etal. (2016) on the role of Microfinance Institutions in Financing Small Businesses, the findings showed that, one of the main problems facing SME's in Nigeria is capital required to finance their activities. Experiential data revealed that finance has about 25% impact on the success of SMEs thus, they are financed either by debt, equity or a combination of the two. The finding indicated that the

types of financing are derived from either the formal or informal financial sector and in the formal sector, commercial banks and development banks are the main sources of financing for businesses, while the informal sector comprises of loans from friends, relatives and cooperative societies. Therefore, Nigerian banks such as commercial, microfinance, and central bank, as well as international development agencies are institutions that play an important role in financing small businesses in Nigeria under the hospices of the formal financial sector.

Nevertheless, findings revealed that a lot of commercial banks are not willing to finance small businesses because of the risks and uncertainties involved. Notable among the socio economic causes (factors) for the reluctance of commercial banks in Nigeria to finance the subsector has been pointed out to; harsh economic environment, inadequate managerial skills and added *insufficient availability of modern technology* by SME's which has led to a constant reduction in financing SME's in the Nigeria. Further, there is a correlation with the results of a similar reviewed literature research by uduogu, augustine o (2012), on the role of commercial banks in small scale entrepreneurial development in enugu state (A case study of UBA and Union Bank of Nigeria plc.). The subject matter of this research work was to evaluate the extent to which Small Scale entrepreneurs in Enugu have been able to obtain loans and raise finance from Nigerian Commercial Banks as a major source of finance to the Nigerian Economy. The main objective of the study was to establish the role of Commercial Banks in financing Small Scale Enterprises (SME's) in Enugu State. Based on the analysis of the findings of the research, Commercial Banks complied with the Central Bank of Nigeria (CBN) credit guidelines. The findings also indicated that Commercial Banks required feasibility report from SME's before granting a loan to them. However, the findings showed that most SME's fail to provide proper feasibility studies due to *poor level of education* as a key *socio economic factor* that possess a challenge. The research concluded that for small scale enterprises to survive, there is need to have collective efforts between SME's and Financial lending Institutions (banks) thus, government should engage more in the development of SME's by creating and embarking on various incentives to encourage both SME's and Financial lending Institutions (commercial banks).

In another review of literature by, Koila Leseyio T. (2014), an investigation in Kenya was carried out on the effect of microfinance services on financial performance of small medium and enterprises in Narok County. The specific objectives which guided the study included; determining the significance of microfinance services on promoting SMEs growth and to find out the contribution of microfinance services on facilitating SMEs access credit. Further, the study also aimed at analysing the effect of lending rates of microfinance institutions on financial performance of SMEs and to determine the effect of small frequent deposits to Micro-Finance institutions (MFI's) on financial performances of SMEs in Narok

County. The study implemented a descriptive research design and the target population was 93 selected enterprises. Further, the descriptive statistical data was analysed and Regression and correlation analysis approach was applied to show the relationship between variables. The findings from the study indicated that the existence of Financial lending Institutional (MFIS) services has contributed to the development of SME's and the provision of credit had increasingly been regarded as an important tool for raising the incomes of youths. In addition, the results signposted that by mobilizing resources to more productive uses, it made credit more accessible and at lower borrowing and lending rates making fair rates for easy access and obtainable credit. Thus, the financial performance and promotion of MSME's increased, especially those in the informal sector which are viewed as a viable approach in Kenya to sustainable development as it suited the resources in Narok County. The researcher came up with various endorsements which are similar to Zambian experiences and pointed out that SME's should strive to have basic business skill's training that should supplement the provision of micro loans so as to improve the knowledge of the poor and use these funds in growth of their enterprises. He further marked that, financial lending institutions (MFIs) should addresses capital investment decisions, general business management and risk management through policies that are placed to regulate the growth of SMEs in the region and provide support for the starting entrepreneur in Narok County. On the other hand, there was a correlation with the findings by Gachuhi, (2016) who categorised the variables into two social economic factors namely; Economic and Social factors respectively. The findings indicated a strong positive relationship between social factors which includes; family size, family type, business networks, language, business relationship, levels of education etc. and SME growth. On the other hand, economic factors such as taxation, interest rates, access to credit, business financing, and inflation all influenced and enhanced MSME growth in the sense that, improved security, improved roads (Infrastructure), stopping corruption, introducing new and trending products, and the establishment of financial mechanisms enabled SME's in Nairobi to have ease of access to low cost loans. The study further established that there exists a positive relationship between factors of growth such as; training, better business environment, access to credit, business financing, infrastructure, markets, business premises etc. and SMEs growth in that they all influence SME growth.

In Tanzania, a review of literature was also under taken through an assessment of the role of financial institutions in the development/growth of Micro Small and Medium size Enterprises. This case study of Akiba Commercial bank was done by Catherine Kikwasha (2014) and the specific objectives of the study were to identify the reasons for limited access to credit and other forms of finance for small traders in Tanzania. Further, the other intention of the study was to determine the role played by financial institutions on the growth of SME's in the market places. The survey study was conducted on the sample using

structured questionnaire and a representative sample of 50 respondents were obtained randomly from the sampling frame. The data from the respondents was analysed and translated into useful information using the Statistical Package for Social Sciences (SPSS). The findings indicated that, commercial banks are capable of contributing up to 15% of the performance of small firms by granting loans and advances however, the research also revealed a positive association between access to finance and other variables such as production efficiency, marketing efficiency and networking for the fact access to finance alone cannot play a big role. Further, the research was amplified by literature from Gilbert (1999) who pointed out that the key challenges that confronts youths in Tanzania is access to external capital since they lack bankable business plans, lack collateral, lack experience in business and the fear of risk by financial institutions to lend to youth. Thus, the study further pointed out that the defy however is how to meaningfully involve the youth entrepreneurs in the productive process given a number of barriers such as; low culture of entrepreneurship, lack of skills and technology, poor infrastructure, lack market information, and lack of capital which are similar to the social economic factors experienced in Zambia, thus making the study relevant to the current research. The study concluded that access to finance is very vital for small firms in the whole process of achieving competitive advantage over competition.

Another review of literature relevant to this research was carried out in Ghana by Ackah J. and Vuvor S., (2011) on the Challenges that are faced by Micro Small & Medium Enterprises (MSME's) in Obtaining Credit in Ghana. The Study was undertaken to highlight the issues that MSMEs in Ghana faced in their pursuit to accessing bank credit (loans) from financial institutions (Banks & Non- banking financial institutions). The review of literature indicated that such bank credit (loans) is meant to undertake various activities, it being general business operations or that of carrying out expansion project thus, being job creators and helping to reduce poverty. For instance, The Korean Development Institute (KDI), (2008) indicted that the SME's constitute about 90% of total business units in Ghana and account of 60% of Ghana's employed labour force. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Nevertheless, in tackling this subject matter, the researcher adopted quantitative approach and the Questionnaires were disseminated to 80 SMEs in the Accra and Tema metropolis. The sample was selected through a technique of convenience sampling which was based on the responses received through the questionnaires. The findings revealed that institutions such as bank and non-bank financial institutions are prepared to offer funds to SMEs in Ghana but a number of them are not able to meet the requirements of these financial institutions.

Paramount among these requirements is the issue of collateral, which most MSME's are unable to provide. Further, on the other side, is the other issue of SME's having a small equity base and those who are able to access this credit are also faced with high interest rates and short repayment periods which makes it

even more difficult to embark on any development or expansion projects. The study also revealed interesting results with regards to high rate of defaults in repayment of loans contracted by most MSME's, which marked that, the tight Cash flow situations of these MSME's is as a result of difficulties in the management of the account receivables by the respective MSME's which were surveyed. Through the research recommendations, the researcher encouraged financial institutions (banks & non-banks) to establish factoring services, enforcement of the credit reporting act and the facilitation of the provision of tax incentives for banks that lend to MSMEs.

Last but not the least, following the review of literature in the study “on factors that affect the performance of SME's in KwaZulu-Natal, South Africa (SA) by Sitharam and Hoque (2019). The purpose of the study was to identify the internal and external factors that affect the performance of SMEs in KwaZulu-Natal and it was conducted through a cross-section of 74 SME's who are among members of the Durban Chamber of Commerce as well. The findings from the study indicated that technological advancement have affected the performance of most SME's and a big proportion of SMEs were still operating at the micro level thus, only employed workers ranging from 5 for micro and fewer than 50 for small enterprises(SME's). The finding also correlated with findings by Alattar, Kouhy and Innes (2009) who point out that owners and managers of small and micro enterprises, had little knowledge about financial matters, and those with little financial planning skills did not even value the information extracted from financial statements. Further, the findings revealed that even though competition was viewed as a major challenge by the majority of the respondents, Crime and corruption had negatively affected the business performance. Competition was considered the only factor amongst the studied internal and external factors that revealed a significant association with the performance of SMEs in KwaZulu-Natal. The review of literature from the Department Trade and Industry (DTI), (2008), also reported that majority of South African MSME's remained in the embryonic state and baby business phases, which was less than 3.5 years since start-up, and lacked growth. However, the findings revealed that in South Africa a big proportion of MSMEs operated informally without being registered. Reviewing the factors that affect the performance of Micro Small and Medium Enterprises in KwaZulu Natal was relevant to the current study being undertaken in Kasama for the fact that it provided and identified both internal and external factors that affect MSME's in accessing finance however, the review could not be generalized to countries like Zambia because of the different social and economic parameters between the two nations which leaves a gap for the purpose of the current research.

The findings from the previous literature correlates with the findings by Nkosana Samuel Mashiya (2001) who undertook a study on the role of commercial banks in financing SME's and Microenterprises in the great Soweto of South Africa. The study noted that SME's in the South African economy have been the

backbone of social economic development and have played a big role in Job creation as it was represented in the South African informal sector which has the majority of SME's that employ about 50-60 percent of the national work force. However, the literature also revealed that the major factor that impedes the establishment and success of business is the lack of capital which is ascribed to lack of own funds and lack of fixed assets which could serve as collateral security to obtain loans and bank overdrafts. The findings from the literature further revealed that, while most SME's use the services of the commercial Banks, they still have difficulty in obtaining finance and this was attributed to factors such as the lack of understanding by banks and not having a number of other alternative sources of finance available for SME's other than Banks, which contributed to the difficulties in obtaining finance by SME's. The researcher recommended that managers of these SME's improve in their managerial Skills especially in aspects such as financial information preparation, calculation of capital requirements and related matters. Further, the researcher recommended that, consecutive efforts from both financial lending institutions (commercial banks) and SME's be made to eliminate the perception of discrimination in allocating funds to the disadvantaged SME's by means of substantial public relation campaign that would bring together Financial lending institutions (commercial Banks) and SME's.

### **2.9.1. Gaps in African Perspective**

The literature from the African perspective pointed out on social economic factors such as; lack of own funds and lack of fixed assets to serve as collateral security to obtain loans and bank overdrafts, lack of Managerial skills and little knowledge about financial matters, adverse effects of crime and corruption, lack of Compliance in terms of business registration, failure meet the requirements by lending institutions such as; collateral requirements, interest rates, lack experience low culture of entrepreneurship, lack of skills and technology, poor infrastructure, lack market information, and lack of capital which are similar to the social economic factors experienced in Zambia. Further, the literature pointed out the external factors such as; capital investment decisions, taxation and interest rates while internal factors like, business and risk management, family size, family type, business networks, language, business relationship and levels of education of MSME's. However, the studies did not look into socio economic factors such as; high cost of support services, unstructured private sector, limited access to local and foreign markets, weak coordination of MSME empowerment interventions, lack of innovation and Poor Uptake of Technological Solutions for Business.

## **2.10.GLOBAL PERSPECTIVE ON FINANCING AND ROLE OF MSME'S IN ECONOMIC DEVELOPMENT.**

It is a universal phenomenon that Small and Medium Enterprises (SMEs) are playing an essential and vital role in the nation's economic and social configuration. "Enterprise is the antithesis of command and control". The worldwide perception of small and micro-businesses or firms has reached noteworthy importance in the economic progress of a nation. Globalization has placed small enterprises unswervingly in the limelight and attention. Pakistan Bureau of Statistics (PBS), (1998), clarified that these are gradually and progressively the main strength for national economic development and all over the world, the entrepreneurs who operate are getting thoughtful attention from planners, economists, governments, and multilateral agencies.

The review of literature from the study which was undertaken in Pakistan by Manzoor F, Wei L, Sahito N (2021), which aimed at examining the role of SMEs in rural development thus having "SME's access to finance as a mediator". The paper sought to discover the intervening role of MSME's access to finance and the MSME's evolution and rural development, in the context of Pakistan. A survey study was done on the total 338 entrepreneurs operating SMEs in rural areas through a multi-stage stratified random sampling technique and entrepreneurs were selected from three (3) districts. Further, the researcher used confirmatory factor analysis and structural equation modelling to test hypotheses. The finding from the research marked that MSME's access to finance is key to the expansion of the sector and it revealed that MSME's evolution has a positive and optimistic influence on rural development. Further, the study also reveals that "access of MSMEs to finance" significantly mediated the effect of MSME's evolution on rural development. The review of this literature is vital for the purpose of this research in that, the findings from the research depict that of Zambia's experiences as the two countries are able to share similar social economic factors and only differs with the demographic factors. In the sections of the literature, Manzoor F, Wei L, Sahito N (2021) indicated that Pakistan is one of the developing countries and the sixth most populated country on earth with over 212 million people. Similar to Zambia's social economic factors, the study indicated that Pakistan has faced a range of challenges, such as high unemployment, extreme poverty, and slow growth in the development process. Thus, it's quite a challenge by government or public institution only to ensure employment to this huge population, therefore the private sector involvement in this development process is very imperative. The study findings specified that the private sector consists mainly of Micro, Small and Medium Enterprises that produce a large share of employment and income prospects. The researcher recommended that the SME sector would be a good predecessor to rural development, which would in turn improve the living standard of residents and improve their quality of life however emphasis was made that, credit-issuing institutions, departments, and commercial banks,

which provide loan for the establishment of SMEs should overcome constraints such as; lowering interest rates, as well as omitting the favouritism and nepotism strategy.

In Turkey, the review of literature by Nurrachmi, R., Khairunnisa A., and Ibrahim F., (2012), on “the Development of MSME’s in Turkey”, indicated that MSME’s are key catalyst for economic development in Turkey and being a member of European Union, MSME’s in Turkey are open to borderless opportunities to trade in international market thus, it’s a major export to most European countries. The study aimed at observing the SME conditions in Turkey, and their contribution to economic development. Further, the other objectives of the study were to explore the constraints, issues and challenges that MSME’s encounter and to examine the improvement of MSMEs particularly the Strategy and future perspectives in short, mid and & long term. During methodology of the research, the study employed “the kobayachi's micro and macro models” and the finding of the study demonstrated that, by employing the Micro analysis, MSME’s in Turkey confront critical issues such as financial bottleneck, lack of marketing and innovative activities thus, such economic condition have made it difficult for the MSME’s to develop. The findings further revealed that Access to finance is perceived as the most severe obstacle by MSMEs in Turkey and this was attributed to reasons such as; problems arising from the credit limit given by the banking sector due to financial revamped in 2001, insufficient development of the capital market, weaknesses of MSME structure, and administrative and legal obstacles to access finance. Muftuoglu (2009) also confirmed that the main factors complicating the access of SMEs to financial resources are the lack of information and the difficulties encountered in finding sufficient collateral. The researcher recommended that there is need to implement an innovative models aimed at solving such problems by facilitating active participation of SME’s in Policy-making Processes.

Further, a Comparative study was undertaken by Kahraman M., Tektas A., Coskun A. (2019), on access to finance by SMS’s in Turkey and the EU. The literature indicated that access to finance is one of the major factors in the growth of MSME’s in Turkey and the European Union, and account for 99% of companies which impact largely on GDP and unemployment. As such, the general objective of the study was to compare the status and changes in the access to finance of SMEs in Turkey and the EU while the specific objectives was to evaluate the SME’s access to finance in Turkey according to their associate status, location, business area, exports, liquid assets, and establishment time. During the course of the study, a survey method was employed in developing the questionnaires which were administered. The responses were then analysed using analysis tools such as SPSS and chi-square and multiple regression methods were employed to compare relations between responses from Turkish SME’s and those percentages obtained from SAFE 2017. The findings indicated that the second biggest issue for MSMEs in Turkey is the access to finance and revealed that expenses for MSME’s such as labour and raw material

cost increased more, which probably led to a decrease in profit and an increase in debts for most SME's. The findings from the multiple regression and chi-square analysis revealed that, at a 5% significance level, the amount of credit received by SME's and the usage of such loans from family and friends were significantly affected by the age, number of employees, turnover level, export level, business area, and geographical location of the company. Further, the study indicated that the usage of government loans and incentives by SME's were also significantly affected by age, the number of employees, and the export level of the company. On the other hand, the findings marked that the usage of bank loans, leasing and trade credits were also significantly affected by the age, turnover level, export level, number of employees of the company, business area, geographical location, and the partnership status of the company. The researcher recommended for more research to be conducted regarding financing of SME's in Turkey as it was noted that there is a limited number of studies focusing on access to finance for SMEs. This also owed to the fact that most studies tended to concentrate only on problematic supply side factors and miss to show the significant relationship between demand-side factors (thus, SMEs' characteristics), and access to finance.

In another review of literature which was undertaken in Malaysia by Hasnah H., etal (2013) on the factors that influencing SME's in Obtaining Loans. The objective of the study was to examine whether the character (or management's knowledge of business) of having collateral and the borrowing capacity of the MSME's measured by default in loan shown by the report from the Central Credit Reference Information System (CCRIS), has an influence on the loan approved by the bank officers. An experimental subject design was used in the study and questionnaires were sent to bank managers and officers located in the northern region of Peninsular Malaysia (within centralized business centres), of which 63 bank officers participated in the study. Firstly, the literature indicated that SME's play a vital role in Malaysia's economy by providing employment and industrialization. Nevertheless, the study also indicated that even though the role of SME's in the economy is substantial, many of them face challenges such as; access to finance, human capital, technology and market. On the other hand, the study elucidated that One of the main reasons why banking and financial institutions are reluctant to disburse funds to the SME's in Malaysia is due to lack of collateral and good track record of the company. The study findings exhibited that all the three variables had significant effect on the likelihood of the loan approval by the financial institutions from the perspective of credit officers. The researcher recommended that SME's should better be prepared when applying for loan, thus should meet the collateral requirements, have good financial records and relationship with financial institutions. Further, the researcher urged government agencies to assist SME's and educate them to ensure that they are equipped with the knowledge to prepare the required documentations required by the financial institutions.

In another international perspective study which was undertaken by Grimsholm and Poblete (2010), explored the internal and external factors that hampered SME growth in Thailand. The study involved a qualitative case study of SME's and a sample three companies were selected for the research based on a purposive approach. During the study, the primary data was collected by semi-structured qualitative interviews with managers of SME's in Bangkok as well as representatives from different institutions cooperating with SME's in Thailand. Further, the results from the empirical investigation were analysed and the findings revealed a number of significant factors that disadvantaged SME's from growing which were categorised into internal and external factors. The results pointed out the external factors to include; access to finance, competition, corruption, barriers to trade and macroeconomic factors as the most significant issues which affected the growth of SME's. On the other hand, the findings marked internal factors and included; poor management competences, lack of skilled labour, deficiencies in marketing strategies, little efforts on research and development (R & D), lack of new technology and low awareness concerning Corporate Social Responsibility as the most important hindrances for SME development. The review of the literature is relevant to the current study in that, the review depicts the three companies that started their businesses with relatively small start-up capitals and depended on their family for financial support in order to support companies. This can be a similarly case with most Zambian SME's who begin their businesses through family investments.

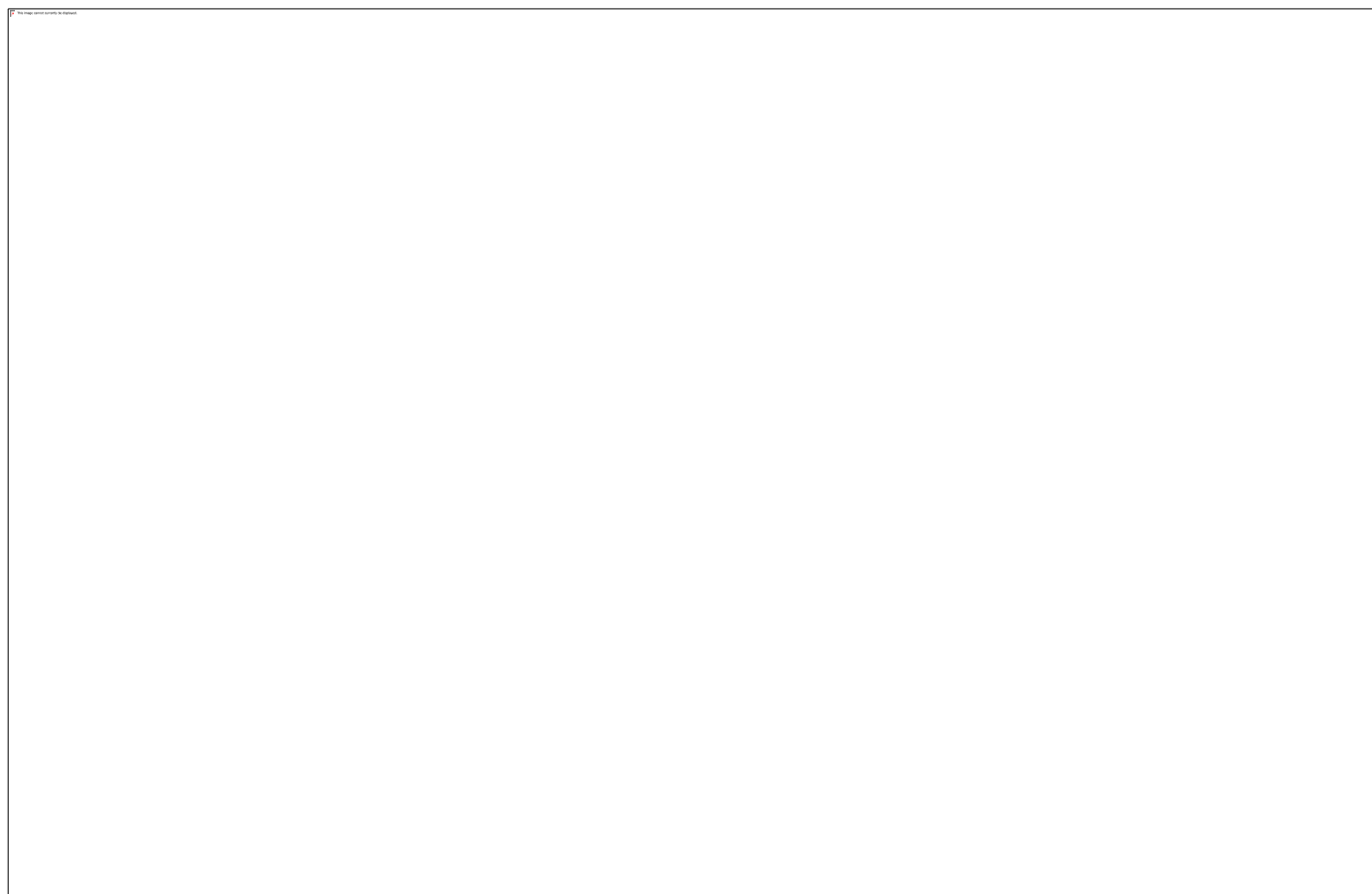
### **2.10.1. Gaps in Global Perspective**

The literature mostly focused on the social economic factors such as; high unemployment rate due to the population size, the financial bottleneck, lack of marketing and innovative activities, weaknesses of MSME structure, administrative and legal obstacles to access finance, increase in labour and raw material cost, access to finance, human capital, technology and market etc., which are mostly trade related factors that are categorized as External and Internal Challenges. Therefore, the studies indicated the differences in challenges that developed countries encounter which are rather different from those developing countries like Zambia face thus, did not look into aspects such as inadequate decentralization of services that support MSMES, inadequate business infrastructure, weak coordination of MSME empowerment interventions, and the demographics of the MSME structures such as the size of the enterprise and technology, MSME's training and the sources of finance for MSME's etc., which most developing countries are still facing.

### **2.11. Summary of the Chapter and Research Gaps**

This chapter was organized into titles and sub titles which brought out a number of literature that is relevant to the study. The first section of the chapter looked at the historical overview of the financial lending institutions and explored the general structure of financial system in Zambia. The literature

concerning this historical overview assisted to understand the contribution of financial intermediation in development of MSME's. Further, the literature also aided to examines the structure and the role that financial lending institution play as a source of finance for small and medium enterprises. The second part of the section intended assess the performance of MSME sector and key factors (support structures) that underlies SME's growth in their quest to access financial assistance from the financial institutions which leads to their growth and largely economic development. Under the subtitle of this section a number of studies were reviewed beginning with the Zambian and African perspective on financing and role of MSME's in economic development. Further, the section later examined studies vis-à-vis the global perspective regarding MSME's access to finance and investigated the challenges that are faced by MSMEs. This was important to be undertaken because the literature based on other countries assisted in making comparisons with experiences of MSME's in Zambia. Further, the review of empirical studies enriched the current study by finding academic gaps through organising and reorganizing the literature to try and find the role, solutions and challenges which are continuously faced by SMEs in Zambia and the world at large. As the contribution of MSME's were acknowledged in many empirical researches, a collection of factors affecting SME's growth through finance have equally been revealed and many studies revealed factors such as socio-economic factors, demographic factors and the enabling environment.



## **3.0. CHAPTER THREE: METHODOLOGY**

### **3.1. Overview**

This chapter outlines the methods that the researcher adopted in obtaining information of this study, of evaluating the contribution of financial lending institutions through access to finance, in achieving sustainable growth of Micro, Small and Medium Enterprises (MSME'S); a case study of Kasama District, Northern Province of Zambia. It described the research instruments that were used in the study thus, it's structured as; research design including ethical permissions and considerations, the study site or area, study population, study sample and the sampling design. It outlines the data collection and data analysis techniques that outlines the suitable data collecting instruments, the data collection procedure and time line to be used in the study.

### **3.2. Philosophical underpinning of the research**

The research is underpinned on an epistemological stances, in particular Interpretivism which is based on the belief that knowledge is constructed through human interpretation and social interactions. Therefore the research emphasized the subjective and interpretive nature of human experience and seeks to understand the subjective experiences of individuals and the meanings they attach to their experiences.

### **3.3. Research Design**

In conducting the research, a descriptive research design encompassing both qualitative and quantitative research approaches to data collection and analysis was used. Thus, the use of mixed methods or triangulation assisted in producing stronger evidence for a conclusion through a convergence of finding as strategy since the mixed methods approach draws from the strengths of both qualitative and quantitative research methods. Therefore, the study was aimed at evaluating the contribution of financial lending institutions through access to finance, in achieving sustainable growth of Micro, Small and Medium Enterprises (MSME'S); a case study of Kasama District. Through the mixed research design, the study utilised the exploratory sequential design (A) to present the study. (Roger, 2014:121) adds that, the mixed method approach to research answers a broader range of research questions as the research is not confined to a single method. Kombo and Tromp (2006) also indicated that, the use a mixed enquiry of qualitative and quantitative enquiry ensures that every aspect is determined and sufficiently addressed to meet the study objectives. However, the study was descriptive in nature and a cross sectional study was used because the data was collected at one point at a time.

### **3.4. Study Area**

Kasama is a town in the Northern Province of Zambia and serves as the provincial capital and headquarters of Northern Province. It is situated on the Central-southern African plateau, approximately 856 kilometres (532 mi), by road, north-east of Lusaka, the capital and largest city in Zambia. The population of Kasama

had amplified considerably in the 1970s and 1980s after construction of the Tanzania-Zambia Railways (TAZARA) through the town, and the construction of the Great North Road, Zambia. Its population, according to Encyclopedia Britannica, was 74,243 in 2000 and had increased to 113,779 in 2010. Economically, the town has branches of Zambian and foreign commercial banks which includes; Zambia National Commercial Bank, National Savings & Credit Bank, Atlas Mara Bank Zambia Limited, Standard Chartered Zambia(Agents), Access Bank Zambia Ltd, Absa Bank Zambia Plc., and Indo-Zambia Bank Limited. The town also has VISA and ATM services including several Micro- financial institutions. This study will be conducted in 6 commercial banks, 5 Micro-financial institutions and 2 national savings and credit institutions thus; Zambia national buildings Society(ZNBS) and National Savings and Credit Bank (NATSAVE) and respectively. The sources of data will be collected through Questionnaires, None-scheduled and Scheduled interviews and will be amplified by secondary sources.

### **3.5. Study Population**

Wimmer and Dominick, (2014, p.89); Explains that, a population is a group or class of subjects, variables, concepts, or phenomenal. Basically, the study was conducted in selected areas of Northern Province, whose target areas included; Kasama town business centre, Chambishi market, New town Market and TAZARA area where there is a big number of different business activities being undertaken by SME's and financial lending institutions thus, the target population for this study was comprised of three (3) groups of respondents.

#### **3.5.1. Study Population of financial lending institution**

The first group of respondents consisted of Branch managers of financial lending institutions who manage these organisations and the second group consisted of employees of these financial institutions, thus, the bank tellers and employees in the customer service department responsible for providing customers with financial services. The criterion that was considered for selecting the subject to be part of the target population regarding financial lending institutions is that, the institution had at least, three (3) branches operating within the country and considering the fact that any formal lending institution had the minimum of at least 5 employees. Thus, the study population for financial lending institutions, comprised of thirteen (13) Lending Institutions.

#### **3.5.2. Study Population of SME's**

The third group of respondents consisted of MSME's who operate in the markets allude to earlier, of Kasama town. The target population comprised the Small and Medium Enterprises (SME's) were selected based on the criteria that the firm is registered with PACRA and is active and fully registered businesses as of 1st January, 2023 based on the data obtained from the Patents and Companies Registration Authority (PACRA). Further, the area had the minimum of at least 5 SME's who are fully Registered with PACRA.

### 3.6. Study Sample

Two samples are taken, one from financial lending institution and the other from the Micro Small and Medium Enterprises since the number of SME's seems to be small.

#### 3.6.1. Study Sample of Financial Lending Institutions

In order to find the sample size for the financial lending institutions, Slovin's Formula was applied on the Study Population of financial lending institution to determine the sample for the study and this was from the view that the institution has the minimum of Five (5) employees making the study sample or population size to 65 employees (thus 5 multiplied by 13 institutions). The formula is shown below as;

$$n = \frac{N}{1 + Ne^2}$$

Where;

- **n** = Sample size
- **N** = Population size
- **e** = Margin of error( at 5% )

Therefore, for each of the Thirteen (13) institutions having a minimum of 5 employees, the study population comprised of Sixty five 65 employees, thus (N = 65) of different institutions. Thus the Sample size for lending institutions will calculated as follows:

$$n = \frac{65}{1+65(0.05)^2} = n = \frac{65}{1+65(0.0025)}$$
$$n = \frac{65}{1.1625} = \mathbf{55 \textit{ respondents.}}$$

Therefore the Total Sample Size for lending institutions was **55** staff or employees who were then subjected to a simple random sampling technique.

#### 3.6.2. Study Sample for SME's

The sample design that was employed in this part of the study was purposive sampling and the areas which were picked for the study had a total population of 40 active MSMEs who makes up the study sample for Micro Small and Medium Enterprises(MSME's) by being selected purposively following the criteria of SME's being fully compliant and registered with Patent and Companies' Registration Agency (PACRA), and on the basis that the SME's operating climate was similar to that prevailing in other areas of the district and had a minimum of at least 5 registered MSME's. Among the four areas that were selected for the study sample of MSME's, TAZARA had a population of 12 MSMEs, Chambishi had 9, Kasama town business centre had 14 and Newtown market had 5, bringing the total number of SMEs to 40. These were those SMEs that are fully compliant and registered with patent and companies' registration (PACRA). The areas

that were not selected implies that they had less than 5 SME's who were registered and compliant with PACRA.

Therefore, the Total Sample Size for the study was **55 staff** or employees of Lending institutions plus **40 respondents** from the selected MSME's making the total of **95 respondents** as the actual sample size for this study.

### **3.7. Sampling Techniques**

As earlier alluded to, the study was conducted on 13 selected financial institutions of Kasama urban and 40 Registered SME's in the four selected areas of Kasama district therefore, both simple random procedure and purposive sampling was used in the selection of the target group or sample size. The simple random sampling technique was used to select 55 respondents which comprised of 29 bank tellers and 13 customer service staff. In other words, three (3) respondents were selected from each institution using simple random sampling technique. This is for the fact that, the technique accorded each respondent an equal chance of being selected and give out their personal views especially to the Middle and operational levels of management of these financial lending institution. Further, purposive sampling was used to select the remaining 13 respondents of these lending institutions, particularly branch managers because it compromised of the only sample with high chance capable of giving out specific information needed by the researcher. In addition, purposive sampling was used to select the 40 SME's that operate in different areas of Kasama, are fully registered with PACRA and the selection of the area is based on the premise that the market has the minimum of at least 5 compliant and registered SME's.

### **3.8. Data collection instruments**

During the course of the study, the standardized structured questionnaire, personal interviews and clinical interviews were used because they acted as a catalyst to a comprehensive expression of the respondents' feelings and beliefs and of the frame of reference within which such feelings and beliefs take on personal significance. To facilitate the statistical analysis of the information that was collected, the questionnaire were relying mainly on closed ended questions and a few open ended questions to have a greater depth of the study and to obtained more information. The closed ended questions ensure uniformity and reduce complexity in the sense that they are easy to analyse and easy for statistical inferences. Further, to ensure that data of very high quality is collected, a portion of focused group interview schedules were used.

### **3.9. Data collection procedure and time line**

During the research process, data was collected for this study by administering questionnaires as earlier alluded to and where clarification was needed, unstructured interviews were conducted by the researcher to acquire a clear response from respondents. This means that a total of 95 questionnaires were distributed

by hand to the selected financial institutions and MSME's. Thus, to give the respondents enough time so as to explore the needs, desires and feelings of respondents, the answered questionnaires were collected after two weeks from the respondents.

### **3.10. Data analysis instruments and procedures**

The data that was collected was analysed using both qualitative and quantitative analysis to allow for accurate presentation of findings. Further, the data that was collected from the questionnaires was then analysed through the use of data analysis tools such as; Microsoft Excel, Statistical Package for Social Sciences (SPSS) and a Likert scale to facilitate the computations and analysis of the data based on the findings. With supporting data presented in form, Tables, pie charts, bar charts histograms etc., the data analysis process, contained statistical summaries and reductions of the data rather than the raw data in the result section of the study, thus tables of frequencies and percentages, was used in case of quantitative data recording.

## **4.0. CHAPTER FOUR: DATA PRESENTATION, INTERPRETATION AND ANALYSIS.**


### **Introduction**

This chapter presents the research findings of the study which, are based on the information collected from the questionnaires that were distributed and other secondary sources. The results are outlined in accordance with the headings as indicated thus, the demographic information of the respondents which includes; the Job Tittle (Position), Gender, Age, employment status and number of years in service (profession) are firstly outlined. Then the chapter further presents the findings on how access to affordable finance from Financial Lending Institutions have contributed in achieving sustainable growth of the Micro Small and Medium Enterprises (MSME's) which further contributes to the district's socio-economic transformation. As such, the second part of this chapter presents the research findings in relation to the three research objectives of the study. The researcher used data that was provided by the Thirteen (13) selected financial lending institutions and 40 Micro Small and Medium Enterprises (MSME's) that cooperated through the questionnaires which were distributed and answered. Some other information was also collected from other secondary sources such as; websites were the researcher visited for any information and other literature relating to this study.

### **4.1. Characteristics of respondents/ Demographics of respondents**

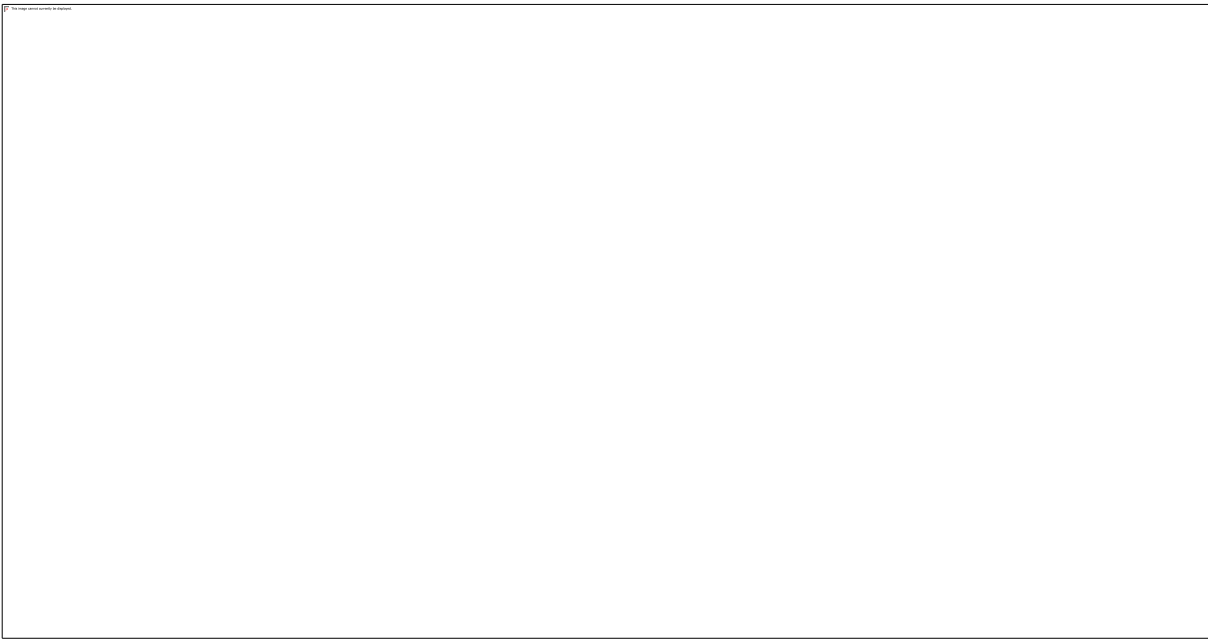
The demographic characteristics of respondents are illustrated in the table below. These characteristics have a bearing in the financing and Access to finance by Micro Small and Medium Entrepreneurs.

*Table 4.1. Demographics of Respondents*



The total number of the sample picked was 95 respondents (N= 95).

### 4.1.1. Job Tittles

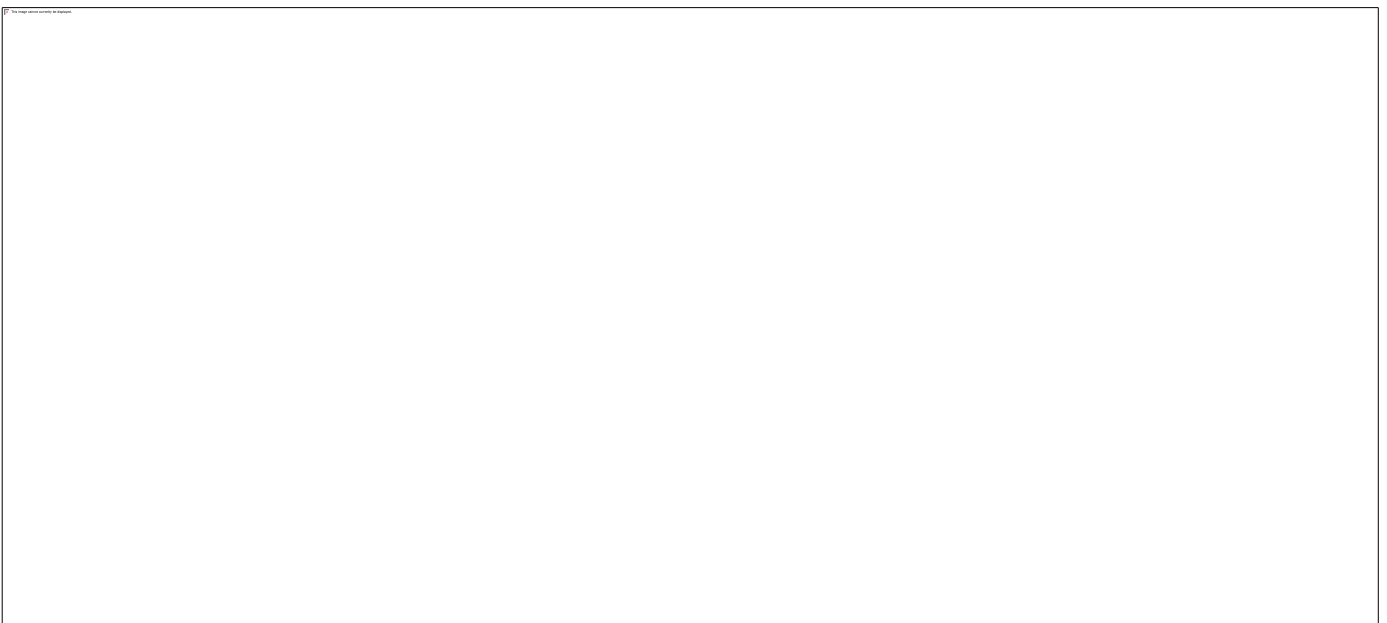


**Figure 4.1.1. Job Tittles of respondents.**

The respondents were asked to state their Job Titles and the following were the results on figure; Thirteen point seven (13.7%) of the respondent's comprised of Managers of Financial Lending Institutions while Ten point five percent (10.5%) and Forty Six point three percent (46.3%) of respondents included bank cashiers and employees of both financial lending institutions and Micro Small and medium enterprises. The last Twenty nine point five percent (29.5%) of respondents included the owners of Micro Small and Medium Enterprises.

### 4.1.2. Gender

The respondents were also requested to state their gender and the following were the results on figure 2.



**Figure 4.1.2. Gender of respondents.**

Following the responses on Gender from respondents, Out of the sample of 95 respondents, Sixty Four point Two Percent (64.2%) accounted for Male respondents while the remaining Thirty Five point Eight percent (35.8%) of respondents incorporated for Female respondents.

#### 4.1.3. Age range of Respondents

In terms of Age group, the following results of the frequency table represent age distribution of respondents after they were requested to indicate their age range.

**Table 4.1.3.: Age Range of Respondents**

	Frequency	Percent	Valid Percent (%)	Cumulative Percent %
Valid 20-30 Yrs.	18	18.9	18.9	18.9
30-40 Yrs.	52	54.7	54.7	73.7
40-50 Yrs.	17	17.9	17.9	91.6
50 Yrs. and Above	8	8.4	8.4	100.0
Total	95	100.0	100.0	

The responses from respondents as tabulated in Table 2 indicated that Eighteen point Nine percent (18.9%) of the age range of respondents was between 20- 30 years old and the other respondents between 30-40 years contributed for Fifty Four point Seven (54.7%), thus encompassing Cashiers of financial lending institutions, and Employees of both lending Institutions and Micro Small and Medium Enterprises (MSME's). Only Seventeen point Nine percent (17.9%) and Eight point Four percent (8.4%) of respondents were in the age range of 40 – 50 years, and 50 years and above which comprised mostly managers of these financial lending institutions and Owners of Micro Small and Medium Enterprises (MSME's) respectively.

#### 4.1.4. Employment Status

Amongst these respondents, they were asked to indicate their employment status and the findings indicated that, Eighty One point One percent (81.1%) indicated respondents who are employed on Full time basis while Eighteen point Nine percent (18.9%) of respondents are employed on Part time basis. This is indicated in the table below.

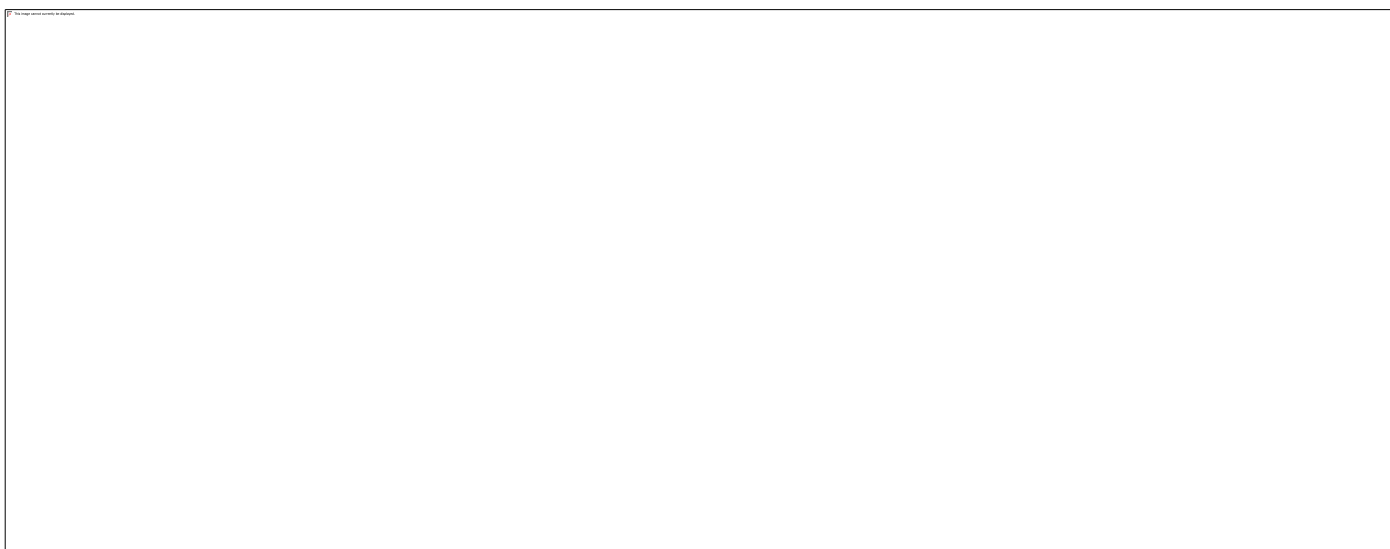
**Table 4.1.4: Employment Status of Respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Full - time	77	81.1	81.1	81.1
Part - time	18	18.9	18.9	100.0
Total	95	100.0	100.0	

#### 4.1.5. Number of Years in Service of Respondents

In terms of number of Years in Service, the respondents were inquired to indicate their number of years in service and the responses indicated as follows in the Figure 4.1.5., below.

**Figure: 4.1.5.1. Number of Years in Service/ Profession**



The responses from respondents showed that Forty Five point Three (45.3%) percent of respondents had been in service with their respective professions for 1-5 years and Thirty Two point Six (32.6%) percent had indicated to have been in service for 5-10 years. The remaining Eight point four (8.4%) percent of respondents indicated to have been in service for 10- 15 years while Thirteen point Seven percent (13.7%) of respondents have been in service for more than 15 years. This mostly comprised of Managers and owners of Micro Small and Medium Enterprises.

#### **4.2. The State of Sustainable Growth of MSME's in Kasama.**

The respondents were tasked to describe the state of the Sustainable growth of Micro Small and Medium Enterprises (MSME's) through access to affordable finance from financial lending institution through the use of questionnaires and in-depth interviews. In order to ascertain the state of sustainable growth of MSMEs, certain proxy indicators or underlying factors (or criteria) such as registration of the business, collateral security, Interest rates, Training of MSME's and awareness of funding opportunities were used in order to arrive at a conclusion. The findings were recorded either graphically or described according to themes.

##### **4.2.1. Registered Micro Small and Medium Enterprises**

The respondents were asked to state whether their enterprises were registered or not which was supported by responses from financial lending institutions who also pointed out the MSME's that are registered and access financial services. The results from the finding are shown on table 4.2.1.1 and table 4.2.1.2. below.

**Table: 4.2.1.1: MSME's having a form of access to financial services and meet the current interest rates, collateral and registration requirements.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	61	64.2	64.2	64.2
	No	34	35.8	35.8	100.0
Total		95	100.0	100.0	

Table 4.2.1.1: MSME's having a form access to financial services, and meet the registration requirements.

Table 4.2.1 shows that 61 respondents representing 64.2% agreed to have registered their enterprises whilst the 34 respondents making 35% did not registered their Enterprises. This is further explained by categorizing the 61 Micro Small and Medium Enterprises who access financial services and meet the registration requirements of financial lending institutions based on the findings from respondents as demonstrated by Table 4.2.1.2 below.

**Table 4.2.1.2: Registered MSME's and Types of Business Undertaken in Kasama**

It was observed that most of the MSME's were not legally registered to meet the financial lending institutions requirements so as to effectively access financial assistance from financial lending institutions. The majority of the participants namely officials from the Financial Lending Institutions, and government agencies like, Patent and Company Registration Agency (PACRA), Citizens Economic Empowerment Commission (CEEC) and Ministry of Micro Small and Medium Enterprise Development who were interviewed on this theme all agreed that most of the MSMEs were not legally and fully registered citing many reasons such as avoiding high corporate tax; administrative barriers, lack of management skills and training, and socio-cultural attitudes among others.

**4.2.2. Access to affordable Finance and financial services by MSME's from Financial lending Institutions**

A frequency distribution table and a histogram were used to indicate the responses from the Micro Small and Medium Enterprises (MSME's) and officials from Financial Lending Institutions on how the revised policy on Micro Small and Medium Enterprises has enhanced accessibility to affordable financial services

to facilitate a sustainable growth of MSME's in turn leading to an economic growth. This was carried out from the total of 55 members of staff of lending Institutions and 40 MSME's. To establish access to affordable finances by MSME's, respondents were asked how effective access to finances has been by MSME's and the findings indicated as shown on Table 4.2.2.1 and Figure 4.2.2.1 respectively.

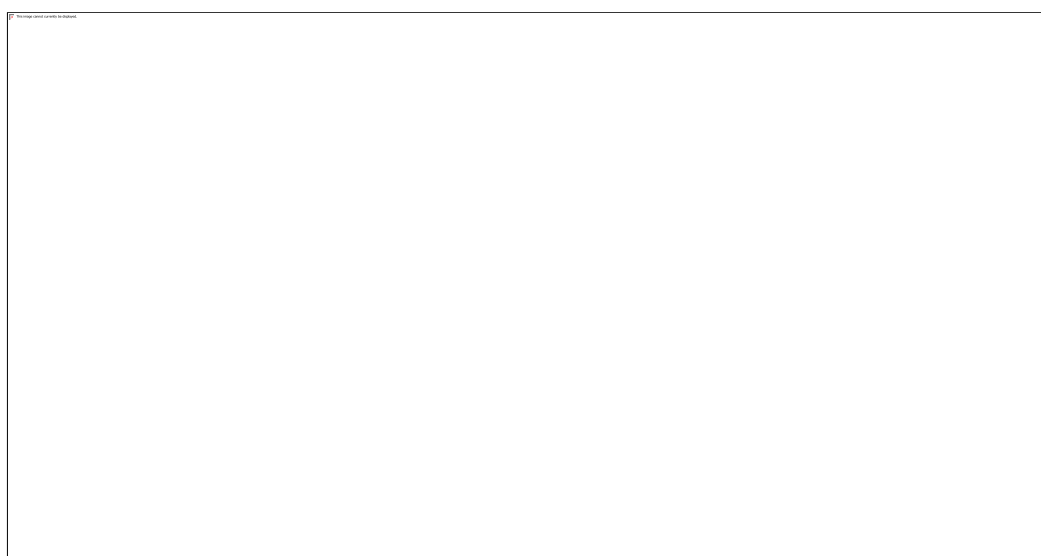
**Table 4.2.2.1.: Rating access to affordable finance and financial services rendered to MSME's, with the current MSME policy in the Financial and MSME's industries.**

Accessibility		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor	20	21.1	21.1	21.1
	Moderate	41	43.2	43.2	64.2
	Effective	30	31.6	31.6	95.8
	Very Effective	4	4.2	4.2	100.0
	Total	95	100.0	100.0	

The findings on the frequency table 4.2.2.1 on access to affordable finance by MSME's showed that Twenty (20) respondents from both Lending Institutions and MSME's making 21.1% of the Ninety Five (95) respondents indicated that access to affordable finance was **Poor**. The other Forty One (41) respondents making 43.2% responded that Access to finances was just **Moderate** while Thirty (30) respondents making 31.6% indicated that access to finance was **Effective**. Only Four (4) respondents making 4.2% indicated access to affordable finance was **Very Effective**.

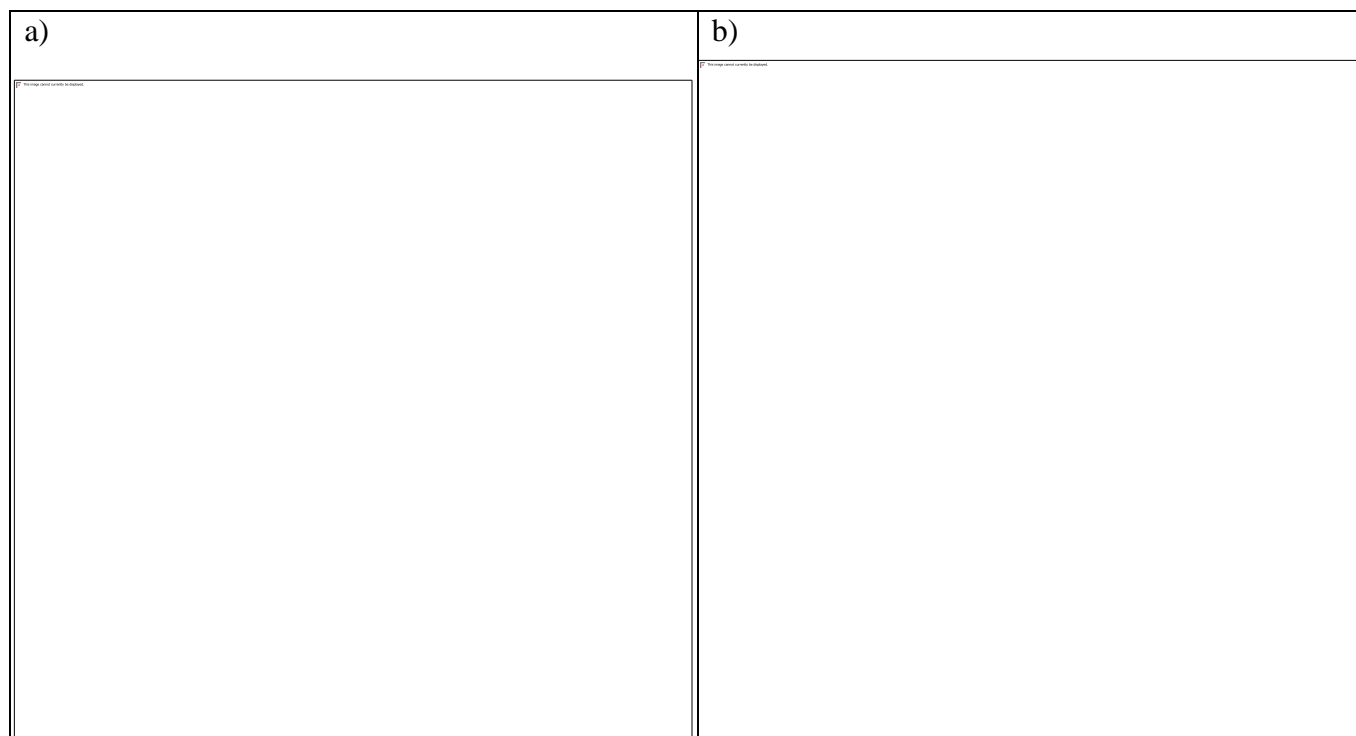
The similar analysis was illustrated using a normal distribution curve and has been presented as illustrated in Figure 4.2.2.1 below.

**Figure 4.2.2.1. Analysing access to affordable finance and financial services rendered to MSME's, with the current MSME policy in the Financial and MSME's industries.**



### 4.2.3. Performance of MSME’s Industry in relation to the District’s Economic Growth.

In terms of Performance of MSME’s industry which in turn facilitates the districts economic growth, the respondents from both Micro, Small and Medium Enterprises and lending institutions were requested to indicate the performance of their firm in relation to the districts economic growth and a prosperous MSME Sector that contributes to employment and wealth creation. The findings from the respondents are illustrated in figure 4.2.3 below and summarised in Table 4.2.3.



**Figure: 4.2.3.: The performance of MSME’s Industry in Relation to the District’s Economic Development.**

The frequency distribution table 4.2.3 has also been illustrated below to explain and support the above narrative of the findings on the contribution of MSME’s sector in the economic growth of Kasama district. This has been attributed to culture of innovation, training and technology growth in achieving prosperous MSME’s that contributes to employment and wealth creation through access to finance.

**Table 4.2.3: The performance of MSME’s in relation to the District’s Economic development.**

	Performance	Frequency	Percent %	Valid Percent	Cumulative Percent %
<b>Valid</b>	<b>Poor</b>	17	17.9	17.9	17.9
	<b>Moderate</b>	50	52.6	52.6	70.5
	<b>Good/ Effective</b>	20	21.1	21.1	91.6
	<b>Very Good</b>	8	8.4	8.4	100.0
	<b>Total</b>	95	100.0	100.0	

The responses from respondents showed that Seventeen (17) respondents from both MSME’s and lending institutions making 17.9% of the respondents indicated that the performance of MSME’s is **Poor** while

Fifty (50) respondents representing 52.6% of respondents indicated that the MSME's performance is **Moderate**. The other Twenty (20) respondents representing 21.1% of the respondents indicated that the performance is **Very Good** while the last Eight (8) respondents making 8.4% of respondents indicated that the performance of MSME's is **Very Good**.

#### 4.2.4. Sources of Business Finance for Micro Small and Medium Enterprises in Kasama

In understanding the State of Sustainable Growth and contributions of MSME's in economic development of Kasama, the respondents both MSME's and officials in lending institutions were requested to indicate the sources of working capital for MSME's so as to ensure a timely availability of financial resources for implementation and support of MSME's. The findings are illustrated in table 4.2.4., and figure 4.2.4. below

**Table 4.2.4: The Sources of Business Finance for Micro Small and Medium Enterprises to support MSME's**

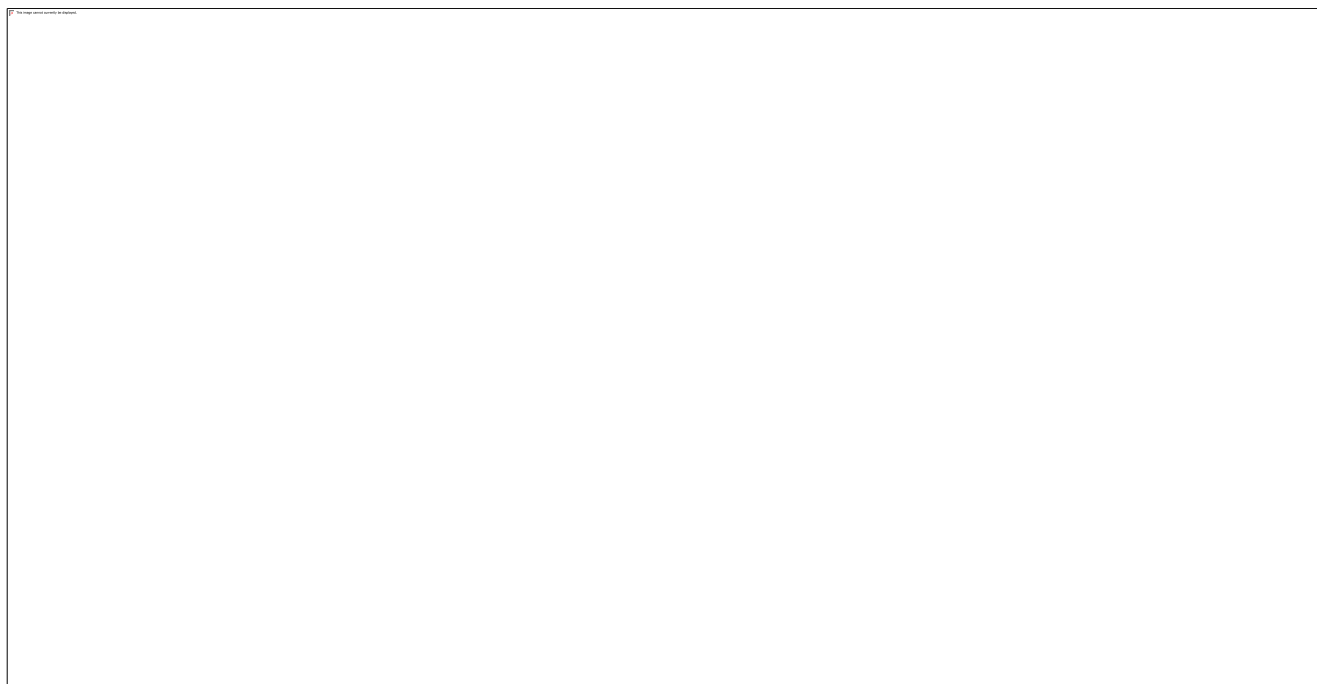
Sources of Finance		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Personal Savings	13	13.7	13.7	13.7
	Through the Services Provided	20	21.1	21.1	34.7
	Financial lending Institutions/ CDF funds	26	27.4	27.4	62.1
	Family/Friends/ village Banking	36	37.9	37.9	100.0
	Total	95	100.0	100.0	

Table 4.2.4., shows the source of business finance for MSME's in Kasama district.

From the responses, Thirteen (13) respondents from both MSMEs and Lending Institutions representing 13.7% indicated that they depend on personal savings as the source of business finance of their enterprises, while Twenty (20) respondents representing 21.1% indicated that they depend only on finances raised by the services the business provides. The other Twenty Six (26) respondents representing 27.4% indicated that they acquire assistance and access to business finances from financial lending institutions through Constituency Development Funds (CDF funds), Loans and overdrafts, while Thirty Six (36) respondents representing 37.9% exhibited that they depend on the finances that come from family members, their own labour and from village banking schemes provided by their friends.

One official from Ministry of Micro Small and Medium Enterprise Development noted that "Most of the MSME's depend on their families to start their businesses and very few get money from Financial Lending Institutions. Further, a good number of MSME's in the informal sector expect to grow the money from the sales of their merchandises which in most cases, the profits are meant for the up keep of the family". This is also represented by figure 4.2.4 below.

**Figure: 4.2.3: Sources of Business Finance for Micro Small and Medium Enterprises (MSME's)**



#### **4.2.5. The relationship between Access to Affordable Finance from Lending Institutions and Sustainable Growth of Micro Small and Medium Enterprises**

In understanding the Association (relationship) that is exhibited between Access to affordable finance from Financial Lending Institutions and Sustainable Growth of Micro Small and Medium Enterprises (MSME's), the responses from both MSME's and Lending Institutions are analyzed using *Correlation Analysis* to examine the relationship between the Variables "*Access to finance from Financial Lending Institutions coded as (AFLI)*" and "*Sustainable Growth of MSME's coded as (GMSME's)*". Further, in interpreting the output, the analysis is guided by parameters (Criteria) such as; "**Strength**" of the relationship (Association) thus whether the relationship is *Strong*, *Moderate*, or *Weak*. Thus using Pearson's Correlation, if the values of Pearson Correlation lies between **0.7 – 1** then the relationship (association) between the two valuables is **Strong**, while if the values of Pearson lies between 0.3 – 0.7, then the relationship (association) between the two valuables is **Moderate**. However, if the values of Pearson Correlation are less 0.3, then the relationship (association) between the two valuables is **Weak**. Further, the second parameter (Criteria) to examine is the "**Nature**" as to whether the relationship (association) between the variables is **Positive** or **Negative**. Thus with the help of Pearson's correlation, it will determine whether the association between the two variables is positive or negative. The third parameter (Criteria) is the "**Significance level**" which will help determine as to whether the relationship (Association) between the two variables is *Significant* or *Insignificant* taking the significant level to be at **5% (0.05)**. In examining the significance level, if the significance Value (P-value) is greater than 0.05,

then the relationship is “*Insignificant*” while if the significance Value (P-value) is less than 0.05 then the relationship is “*Significant*”. The findings are presented in the Table 4.2.5., below.

**Table 4.2.5: The relationship between Access to Affordable Finance from Lending Institutions and Sustainable Growth of Micro Small and Medium Enterprises**

		Sustainable Growth of MSME's coded as (GMSME's)	Access to finance from Financial Lending Institutions coded as (AFLI)
<b>Sustainable Growth of MSME's coded as (GMSME's).</b>	Pearson Correlation	1	.738**
	Sig. (2-tailed)		.000
	N	95	95
<b>Access to finance from Financial Lending Institutions coded as (AFLI).</b>	Pearson Correlation	.738**	1
	Sig. (2-tailed)	.000	
	N	95	95

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 4.2.5. Shows the output of the relationship (Association) between Access to affordable finance from Financial Lending Institution and Sustainable Growth of Micro Small and medium Enterprises (MSME's). From the Output of Pearson's Correlation of **0.738**, the value lie between **0.7 – 1** which indicates a **Strong** Association (Relationship) between, Access to affordable finance from Financial Lending Institutions (AFLI) and Sustainable Growth of Micro Small and Medium Enterprises (GMSME's). Further, since the value is **Positive**, it indicates **Nature** of the Association (relationship) to be a positive association between the two variables. Having the significant level of 0.00, which is less than the significant level of 0.05 (5%), the output in tells that the Association (relationship) between, Access to affordable finance from Financial Lending Institutions (AFLI) and Sustainable Growth of Micro Small and Medium Enterprises (GMSME's is **Significant**.

### **4.3. Internal and External Factors that Affect the Sustainable Growth of MSME's in Kasama.**

#### **4.3.1. Internal factors that affect Access to finance by MSME's**

The respondents and other officials from government agencies like, Patent and Company registration Act (PACRA),Citizens Economic Empowerment Commission (CEEC), and Ministry of Micro Small and Medium Enterprises Development, where requested to indicate the factors that impedes MSME's to access affordable finances and in turn hinders sustainable growth of MSME's. This was done through the use of questionnaires and in depth interviews to arrive at a conclusion. The findings were recorded either graphically or described according to the subject matter. The factors that hinder access to affordable finance by MSME's are tabulated in Figure 4.3.1. , below and are based on responses from respondents.



**Figure 4.3.1.: Factors that affect Access to Affordable Finance by MSME's.**

Table 4.3.1. Above shows that *Lack of Equity* and *Short Repayment Period* whenever finances are borrowed, accounted for 15.79% as hindrances that cause failure on the part of MSME's to access finances. The other major factors that were pointed out to affect access to affordable finances by MSME's are, *Lack of Collateral Security* and *Collateral Requirements* demanded by Financial Lending Institutions which were indicated to be at 30.53%, while *High Interest Rates*, *High Taxes* and *Statutory Reserve Requirement* represented a 41.05% of respondents. The last 12.63% of respondents indicated that *Lack of Management Skills*, *Training* and *Experience* were the other factors that affected access to affordable finances leading to adversely affecting the sustainable growth of MSME's in Kasama.

**4.3.1.1. Lack of Equity Base/ Short Repayment Period as factors affecting access to affordable Finance by MSME's.**

The Micro Small and Medium Enterprises (MSME's), Financial Lending Institutions, and officials from Government Agencies such as Patent and Company Registration Agency (PACRA), Citizens Economic Empowerment Commission (CEEC), and Ministry of Micro Small and Medium Enterprises who were interviewed on this theme indicated that this is actually the main reasons why the number of informal MSME's has grown due to perceived costs associated with formalization such as multiple licensing regimes, tax obligations and registration requirements. And they further indicated that most MSME's that are registered fail to contribute equity when they are asked to do so by lenders and financiers. Similarly, through unstructured interviews that were conducted, it was pointed out that, despite having a good number of financial Lending Institutions in the district, most lending institutions have not taken a step to

increasing the period of repayment for any loan acquired, as the period which a loan is to be paid is a hindrance to accessing finances for some business owners.

#### **4.3.1.2. Lack of Collateral Security/ Collateral Requirements as factors affecting access to affordable Finance by MSME's.**

Following the unscheduled and unstructured interviews that were conducted on this subject from officials from Government Agencies such as; Patent and Company Registration Agency (PACRA), Citizens Economic Empowerment Commission (CEEC), Ministry of Micro Small and Medium Enterprises, Financial Lending Institutions and Micro Small and Medium Enterprises (MSME's), they indicated that Lack of collateral is the major factor preventing most MSME's from accessing loans from the Financial Lending Institutions. One of the Lending Institution indicated that "most business owners do not own assets that have property rights. They clarified that, especially Micro and Small enterprises who mostly own household goods or properties such as televisions, beds, chairs, tables among others. Further, they indicated that business activities among most MSME's are managed by family members and remain characterized by low-level of technology and are oriented towards local and informal market segments thus, access to affordable finance has been limited due to high levels of informalities, cost of borrowing and collateral requirements. Thus, very few MSME's have Fixed Assets that have property rights such as title deeds for Buildings and Land that financial Institutions require as collateral. Therefore, it becomes impossible for financial lending institutions to offer their money to MSME's who do not have any sureties in case of eventualities, and cannot risk they funds to such business owners. Further, the study revealed that that lack of collateral is one of the major hindrance in accessing finances by Micro Small and Medium Enterprises (MSME's).

#### **4.3.1.3. Lack of Management Skills, Training and Experience as factors affecting access to affordable Finance by MSME's.**

The respondents were asked during the unstructured interviews on whether lack of Management Skills, Training and Experience has affected their businesses and the respondents indicated that, many of the MSME's were owned and operated by owners themselves compared to those that are managed and operated by employees (workers). However, a good number of MSME owners have ventured in business to meet their family needs thus they undertake such business without training from formal institutions about entrepreneurship. Further, officials from Ministry of Micro Small and Medium Enterprises development and Financial Lending Institutions indicated that, the key challenges faced by MSME's include among others low funding to MSME Management training, innovation and technology support programmes coupled by the weak cooperation between MSME industry, academia and public institutions in the innovation field which has hampered the effectiveness developing the innovative capacity and sustainability of MSME's. The respondents also indicated that, even though Institutions such as

Cooperatives Colleges, CEEC, Zambia Development Agency (ZDA) and TEVETA have programmes to develop entrepreneurship skills, Entrepreneurship and Management skills is a factor that contributes to the low survival rate of MSMEs and is enhanced by capacity building which entails imparting knowledge and skills that helps MSME's to grow. This is critical because MSME growth and sustainability depends on the development and implementation of entrepreneurial schemes that consider the different needs of MSME's. Other respondents also pointed out that the biggest problem why our MSME's are not graduating quickly from one stage to the other in terms of growth, equity base and quality products is that most MSME's have not invested heavily in technology and their skills are static due to lack of business finance.

#### **4.3.2. External Factors that Affect Access to Finance by MSME's in Kasama.**

The respondents and the Key Informants from Government Agencies were requested to indicate whether there were some external factors that affected Access to affordable finance by MSME's which in turn hindered a sustainable growth of MSME's. This was done through the use of questionnaires and in depth interviews and the findings were recorded and described according to the subject matter to arrive at the conclusion.

##### **4.3.2.1.High Interest Rates/ High Taxes and Statutory Reserve Requirements as factors affecting Access to affordable Finance by MSME's.**

The respondents and officials from government agencies were enquired during the unstructured interviews on whether the issue of high interest rates, High Taxes and Statutory Reserve Requirements are factors that affect access to affordable finance by MSME's and they revealed that that managers and Business owners are always scared of high interest rates from financial lending institutions that give loans to them. One official from Financial Lending Institutions indicated that due to high interest rates, business owners are afraid to get loans because they feel they tend to start working for the lending Institutions and not for themselves thus they tend to shun getting loans from banks and feel such services are meant for civil servants and government workers. Other respondents from lending institutions also clarified that the conditions that are required for MSME to get a loan are many, and indicated that some Medium and Large Scale Enterprises are able to get loans because they have all what the Financial Lending Institutions require from them such as; collateral security, better accounting and management of resources etc. Further, the finding also revealed that financial lending institution also abide to stringent measures applied to them such as, high statutory reserve requirement by the central bank, thus they also ensuring that they make adjustment in their lending rates by adjusting them upwards hence, the interest rate that are charged by Lending Institution are high and pause a major hindrance to accessing finances by MSMEs thereby hindering the sustainability of such business. Lastly, another official from Financial Lending Institution also indicated that state of foreign exchange rates is highly volatile in that the interest rates are revised

monthly and not standardized thus it becomes a disadvantage and instills fear to MSME's to access funds through services such as loans and overdrafts, especially when the local currency seems to lose value.

**4.3.2.2. Weak Coordination of MSME Empowerment Interventions/ Corruption as factors affecting Access to affordable Finance by MSME's.**

Further, the unscheduled and unstructured interviews that were conducted on this subject from officials from Government Agencies such as; Patent and Company Registration Agency (PACRA), Citizens Economic Empowerment Commission (CEEC), Ministry of Micro Small and Medium Enterprises, Financial Lending Institutions and Micro Small and Medium Enterprises (MSME's), revealed that, the Weak Coordination of MSME Empowerment Interventions and Corruption has affected access to affordable Finance by MSME's. Some respondents stated that, there are currently initiatives to empower MSMEs which are managed under different Ministries such as the Youth Empowerment Fund, Constituency Development Fund (CDF), Farmer Input Support Programme (FISP) and the Citizens Economic Empowerment Fund. However, such empowerment initiatives are uncoordinated and, in most cases, target the same beneficiaries which leads to duplication of efforts within the MSME sector.

The findings from the study on the Internal and External Factors that affect Access to Finance by MSME's in Kasama is tabulated in Table 4.3.2.2., below.

*Table 4.3.2.2.: Internal and External Factors that affect Access to affordable Finance by MSME's in Kasama District*

Factors	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Vali Lack of Equity Base/ Short Repayment Period	15	15.8	15.8	15.8
d Lack of Security/ Collateral Requirements	29	30.5	30.5	46.3
High Interest rates/ High Taxes/High Statutory Reserve Requirements	39	41.1	41.1	87.4
Lack of Management Skills/ Training and Experience	12	12.6	12.6	100.0
Total	95	100.0	100.0	

**4.3.3. Chapter Summary**

Conclusively, a summary of the findings is provided and the findings were organized, analyzed and presented from the data collection tools and unstructured interviews which were conducted. The results from the both research tools correlated and clearly showed that a good number of respondents indicated that there were factors affecting access to finance which in turn affected sustainable growth in a negative way through MSME's financing. Based on the findings, data analysis and discussions were provided, and lastly conclusions were made and later recommendations were proposed.

The findings on the state of Sustainable Growth of MSME's in Kasama revealed that majority of MSME's were legally registered representing a 64.2% of registered enterprises. However, a good number of MSME's were not legally and fully registered citing many reasons such as avoiding high corporate tax; administrative barriers, lack of management skills and training, and socio-cultural attitudes among others making 35% of unregistered Enterprises categorized as Micro and some Small Enterprises who cannot access financial services and do not meet the registration requirements of Financial Lending Institutions. In addition, a majority of these unregistered enterprises fall under the sole proprietorship and the main source of finance or working capital is from the family members, friends village banking.

Further, the findings on the performance of MSME's Industry in relation to the District's Economic Growth indicated that, the MSME's performance in the district is moderate owing to the fact that 52.6% of respondents attributed to the source of business financing as most of the MSME's depend on their families to start their businesses and very few get money from Financial Lending Institutions. Further, a good number of MSME's in the informal sector expect to grow the money from the sales of their merchandises which in most cases, the profits are meant for the upkeep of the family.

## **5.0. CHAPTER FIVE: DISCUSSION OF FINDINGS**

### **5.1. The State of Sustainable Growth of MSME's in Kasama**

The state of sustainable growth of MSME's was measured by certain observable characteristics which indicated that access to finance revealed certain observable phenomena within the MSME's sector. These characteristics were measured in terms of Registered Micro Small and Medium Enterprises, the of types of business undertaken by registered MSME's in Kasama, measuring access to affordable finance and financial services by MSME's from Financial lending Institutions, analyzing the performance of MSME's Industry in relation to the District's Economic Growth, examining the sources of business finance for Micro Small and Medium Enterprises (MSME's).

#### **5.1.1. Registered Micro Small and Medium Enterprises (MSME's).**

The results revealed that 61 respondents representing 64.2% approved to have registered their enterprises whilst the 34 respondents making 35% did not fully register their Enterprises. By not being fully (or legally) registered means that the business is not done in a formal way. After further examinations, by categorizing the 61 Micro Small and Medium Enterprises (MSME's) who access financial services and meet the registration requirements of financial lending institutions based on the findings from respondents, the findings indicated that businesses that are formally registered, have many advantages that one benefits from the firm and outside the firm such as supplying goods to government departments and institutions etc. However, it was observed that when the business is not formally registered, it is affected negatively in that unregistered MSME's cannot apply for a loan from Financial Lending Institutions and become disadvantaged from supplying product to government departments, thus the capital for the business cannot grow and there is no financial growth which leaves the business to remain static. The findings correlated with the finding by the Revised national Micro Small and Medium Enterprises development policy (2023:Pg.18) which indicated that, "due to an increase in Unregistered or Informal MSME's, it makes it difficult for Government to support the MSMEs efficiently to realize their full potential to contribute to economic development because they are not registered with the Companies Registration Authority". Further findings from the Ministry of Commerce, Trade and Industry, (2003-2004: 49) survey that was conducted and concluded that MSMEs continue to operate as informal enterprises due to the regulatory and administrative barriers, fees and financial requirements, corruption which constitute the main reasons for low formality of MSME's.

#### **5.1.2. Access to affordable Finance and financial services by MSME's from Financial lending Institutions.**

Forty One (41) respondents representing 43.2% indicated that access to finances is just moderate. Further, the Micro Small and Medium Enterprises (MSME's), Financial lending Institutions, and other responses from officials in government agencies who were interviewed on access to affordable finance and other

financial services by MSME's, indicated that the source of business finance of the enterprise is solely from the owners of the MSME's. They explained that the finances come from family members, their own labour and very few get from Financial Lending Institutions as most of them fail to meet the conditions required by financial lending institutions. With similar reasons, Thirty (30) respondents making 31.6% indicated that access to finance is effective. This was attributed to the fact that a good number of these MSME's are registered and sometimes depend on financial lending institutions and personal savings for assistance thus making up their source of business finance of their enterprises. Only Four (4) respondents making 4.2% indicated that access to affordable finance is very effective. This was attributed to certain benefits attained from financial lending institutions and other government line ministries that provide services such as Constituency development funds, citizen economic empowerment fund etc. However, Twenty (20) respondents from both Lending Institutions and MSME's making 21.1% of the Ninety Five (95) respondents indicated that access to affordable finance was Poor. The source of business finance of any enterprise is an important factor in business as it gives a relative standing in a way one uses the capital at his/her own discretion. Capital in the hands of the sole proprietorship, partnership and cooperative are differently handled and used in business. The source of business finance of the enterprise which is solely from the owners of the SMEs means she/he has control to use the finances without being questioned and as such, can disadvantage the business if the owner is careless in financial transactions. In support of the theme, Wolf, (2015), added that, generally this type of capital tends to be for lower financial value and usually taken in form of equity or part ownership rather than a debt due to the uncertainty of growth of the business.

### **5.1.3. Performance of MSME's Industry in relation to the District's Economic Growth.**

The findings from both Micro, Small and Medium Enterprises and lending institutions on the Performance of MSME's industry which in turn facilitates the districts economic growth, Fifty (50) respondents representing 52.6% of respondents indicated that the MSME's performance is Moderate. This was owing to the fact that a number of MSME's are non-registered or lack proper documentation and collateral requirements to acquire the enterprises credit from lending institutions. Thus most enterprises fall short in the requirements needed to attain credit hence this contributes to the moderate growth of MSMEs. MSMEs performance in Kasama is a major source of entrepreneurial skills, innovation and employment especially that the area lack viable industries to boost the sector. The promotion of MSMEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in the area. The findings from other respondents also revealed that, Twenty (20) respondents representing 21.1% indicated that the performance of MSME's in the district is Very Good while the last Eight (8) respondents making 8.4% of respondents indicated that the performance of MSME's is Very

Good. The respondents attributed the findings to increased investments and contributions towards resource mobilization like empowerment funds, efficient Loan Processing, accessing a streamlined and efficient loan processing procedures to reduce the time between application and disbursement, and financial lending institutions ensures that MSMEs receive funds promptly. Further, other respondents attributed the performance of MSME's to diversification of their funding sources and establishing dedicated funds to increase the equity base of the enterprise. However, the findings from seventeen (17) respondents from both MSME's and lending institutions making 17.9% of the respondents indicated that the performance of MSME's is Poor. The common reason which was attributed was that the collateral requirement that are attached to the loan terms, substitution them from being granted financial support like loans to growth their business

#### **5.1.4. Sources of Business Finance for Micro Small and Medium Enterprises in Kasama**

From the responses attributed to this theme, the findings revealed that Thirteen (13) respondents from both MSMEs and Lending Institutions representing 13.7% indicated that they depend on Personal savings as the source of business finance of their enterprises, while Twenty (20) respondents representing 21.1% revealed that they depend only on finances raised by the services the business provides. The other Twenty Six (26) respondents representing 27.4% indicated that they acquire assistance and access to business finances from financial lending institutions through Constituency Development Funds (CDF funds), Loans and overdrafts, while Thirty Six (36) respondents representing 37.9% exhibited that they depend on the finances that come from family members, their own labour and from village banking schemes provided by their friends.

According to the findings, it has been established that most MSMEs in Kasama district get their working capital from family members, their own labour and supplier's credits. However the study also revealed that there is an adequate percentage of businesses that obtain their working capital from lending institutions. Further, the study also indicated that business owners lack information on the existing services offered by lending institution, as the majority of MSMEs never even attended any orientation or workshops on how to access finances from lending institutions.

#### **5.2. Internal factors that affect Access to finance by MSME's in Kasama**

Another aspect that was examined were the internal factors in the business environment of the MSME's. There are a number of challenges regarding the internal environment of MSMEs and the study collected data on such factors which constitutes; Lack of Equity Base and Short Repayment Period, Lack of Collateral Security and Collateral Requirements, and Lack of Management Skills and Training and Experience as internal factors that affect Access to finance by MSME's in Kasama.

### **5.2.1. Lack of Equity Base and Short Repayment Period as factors affecting access to affordable Finance by MSME's.**

The findings from 15 respondents revealed that, Lack of Equity and Short Repayment Period whenever finances are borrowed, accounted for 15.79% as hindrances that cause failure on the part of MSME's to access finances. The respondents indicated that this the main reasons why a number of informal MSME's has grown due to perceived costs associated with formalization such as multiple licensing regimes, tax obligations and registration requirements. And they further indicated that most MSME's that are registered fail to contribute equity when they are asked to do so by lenders and financiers. Similarly, findings revealed that despite the availability of a number of financial Lending Institutions in the district, most lending institutions have not taken a step to increasing the period of repayment for any loan acquired, as the period which a loan is to be paid is a hindrance to accessing finances for some business owners.

The findings revealed that MSME's do not have enough capital and only depend on owners investing large amounts of money from personal resources. Thus, the aspect of investing more is of a challenge as they need capital which in most cases is not available and thereby having lesser returns due to little investment they manage to put in. Hence, capital structure (capital size) has a great effect on SMEs growth since it can determine the amount of income accrued by the owners.

### **5.2.2. Lack of Collateral Security and Collateral Requirements as factors affecting access to affordable Finance by MSME's.**

The findings revealed that 30.53% of respondents pointed out that Lack of Collateral Security and Collateral Requirements demanded by Financial Lending Institutions affects access to affordable finances by MSME's. The study revealed that most business owners do not own assets that have property rights especially Micro and Small enterprises who mostly own household goods or properties such as televisions, beds, chairs, tables among others. Further, it was revealed that business activities among most MSME's are managed by family members and remain characterized by low-level of technology, management skills and are oriented towards local and informal market segments thus, access to affordable finance has been limited due to high levels of informalities, cost of borrowing and collateral requirements. Thus, very few MSME's have Fixed Assets that have property rights such as title deeds for Buildings and Land that financial Institutions require as collateral. Therefore, it becomes impossible for financial lending institutions to offer their money to MSME's who do not have any sureties in case of eventualities, and cannot risk they funds to such business owners. Conclusively, the study revealed that that lack of collateral is one of the major hindrance in accessing finances by Micro Small and Medium Enterprises (MSME's). Some finding from a number of respondents revealed that, not only lack of property risks alone affects access to finance by MSME's, but as well as other internal risks. This is owing to the fact that many risks and uncertainties are associated with such kind of enterprises when dealing with financial lending

institutions. This has caused many MSME's being financed from owners' equity but mostly funds have not been enough to engage in production. Further, it was noted that, due to uncertainties and conditions imposed on MSME's who acquires loans, only large firms easily get loans than MSME's because they have security or collateral required by Lending institutions.

### **5.2.3. Lack of Management Skills, and Training and Experience as factors affecting access to affordable Finance by MSME's.**

The study findings revealed that 12.63% of respondents stated that Lack of Management Skills, Training and Experience were the other factors that affected access to affordable finances leading to adversely affecting the sustainable growth of MSME's in Kasama. The results revealed that a good number of MSME owners have ventured in business to meet their family needs thus they undertake such business without training from formal institutions about entrepreneurship. This was also supported by studies undertaken by Shepard, Douglas and Shanley (2000) who observed that many an entrepreneur often start a new enterprise, while ignorant of many key elements of running their own enterprises. The study revealed that, low funding to MSME Management training, innovation and technology support programmes coupled by the weak cooperation between MSME industry, academia and public institutions in the innovation field has hampered the effectiveness developing the innovative capacity and sustainability of MSME's. It was noted that, even though Institutions such as Cooperatives Colleges, CEEC, Zambia Development Agency (ZDA) and TEVETA have programmes to develop entrepreneurship skills, Entrepreneurship and Management skills is a factor that contributes to the low survival rate of MSMEs and this can be enhanced by capacity building which entails imparting knowledge and skills that helps MSME's to grow. This is critical because MSME growth and sustainability depends on the development and implementation of entrepreneurial schemes that consider the different needs of MSME's. The other findings indicated that the biggest problem why our MSMEs are not graduating quickly from one stage to the other in terms of growth, equity base and quality products is that most MSME's have not invested heavily in technology and their management skills are static due to lack of business finance.

### **5.3. External Factors that Affect Access to Finance by MSME's in Kasama**

The External factors that affect access to finance by MSME's in Kasama were also examined so as to ascertain whether they had an effect on the sustainable growth of SMES. There are a number of challenges regarding the external environment of MSMEs sector. The data was collected from factors such as, High Interest Rates and High Taxes and Statutory Reserve Requirements and Weak Coordination of MSME Empowerment Interventions and Corruption.

### **5.3.1. High Interest Rates/ High Taxes and Statutory Reserve Requirements as factors affecting Access to affordable Finance by MSME's.**

The findings from the study revealed that High Interest Rates, High Taxes and Statutory Reserve Requirement represented a 41.05% of respondents and they revealed that that managers and Business owners are always scared of high interest rates from financial lending institutions that give loans to them. The respondents indicated that, due to high interest rates, business owners are afraid to get loans because they feel they tend to start working for the lending Institutions and not for themselves thus they tend to shun getting loans from banks and feel such services are meant for civil servants and government workers. This is supported by the finding of Abrie and Doussy, (2006) who indicated that, Tax requirements add to the administrative burden of small businesses and use resources that could, otherwise, be used for managing such businesses more effectively. Other respondents from lending institutions also clarified that the conditions that are required for MSME to get a loan are many, and revealed that some Medium and Large Scale Enterprises are able to get loans because they have all what the Financial Lending Institutions require from them such as; collateral security, better accounting and management of resources etc. Further, the finding also revealed that financial lending institution also abide to stringent measures applied to them such as, high statutory reserve requirement by the central bank, thus ensures to also to make adjustment in their lending rates by adjusting them upwards hence, the interest rate that are charged by Lending Institution are high and pause a major hindrance to accessing finances by MSMEs thereby hindering the sustainability of such business. Lastly, it was also revealed that the state of foreign exchange rates is highly volatile in that the interest rates are revised monthly and not standardized thus it becomes a disadvantage and instills fear to MSME's to access funds through services such as loans and overdrafts, especially when the local currency seems to be losing value. This supported by finding by Storey (2014) who revealed that many of the MSME's end up getting loans at higher interest rates because banks considered them as high-risk borrowers thus high lending rate to has impacted negatively on the sustainable growth of MSME's.

### **5.3.2. Weak Coordination of MSME Empowerment Interventions/ Corruption as factors affecting Access to affordable Finance by MSME's.**

Further, the unscheduled and unstructured interviews that were conducted from respondents revealed that there is a Weak Coordination of MSME Empowerment Interventions and Corruption which has affected access to affordable Finance by MSME's. The findings revealed a 12.63% of respondents that agreed that Lack of Management Skills, Training and Experience were the other factors that affected access to affordable finances leading to adversely affecting the sustainable growth of MSME's in Kasama for the fact that they fail to get the services directly from the service providers. The findings correlated with the findings of the World Bank (2005) who revealed that

70 percent of MSMEs have confirmed that corruption hindered so much of their operations. Further the Ministry of Commerce, Trade and Industry (2003-2004) in Zambia after a survey that was conducted established that corruption is one of the factors that constituted the main reasons for low formality and sustainable growth of MSME's. The study pointed out that there are currently initiatives to empower MSMEs which are managed under different line Ministries such as the Youth Empowerment Fund, Constituency Development Fund (CDF), Farmer Input Support Programme (FISP) and the Citizens Economic Empowerment Fund. However, such empowerment initiatives are uncoordinated and, in most cases, target the same beneficiaries which leads to duplication of efforts within the MSME sector.

#### **5.4. Chapter Summary**

The purpose of this chapter was mainly to discuss the findings of the study which was focused on factors that affect access to finance by Micro small and medium enterprises in Kasama. The discussion categorized the factors as internal and external factor that affected the sustainable growth of MSME's in kasama and the sustainable growth was measured by certain observable characteristics revealed the Registration of Micro Small and Medium Enterprises, the of types of business undertaken by registered MSME's in Kasama, measuring access to affordable finance and financial services by MSME's from Financial lending Institutions, analyzing the performance of MSME's Industry in relation to the District's Economic Growth, and examining the sources of business finance for Micro Small and Medium Enterprises (MSME's).

## **6.0. CHAPTER SIX: CONCLUSIONS AND RECOMMENDATION**

### **6.1. Introduction**

This study of Evaluating the contribution of financial lending institutions through access to finance, in achieving sustainable growth of micro, small and medium enterprises (MSME's) in Kasama; has provided substantial understanding on the dilemma faced by MSME's regarding to access to finance which in turn leads to a sustainable growth of MSME's. The previous chapter discussed and analyzed the findings of the study. Thus, this chapter looks at the conclusion and recommendations, and further looked at proposed future researches to supplement the study on access to finance by MSME's to facilitate sustainable growth of MSME's.

The purpose of this study was to evaluating the contribution of financial lending institutions through access to finance, in achieving sustainable growth of micro, small and medium enterprises (MSME's) in Kasama; by exploring the state of growth in SMEs financing, identifying internal factors that affect access to finance by MSME's and examining the external factors that affect access to finance by MSME's.

The Questions that guided the study were:

- 1) How are these financial lending institutions located in Kasama District contributing to the District's economy through financing Micro, Small and Medium Enterprises?
- 2) What is the state of growth of Micro, Small and Medium Enterprises in Kasama District?
- 3) What are the challenges being faced by SMEs as they receive financing form financial lending institution in Kasama district?

### **6.2. Conclusions**

The Sustainable growth of MSME's in Kasama district is closely associated with a number of factors. This study revealed that some factors have adversely affected access to finance by MSME's in Kasama district. Financial inadequacy is a factor which has significantly constrained access to finance by MSME's thus hinders growth and expansion of the MSME's sector in Kasama. The other factors that have been revealed which hinder the sustainable growth of MSME's in Kasama include, unfavorable MSME Business Environment and inadequate Business Infrastructure which are directly linked to the availability of financial resources.

### **6.3. Recommendations**

Having carried a study of evaluating the contribution of financial lending institutions through access to finance, in achieving sustainable growth of Micro, Small and Medium Enterprises (MSME's) in Kasama district of Northern Province, the recommendation from the findings include the following as proposed by the researcher;

Lending institution should not only limit their finances to government workers but also MSME's as they are the key drivers of the country economy. Further, in order for the business owners to help themselves against adverse effects of access to finances from Lending Institutions, the researcher proposed that SMEs owners/managers need to work hard to make their business become formal by meeting certain requirement such as their registration of business in order to do business formally and get the rewards that come with formal business registration. Many are the benefits of registering a business such as applying for loans, supplying goods to other registered companies and government institutions. The other recommendation is that MSMEs must venture in public and private partnerships so as to merge with potential investors such as a cooperatives. This owes to the fact that cooperatives guarantee MSME's for credit facilities which will boost their owners' equity especially MSME's at a micro stage of the business. Further business owners are also recommended to take advantage of government programmes such as CDF funds meant to sponsor citizens to attend formal training in formalized learning institutions.

The other recommendation is that government should start offering basic business and financial management skills as this will enable the SMEs to make informed investment decisions. This will enhance their entrepreneurial skills that will enable them to recognize and exploit the available business opportunities. Lastly, government should also developed business premises and infrastructure that can facilitate the development of individual enterprises so that they can have meaningful contribution to economic growth. Business infrastructure such as markets, industrial yards, incubation centres and economic zones play a critical role in the smooth operations of MSMEs.

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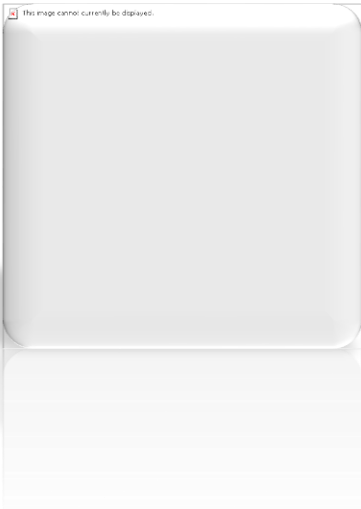
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## **APPENDIX I – STUDY BUDGET/ TIME SCALE**



**APPENDIX I I – QUESTIONNAIRE**  
**THE UNIVERSITY OF ZAMBIA - ZIMBABWE OPEN**  
**UNIVERSITY**



**TITLE: EVALUATING THE CONTRIBUTION OF FINANCIAL LENDING INSTITUTIONS THROUGH ACCESS TO FINANCE, IN ACHIEVING SUSTAINABLE GROWTH OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSME's); A CASE STUDY OF KASAMA DISTRICT, NORTHERN PROVINCE.**

**QUESTIONNAIRE**

## **QUESTIONNAIRE FOR FINANCIAL AND MICRO-FINANCIAL INSTITUTIONS**

### **1.0. PART I: CERTIFICATE OF CONSENT**

I have been invited to participate in the research in *Evaluating the contribution of Financial Lending Institutions through access to finance, in achieving sustainable growth of Micro, Small and Medium Enterprises (MSME's); a case study of Kasama District, Northern Province*. Thus, the study will help examine and establish the relationship between the contribution of Financial Lending Institutions through access to finance and performance of Micro, Small and Medium Enterprise, to help improve, in decision making and gaining of an understanding in the patterns regarding MSME policy strategies and the objective of structure and performance of Small Enterprises Sector of Kasama District.

I have read the foregoing information, or it has been read to me. I have had the opportunity to ask questions about it and any questions I have been asked have been answered to my satisfaction. I consent voluntarily to be a participant in this study

Signature of Participant \_\_\_\_\_

Date \_\_\_\_\_

Day/month/year

## **QUESTIONNAIRE**

### **SECTION A.**

#### **1.0.USER INFORMATION (DEMOGRAPHIC INFORMATION)**

1. What is your current job title? (Please, mark in one of the appropriate box)  
1) Branch Manager  2) Cashier  3) Employee  4) Business owner /Manager
2. What is your Gender? (Please, Tick one)  
1) Male  2) Female
3. Age at last birthday: 1) 20 – 30 Yrs.  2) 30 - 40 Yrs.  3) 40 -50 Yrs.  4) 50 Yrs. and Above.
4. In this section, indicate your employment status in this institution where you are found. (Please, Tick one)  
1) Full-time  2) Part-time  3) Other specify
5. Number of Years of service
  - a) 1-5 years
  - b) 5-10 years
  - c) 10-15 years
  - d) 15 Yrs. and above
6. How many years of work experience do you have in your financial institution/ industry (Please, tick one)
  - a) 1-5 year
  - b) 5-10 years
  - c) 10-15 years
  - d) 15 and above

#### **1.1.KNOWLEDGE AND EXPERIENCES OF THE INSTITUTION.**

7. How many Branches has your institution/ Business? (Please, tick one)
  - a) 1-5
  - b) 5 -10
  - c) 10-15
  - d) 15 and above
8. Number of Years the institution has been in existence.
  - a) Less than 1 year
  - b) 1-5 years
  - c) 5-10 years
  - d) Above 10 years
9. Does the government's Micro, Small and Medium Enterprise Development policy have any impact on the sustainable growth of your institution/ Business? (Mark where it's appropriate)
  - a) YES
  - b) NO
10. List four (4) major roles/ importance of your institution/Business that contribute to the economic growth of Kasama District through sustainable MSME's growth?
  - a) \_\_\_\_\_
  - b) \_\_\_\_\_

- c) \_\_\_\_\_
- d) \_\_\_\_\_

11. What are the Positive Government policies that have contributed to access to affordable finance (Capital) by MSME's leading to the growth of your institution in Kasama District?

- a) \_\_\_\_\_
- b) \_\_\_\_\_

12. In what ways have some MSME's policies regarding access to finance hindered or negatively affected the growth of your Institution/or Business in Kasama District?

- a) \_\_\_\_\_
- b) \_\_\_\_\_

13. How can you explain or rate the current MSME sustainable development policy implementation regarding MSME's (or Financial lending Institutions allowing MSME's) access to finance following the agenda of economic growth in Kasama [*Circle or tick One*]?

- a) Poor
- b) Moderate
- c) Effective
- d) Very effective

14. With the MSME development policy implemented, how is the rate of growth of your institution in kasama in terms of, service delivery and customer accessibility?

- a) Poor
- b) Moderate
- c) Effective
- d) Very effective

15. With the services your institution/ Business renders to its customers, coupled with the current MSME policies in the financial and MSME's industry, how can you rate, access to affordable finance rendered (or obtained), of such services to (or by) the customers?

- a) Poor
- b) Moderate
- c) Effective
- d) Very effective

16. Does your organisation have any access to financial service from financial institutions? / Does your institutions allow MSME's have any form of access to finances with the current interest rates and collateral requirements?

- a) Yes
- b) NO

17. With the answer given above, which form of financial assistance/ service does your organization offer/Obtain (tick one) to/from MSME's or Financial institutions?

- a) \_\_\_\_\_
- b) \_\_\_\_\_

18. How is your institution assisting MSME's/ Financial Institutions develop a culture of innovation among MSMEs/ Financial Institutions?

- a) \_\_\_\_\_

- b) \_\_\_\_\_  
 \_\_\_\_\_
19. How does your institution assist to develop a culture of technological adoption among MSMEs/ Financial Institutions?  
 a) \_\_\_\_\_  
 \_\_\_\_\_  
 b) \_\_\_\_\_  
 \_\_\_\_\_
20. How is your institution assisted in promoting/ (allowing) MSMEs access to affordable finance?  
 a) \_\_\_\_\_  
 \_\_\_\_\_  
 b) \_\_\_\_\_  
 \_\_\_\_\_
21. How does your institution/ Business insure there is a timely availability of financial resources for implementation/ MSME's support for sustainable growth as recommended in the MSME Development Policy strategies?  
 a) \_\_\_\_\_  
 \_\_\_\_\_  
 b) \_\_\_\_\_  
 \_\_\_\_\_
22. How can you rate the collaboration and coordination between your institutions (be it a Financial lending institutions/ Business) and line ministries such as; Ministry of Finance and National Planning in providing technical and financial support to MSME's/ Financial Institutions?  
 a) Poor  
 b) Moderate  
 c) Effective/Good  
 d) Very effective/ Very good
23. How can you rate the extent to which the MSME policy has affected your institution (be it a financial institution or Business) in contributing positively to the economic development in Kasama district and the country at large?  
 a) Poor  
 b) Moderate  
 c) Effective  
 d) Very effective
24. Do you think government should come up with some other measures to match with the current MSME policy (on either financial lending institutions or Business) to facilitate access and sustainable growth of your institution?  
 a) Disagree  
 b) Neutral/ moderate  
 c) Agree  
 d) Strongly Agree
25. With the current government policy on MSME's and how it affects your institution, how can you rate the performance of your sector/industry in relation to the district's economic development?  
 a) Poor  
 b) Moderate

- c) Good
- d) Very Good

**2.0. PERCEPTION/EXPECTATIONS OF MSME’S/ FINANCIAL LENDING INSTITUTIONS ON THE IMPLEMENTATION OF THE REVISED NATIONAL MSME DEVELOPMENT POLICY.**

**Instructions:** *Circle the Answer of your Choice*

DIMENSION	STATEMENT	SCORES				
<b>RELIABILITY</b>	Rate in terms of <i>reliability</i> of current government policy in promoting sustainable development of MSME’s, through access to affordable finance by enabling financial lending institutions provide loans at lower rates, minimal collateral requirements, dependable financial services, quick and efficient service delivery and easy access to funds by MSME’s thus, the current policy is reliable.					
<b>GROWTH</b>	Rate in terms of <i>growth</i> on whether the current government policy is promoting the development and growth of MSMEs as well as encouraging MSMEs access to affordable finance by enabling financial Lending institution cater for the demand of MSME’s in accessing financial services for various purposes including Investments.	1	2	3	4	5
<b>TANGIBLES</b>	Rate in terms of <i>tangibles</i> , of whether current government policy assists to develop a culture of technological adoption among MSMEs; and enabled financial lending institution to provide the required financial services to address the issue of capacity building and managerial skills training to MSME’s, to facilitate the use of modern equipment’s and effective systems to allow easy access to banking and financial services.					
<b>ECONOMIC</b>	In terms of <i>Economic impact</i> , rate whether current government policy has enabled MSME’s contribute significantly to the District’s economic diversification agenda through easy access to finance, provision of loans at minimal collateral requirements for investments purposes and facilitating MSME Sector contribute to employment and wealth creation.	1	2	3	4	5
<b>DEREGULATION</b>	Rate in terms of <i>deregulation</i> on whether government should come up with alternative policies on MSME’s to match with the current MSME policy so as to help MSME’s sector have easy access to funds and other banking services.	1	2	3	4	5

End of Questionnaire.



HSSREC FORM 1b

**THE UNIVERSITY OF ZAMBIA**  
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**HUMANITIES AND SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE**

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Zambia

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**PARTICIPANT INFORMATION SHEET**

**(This template is for research interventions that use questionnaires, in-depth interviews or focus group discussions)**

*(language used throughout form should be at the level of a Grade 8 student)*

Notes to Researchers:

1. Please note that this is a template developed by HSSREC to assist the Principal Investigator in the design of their informed consent forms (ICFs). It is important that Principal Investigators adapt their own ICFs to the outline and requirements of their particular study by replacing words in red.

2. The informed consent form consists of two parts: the information sheet and the consent certificate.

3. Do not be concerned by the length of this template. It is long only because it contains guidance and explanations which are for you and which you will not include in the informed consent forms that you develop and provide to participants in your research.

4. This template includes examples of key questions that may be asked at the end of each section that could ensure the understanding of the information being provided, especially if the research study is complex. These are just examples, and suggestions, and the investigators will have to modify the questions depending upon their study.

5. In this template:

- square brackets indicate where specific information is to be inserted
- bold lettering indicates sections or wording which should be included
- Standard lettering is used for explanations to researchers only and must not be included in your consent forms. The explanation is provided in black, and examples are provided in red in italics. Suggested questions to elucidate understanding are given in black in italics.

**[Informed Consent Form for \_\_\_\_\_]**

Name the group of individuals for whom this consent is written. Because research for a single project is often carried out with a number of different groups of individuals - for example counselors, community members, clients of services - it is important that you identify which group this particular consent is for. In other words you may be required to have more than one ICF.

*(Example: This informed consent form is for social service providers in the community X and who we are inviting to participate in research Y, titled "The Community Response to Malaria Project".)*

You may provide the following information either as a running paragraph or under headings as shown below.

**[Name of Principle Investigator: Chanda Benny]**

**[Name of Organization: Ministry Of Education]**

**[Name of Sponsor]**

**This Informed Consent Form has two parts:**

- **Information Sheet (to share information about the study with you)**
- **Certificate of Consent (for signatures if you choose to participate)**

**You will be given a copy of the full Informed Consent Form**

## **Part I: Information Sheet**

### **Introduction**

I am a student at the University of Zambia and Zimbabwe Open University carrying out a research study on the reference topic above as a partial fulfillment for the award of Master's Degree in Business Administration. I seek to get your opinion about the issue in question to facilitate the study. Your opinion will be highly confidential and specifically used for academic purposes. Your personal identification either by name or residential address will not be required. Please be assured that the information obtained from you will be treated with the utmost confidentiality

## **Purpose of the research**

The purpose of the study is to evaluate the contribution of Financial Lending Institutions through Access to finance, in achieving Sustainable Growth of Micro, Small and Medium Enterprises (MSME's) in Kasama District. The study will be useful in giving an insight on the role Financial Lending Institutions and MSME's play and remain instrumental in transforming the lives of the poor by providing a reliable scientific perspective of describing and evaluating the contribution of financial lending institutions through access to finance to upcoming entrepreneurs, citizens and government in order to enlighten them on the significance of a sustainable Enterprise growth. It will also assist in determining the best ideal ways in which financial lending institution would provide their financial services to allow MSME's have access to finances without much hectic procedures in accessing credits following the Micro Small and Medium Enterprise Development policy 2023.

## **Type of Research Intervention**

This research will involve your participation in through the filling in of a questionnaire that will be provided to be filled at a time that is most convenient to you so that we do not distract the firms operations.

## **Participant Selection**

You are being invited to take part in this research because we feel that your experience as an Business Manager (/Owner) or employee will help us access the information pertaining to the study that will contribute much to our understanding and knowledge of how Financial Lending Institutions through Access to finance contributes in achieving Sustainable Growth of Micro, Small and Medium Enterprises (MSME's).

## **Voluntary Participation**

Your participation in this research is entirely voluntary. It is your choice whether to participate or not. If you choose not to participate, the choice that you make will have no bearing on your job or on any work-related evaluations or reports.

## **Procedures**

If you agree to participate in this study, you will be subjected to a number of questions in the one on one unstructured interview to be conducted, and further questions which will be provided by means of a questionnaire that will be administered to members of staff and employees of the company/ business who agree to participate. The questions will focus on access to finances as recommended in the revised Micro Small and Medium Enterprise

Development Policy strategies and will include such answers as yes or no. or responses may include very effective, not effective or poor, weak among others.

### **Duration**

The study will not take much of your time as the interviews will be conducted in less than an hour and the questionnaires may be filled at your time which suits your convenience considering that you are working and within a month the responses will be collected

### **Uses of information**

The information we shall get from you will be used to help stakeholders, upcoming entrepreneurs and policy makers make decisions on the best ideal ways in which financial lending institution would provide their financial services, to allow Micro Small and Medium Enterprises (MSME's) have access to finances which in turn help transform the lives of the poor thereby adding to the growth of the economy at large.

### **Risks**

The procedures involved in this study have no risks. Little discomfort might be experienced from the time administered. Please be informed that your participation is anonymous and treated confidential and in no ways shall it jeopardize your employment status.

### **Benefits**

The study is immensely significant in the Micro Small and Medium Enterprises (MSME's) Sector Development as it is motivated by the concept, that access to finance from financial lending institutions could be a key for the Sustainable Enterprise Sector Development and performance of MSME's in Kasama District.

The study will give an insight on the role Financial Lending Institutions and MSME's play and remain instrumental in transforming the lives of the poor. Thus, the study will provide a reliable scientific perspective of describing and evaluating the contribution of financial lending institutions through access to finance to upcoming entrepreneurs, citizens and government in order to enlighten them on the significance of a sustainable Enterprise growth, as an essential factor for economic recovery as well as development agenda.

### **Reimbursements**

There will be no reimbursements

## **Confidentiality**

The researcher will seek consent of every participant by explaining the purpose of the study to them. At the same time, the researcher will apply the principle of confidentiality by withholding the names of the participants. In addition, the interview schedule will not have any question requiring the name of the participant.

## **Sharing the Results**

Nothing that you tell us today will be shared with anybody outside the research team, and nothing will be attributed to you by name.

## **Right to Refuse or Withdraw**

This is a reconfirmation that participation is voluntary and includes the right to withdraw. You do not have to take part in this research if you do not wish to do so, and choosing to participate will not affect your job or job-related evaluations in any way. You may stop participating in the [discussion/interview] at any time that you wish without your job being affected. I will give you an opportunity at the end of the interview/discussion to review your remarks, and you can ask to modify or remove portions of those, if you do not agree with my notes or if I did not understand you correctly.)

## **Who to Contact**

This proposal or protocol has been reviewed and approved by HSSREC which is a committee whose task it is to make sure that research participants are protected from harm. If you wish to find about more about the IRB, contact:

Dr. Judith Ilubala Ziwa Acting Chairperson, Humanities and Social Sciences, Research Ethics Committee,

University of Zambia

P O Box 32379

LUSAKA

OR

Mrs. Wilma S. Nchito (PhD) Director, Directorate of Research and Graduate Studies  
University of Zambia  
P O Box 32379  
LUSAKA

State if also it has been reviewed by a primary ethics committee by indicating an organization which may have reviewed the proposal. This primary ethics committee may be another university's ethics committee or a REC or IRB in another country) or an organization which is funding/sponsoring/supporting the study. Having granted ethical approval by a primary ethics committee in another country does not preclude obtaining ethics approval in a study country.

"Approval to conduct this research has been provided by the University of Zambia, in accordance with its ethics review and approval procedures. Any person considering participation in this research project, or agreeing to participate, may raise any questions or issues with the researchers at any time.

In addition, if you are/ or any person is not satisfied with the response of researchers may raise ethics issues or concerns, and may make any complaints about this research project by contacting the HSSREC on the address sated above.

All research participants are entitled to retain a copy of any Participant Information Form and/or Participant Consent Form relating to this research project."

## **Part II: Certificate of Informed Consent**

This section must be written in the first person. It should include a few brief statements about the research and be followed by a statement similar the one in bold below. If the participant is illiterate but gives oral consent, a witness must sign. A researcher or the person going over the informed consent must sign each consent. Because the certificate is an integral part of the informed consent and not a stand-alone document, the layout or design of the form should reflect this. The certificate of consent should avoid statements that have "I understand...." phrases. The understanding should perhaps be better tested through targeted questions during the reading of the information sheet (some examples of questions are given above), or through the questions being asked at the end of the reading of the information sheet, if the potential participant is reading the information sheet

him/herself.

*Example: I have been invited to participate in research about malaria and local health practices.*

**(This section is mandatory)**

I have read the foregoing information, or it has been read to me. I have had the opportunity to ask questions about it and any questions I have been asked have been answered to my satisfaction. I consent voluntarily to be a participant in this study.

**Print Name of Participant** \_\_\_\_\_

**Signature of Participant** \_\_\_\_\_

**Date** \_\_\_\_\_

**Day/month/year**

*If illiterate <sup>1</sup>*

**I have witnessed the accurate reading of the consent form to the potential participant, and the individual has had the opportunity to ask questions. I confirm that the individual has given consent freely.**

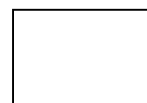
**Print name of witness** \_\_\_\_\_

**Thumb print of participant**

**Signature of witness** \_\_\_\_\_

**Date** \_\_\_\_\_

**Day/month/year**



*If vulnerable or incapacitated like pregnant women, children, people with mental illness, people with disabilities, prisoners and minority groups for instance, the investigator must ensure that there is a well-educated and motivated surrogate or proxy decision maker. When comprehension is an issue the research plan should include means of testing the participants' understanding of the important information prior to enrollment.*

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<sup>1</sup> A literate witness must sign (if possible, this person should be selected by the participant and should have no connection to the research team). Participants who are illiterate should include their thumb print as well.

Statement by the researcher/person taking consent

I have accurately read out the information sheet to the potential participant, and to the best of my ability made sure that the participant understands.

I confirm that the participant was given an opportunity to ask questions about the study, and all the questions asked by the participant have been answered correctly and to the best of my ability. I confirm that the individual has not been coerced into giving consent, and the consent has been given freely and voluntarily.

A copy of this ICF has been provided to the participant.

Print Name of Researcher/person taking the consent\_\_\_\_\_

Signature of Researcher /person taking the consent\_\_\_\_\_

**Date** \_\_\_\_\_

Day/month/year

CONTACTS FOR QUESTIONS (Names, addresses and phone numbers of the following):

**1. Principal Investigator (Must be a local person and a Zambian).**

Names:

Phone:

E mail:

Physical address:



**THE UNIVERSITY OF ZAMBIA**  
**DIRECTORATE OF RESEARCH AND GRADUATE STUDIES**

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**APPROVAL OF STUDY**

**IORG No. 0005376**  
**HSSREC IRB No. 00006464**

11<sup>th</sup> April, 2024

**REF. NO. HSSREC: 2024-APR-026**

Mr. Benny Chanda  
University of Zambia  
P.O. Box 32379  
**LUSAKA**

Dear Mr. Chanda


**RE: "EVALUATING THE CONTRIBUTION OF FINANCIAL LENDING INSTITUTIONS THROUGH ACCESS TO FINANCE, IN ACHIEVING SUSTAINABLE GROWTH OF MICRO, SMALL AND MEDIUM ENTERPRISES: A CASE OF KASAMA DISTRICT NORTHERN PROVINCE".**

The University of Zambia Humanities and Social Sciences Research Ethics Committee IRB has approved the study noting that there are no ethical concerns.

On behalf of The University of Zambia Humanities and Social Sciences Research Ethics Committee IRB, we would like to wish you all the success as you carry out your study.

In future ensure that you submit an application for ethical approval early enough.

Yours faithfully,

  
**Dr. J. T. Ziwa**

**CHAIRPERSON**  
**THE UNIVERSITY OF ZAMBIA HUMANITIES AND**  
**SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE - IRB**

CC: Director, Directorate of Research and Graduate Studies  
Assistant Director (Research), Directorate of Research and Graduate Studies