

UNIVERSITY OF ZAMBIA AND ZIMBABWE OPEN



UNIVERSITY POSTGRADUATE PROGRAMMES

**TITLE: THE EFFECTS OF MICRO FINANCIAL INSTITUTIONS ON SMALL AND
MEDIUM ENTERPRISES (SMEs). A FOCUS ON LUSAKA DISTRICT.**

BY

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**A dissertation Submitted in Partial Fulfilment for the Award of a Master's Degree in
Business administration of the University of Zambia And Zimbabwe Open University.**

2023

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DECLARATION

I, **Biggie Namvwaba Mpopwe**, do hereby declare that this piece of work is my own, and that all the work of other persons has been duly acknowledged and that this work has not been previously presented at this University or any other Universities for similar purposes.

Signature of author..... Date.....

CERTIFICATE OF APPROVAL

This dissertation by Biggie Namvwaba Mpopwe has been approved as fulfilling the requirement or partial fulfilment of the requirement for the award of master’s degree in business administration by the University of Zambia/Zimbabwe Open University.

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DEDICATION

This dissertation is a special dedication to my wife Nchimunya, my parents, my brothers and sisters including my beloved son Mutinta, whose noise and disturbances while studying from home reminded me why I was doing this programme. May the good lord continue guiding me and add more wisdom in my life, to be able to overcome with confidence all that comes my way in my career.

ACKNOWLEDGEMENTS

I wish to acknowledge the special blessing and favors the Almighty God has bestowed upon my life, career and education without which I would not have managed to achieve anything significant in life. I also wish to recognize and appreciate the services and mentorship of my supervisor, Dr Mathew Sali for supervising my research project; it is such a privilege and blessing to find myself under his tutelage. I need not overemphasize the professional and scholarly manner with which he mentored me.

I also want to thank my fellow students in the programs of Master's Degree in Business administration for being quite lively and supportive and for all the good times we shared.

I also wish to acknowledge the support that my wife offered during this journey and indeed all my friends and family who contributed in one way or the other to this milestone. To mention one by one the many people that made it possible for me to attain this degree the pages would go in hundreds. I am grateful to all, GOD bless you all.

ABSTRACT

This Report was a study on determining the impact micro financial institutions have on SMEs in Lusaka Per-urban Area. It employed a descriptive research design, with a study sample of 80 participants. It meant to asses to what extent SMEs in kalingalinga, Mtendere, Kanyama and Chawama make use of Micro financial institutional services as well as how SMEs in Kalingalinga, Mtendere, Kanyama and Chawama Compound benefit from Micro financial institutions. It further meant to assess the response Kalingalinga, Mtendere, Kanyama and Chawama based SMEs' have towards micro financial services and to get recommendations on what ways can enhance accessibility of finances by SMEs in Kalingalinga, Mtendere, Kanyama and Chawama from Micro financial institutions from the SME owners. Study findings indicated that Micro financial institutions play a significant role in countries' economies, and in businesses therein. The Business Sector represents a notable ratio in the total economic activity of most Countries thus it is very important that SMEs are able adequately access financial assistance conveniently and timely. This study revealed that SMEs prefer MFI services as opposed to banks because MFIs act quicker and are a bit flexible too. However, according to the study findings, MFIs ought to lower interest rates and introduce much longer repayment periods and also new administrative methods including the introduction of a type collateral system to allow even start-up firms to be eligible for borrowing funds, like allowing borrowers to hold on to the assets they pledge as collateral and only have it released when they default.

Keywords: Accessibility, Effects, Micro, Financial Institutions, Small and Medium Enterprises.

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ACRONYMS

CAM – China Association of Microfinance

CSO – Central Statistical Office

MFI – Micro Financial Institutions

MoF – Ministry of Finance

MSMEs – Micro, Small and Medium-Sized Enterprises

SMEs – Small and Medium-Sized Enterprises

PLS-SEM – Partial Least Square Structure Equation Modeling

SPSS – Statistical Package for the Social Sciences

UNDP – United Nations Development Program

EU – European Union

GDP – Gross Domestic Product

IV – Independent Variable

DV – Dependent Variable

MV – Moderating Variables

USA – United States of America

GRZ – Government of the Republic of Zambia

WB – World Bank

TPB – Theory of Planned Behaviour

MFBs - Microfinance Banks

SHGs – Self Help Groups

DS – Descriptive Statistics

SMF – Stock Market Floatation

Chapter One

Introduction

1.1 Overview

Microfinance institutions have been key in providing financial solutions to middle income, the poor, low income individuals and or entrepreneurs, microfinance institutions are bankers and lenders are there to provide microfinance services, such as deposits, loans, payment services, money transfers, and insurance, the ultimate importance of microfinance is that it provides much needed financial services to poor and low-income households, entrepreneurs, and nascent businesses, who would otherwise not have access to such services, so in other words microfinance has made it easier and convenient that even small and medium enterprises (SMEs) can be able to access funds to boost their businesses (Teeboom, 2019).

A favorable access to finances is crucial to the success of small and medium enterprise in any economy. In light of this, governments of the republic of Zambia realized the importance of the private sector through promotion of small and medium enterprises (SMEs), it also realized that this may not be well achieved without adequate micro financing of these SMEs (Nuwagaba, 2015). Micro finance has for a long time been seen as powerful tool for sustainable social economic development of economies, existence of Microfinance Institutions (MFI) is a good driver for SME sustainability. MFIs are granting micro loans at fair and affordable terms to alleviate financial constraints of the poor households and have been recognized by the private sector and public sectors, researchers and other stakeholders and SMEs inclusive (Cedric, 2012).

Though microfinance institutions seem to have taken the profit business approach model, they still receive a lot of borrowers who are even willing to pay higher interest rates that are market comparable and because of this you will find that some firms are credit constrained and others are not in different regions (ibid).

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 on micro finance institutions (World Bank, 2013). It was observed that 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 and this implies that SMEs in the country would still face a challenge to acquire funding without the right loan security

(World Bank, 2013; Feyen and Kibuuku, 2012). Thus, it is important to heed that MFIs have by far enhanced the operations and increased productivity of SMEs, clearly MFIs have a positive effect on SMEs as opposed to negative effects. The micro small and medium enterprises sector in Zambia have been growing on a phased approach in a sense that, SMEs in the country have always existed in the informal sector and they have overtime been greatly contributing to the economic development of the country (UNDP, 2004). In the country they have been known to employ a large number of people and thus helping to provide income for the households as they are lifted out of poverty and the country continues to recognize that, a clear playing field is vital for the survival and operation of SMEs (UNDP, 2004 and 2006; Zambia development agency, 2015). This study is quite essential for policy makers as it may yield findings that may be key to policy formulation in view to improving the workflow of SMEs and capital boosting.

1.2 Background

Normally Micro finance institutions came in play in the middle 1800s to assist SMEs, farmers and entrepreneurs, usually SMEs have low income and they mostly pump in more money in order to facilitate productivity which they need to source from financial institutions, it used to be very difficult to access financial services by SMEs from the banks until MFIs came in, (Word-Press, 2007).

Globally, small and medium size enterprises (SMEs) are being hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development. In the United States of America (USA) and European Union (EU) countries SMEs are enterprises with employees under 500 while in developing countries any enterprise employing below 100 employees would constitute an SME. SMEs have become more important in the economic matrixes in recent years across the globe through increased deliberate government policies and legislation aimed at nurturing SMEs as engines of economic growth and employment creation. It is estimated that SMEs constitute over 90 percent of total enterprises in most economies with a high rate of employment growth. They are also a vehicle for increased industrial production and exports. In Africa, economic powerhouses such as South Africa, Egypt, Nigeria and Kenya, the SME sector is estimated to contribute over 70 percent in employment and 30-40 percent contribution to GDP, but contribute less than four percent to export earnings. The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year

2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007).

Among the inexhaustible list of factors that could enhance development of SMEs is adequate finances and good financial management among the SMEs. Finance and financial related services are an important prerequisite in initiation, development and growth of business enterprises. Every business whether large, medium or small requires some level of financing in order to sustain its operations and expand. Financial institutions provide finance solutions to facilitate the aforementioned business requirements. With large business enterprises, it is not a difficult task to obtain financing from financial institutions and hence can easily walk into banking facilities and get loans to finance their business operations, the opposite is true for the small businesses Ledgerwood (2007).

A survey done by the World Bank (2005) confirms that generally, large firms have access to bank credit and other financial services both local and foreign than small firms. The situation is however, different for SMEs who heavily rely on internal funds and retained earnings. As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 1999 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provides the most recent comprehensive picture of SMEs in Kenya. Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. When the state of the macro economy is less favorable, by contrast, the opportunities for profitable employment expansion in SMEs are limited. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programs for SMEs, but also for the growth of the economy as a whole.

The Bayport concept in Zambia is among the best examples provision of micro credit among SMEs. The institution is in a leading position in trying to develop the poor and the vulnerable people by providing loans with or without requiring any collateral or mortgage. This concept has been replicated all over the world birthed from the Grameen Bank concept in Bangladesh and dedicate to create a poverty free world. The essence of MFI development comes from empowering small business to thrive (Khaled Shukram, 2012).

Microfinance evolved as an economic development approach intended to benefit low-income men and women (Ubom, 2003). The term refers to the provision of financial services to low-

income clients, including the self-employed. Financial services generally include savings and credit; however, some microfinance institutions also provide insurance and payment services. In addition to financial intermediation, many microfinance institutions provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus, the definition of microfinance also includes both financial intermediations and social intermediations. Microfinance clients are typically self-employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, small farmers, service providers and artisans and small producers such as blacksmiths. Usually, their activities provide a stable source of income (often from more than one activity). Although they are poor, they are generally not considered to be the poorest of the poor (Ledgerwood, 2007).

With Microfinance institutions offering the business solution for development and growth of SMEs, it is commonly expected that small and medium enterprises are able to grow, from being Small sized firms to large and easily sustainable business ventures, nevertheless, this very critical objective seems far from reality as far as SMEs are concerned. According to the Kenya National Bureau of Statistics, (2007), three out of five businesses fail within the first few months of operation. Attempts to address the reason for ailing performance for SMEs has been centered around the challenges facing SMEs which in many studies have been negative perception on SMEs ability to provide quality services, lack of adequate finances and poor management skills (Amyx, 2005; Mcgrath 2002; Oketch 2000). The irony of it is that the same problems that lead to failure of SMEs are the solutions that many microfinance institutions seemingly provide. This therefore, underlines the need for the present study which seeks to establish the impact of microfinance institutions in growth and development of SMEs with focus on SMEs in Machakos town.

Global Concerns about financial literacy have heightened following the 2007-2008 global financial crisis during which it became apparent that lack of financial literacy was one of the factors that contributed to detrimental financial decision making. This recognition shows that poor financial decisions have a harmful overspill impact on financial and economic stability in a country. Complex financial markets call for exceptional levels of financial competence to enable individuals and business people to make intelligent choices among competing financial products (Dahmen et.al, 2014).

1.3 Statement of the Problem.

Access to finance remains a dominant constraint to small and medium enterprises in Zambia. There have been credit constraints pertaining to working capital and raw materials, SMEs lack the necessary collateral to serve as security for loans because they are considered as a high-risk business. This is on the ground that applicants from the informal sector have a tendency to apply for small loans and it required the same oversight and administrative methods that are required for large loan request that is made by large or medium scale firms (Salomey et al, 2013). SMEs in Zambia. Aryeetey et al. (1994) reported that 38% of SMEs surveyed mentioned credit as a major constraint of financing their businesses. This stems from the fact that SMEs have limited access to capital markets, in part because the high cost of borrowing, and rigidities of interest rates has also made financing of small-scale enterprises very difficult in Zambia. Most SMEs also lack the necessary collateral to obtain loans from financial institutions, therefore resulting in SMEs not often obtaining long-term finance to finance and expand their businesses.

Often, SMEs especially informal ones are sideline from financial inclusion due to the notion that “Rather than the constraints in obtaining finances, SME owners in Zambia are mostly unskilled and semiskilled, usually some of them do not even understand the procedures and requirements needed in order to acquire a loan”, other common absences among SME owners are labor, managerial competence in handling business enterprises and also lack of business ideas. As a result, their growth prospect remains stagnant. There is also the problem of having access to modern technology since most firms use old machinery, and have problems with finding replacements parts to purchase (Ahiabor, 2013).

Microfinance institutions in Zambia have proven to be a powerful tool for promoting inclusive economic growth especially in the area of Small-Scale Enterprise development and employment as well by enabling SMEs and other microenterprises access suitable finance feasibly (Wakunuma, et al., 2019). Thus, this study is to enhance SMEs’ loan accessibility to ensure growth and stability of SMEs through Microfinance institutional support by providing loans conveniently for business growth.

1.4 General Objective

To determine the effect micro financial institutions, have on SMEs in Lusaka Per-urban Area.

1.4.1 Specific Objectives

1. To investigate the extent SMEs in kalingalinga, Mtendere, Kanyama and Chawama make use of Micro financial institutional services.
2. To determine how Micro financial institutions, benefit SMEs in Kalingalinga, Mtendere, Kanyama and Chawama Compound.
3. To outline ways that can enhance accessibility of finances by SMEs in Kalingalinga, Mtendere, Kanyama and Chawama from Micro financial institutions.

1.4.2 Research Questions

1. To what extent SMEs in kalingalinga, Mtendere, Kanyama and Chawama make use of Micro financial institutional services?
2. How do Micro financial institutions, benefit SMEs in Kalingalinga, Mtendere, Kanyama and Chawama Compound?
3. In what ways can Micro financial institutions enhance accessibility of finances by SMEs in Kalingalinga, Mtendere, Kanyama and Chawama?

1.4.3 Hypothesis

- H0: There is statistical relationship between insufficient Capital and SMEs Business Growth
- H1: there is no statistical relationship between insufficient Capital and SMEs Business Growth

1.5 Relevance of the study

The aim of this study was to add to the already existing literature on the effect of microfinance institutions on SMEs. The findings of the research may be used as a pre-route for further research seeing that microfinance institutions have been identified as a one of the key competencies required for the establishing, management and thriving of SMEs. Most SMEs are not operating at full thrust due to lack of capital, some SME owners of Kalingalinga, Mtendere, Chawama and Kanyama think the process involved in acquiring a loan is very cumbersome hence they do not even try to visit financial institutions for inquiries, however, those that are able to visit loan providers complain that they do not meet the requirements criteria used by the banks especially. Moreover, this is the gap that Microfinance institutions

came to bridge, they have flexible terms and conditions which makes their services more beneficial to the SMEs.

However, the noted gap especially in Kalingalinga, Mtendere, Chawama and Kanyama is that people (SME owners) need to be made aware of the relevance of MIFs and how they can access finances from them, this study will involve knowledge generation by collecting information from those SME owners that have accessed loans from MFIs, those who have not collected but would like to and those who are not interested in getting loans at all. This will facilitate in the ascertaining of the effect of MFIs on SMEs, it will cover the gap that has been there particularly on this topic among kalingalinga, Mtendere, Chawama and Kanyama SMEs in Zambia.

The findings may be used for the purpose of policy formulation in the way that MFIs are one of the main ways SMEs can be catapulted and this will translate into also improving people's lives.

Chapter Two

Literature Review

2.1 Overview

This chapter presents the literature review. It brings out the results of the literature review performed through consultation of related body of knowledge. The chapter is relevant and informative because it gives a critical impetus to the study and purpose of the study; especially that the study is done as a contribution to the existing body of knowledge on the effect of microfinance institutions on SMEs. The key issues discussed in this chapter is the empirical review and Conceptual framework.

2.2 Empirical Framework

2.2.1 Global Context

A study was done in China by He in 2009 through the China Association of Microfinance (CAM) “examined the impacts of microfinance development at macro, meso, and micro levels, spanning over agricultural industry, financial markets, and socially vulnerable groups such as women and farmers (He, et al., 2009)”. The findings indicated that most people in the farming sector, get a lot of assistance from MFIs, except the repayment tenures do not entirely suit them.

The study did not look at SMEs in general, but was biased towards women and farmers, hence the results cannot represent the SMEs as a whole. This calls for research that looks at SMEs as a whole.

Another study by Wang, (2013) in London, was conducted and its main focus was on determining how microfinance had impacted farmers and agriculture as a whole. It concludes that microfinance has offered an effective finance method for the construction of new socialist rural regions and has won the support of agriculture and farmers. It also examined the impact of microfinance on gender inequality in China and have discovered that there are many benefits to providing microfinance to women, despite lack of conclusive evidence on significantly reducing gender inequality. Microfinance allows women to enjoy greater economic power, better living quality, and stronger social and political empowerment (Wang, 2013).

The study by Wang lacked information on the negative sides encountered while accessing or trying to access loans through microfine such as rigid high interest rates. The study being

undertaken now bridges that gap by providing solutions to how accessing loans through microfinances can be enhanced.

Wang, (2013), further studied the impact of microfinance on the development of small and medium enterprises (SMEs). The main objective was to establish the significance of microfinances in SME growth in China. The study made use of survey data collected from SMEs in Taizhou, Zhejiang, the largest home of SMEs in China. The study first showed that microfinance plays a crucial role in the revenue and profit growth of SMEs. The study then revealed that the SMEs with higher financial risk and lower level of productivity are more likely the firms to seek microfinance. Furthermore, the paper found that firm characteristics including product innovation efforts and managerial and entrepreneurial attitudes are the keys that determine the likelihood of receiving micro-financing.

The study realized gaps in the areas of due diligence, the focus for this study was mostly on what benefits SMEs are drawing from microfinances and did not look at the terms and conditions and capacity for SMEs to repay loans.

2.2.2 African Context

A study conducted by Babajide, (2012), investigated the effects of microfinance on micro and small business growth in Nigeria. The objectives were: to examine the effects of different loan administration practices, in terms of loan size and tenure on small business growth criteria and to examine the ability of Microfinance-Banks (MFBs) towards transforming micro-businesses to formal small-scale enterprises. Babajide, (2012) employed panel data and multiple regression analysis to analyze a survey of 502 randomly selected enterprises finance by microfinance banks in Nigeria. Strong evidence was found that access to microfinance does not enhance growth of micro and small enterprises in Nigeria. However, other firm level characteristics such as business size and business location, were found to have positive effect on enterprise growth.

The study brought out strong evidence that MFIs do not enhance growth of SMEs. It did not state the positives or negative sides that MFIs have on SMEs. Thus, the relevance of this study was to seal this gap.

Bagudu, et al., (2016) did a study to evaluate the effect of Microfinance Institution (MFIs) on the development of SMEs (Small and medium enterprises) in Lagos state Nigeria. The main aim of the study was to determine by how much SMEs are making use of MFIs. Simple random techniques of sampling were employed in this study in selecting 70 SMEs which constituted

the size of the sample of the research. Structured questionnaire designed were used to facilitate the obtaining of relevant data that was used for the analysis. Descriptive statistics involving simple graphical charts and tables were strategically applied in presentation and analysis of data. The outcome of the findings indicate that large number of SMEs are benefiting from the loans granted by the MFIs, despite the fact that few of them have sufficient ability to secure the needed amount. Interestingly, most of the SMEs admit positive MFIs loans contribution towards advancing their market share, the economic competitive advantage of the company and achieving market excellence through product innovation.

The study focused mostly on learning the impact of MFIs on the development SMEs. The significant and positive relationship has been concluded between the performance of SMEs and MFIs loan. The study affirms the positive commitments of MFIs loans towards advancing market share of SMEs, producing competitiveness and efficiencies (Bagudu, et al., 2016).

Gaps realized on this study are that it concentrated on how money borrowed from MFIs by SMEs, is being put to use and the yields. It did not look at the aspect of how beneficial the loans are to SMEs' growth, negative sides of it and that is the gap this research is closing.

Dennis et al, (2015) conducted a study on effects of Microfinance credit on the performance of small and medium enterprises in Uasin Gishu County, Kenya. The main objective was to determine how performance of SMEs has been affected by MFIs. In their study discussed the study targeted over 5,000 entrepreneurs with a sample size of 47 SMEs. The study employed an ex-post facto design. The instruments used in this study were open and closed ended Questionnaires, observation and interview guide. Face and content validity was used to ascertain the conceptual clarity and investigative bias. The study used simple random sampling of 47 SMEs out of the SMEs there were 17 SMEs did not take loan with MFIs while 30 SMEs had loans with MFIs. Data was presented through the use of frequency tables, pie charts and percentages. Data was analyzed using inferential statistics. In the final analysis, the research clearly found that MFC have a positive effect on the performance of SMEs with a level of significant of less than 5%. In order to enhance a sustained and accelerated growth in the operations of SMEs credits should be client-oriented and not product- oriented.

Dennis, Achesa, and Dr Gedion, (2015), further concluded that a large number of Uasin Gishu residents derive their livelihood from the SMEs. However, in spite of the importance of this sector, experience shows that provision and delivery of credit services to the sector by formal

financial institutions such as commercial banks and MFIs has been below expectation. This means that it is difficult for the poor to move out of poverty due to lack of finance for their productive activities. Small-scale loans can relieve capital constraints that might otherwise preclude cash-strapped entrepreneurs from investing in profitable businesses, while savings services can create opportunities to accumulate wealth in safe repositories and to manage risk through asset diversification. As SMEs grow, they require funds to finance growth in fixed asset and increase working capital. SMEs therefore require long-term credit in ever increasing amounts. SMEs need funds so that they can purchase raw materials supplies and carry out activities that they need to facilitate the production process (Dennis, Achesa, & Gedion, 2015).

The study also found that all SMEs borrow investment capital and they use it for the purpose in which they borrowed for, most of them do not have other source of financing other than from micro-finance institutions and they did not have other form of financing before they started receiving financing from microfinance institutions. The study finally concludes that ROA increased with each consecutive loan showing that microfinance services enhance performance of SMEs in Uasin Gishu County. The regression results imply that microfinance credit contribute more to the financial performance of SMEs and hence higher return on assets (Dennis, Achesa, & Gedion, 2015).

The gap determined was that the study was biased towards the performance of SMEs as a result of MFIs. This study addresses that gap, for the fact that it brings also another aspect of to add to the performance inclined findings by establishing the actual benefits SMEs draw from MFIs.

In addition, Gathogo, (2014) did a study to determine the effect of MFIs on the growth of SMEs in Kiambu County. The study was guided by the following research objectives: To determine the effect of MFIs on the growth of SMEs capital, to examine the effect of MFIs on the growth of SMEs human resource and to investigate ways of how MFIs can improve their financial assistance towards SMEs growth.

This research adopted a descriptive research design. A descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. The research population consisted of 25,000 registered Kiambu SMEs. In this study, the sampling frame constituted of SMES entrepreneurs and the information was obtained from the Kiambu County Authorities. The sampling techniques included the purposive

sampling method in the determination of SMEs to be included in the study. Using a confidence level of 95% and a total population of 25,000 SMEs the sample size was 393 (Gathogo, 2014).

The data collection techniques that were employed for the research included the use of structured questionnaires. The respondents were requested for their time prior to sending the actual questionnaire. A pilot test involving 5 respondents was carried out to evaluate the completeness, precision, accuracy and clarity of the questionnaires. In this study, the descriptive statistics such as percentages and frequency distribution were used to analyze the demographic profile of the participants. The demographic data will be tabulated using frequency and percentages. In order to describe the data, the study used means of each variable. The study established that savings remains the most important source of finance throughout the business cycle. The MFIs play a smaller role in economic empowerment of SMEs in Kiambu County, as most of the respondents, depended on village loans, self-help groups (SHG) and from family members in generating their business start-up capital. SHGs can also promote savings and yield moderate economic benefits that reduce the dependence on moneylenders. Access to finance has been identified as a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in the county. Without finance, small scale enterprises cannot grow or compete in the turbulent business environment. MFIs play a small role on the growth of human capital. From the findings, MFIs also play a small role in making the labor force to be more productive. A small proportion of the respondents agreed that there were a number of MFIs offering business training to small and medium scale entrepreneurs in Kiambu County. It was also found that MFIs do not play any significant role in offering training in business skills (Gathogo, 2014).

The study concludes that MFIs have a small impact on the growth of SMEs as savings remains the most important source of finance throughout the business cycle. MFI plays a small role on the growth of human capital. The Kenyan government has failed to safe guard the property of the SMEs. The study recommends that MFIs should come up with innovative ways to finance SMEs for successful growth. MFI should play a critical role on the growth of human capital. The government should be involved in business growth. MFIs should assist SMEs in marketing of the business products, making credit available to SMEs at an affordable rate (Gathogo, 2014).

The study by Gathogo had loopholes as it was more inclined to SMEs generating capital from MFIs, and the findings indicated that MFIs have a small impact on the growth of SMEs. Therefore, this study aimed at closing some of the gaps realized from this research by bringing in an aspect effects that MFIs have on SMEs.

Furthermore, Ngugi and Kerongo (2014) also did a similar study in Kenya on determining SMEs' preference for loans. The fundamental objective of this study was to assess the effects of Micro financing on growth of small and micro enterprises in Mombasa County. The findings give contradictory conclusions, small and micro enterprises in Kenya are mostly out of scope of formal banking services. And it was established that most SMEs depend on MFIs loans to finance their business operations. Despite access to credit SMEs growth remains a major problem. Access to credit should enable a business to achieve their growth objective. Despite this it is interesting to note that most of the SMEs could not survive third year of incubation period. Descriptive Survey method was employed in this study. The study adopted stratified and systematic random sampling method. The sample size was 157 SMEs. Semi-structured questionnaire was designed to facilitate the acquisition of data. Data was collected from 102 respondents, a response rate of sixty-five percent. Sales, income and competitiveness were used as the independent variable while growth of SMEs as dependent variable. Descriptive statistics was used to analyze data. Results indicated that microfinance has positive effects on growth of SMEs. Majority of the owners indicated that microfinance has enabled them to expand businesses, build their business assets, also ability of the business to complete was enhanced (Ngugi & Kerongo, 2014).

According to Ngugi and Kerongo (2014), a positive and significant relationship has been established between Microfinance loans and SMEs growth. County Government policies and programs designed to develop SMEs are ineffective and thereby need to be re-conceptualized. The county and central government should ease the process of accessing the women fund and youth enterprises funds. Apart from provision of tax incentives, and financial supports, the County Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions. In the midst of these, the researcher wishes to emphasize that the finding of this research clearly indicates that Microfinance has had a positive effect on the growth of SMEs (Ngugi & Kerongo, 2014).

The fundamental objective of this study was to assess the effects of Micro financing on growth of small and micro enterprises in Mombasa County, it realized a positive relationship between

MFI loans and SME growth but did not address any issues pertaining to what SMEs think on the terms and conditions of loans from MFIs and what they would like to see happening for the conditions to be more favorable to them and that is among the key issues the current is bringing across.

Another study by Rotich, et al., (2015) on the effects of microfinance services on the performance of MSMEs in Kenya. Micro, Small and Medium Scale Enterprises (MSMEs) sector in Kenya has grown tremendously over the last two decades prior to the study but its growth is characterized by low productivity and survivalist enterprises. The sector is however very strategic in providing future employment for the economy. This paper reviews the effects of microfinance services on the performance of MSMEs using an explanatory research design. The study targeted 429 MSMEs registered by the Kiambu Municipal Council and sampled 270 enterprises. The study utilized multiple regression analysis set draw inferences on the study using SPSS statistical package. The study found access to savings schemes, managerial training and loan grace period to be statistically significant in determining the performance of MSMEs. This study concludes that increasing provision levels of micro finance will result in increased performance of micro enterprise.

The findings further indicated that the access to credit, savings mobilization and training in micro enterprise investment was on average satisfactory to the micro entrepreneurs. The study concluded that there existed a relationship between extent of provision of microfinance and performance of microenterprises and that micro finance significantly affected performance of micro enterprises. It therefore implies that improvement in the provision levels of micro finance will result in increased effect on performance of micro enterprise. Training in micro enterprise investment as a component of micro finance help clients in business management and minimizing transaction related risks (Rotich, et al., 2015).

The gap noted in this study was that the study was biased towards how MFIs to change in the performance of MSMEs, it did not reflect on the concerns of MSMEs on the terms and conditions of the MFIs loans. This research brings in the component that elucidates on the concerns of MSMEs on the terms and conditions to appear flexible and appealing to them.

Lastly, another study was done by Ahiabor, (2013) to assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Ghana, using a case study of the Ledzorkuku-

Krowor Municipal Assembly. Simple random sampling technique was employed in selecting the 70 SMEs and 30 MFIs that constituted the sample size of the research. Structured questionnaire was designed to facilitate the acquisition of relevant data which was used for analysis. Descriptive statistics which involve simple percentage graphical charts and illustrations was tactically applied in data presentations and analysis. The findings of the study reveal that significant number of the SMEs had the knowledge of the existence of MFIs and some acknowledge positive contributions of MFIs loans towards promoting their growth. Other than financial support, it is recommended that microfinance institutions should at all-time give professional advices to SMEs since proper professional advice will inform the lending microfinance institutions whether the amount the SME requested for is too much for the project or less. Seminars and workshops should be organized by the microfinance institutions to educate SMEs on their policies and judicious use of funds for SMEs and what it takes to assess loans. Also, the microfinance institutions should initiate more developmental projects in order to win the confidence and trust of the SME's.

The main objective for embarking on this study was to assess the impact of microfinance on the development of small-scale enterprise in Ghana and the following findings were made: The microfinance institutions do not care about the finances of SME's but grants loans to them when they think the SME has enough collateral to secure the loan. For that matter they do not provide any financial advice and monitoring to their customers. Even when Small and Medium Enterprises are given credit, they are often granted short-term loans and therefore they have no option but to depend on short-term and informal credits in financing their long-term needs such as acquiring new equipment (Ahiabor, 2013).

The views of the SME's are not factored in the formulation of credit policies of the microfinance institutions hence the SME's do not feel part of it. Because of that it does not favor the SME's interest and this has been one of the greatest causes of failure of the credit management policies hence the default. High interest rates and the other fees are making it very difficult for the SMEs to make any meaningful profit so as to be able to repay their loans. The type of collateral security preferred by the microfinance institutions make it impossible for some SMEs to qualify for the loan. Also, most of the SMEs could not provide the required collateral security and hence cannot go for loan from the microfinance institutions (Rotich, Charles, & Kogei, 2015).

The gaps in the study by Charles and Kogei came in because it did not regard the warfare of SMEs, the primary concern was to just ensure loans are granted to SMEs and not the aftermath. This study done in Lusaka Zambia did give a concern on the warfare of SMEs by getting their views about the loans they get from MFIs, and how beneficial or nonbeneficial they are.

2.3 Conceptual Framework

Lack of access to finance has been identified to be one of the major constraints to small business growth (Babajide, 2012). Many small businesses want to grow, expand their businesses but the challenges of finances pull them back, they have insufficient capital. The conceptual framework below depicts that due to insufficient capital, SMEs resort to other means of financing their businesses and that is by accessing loans from Micro-financial institutions and that can affect SME growth.

2.3.1 Variable Identification

The independent variable (IV) is the cause. Its value is independent of other variables in your study (Libguide, 2010).

The dependent variable (DV) is the effect. Its value depends on changes in the independent variable (Libguide, 2010).

Moderating variables (MV) are hypothetical internal states that are used to explain relationships between observed variables, explains the process through which two variables are related (Navarick, 2023).

Independent variable (IV): Insufficient Capital

Dependent variable (DV): SME business growth

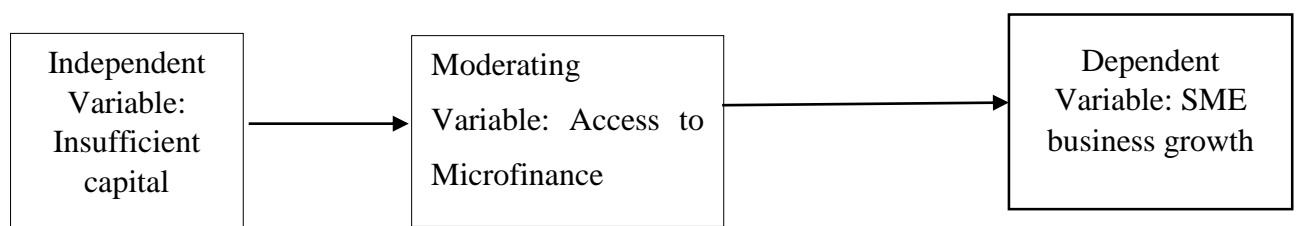


Figure 1.0 Conceptual Framework (Source: Researcher)

Chapter Three

Research Methodology

3.1 Overview

This chapter presents the methodological approach adopted to try and achieve the objectives that were set. It presents the sample which was selected and sets out the method that will be used for data collection along with the process of data analysis. The key issues discussed in this chapter include the research design, data required and sources, data collection tools, sampling procedures, key variables and the analysis of the data. In addition, there are issues on the physical characteristics, the economic and social characteristics as well as other relevant characteristics of the study region. This research will focus on the effects of microfinance institutions on the performance of small, medium enterprises (SMEs) in Kalingalinga, Mtendere, Chawama and Kanyama compounds. The research will seek to establish if SMEs do get any financial help and financial education from microfinance institutions.

3.2 Research Design

This research will adopt a descriptive research design. A descriptive research design as defined by Saunders and Thornhill, (2000) is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. In addition, a descriptive study attempts to describe a subject, often by creating a profile of a group of problems, people or events, through collections of data and the tabulation of frequencies on research variables and the research reveals who, what, when, where or how much. A survey in form of standardized questions in a questionnaire will be used to collect data. A survey is a method of collecting data from people about who they are, how they think (motivations and beliefs) and what they do (behavior) (Gathogo, 2014).

3.3 Population and Sampling Design

3.3.1 Study site

The research was conducted in Kalingalinga, Mtendere, Chawama and Kanyama Compounds, Lusaka district. This study area was chosen by the researcher because of the presence of a large number of small businesses and the class of residents in the area best suit the research. In addition, it proved to be convenient for the researcher as the participants are in close proximity.

3.3.2 Population

Frankel and Wallen, (2000) define a population as the group to which the results of the research are intended to apply. And that a population is usually the individuals who possess certain characteristics or a set of features a study seeks to examine and analyze.

3.3.3 Sampling Design and Sample Size

3.3.3.1 Sampling Frame

A research sampling design is that part of the research plan that indicates how cases are to be selected for observation. The design therefore maps out the procedure to be followed to draw the study's sample. A sampling frame is a list of elements from which the sample is actually drawn and is closely related to the population under study (Cooper & Schindler, 2003). In this study, the sampling frame constituted of SMES entrepreneurs and the information for Kalingalinga, Mtendere, Chawama and Kanyama markets and other household small business from which 80 participants were drawn.

3.3.3.2 Sampling Techniques

The sampling techniques included the simple random sampling method in the determination of SMEs to be included in the study. The simple random sampling was used to randomly select SMEs for the study from study site. Random sampling technique was employed to ensure fair representation of individual members (SMEs) from the entire study population. A random sample is a subset of individuals (a sample) chosen from a larger set (a population). This is good to minimize bias and simplified analysis of the results (Gathogo, 2014).

3.3.3.3 Sampling Size

The sampling frame for this study was 100 listed SMEs in Lusaka, and the sample size for this study was arrived at using the formula $n = N/1 + N(e)^2$ where n =study sample, N =study population and e = error at 5%, therefore, 80 participants were selected purposively to be study participants as shown below.

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

$$n = 100/1 + 100(0.05)^2$$

$$n = 100/1.25$$

$$n = 80.$$

Hence, the study sample for this study is **n =80**

The study made use of a sample size of eighty (80) research participants. These participants were randomly selected and interviewed through questionnaire interviews in order to capture inferable data. Only established SMEs were considered for this study.

3.4 Data Collection Method

The data collection techniques that were employed for the research includes the use of structured questionnaires. The questionnaires were used for the collection of data from the entrepreneurs from SMEs in Kalingalinga, Mtendere, Chawama and Kanyama compounds. The questionnaire embodied both open and closed-ended questions for randomly selected members. A combination of structured and semi-structured questions were used to collect information from the target population. In a structured interview the researcher asks predetermined set of questions, using the same wording and order of questions which were specified in the questionnaire. The kind of questions are open and closed ended, prepared for a person-to-person interaction, semi structured interviews are used to collect data from the target groups. A survey questionnaire will be designed to apply to a heterogeneous sample selected from the large population of SMEs (Gathogo, 2014). A questionnaire is defined as a formalized schedule or form which contains an assembly of carefully formulated questions for information gathering (Wong, 1999).

3.5 Research Procedures

The questionnaires were distributed to the respondents. Each completed questionnaire was treated as a unique case and a sequential number given to each. Filling the questionnaire took approximately 10 minutes. The collected data was edited and entered into the Statistical Package for the Social Sciences (SPSS) software to enable the carrying out of the analysis.

3.6 Data Analysis Methods

To ensure easy analysis, the questionnaires were coded according to each variable of the study. This study used descriptive and inferential statistics. McDanile and Gates, (2001) defines descriptive analysis as a process of transforming a mass of raw data into tables, charts, with frequency distribution and percentages, which are a vital part of making sense of the data.

In this study, the descriptive statistics (DS) such as percentages and frequency distribution were used to analyze the demographic profile of the participants. In order to describe the data, the study used means of each variable and correlation analysis between the independent and the dependent variable.

3.7 Ethical Considerations

Informed consent was obtained from all respondents by describing to them about the identity of the researcher, purpose of the study, necessity of their valuable response and moments. Their right to deny answering some of the questions will be respected throughout the data collection procedure. Sensitivity towards respondent is to be prioritized throughout the interview process as certain questions can cause discomfort. No persuasion will be applied to the respondents for withdrawing information necessary to the study. In order to maintain highest level of confidentiality, instead of names, only age and sex will be used. Finally, the collected data is only used to fulfil the research objectives, other than any other purpose.

3.8 Validity and Reliability

3.8.1 Validity

The extent to which a test or measuring instrument measures an intended content area is referred to as a research instrument's validity (Creswell, 2008). Internal validity refers to the questionnaires' ability to measure what is intended to be measured, whereas content validity refers to the extent to which the questions adequately cover the subject matter (Mugenda and Mugenda, 2021). The validity of the instruments for data collection in this study was done through expert review and pilot testing and the participants were purposively selected to ensure validity. Not every SME was eligible, the study was biased towards SMEs that have existed for more than 6 months and priority was given to the registered ones.

3.8.2 Reliability

Reliability required the administration of the same test to the same respondents twice with a short time interval after the first test. Kajila (2021) defined the degree to which a research instrument produces consistent and stable results or data after repeated trials is referred to as reliability. Although some degree of inaccuracy will always exist, the results of a quality instrument collected multiple times will often show a high degree of consistency. As a result, if a measuring instrument consistently produces consistent results, it is considered reliable (Best and Kahn, 2006). Tests for reliability and validity are critical in validating the linkages between connected items or variables. Furthermore, to ensure reliability, the research only interviewed SME owners and employees therein. T-test hypothesis testing was also conducted, the researcher found a significance level of 0.423 which is greater than the significance level of 0.05.

Chapter Four

Data Presentation, Interpretation and Analysis

4.1 Overview

This chapter analyzes the data received from the questionnaires distributed to the study's participants. The study's participants are individuals chosen from Lusaka District, specifically Kalingalinga, Mtendere, Chawama and Kanyama to take part in the study. The chapter starts with the demographic profile of the respondents, Social Status and then gets into the issues pertaining to study topic. To assist with data analysis, bar charts, tables, and graphs displaying trends and percentages were used.

Table 1.0 Demographic and Socio-economic characteristics of respondents

Gender	Frequency	Percentage
Male	43	54
Male	37	46
Total	80	100
Age		
20-30	44	55
31-40	33	41
41-50	3	4
Total	80	100
Occupation/Position		
Business	16	20
Marketeer	2	3
Non-Managerial	54	68
IT Assistant	1	1
Teacher	3	4
Carpenter	1	1
Managerial	4	5
Total	80	100
Highest Educational Qualification		
Bachelor's Degree	38	48
GCE	35	44
Diploma	5	6

Grade 7 Certificate	2	3
Total	80	100

Source: Researcher

Frequencies generated from Descriptive Statistics using SPSS to present the age distribution of participants.

Table 2.0 Descriptive Statistics - Frequencies

DESCRIPTIVE STATISTICS - FREQUENCIES					
	N	Minimum	Maximum	Mean	Std. Deviation
How have micro financial institutions assisted your business?	80	1.00	4.00	2.0625	1.03537
How often do you make use of micro financial institutions for financial assistance?	80	1.00	3.00	1.9875	.25126
What do you base your view on how impactful micro fins have been in the recent past on?	80	1.00	4.00	1.1375	.52153
How long have you been in business?	80	1.00	4.00	3.7250	.71112
Valid N (listwise)	80				

Source: Researcher

Frequencies generated from Descriptive Statistics using SPSS to present how have micro financial institutions assisted your business, how often do you make use of micro financial institutions for financial assistance, what do you base your view on how impactful micro fins have been in the recent past on, and how long have you been in business.

Table 2.0 shows that out of the 80 study participants, 54% were male while 46% were female. It was further seen that; the majority participants were aged between 20-30 while the lowest were aged between 41-50 with 55% and 4% respectively.

Table 2.0 also shows that in terms of occupation/position, most participants were on non-managerial positions while the lowest IT assistant and Carpenter with 68%, 1% and 1% respectively.

Furthermore, table 2.0 also shows that in terms of education attainment of the research respondents, the majority had Bachelor’s degrees while the lowest had Grade 7 certificates with 48% and 2% respectively.

Table 3.0 Descriptive Statistics Depicting Frequencies of How long business has existed?

HOW LONG HAVE YOU BEEN IN BUSINESS?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15 years and above	2	2.5	2.5	2.5
	6 – 10	6	7.5	7.5	10.0
	2 – 5	4	5.0	5.0	15.0
	1 year	68	85.0	85.0	100.0
	Total	80	100.0	100.0	

Source: Researcher

Frequencies generated from Descriptive Statistics using SPSS.

Table 3.0 indicates that respondents that had been in business for 1-2 years were the most while the lowest were those that had been in business for 15 years and above with 85% and 3% respectively.

Table 4.0 Kalingalinga, Mtendere, Kanyama and Chawama based SMEs’ response towards micro financial services.

Influence of Location on Micro financial services

Percentage distribution of respondents between location and micro financial services.

Micro Financial Services

Location	No MFS	MFS	Total	P value
big problem	44.0	56.0	100	
not a problem	44.0	56.0	100	0.9641
Total	44.0	56.0	100	
Number of respondents			100	

Source: Researcher

Frequencies generated from Descriptive Statistics using SPSS to present Kalingalinga, Mtendere, Kanyama and Chawama based SMEs' response towards micro financial services.

The table 4.0 above presents information on the Percentage distribution of respondents between location and micro financial services. The findings show that 56% of the respondents with exposure to micro financial services did not find location to be a problem. It additionally shows that there is no relationship between Location and Micro financial services with a p-value of 0.9641.

The relationship between insufficient Capital and SMEs Business Growth.

Hypothesis testing using T-Test

A T-test is a statistical test that is used to compare the means of two groups. It is often used in hypothesis testing to determine whether a process or treatment actually has an effect on the population of interest, or whether two groups are different from one another. Comparing the two means was done with two variables namely employee turnover and job satisfaction. Hypothesis testing used p value of 0.05 of which the null hypothesis was H₀: There is statistical relationship between insufficient Capital and SMEs Business Growth while the alternative hypothesis was: there is no statistical relationship between insufficient Capital and SMEs Business Growth. A value above 0.05 meant the relationship between these two variables was not due to chance while a lower value below 0.05 indicates that the relationship between the two variables is due to chance.

T-test hypothesis testing was also conducted, the researcher found a significance level of 0.423 which is greater than the significance level of 0.05. The researcher accepted the null hypothesis and rejected the alternative hypothesis that stated that there is no statistical relationship between there is no statistical relationship between insufficient Capital and SMEs Business Growth as demonstrated in the table below.

Table 5.0 Group Statistics, T-Test generated from Compare Means using SPSS, Cross tabulating Insufficient Capital and Business Growth.

Group Statistics					
	Business Growth	N	Mean	Std. Deviation	Std. Error Mean
Insufficient Capital	Yes	63	10	2.9352	0.4641
	No	37	11.125	2.17321	0.4436

Source: Researcher

Table 6.0 Independent Samples Test, T-Test generated from Compare Means using SPSS.

Independent Samples Test					
	Levene's Test for Equality of Variances	t-test for Equality of Means			
	F	Sig.	t	df	Sig. (2-tailed)
Insufficient Capital					
Equal variances assumed	0.651	0.423	-1.627	62	0.109
Equal variances not assumed	-1.752	59.128	0.085		

Source: Researcher

Percentage Distribution of Businesses

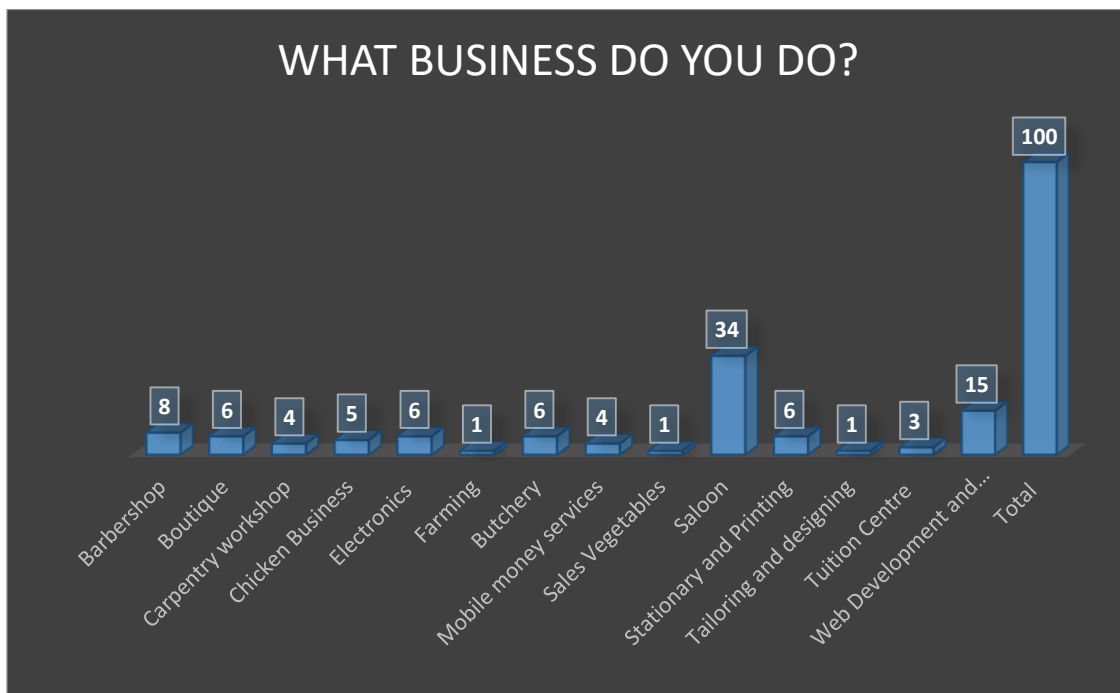


Figure 1.0 Response of Respondents on Businesses they do (Source: Researcher)

Figure 1.0 shows that the majority respondents own saloons while the lowest own tailoring and designing, vegetable business and farmer(s) with 34% and 1% respectively.

Table 7.0 Percentage Distribution of SME's Views on MFIs

What do you base your view on how impactful MFIs have been in the recent past on?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Flexibility of Loan terms and conditions	74	92.5	92.5	92.5
	Loan Accessibility	2	2.5	2.5	95.0
	Past Business Experience	3	3.8	3.8	98.8
	They are accessible and quick	1	1.3	1.3	100.0
	Total	80	100.0	100.0	

Source: Researcher

Table 7.0 shows that the majority of the respondents thought the MFIs have been impactful due to their flexibility of loan terms and conditions with a percentage of 93, while the lowest said MFIs are accessible and quick with 1%.

Percentage Distribution of SMEs’ view on how impactful MFIs have been

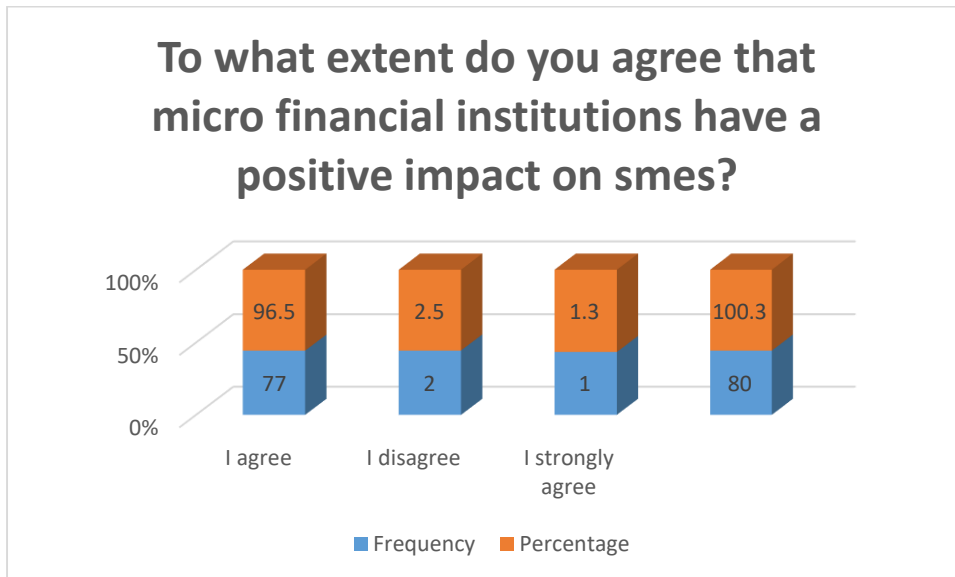


Figure 2.0: Percentage Distribution of SMEs’ view on how impactful MFIs have been

Source: Researcher

Figure 2.0 shows that 97% of the SMEs agreed that MFIs have been positively impactful on SMEs while 3% disagreed and 1% strongly disagreed.

Table 8.0 How have Micro Financial Institutions assisted your Business?

HOW HAVE MICRO FINANCIAL INSTITUTIONS ASSISTED YOUR BUSINESS?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	They are accessible and quick	38	47.5	47.5	47.5
	They have been Key to my business' Survival and growth	1	1.3	1.3	48.8
	they have flexible terms and conditions ideal for business owners	39	48.8	48.8	97.5
	They have not been helpful	2	2.5	2.5	100.0
	Total	80	100.0	100.0	

Source: Researcher

Table 8.0 shows that the majority of the respondents said that the MFIs have assisted them because they have flexible terms and conditions ideal for business owners with a percentage of 49%, while the lowest said MFIs have been key to their business' survival and growth with 1%.

Table 9.0 How often do you make use of Micro Financial Institutions for Financial Assistance?

HOW OFTEN DO YOU MAKE USE OF MICRO FINANCIAL INSTITUTIONS FOR FINANCIAL ASSISTANCE?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	I have never borrowed money from Micro financial Institutions	3	3.8	3.8	3.8
	On rare occasions	75	93.8	93.8	97.5
	quite often	2	2.5	2.5	100.0
	Total	80	100.0	100.0	

Source: Researcher

Table 9.0 shows that the majority SMEs that participated in the study stated that they use MFIs for financial assistance on rare occasions while the least have had only used MFIs for financial assistance quiet often with 94% and 3% respectively.

Table 10.0 How have Micro Financial Institutions assisted your business?

HOW HAVE MICRO FINANCIAL INSTITUTIONS ASSISTED YOUR BUSINESS?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	They are accessible and quick	38	47.5	47.5	47.5
	They have been key to my business' Survival and growth	1	1.3	1.3	48.8
	They have flexible terms and conditions ideal for business owners	39	48.8	48.8	97.5
	They have not been helpful	2	2.5	2.5	100.0
	Total	80	100.0	100.0	

Source: Researcher

Table 10.0 above indicates that the majority SMEs stated that MFIs have assisted their businesses in the sense that they are accessible and quick, followed by SMEs that said MFIs have assisted them due to their flexible terms and conditions that are ideal for business while the lowest were SMEs that responded saying MFIs have been key to business Survival with 49%, 48% and 1% respectively.

Table 11.0 SME growth as a result of Microfins

	SME growth	Access to Finance
SME growth Pearson Correlation Sig. (2-tailed)	1.000 .	.985** .002
N	5	5
Access to finance Pearson Correlation Sig. (2-tailed)	.985** .002	1.000 .
N	5	5

** Correlation is significant at 0.01 level

Source: Researcher Data Analysis

At a significance level of 0.01 in the correlation coefficient table, there appears to be a strong positive correlation between SME growth and access to finance, particularly through microfinance. The Pearson correlation coefficient of 0.985** indicates a strong positive relationship between SME growth and financial access.

According to the findings, there is a statistically significant and strong positive relationship between SME growth and access to finance. This implies that as access to finance, particularly through microfinance, increases, so will SME growth. The significance level of 0.01 indicates that the observed correlation is unlikely to have happened by chance, lending credence to the relationship between SME growth and access to finance. These findings emphasise the importance of financial access, particularly microfinance, in facilitating and promoting SME growth. Organisations and policymakers can boost the growth potential of small and medium-sized enterprises by providing them with the necessary financial resources and support. It represents the importance of putting in place measures and initiatives that improve SMEs' access to finance, ultimately contributing to their overall success and economic development.

4.2 The extent to which SMEs make use of Micro financial institutional services

The similar study in Assosa zone aimed to assess the role of financial institutions in the growth of Micro and Small enterprises in Assosa zone. The study carried through descriptive design

in which stratified random sampling method was used to collect data from the selected woredas from 140 populations and 57 respondents were selected from financial institutions and Micro and Small enterprises employees. Questionnaires and interview tools of data collection were used in the study. The data was analyzed using descriptive statistics and regression analysis. The empirical study elicited four major measuring scales which seem to assess the role of financial institutions in the growth of micro and small enterprises in Assosa zone and these are external financing, size of firms, firms age and current capital. The study result reviewed those financial institutions were contributing to Micro and Small enterprises growth. Consequently, the relationship between loans from financial institutions and Micro and Small enterprises growth are positive and statistically significant (Kijkasiwat, 2021).

However, results from literature reviewed that the extents of contribution were very low. Further, it identified ways of addressing the problems that Micro and Small enterprises face in accessing and settling loans include: flexing terms and conditions, using alternative collateral and credit facilities, refinancing, and postponing maturity period. Finally, the study recommended a series of measures which are to be performed by the government and by financial institutions. These include: creation of a level playing field, lowering transactional costs, and commercial banks should reappraise their role. The regression result shows that, the SMEs size (Beta Coefficient 0.228) significantly explain at 99% confidence level determines the sales growth of the SMEs; whereas loan form financial institutions indicated by (beta value of 0.162) and SMEs age (beta value of 0.101) are the least predictors of sales growth of SMEs (Kijkasiwat, 2021).

MFIs Introduction Micro and small enterprises (SMEs) and financial institutions are vital contributors to the overall performance of an economy. SMEs play a crucial role in developing the economy and in creating employment. They do not only provide employment and income opportunities to a large number of people, but also are at the forefront of technological innovations and export diversification. Similarly, financial institutions play an indispensable role in firm's growth and thus industry productivity and economic growth. They provide a sound medium of exchange and facilitate trading, encourage mobilization of resources through savings and allocate resources to activities with highest returns, monitor investments and exert corporate governance, and spreads risk by offering a diversity of financial instruments. Furthermore, they provide financial assistance to fulfill the varied needs of enterprises (Banti & Abara, 2017).

4.3 Response of SMEs towards micro financial services

This study in Assosa Zone examined how behavioral factors of business owners' impact on the intention to use private finance in small and medium enterprises (SMEs). The study adopted the theory of planned behavior to investigate the effect of attitudes, subjective norms and perceived behavioral control on the choice and use of retained earnings and private equity by SMEs. The research samples were firms across 29 countries from Eastern Europe and Central Asia. The study used partial least square structural equation modeling for the analysis. It was found that attitudes, subjective norms and perceived behavioral control of owners of SMEs' impact on their intention to use private finance at a statistically significant level of 1 percent. These findings were discussed and the implications and suggestions for future study were proposed (Kijkasiwat, 2021).

Accessing loans from banks is one of the main options for the operation of small and medium enterprises (SMEs). However, because of the limitations associated with firm size, banks may require collateral as a guarantee before providing finance. Further, the possible inability to meet interest payments can result in bankruptcy for small firms. It has been observed that difficulty in obtaining collateral is more prevalent for newer and smaller firms, thus most SMEs resort to MFIs for financial assistance (Bester, 1985). Additionally, small businesses seeking finance may be confronted with the problem of an equity gap (De Maeseneire and Claeys, 2012). SMEs who are not listed companies and those who do not publicly trade on the stock market may find it difficult to access equity finance, but stock market flotation (SMF) is more expensive for smaller companies, therefore, it was seen that most SMEs are biased towards MFIs (Lee et al., 1996). It was also seen that when small companies first go public, they are often severely underpriced, without financial support, many SMEs may not be able to make investments, continue their operations, or even set up a business, there are a lot of SMEs today getting assistance from MFIs for continuous operation (Buckland and Davis, 1990).

Due to the challenges that accrue lending and obtaining equity finance from investors and banks, SMEs' owners do try to finance themselves by using their own contributions and retained earnings. Personal savings and their disposable income are also among the available options, sourcing for finances can also be done in unpublished capital markets, where equity can be traded to private equity investors including venture capitalists, corporate ventures, and angle investors (Fenn et al., 1997, Prowse, 1998). Traditionally, many SMEs' owners access debt finance as this approach offers bank overdraft facilities for daily corporate activities and it enables SMEs to maintain credit trustworthiness with suppliers (Ta et al.,

2018). Moreover, in capital markets, accessing equity finance offers ownership and management control. The effects of adopting equity finance in family firms relate to financial decisions, conflict of interest, valuation problems and power struggles (Sacristán-Navarro and Cabeza-García, 2019).

From an entrepreneur's perspective, moving from a traditional approach to using private finance is associated with some behavioral dispositions of business owners. The research into how SMEs engage in the private equity sector is limited (Seet et al., 2010). It has been suggested that an empathy gap between SMEs' owners and private equity investors is the reason for SMEs' owners' reluctance to seek private equity investors. An empathy gap is an inability to recognize the difference in the cognitive frameworks that inform the ways in which others make decisions (Montinari and Rancan, 2018). A focus on dispositional elements is not generally used to examine how businesses seek finance, as many studies use financial theories, for instant pecking order theory, trade-off theory and agency cost theory to explain how businesses seek for finance (Serrasqueiro and Caetano, 2015, Zeidan et al., 2018).

The mixture between equity and debt for financing purposes is at the very heart of capital structure theory (Modigliani and Miller, 1963, Myers, 1977). By contrast, this study does not use finance theory, but adopts the Theory of Planned Behavior (TPB) to investigate how behavioral factors impact on the intention to use self-financing options, particularly in terms of private/personal money and retained earnings. While TPB is already adopted to explain behavioral factors affecting financial decision making in SMEs (Al Balushi et al., 2018, Koropp et al., 2014, Sudarsono, 2015), these studies focus on SMEs in a single country context, then leaving the gap for exploring the impact of behavioral factors on SMEs in multiple countries as a whole. This study breaks new ground by its focus on non-financial factors in SMEs across 29 countries in Eastern Europe and Central Asia to examine debt and equity and can therefore make a useful contribution to the literature. The study uses partial least square structure equation modeling (PLS-SEM) to analyze the micro-firm data collected from the Business Environment and Enterprise Performance Surveys (ibid).

The inability to access finance from Banks and capital markets confines many SMEs, particularly young firms, to obtaining financial support from family and friends (Ang, 1991), and motivates SMEs' owner to develop innovative projects for getting financial support from formal institutes (Wellalage and Fernandez, 2019). Equity financing of SMEs is relatively new for many unlisted SMEs, particularly those whose business models have less potential to attract public investors. (Schäfer et al., 2004) found that a young high-tech firm that receives equity

financing may face significant financial risks, and this reduces the possibility of obtaining private equity financing. However, selecting a source of finance is not only dependent on how the source is offered, but also relates to the attitude of SMEs' owners on capital structure decisions (Al Balushi et al., 2018, Matthews et al., 1994). Prior research mentions that trust in private equity investors could reduce the boundary between SMEs and the private equity sector (Howorth et al., 2004, Seet et al., 2010). Concerns about losing ownership could drive many SMEs owners to access debt finance from financial institutions (Abereijo and Fayomi, 2007, Fama and French, 2002, Holmes and Kent, 1991). These concerns include anxiety about losing clients, assuming a short-term perspective, SMEs' owners' lack of professionalism, unsatisfactory transparency and control issues (Seet et al., 2010). Financial decision-making also involves risk-taking propensity and a sense of responsibility about adding value for public investors as well as the dilution of ownership. From literature, the study hypothesizes that SMEs are demonstrating more favorable attitudes toward private finance (ibid).

The intention to select what to do or not do is driven by various factors. One significant influence on decision-making is the impact of social pressures on thinking and beliefs (Ajzen, 1991). In this respect, many SMEs' owners follow the approaches used by their parents and family members in business-related activities (Chang et al., 2009). Intentions and behavioral responses are also governed by community norms (Cialdini et al., 1990). Previous studies have discussed how subjective norms influence SMEs' choices about accessing finance (Al Balushi et al., 2018). The relationship between subjective norms and entrepreneurial intention to seek finance has been examined by Cholil (2015); Yanto et al. (2016); Din and Nuh (2019) and Turyahikayo (2015). These authors mention that financial decision-making is driven by SMEs' owners' beliefs about the use of private equity and internal funds. One such view is that the use of external consultants, auditors and bank contacts will be an advantage when using private equity funds (Pennings et al., 2003). Social influences also impact on the intention to choose self-funding. SMEs' owners will be positive toward private financing activities if they feel their family, friends and other important entities agree and support the use of private equity (Brettel et al., 2009, Dreux I.V., 1990).

Another influence on the investment behavior of SMEs' owners is perceived behavioral control. Perceived behavioral control explains the behavior of individuals in terms of performing or not performing according to their beliefs. Perceptions about one's ability to control an action may enhance self-confidence about performing such an action. By contrast, if individuals believe that an action will be difficult to control, they will be more likely to desist from such behavior (Ajzen, 1991). This concept is relevant for understanding the intention of

SMEs' owners to seek other financing options by issuing private equity as their main funding source. Commonly, equity finance could be limited to listed companies which are relatively large and controlled by various type of stakeholders while accessing bank loan may be not easy for many SMEs, especially, those who have low credit trustworthy. When funding is not available from more traditional sources like public companies or bank loans, if SMEs' owners believe that funding from other sources could be beneficial to their business, they may be willing to seek private equity funding. In this regard, research suggests that startup firms' founders realize that there are additional advantages, for instance, mentor support, knowledge and resource-sharing from venture capitalist and angle investors. SMEs' owners could be more inclined to use private equity if they can eliminate the problems occurring between SMEs' owners/ founders and private investors. Particularly, the issues regarding misunderstandings in contracts and due diligence need to be resolved (Seet et al., 2010), so they can have more control of private equity investors.

This study also presented results that indicated that indeed SMEs have a positive attitude towards MFIs due to the fact that when SMEs that participated in the study were asked as to whether MFIs have had a positive impact on their businesses and 97% of the SMEs agreed that MFIs have been positively impactful on SMEs while only 3% disagreed and 1% strongly disagreed.

4.4 How Micro financial institutions benefit SMEs

Other studies have shown that most 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 security. In most cases, banks do not understand that SME business owners are more risk averse than the banks themselves. In view of this SMEs tend to benefit more from Micro-financial Institutions (Liyanda, 2017).

Business owners require a much faster response for loans or other financial instruments than banks are generally able to achieve and Micro Financial Institutions have been able to come in to provide that timely assistance. 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, in most cases. However, SMEs tend to be in need of the funds as and whenever they formally apply because their needs are usually urgent. The bureaucratic processes in loan appraisal and approval usually attributes to the delay and by the time facilities

are approved, the need for the facility would have already been fulfilled by competitors (Liyanda, 2017).

This study also indicates that the majority SMEs stated that MFIs have assisted their businesses in the sense that they are accessible and quick, followed by SMEs that said MFIs have assisted them due to their flexible terms and conditions that are ideal for business while the lowest were SMEs that responded saying MFIs have been key to business Survival with 49%, 48% and 1% respectively.

Table 12.0 Influence of Location on SMEs’ access to Micro financial services

Influence of Location on SMEs’ access to Micro financial services				
Percentage distribution of respondents between location and micro financial services.				
Micro Financial Services				
Location	No MFS	MFS	Total	P value
big problem	44.0	56.0	100	
not a problem	44.0	56.0	100	0.9641
Total	44.0	56.0	100	
Number of respondents			100	

Source: Researcher

Study shows that 56% of the respondents with exposure to micro financial services did not find location to be a problem. It additionally shows that there is no relationship between Location and Micro financial services with a p-value of 0.9641.

The relationship between insufficient Capital and SMEs Business Growth.

Study realized that Hypothesis testing used p value of 0.05 of which the null hypothesis was H0: There is statistical relationship between insufficient Capital and SMEs Business Growth while the alternative hypothesis was: there is no statistical relationship between insufficient Capital and SMEs Business Growth. A value above 0.05 meant the relationship between these two variables was not due to chance while a lower value below 0.05 indicates that the relationship between the two variables is due to chance.

T-test hypothesis testing was also conducted, the researcher found a significance level of 0.423 which is greater than the significance level of 0.05. The researcher accepted the null hypothesis

and rejected the alternative hypothesis that stated that there is no statistical relationship between insufficient Capital and SMEs Business Growth.

Other studies have shown that the relationship between capital and SME's growth shows hypotheses on the results of correlation values but it just initially supports the findings. It illustrates that adequate capital and SME growth are significantly positively related to efficiency ($r = 0.175$, $r = 0.187$ and $r = 0.175$) respectively. However, the association between structural capital and efficiency is not significant ($r = 0.091$). The correlation results confirm that the sample has no problem with multicollinearity because all the values are below 0.80 (Li, et al., 2020)

Chapter Five

Conclusions and Recommendations

6.1 Conclusion

Micro financial institutions play a significant role in countries' economies, and in businesses therein. The Business Sector represents a notable ratio in the total economic activity of most Countries thus it is very important that SMEs are able adequately access financial assistance conveniently and timely.

This study opted to establish an understanding on the extent to which SMEs make use of MFIs and it revealed that SMEs prefer MFI services as opposed to banks because MFIs act quicker and are a bit flexible too.

Furthermore, SMEs in response to how they benefit from MFIs revealed that they draw Capital assistance from MFIs and lastly they gave their position on how they would benefit even further from accessing MFIs loans and that is to lower interest rates and introduce much longer repayment periods and also new means of collateral to allow even start-up firms to be eligible for borrowing.

6.2 Recommendations

1. Ministry of SMEs to conduct a study on feedback from people/organizations towards Micro-financial Institutional loans. Its aim would be to establish if clients are having bad experiences and/or finding that the benefits of loans do not compensate for the (often high) interest rates.
2. Ministry of SMEs to conduct a study on the Perception of SMEs towards MFIs' Interest rates. Borrowers at MFIs pay interest rates that most of would consider unthinkably high or low. Thus, this research recommendations would bring to light the SMEs' perspective.
3. Ministry of Finance (MoF) to conduct a study aiming at determining when and why institutions should resort to borrowing money. As it is with most organizations, borrowing money to finance projects or just other businesses is a norm but this research would unveil the main factors that lead to institutions to borrow money for business. The risks involved and the ability to pay back in case of unexpected turns.
4. Central Statistical Office (CSO) to conduct a survey on Income and Living Conditions with the title effect of Loans on borrower's standards of living in the informal sector.

This study would focus on knowing whether having access to loans better or worsens the clients' livelihoods.

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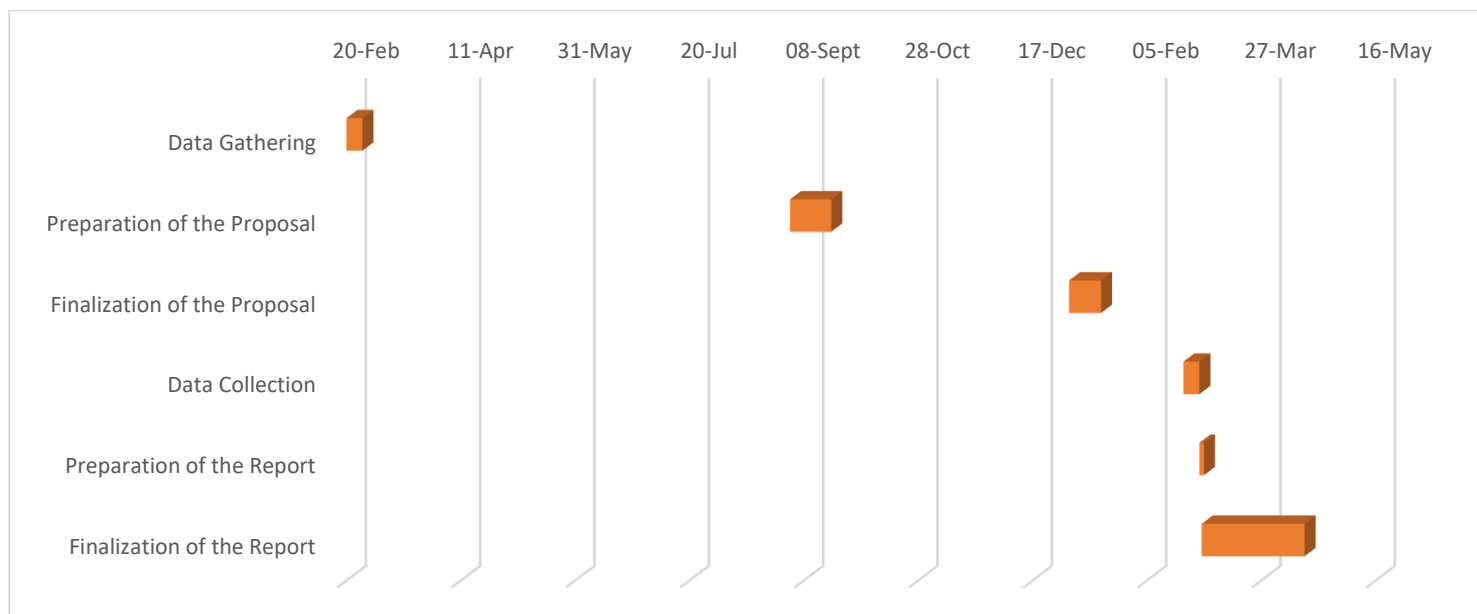
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APPENDICES

Appendix-I: Research Time Scale

Grant Chart



Appendix-II : Budget

Budget

Services	Cost (ZMW)
Logistics during data collection	K500
Printing and binding of final report	K620
Data analysis	K600
Miscellaneous	K300
Meal logistics	K600
Data entry books and other related materials	K89
Typing and printing of questionnaires	K195
Total cost	K2,904

Appendix-III : Ethical Approval

Ethical Approval



HSSREC FORM 1A

THE UNIVERSITY OF ZAMBIA

DIRECTORATE OF RESEARCH AND GRADUATE STUDIES

HUMANITIES AND SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE

Telephone: +260-211-290258/353080

P O Box 32379

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Zambia

Lusaka,

E-mail director.drgs@unza.zm

**APPLICATION FOR ETHICAL APPROVAL FOR PROPOSED RESEARCH
INVOLVING HUMAN PARTICIPANTS**

1. **TITLE OF STUDY:** THE EFFECTS OF MICRO FINANCIAL INSTITUTIONS ON SMALL AND MEDIUM ENTREPRISES (SME's)

2. **Principal Investigator:**

Name: BIIGGIE N. MPOPWE
BBA

Qualifications:

Present Appointment/Affiliations: MBA STUDENT

3a. **OTHER INVESTIGATORS:**

Name: Qualifications:

Present Appointment/Affiliations:

Name: Qualifications

Present Appointment/Affiliations:

(Other names to be included on a separate page)

3b. **SUPERVISORS: FOR STUDENTS ONLY**

Name: Qualifications:

Present Appointment/Affiliations:

Name:

Present Appointment/Affiliations:

Signature:

3c. **Co-Supervisor/Mentor in Zambia (This section is for all researchers outside Zambia)**

Name: Dr. M Saili

Qualifications:

Present Appointments/Affiliations:

Name:

Qualifications:

Present Appointments/Affiliations:

4. SUMMARY OF PROPOSED RESEARCH

A summary of the project proposal should include background to the study, aims and objectives, participants to be studied and research methods to be used. Technical terminology should be avoided as much as possible.

(Use not more than one additional A4 sheet if necessary)

5. ARE THE PARTICIPANTS DEPENDENT ON ANY OF THE INVESTIGATORS

As students: Yes No

As employees: Yes No

As patients: Yes No

In other ways: Yes No

If 'Yes' to any of the above, give details

6. **POSSIBLE BENEFITS TO PARTICIPANTS:** These are extracted from the information sheet and presented as a summary

7. **POSSIBLE RISKS TO PARTICIPANTS:** These are extracted from the information sheet and presented as a summary and the investigator specifies steps to minimize them

8. **POSSIBLE BENEFITS TO THE COMMUNITY:** These are extracted from the information sheet and presented as a summary

9. **BUDGET**

(a) Financial support (requested or granted): Yes No

SPONSOR

(b) Are there costs which will be carried by other institutions Yes No

(c) Are there costs which will be carried by the participants involved (e.g. travel, accommodation, meals, treatment)? Yes No

If 'Yes' to any of the above, give details:

10. SUBMISSION (Please take note of UNZAREC Forms 1a and 1b)

A. For Normal Review at regular monthly meetings, attachments should include (**Tick to show that you have provided these**):

- | | | | | | |
|--------|---|-----|--------------------------|----|--------------------------|
| (i) | 4 copies of Full Protocol | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| (ii) | 9 copies of Summary of Protocol. | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| (iii) | 4 copies of Questionnaire and/or interview schedules | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| (iv) | 4 copies of Information Sheet | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| (v) | 4 copies of Consent Form | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| (vi) | 4 copies of letter approving of or giving ethical clearance to the project proposal if it is a sponsored research related to another University | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| (vii) | 4 copies of Budget | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| (viii) | 4 copies of Time Line | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |

B. For Expedited Review, attachments should include (**Tick to show that you have provided these**):

<input checked="" type="checkbox"/>	<input type="checkbox"/>
-------------------------------------	--------------------------

- | | | | | | |
|--------|---|-----|-------------------------------------|----|-------------------------------------|
| (i) | 4 copies of Full Protocol (to include the following): | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| (ii) | 9 Summary of Protocol | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| (ii) | 4 Questionnaire and/or interview schedules | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| (iii) | 4 Information Sheet | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| (iv) | 4 Consent Form | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| (v) | 4 Letter approving the project proposal if
it is a sponsored research related to another
University | Yes | <input type="checkbox"/> | No | <input checked="" type="checkbox"/> |
| (vi) | 4 Budget | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| (viii) | 4 Time Line | Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
-

11. DECLARATION

I **BIGGIE NAMVWWABA MPOPWE** Apply to the Humanities and Social Sciences Research Ethics Committee of the University of Zambia apply for ethical approval of the above research proposal involving human participants, as conforming with recognized ethical standards and as not impinging on the rights of the individuals.

Signed: BN MPOPWE Date: 5th February 2022

PRINCIPAL INVESTIGATOR

Contact Address: P.O BOX 35710 LUSAKA

Local Contact Address:

Telephone No:

Fax No:

Cell phone No: +260977194561

E-mail address: bmpopwe@gmail.com

Full name and address of Local Co-Supervisor/Member (if applicable):

Signed:

Date:

Full name and address of Head of Department or Head of relevant Organization:

Signed:

Date:

Full name of Assistant Dean Postgraduate¹

Signed:

Date:

¹ The Assistant dean should provide a confirmatory letter that the candidate made a proposal presentation to the school/department.

Appendix-iv

Questionnaire

Questionnaire on determining the impact micro financial institutions, have on SMEs in Lusaka District.

Dear Participant,

This questionnaire is designed to study on **determining the impact micro financial institutions, have on SMEs in Lusaka Peri-urban Area**. The information I have provided will help me better understand the impact micro financial institutions, have on SMEs. Because the respondent will be the one who can give me a correct picture of the impact of Micro Financial Institutions on SMEs, I request you to respond to the questions frankly and honestly.

Note: This questionnaire will be treated confidential and no information will be divulged to any third party.

Section (A)

Demographic Background

1. Gender: () Male () Female
2. Age: () 20-30 Years () 31-40 Years () 41-50 Years () 50 + Years
3. Current position: () Managerial () Non-managerial () Job title _____
4. Educational Background (tick only the highest level you have): Please specify _____
() Masters () Bachelors () Diploma () Other, Please specify _____
5. Years of Service: () less than 1 year () 2 to 5 years 6 to 10 years
() 10 to 15 years and above ()

Section (B)

To determine Kalingalinga, Mtendere, Kanyama and Chawama based SMEs' response towards micro financial services.

6. What type of business do you run?.....
7. What do you base your view on how impactful Micro Fins have been in the recent past on?
(a) past business experience (b) Loan accessibility (c) Flexibility of loan terms and conditions
(d) Other specify.....
8. To what extent do you agree that Micro Financial Institutions have a positive impact on SMEs?
(a) I strongly agree (b) I agree (c) I strongly disagree (d) I disagree
9. How have micro financial institutions assisted your business?
(a) They have been available to provide my business with financial support when urgently needed (b) They have flexible terms and conditions ideal for business owners (c) They are accessible and quick (d) They have been key to my business' to survival and growth
10. How often is do you make use of Micro financial Institutions for financial assistance?
(a) Quiet often (b) On Rare occasions (c) I don't use any Micro financial institutions
11. What ways can you advise would help enhance accessibility of finances through Micro financial institutions?
.....
.....
.....
.....
.....
.....
.....

Thank you for your cooperation!

