

Analysing Effectiveness of Micro- Financial Institutions on SMEs Growth and Limitations: A Case Study of IZWE Loans in Lusaka

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ARTICLE INFORMATION	ABSTRACT
<p>Article history: Published on 2nd Jan 2026</p> <hr/> <p>Keywords: Micro-Financial Institutions SMEs Growth IZWE</p>	<p>This study analyses effectiveness of micro-finance Institutions (MFIs) on small and medium enterprises (SMEs) Growth) in Lusaka, using IZWE as a case study. The research specifically aimed to assess the impact of microfinance on SME growth, and analyses the challenges SMEs encounter when seeking financial support. The findings reveal a notable gender disparity among SME owners, with males constituting 90% of respondents and females only 10%, reflecting persistent cultural and structural barriers to women's entrepreneurship. Most respondents were aged 30 to 45 years, representing the economically active group, and held at least secondary or tertiary education, indicating sufficient knowledge for effective utilization of microfinance services.</p> <p>It was reviewed that most of the SMEs are traders as represented by 43% of the sampled population and the rest are in retail and agriculture as represented by 29% and 26 % respectively. business include trading, manufacturing, agriculture, and services, with a dominance of trading-related businesses. This indicates that most SMEs in the study are involved in trading business following how the Zambian economy is structured, it is an economy heavily dependent on imports as there are few manufacturing industries.</p> <p>Accessibility to loans remain a challenge due to high interest rates, small loan sizes, and stringent collateral requirements were found to hinder many SMEs. Regarding the impact of microfinance, results indicate that SMEs experienced marginal revenue growth and hire of workers after accessing financial support. Many enterprises reported increased monthly revenues, improved liquidity, and expanded market reach. However, some SMEs continued to operate at low revenue levels, highlighting differences in how financial support translates into business performance. SMEs also face persistent barriers in accessing financial support, including frequent loan rejections and limited financial literacy. Many businesses had to submit loan applications, while others resorted to informal lending sources. Respondents emphasized the need for reduced interest rates, relaxed collateral requirements, and enhanced financial training to improve access to finance. Overall, the study concludes that microfinance institutions such as IZWE play a vital role in fostering SME growth and entrepreneurship in Zambia.</p>

1. Introduction

1.1 Background

Small and medium-sized enterprises (SMEs) are considered the backbone of most economies, particularly in Zambia, where they contribute significantly to employment, income generation, and economic development (Bank of Zambia, 2021). However, access to adequate finance remains one of the most significant barriers to the growth and sustainability of SMEs in Zambia. Traditional banking institutions often view SMEs as high-risk borrowers, leading to a credit gap. Bank of Zambia (2021) Micro-financial institutions, such as IZWE Financial Services, have stepped in to address this gap by offering small-scale loans, financial advice, and other services to underserved businesses. These institutions are often more flexible than traditional banks, enabling SMEs to access much-needed capital for growth and development. Access to finance remains a critical challenge for small and medium enterprises (SMEs) globally. According to the World Bank (2023), approximately 65 million firms, or 40% of formal micro, small, and medium enterprises (MSMEs) in developing countries, have an unmet financing need of \$5.2 trillion every year. This financing gap is particularly pronounced in emerging markets, where traditional banking systems often fail to accommodate the specific needs of SMEs due to perceived high risks, lack of collateral, and high transaction costs (IFC, 2022). Consequently,

micro-financial institutions (MFIs) have emerged as pivotal actors in bridging the financing gap by offering tailored financial products to underserved segments.

In Sub-Saharan Africa, SMEs contribute significantly to employment and economic growth but face notable barriers in accessing credit. According to the African Development Bank (2022), only about 20% of SMEs in the region have access to a credit line, with the majority relying on informal funding sources. Micro-financial institutions have gained importance in this context by serving as a bridge between informal financial systems and the formal banking sector. MFIs in the region play a critical role not only in offering financial services but also in improving financial literacy, reducing poverty, and fostering entrepreneurship (IMF, 2021).

In Zambia, SMEs represent over 70% of the country’s employment and contribute significantly to GDP (Zambia Development Agency, 2023). Despite their economic importance, SMEs continue to face substantial challenges in accessing finance, mainly due to collateral requirements, high interest rates, and limited financial infrastructure. In response to these challenges, micro-financial institutions such as IZWE Financial Services have become instrumental in facilitating financial inclusion. IZWE offers a variety of financial products, including personal loans and SME finance, targeting underserved populations with simplified credit processes (IZWE Zambia, 2024). By providing accessible and flexible financing solutions, IZWE has played a notable role in supporting the growth and sustainability of SMEs in Zambia, thereby contributing to broader socio-economic development.

1.2 Problem Description

Access to finance remains a major 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 (Bank of Zambia, 2021). This is on the ground that applicants from the informal sector tend 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. Bank of Zambia (2021) 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. Bank of Zambia (2021) 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 (Bank of Zambia, 2021). 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 (Zambia Financial Sector Deepening, 2022). 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 (Zambia Financial Sector Deepening, 2022).

1.3 Research Objectives

The general and specific objectives of this study are as presented in the sections below.

1.3.1 General Objective

The main objective of the study is to analysing effectiveness of Micro- Financial Institutions on SMEs Growth: A Case Study of IZWE Loans in Lusaka

Specific Objectives:

- i. To ascertain the impact of loans to the business growth
- ii. To identify limitations of these loans on SMEs growth

1.3.2 Research Questions

- i. What is the impact of loans on business growth among SMEs?
- ii. What limitations do SMEs face when accessing and utilizing loans for business growth?

1.4 Conceptual Framework

The conceptual framework illustrates relationship between the loan facilities accessed by the micro financial institutions and their impact of loans on business and limitation of loans the SMEs growth. The summary of this is as shown in the figure below.

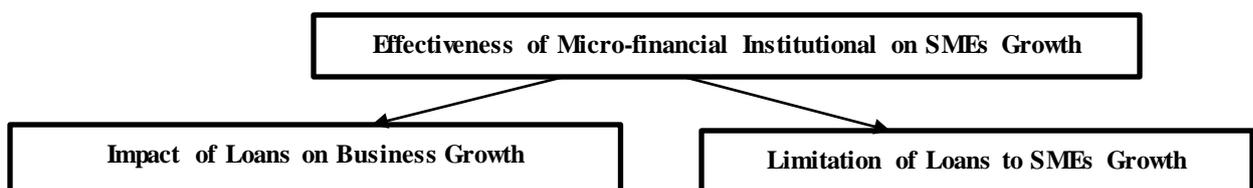


Figure 1. Conceptual Framework

1.5 Significance of the Study

This study is significant to analyse the impact of these loans on SMEs growth and challenges faced by them when accessing their businesses financial needs. This study will contribute to the existing literature on micro-financing and SME development in Zambia. The findings of this study will provide valuable insights for policymakers, financial institutions, and SMEs themselves in understanding the contribution of micro-financial institutions to the growth of SMEs. Further, the study may assist in identifying the challenges in the current micro-financing system, which could lead to recommendations for change in policy and enhance financial inclusion for SMEs.

2. Literature Review

This chapter presents a review of existing literature relevant to the study on the effectiveness of micro-financial institutions (MFIs) on the growth of Small and Medium Enterprises (SMEs), with a focus on IZWE Loans in Lusaka. It synthesizes scholarly work on two major thematic areas aligned with the study's specific objectives: (i) to ascertain the impact of loans to the business growth and (ii) to identify limitations of these loans on SMEs growth

The literature review focuses on global, regional and Zambian literature to position the study within existing knowledge and identify gaps that justify the research.

2.1 The impact of loans to the business growth

Microfinance loans have a measurable impact on business growth, influencing profitability, employment creation, productivity and market expansion. A classic study by Armendáriz & Morduch (2010) notes that access to credit enhances the ability of SMEs to exploit economic opportunities, invest in business assets and scale production. In Lusaka, where most SMEs are involved in trading and service provision, loan capital helps businesses maintain adequate stock levels and offer competitive services. Increased liquidity enables entrepreneurs to respond to market fluctuations more effectively, thus improving sales and revenue. This aligns with findings by Ayyagari, Demirgüç-Kunt & Maksimovic (2014), who conclude that external financing is positively correlated with enterprise growth in emerging markets.

Loans also contribute to job creation and social-economic development. Empirical studies in East and Southern Africa show that SMEs that receive microfinance support tend to hire additional employees as their operations expand (Honohan & Beck, 2007). With Lusaka being the commercial hub of Zambia, microfinance-driven SME growth contributes significantly to reducing urban unemployment and boosting household incomes. Furthermore, access to timely financing helps SMEs mitigate risks that may otherwise lead to business failure. For instance, loans used for asset acquisition such as motor vehicles, machinery or point-of-sale equipment can increase operational efficiency and enhance competitiveness, ultimately strengthening the business's long-term sustainability.

Despite these benefits, the actual impact varies considerably among borrowers. A study conducted by the International Finance Corporation (IFC, 2018) found that while microfinance improves business survival rates, the magnitude of growth differs depending on business size, sector and managerial capacity. SMEs that invest loan funds productively experience substantial growth, while others may see negligible or short-term improvements. Additionally, high levels of indebtedness can undermine growth if SMEs allocate a significant portion of revenue to debt servicing. This underscores the importance of tailored loan products, flexible repayment options, and financial advisory services factors that determine whether institutions like IZWE Loans generate meaningful long-term impact on SME growth in Lusaka.

Across the globe, microfinance institutions (MFIs) have progressively emerged as a key mechanism in promoting financial accessibility for small and medium-enterprises (SMEs), and thereby contributing to enterprise growth, employment creation, innovation and income generation, although the magnitude and consistency of impact vary significantly by context. At the international level, the recognition that SMEs account for the bulk of firms worldwide over 90 % of enterprises and around 50 % of GDP and yet face an estimated global SME financing gap of approximately US \$5.7 trillion, rising to about US \$8 trillion when informal firms are included, highlights the enormous potential role of accessible finance including microfinance in bridging this gap. Empirical studies in diverse settings show that access to micro-loans, savings, and non-financial services via MFIs can lead to increased working-capital, investment in fixed assets, product or service diversification, and employment growth among SMEs: for example, in India, Bangladesh and other emerging economies, microcredit enabled more than 65 % of micro-entrepreneurs to expand operations, purchase inventory, upgrade equipment and hire additional staff.

Moreover, a bibliometric review of frontline research finds that the growth of MFI-SME interfaces is accelerating, confirming that MFIs are increasingly viewed as more than poverty-alleviation tools but as catalysts for SME growth and business expansion. Regionally across Africa the evidence, though more heterogenous, also supports the proposition that microfinance enhances financial accessibility and thereby SME growth, albeit with significant caveats. Studies in countries such as Tanzania reveal that microfinance services to SMEs (via MFIs) were positively correlated with business expansion and increased sales volumes, although constraints like insufficient collateral, high interest rates, and inadequate government support moderated outcomes. In South Africa's Eastern Cape, for example, analysis showed that lending technologies deployed by micro and medium enterprise financing schemes (including MFIs) contributed to improved access and reduced borrowing costs, thereby enabling growth, particularly when digital or alternative-lending platforms were used. In Nigeria, evidence suggests MFIs' contributions to SMME growth are detectable though insufficient, reflecting both enabling and constraining factors such as institutional capacity and regulatory frameworks. Turning to the Zambian context, the local empirical literature indicates that MFIs have begun to play a meaningful role in enhancing financial accessibility for SMEs and thereby supporting growth, with important implications for the case of institutions such as the one under study (Izwe). In Zambia's Solwezi District, research found that digital financial services (DFS) provided by microfinance or inclusive-finance institutions enabled 41.7 % of SMEs surveyed to report large improvements

in access to finance, which in turn correlated with improved business operations and expansion. Similarly, in Chama District a study of MFIs and SME growth found statistically significant relationships between microfinance access and SME growth outcomes such as increased turnover and business size though the study flagged the need for tailored support mechanisms, technology adoption and overcoming regulatory constraints. Further, in Zambia's construction sector, SMEs that had accessed external finance including microfinance-type loans reported better capacity to invest in equipment and to expand operations, though key determinants remained stringent collateral requirements and credit-history constraints.

These findings indicate that MFIs in Zambia contribute to reducing the financial accessibility gap for SMEs: by offering smaller loans, alternative credit-assessment methods, digital channels, and orientation toward underserved clients, MFIs help SMEs access working capital, make investments, and initiate growth strategies that would otherwise be inhibited by traditional bank constraints. The literature thus identifies several mechanisms through which microfinance contributes to SME growth: first, by providing access to timely, affordable smaller-scale finance for investment in assets or working capital; second, by enabling usage of finance via complementary services such as business training, digital finance platforms or grouping/peer lending models, which enhance entrepreneurial capacity and repayment behavior; third, by reducing barriers (such as collateral, distance, formal-history requirements) that traditionally exclude many SMEs from formal bank financing; and fourth, by fostering growth outcomes higher turnover, employment creation, diversification, market expansion and productivity increases.

At the same time, the literature emphasizes that the positive impact of microfinance on SME growth is conditional rather than automatic: factors such as loan size matching investment needs, reasonable cost and repayment terms, institutional strength of the MFI, digital and physical infrastructure, regulatory environment, financial literacy of SMEs, and the specific sector and growth stage of the enterprise all moderate the growth effect. For instance, a global review noted that MFIs often focus on micro-enterprises rather than true SMEs, limiting the growth potential, and that the effectiveness of microfinance declines when loans are too small or used for consumption rather than investment. In the Zambian case, even where improved access is documented, scholars caution that SMEs still face high borrowing costs, limited product tailoring, technological constraints, and underdeveloped business-support services which reduce the translation of access into sustainable growth. In sum, the literature underscores that microfinance institutions play an important and growing role in enhancing financial accessibility for SMEs and fostering growth, but that realising the full potential of that role demands aligning product designs with SME growth needs, strengthening institutional and digital capacities, improving financial literacy and business support, and embedding MFIs in enabling ecosystems of policy, infrastructure and regulatory frameworks. In the Zambian context and specifically in relation to the case study institution these findings suggest that for micro-financial institutions to optimally contribute to SME growth, they must go beyond merely providing loans and focus on tailored investment-oriented lending, digital delivery, capacity building, and long-term growth linkages for SMEs.

The contribution of microfinance institutions (MFIs) in promoting financial accessibility and stimulating small and medium enterprise (SME) growth has been widely recognized as pivotal to inclusive economic development, particularly in emerging economies such as Zambia. Microfinance plays a crucial role in bridging the financing gap by extending credit and other financial services savings, insurance, and payments to small enterprises that are traditionally excluded from formal banking systems due to collateral constraints, limited credit history, or informality. The literature establishes that improved access to finance enables SMEs to invest in productive assets, enhance working capital, innovate, and expand market operations, which in turn contributes to employment creation and economic growth (Nyirenda et al., 2024; Paliwal, 2024).

In Zambia, SMEs are an essential driver of the economy, contributing about 30 percent to GDP and employing over 70 percent of the private sector workforce, yet access to finance remains one of their greatest obstacles, with an estimated 60 percent still lacking formal credit due to high collateral requirements, elevated interest rates averaging 25–30 percent, and the absence of robust guarantee schemes (Mwanaumo et al., 2025; Diggers News, 2025). Microfinance institutions have emerged as an alternative, offering relatively flexible loan products with lower collateral demands and shorter processing times, thus expanding financial accessibility to previously underserved business segments. However, while microfinance has improved credit access, its actual impact on SME growth is moderated by several institutional, structural, and behavioral factors. For instance, many microfinance borrowers, particularly micro-traders, use loans for consumption rather than investment, reducing the contribution of microfinance to long-term enterprise growth and macroeconomic development (Inclusive Business Network, n.d.).

Empirical studies in Zambia confirm that MFIs enhance SMEs' financial access and operational capacity but highlight limitations related to small loan sizes, high interest rates, inadequate business training, and low levels of financial literacy among entrepreneurs (Stalin, 2022; Mwila et al., 2025). Research in Lusaka District shows that MFIs contributed positively to SME performance by providing liquidity for operational and capital needs, yet sustainability was challenged by high repayment costs and limited managerial skills among borrowers (Stalin, 2022). Similarly, a 2025 study in Chama District found that microfinance significantly influenced SME growth through improved credit access but noted that stringent regulatory frameworks, limited technological adoption, and weak institutional capacity constrained broader impact (Msimuko, 2025). Digital financial services have recently emerged as a complementary tool through which MFIs promote accessibility, with evidence from Solwezi showing that mobile money and digital platforms substantially improved SMEs' ability to access finance, though persistent issues such as high transaction costs and network instability remain (Mwila et al., 2025). The Zambian MFI landscape thus demonstrates both promise and constraint: while institutions like Izwe Financial Services have innovated by introducing unsecured, short-term working-capital products such as Izwe Float targeted at mobile-money agents and micro-SMEs without traditional collateral the scale and depth of impact on SME growth depend on how such credit is utilized (Izwe Zambia, n.d.; Izwe Africa, n.d.). Izwe's digital and unsecured model exemplifies the shift toward technology-enabled financial inclusion that reduces barriers to finance and allows SMEs to manage cash flow more effectively, which may indirectly support growth by stabilizing operations and facilitating reinvestment.

Nevertheless, scholars caution that access alone does not equate to growth; the transformational impact of microfinance depends on the adequacy of loan amounts, the cost of credit, the borrower's financial literacy, and the presence of supportive institutional ecosystems including business advisory services and favorable regulatory policies (Nyirenda et al., 2024; Abdallah et al., 2024). Financial literacy enhances SMEs' ability to manage debt, keep records, and plan investments effectively, thereby maximizing the productive use of microfinance (Abdallah et al., 2024). In Zambia, the persistent "missing middle" firms too large for micro-loans but too small for commercial bank credit underscores the need for MFIs to expand their offerings toward medium-sized enterprises that can generate scalable growth (Inclusive Business Network, n.d.). To achieve this, institutions like Izwe and policymakers must strengthen digital infrastructure, introduce affordable credit-guarantee schemes, and embed financial-literacy and capacity-building components within lending programs. When effectively structured, microfinance not only enhances financial accessibility but also facilitates SME growth by providing the capital necessary for investment, risk management, and market expansion; however, without proper targeting and support, it risks serving short-term consumption needs rather than long-term productive growth (Paliwal, 2024; Mwila et al., 2025).

Ultimately, the Zambian case illustrates that the impact of microfinance on SME growth is substantial yet conditional dependent on institutional design, borrower capacity, and policy environment and Izwe's model offers a practical pathway to strengthening inclusive finance through innovation, digital delivery, and tailored support mechanisms that could, if scaled and integrated with business development services, make a significant contribution to the sustained growth of SMEs across the country (Izwe Zambia, n.d.; Daily Mail, 2024).

2.2 Limitations of loans on SMEs growth

While microfinance loans are instrumental in SME development, numerous limitations hinder their full potential. One of the most prominent constraints is the high interest rate charged by MFIs. Studies by Cull, Demirgüç-Kunt & Morduch (2009) reveal that microfinance institutions typically charge higher interest rates than commercial banks due to administrative costs and default risks. In Zambia, the situation is comparable, with many SMEs struggling to meet repayment obligations due to the cost of borrowing. High interest burdens limit business reinvestment and can lead to cash flow challenges, ultimately stifling growth despite access to credit.

Another challenge relates to collateral and loan conditions. Although MFIs such as IZWE Loans often offer unsecured loans, some still require guarantors, salary backing or proof of business stability, which many SMEs cannot provide. According to Beck et al. (2008), rigid lending conditions disproportionately disadvantage smaller and younger enterprises, which tend to have weaker financial histories. In Lusaka, SMEs operating in informal markets often lack adequate documentation, reducing their eligibility for larger or more flexible loans. This limitation restricts their ability to undertake meaningful investments that could stimulate growth.

Misuse of loan funds is also a key constraint. Research by Byiers, Rand & Tarp (2010) indicates that some SME owners divert loan capital to personal expenses such as household needs or social obligations rather than business investment. This diminishes the growth impact of microfinance. Similarly, poor financial management skills lead to inefficient use of borrowed funds, resulting in low returns and difficulties in meeting repayment schedules. Without adequate training or advisory support, the likelihood of loan failure increases significantly.

Finally, structural and macroeconomic challenges also limit loan effectiveness. Zambia's SMEs face fluctuating inflation, currency instability and inconsistent market demand, factors that undermine their ability to generate stable revenue. As noted by Sikwela (2017), macroeconomic instability increases the vulnerability of SMEs and weakens the developmental impact of microfinance interventions. Additionally, loan repayment schedules that do not align with business cash flow cycles further constrain growth. These limitations suggest that although microfinance institutions like IZWE Loans play a crucial role in SME financing, structural challenges and institutional constraints continue to limit the transformative potential of microfinance in Lusaka.

On a global scale, SMEs continue to face significant barriers in accessing finance. The World Bank Enterprise Survey (2021) cites lack of collateral, poor credit history, and inadequate financial records as major hurdles. For MFIs, challenges include operational costs, risk management, and balancing profitability with social objectives. FSD Zambia (2020) Additionally, regulatory constraints and technological limitations impede the scaling of MFI services. In response, digital financial services and fintech partnerships have emerged to bridge these gaps, though adoption remains uneven across developing countries. Despite the increased presence of microfinance institutions (MFIs) across Zambia and their mandate to promote inclusive finance, small and medium enterprises (SMEs) continue to face significant challenges in accessing financial support, which constrains their potential for growth and competitiveness.

Across the global landscape of SME financing, it is well established that access to finance remains a critical barrier to growth, innovation and competitiveness for small and medium enterprises, with numerous studies highlighting structural, institutional and informational constraints. For instance, research shows that SMEs worldwide are disadvantaged relative to larger firms when seeking loans, due to lenders' risk aversion, high transaction or administrative costs, and insufficient collateral or credit history. At the global level, the literature emphasises that micro-finance institutions (MFIs) and other non-traditional lenders emerge partly to fill the gap left by commercial banks, but even so the ability of SMEs to gain access via these channels is constrained by many of the same factors and by the fact that MFIs often prefer very small loans or short-term credit, which may not align with the growth and investment needs of SMEs. A recurrent theme is the information asymmetry between lenders and SME borrowers: SMEs often lack audited financial statements, consistent savings histories, formal registration, and transparent business plans, which drives lenders to either charge very high interest rates, impose heavy collateral and guarantee requirements, or simply reject the loan application altogether.

Furthermore, at the global scale, regulatory and macro-economic factors such as high overhead for small loans, cost of funds, and risk-management burdens for lenders limit the willingness and capacity of financial institutions to engage SME portfolios. For example, in Nigeria the collapse of some microfinance programmes is attributed to high default rates, high transaction costs and management deficiencies. Turning to the regional perspective of Sub-Saharan Africa, the challenges become even more acute: SMEs face an environment characterised by under-developed financial markets, weak credit-information systems, ineffective collateral registries and limited branch/network coverage of financial service providers. For example, in Lesotho a study found that collateral requirements, limited access to financial information and weak business support services significantly constrained SME access to finance. In Mozambique, SMEs were found to obtain only a very small share of working capital and investment funding from banks, with most relying on their own capital or informal sources because the interest rates were extremely high and collateral demanded was prohibitive. In Namibia SMEs operating in entrepreneurial centres were similarly shown to struggle with financial, human-capital and social-capital deficits alongside institutional weaknesses in the financial system. The regional literature further highlights that many MFIs and other micro-financiers are constrained in their ability to serve SMEs because the “missing middle” problem persists: loans that are larger than micro-credit but smaller than typical bank credit often do not fit well with either group of lenders, and so SMEs in that gap are underserved. At the local (Zambian) level, and particularly relevant when considering a case study of a micro-financial institution such as IZWE Microfinance (or another comparable institution), the barriers are likewise pervasive and multifaceted. Research on Zambian SMEs identifies a lack of strategic planning knowledge, outdated technology, weak infrastructure and insufficient government support as major impediments to loan take-up via public funds and financing facilities. Complementary studies point to inadequate collateral, poorly kept business records, high cost of borrowing and overly bureaucratic or time-consuming loan application processes as deterrents.

In the Zambian context, SMEs often report feeling discouraged before even applying, due to perceived risk of rejection or inability to meet documentation requirements a phenomenon that further reduces demand. In addition, micro-finance institutions serving SMEs may themselves be constrained by regulatory oversight, limited capital, high default risk and the need to keep loan terms short or interest rates high, which reduces their attractiveness for growth-oriented SMEs. Globally, regionally and locally, then, the literature converges on a set of core challenge clusters: Collateral/Guarantee Requirements SMEs typically cannot provide land, buildings or large fixed-asset collateral demanded by lenders, or the collateral registers and movable asset frameworks are under-developed. This problem is documented in Mozambique (where collateral equal to 100 % or more of loan value is common) and in Lesotho.

Information/Documentation Weaknesses SMEs often lack formal financial statements, have weak bookkeeping, lack credit history and may not even be formally registered, leading to high perceived risk by lenders; seen globally and in African contexts. High Cost & Risk Premiums To cover the higher risk of SME lending, lenders impose high interest rates, heavy fees, short repayment periods, and may require high administrative overhead, making access expensive for example in Mozambique interest rates of 25-30% were common. Institutional/Structural Constraints including weak legal systems (for enforcement of contracts), under-developed credit information systems, limited branch coverage or reach of lenders, high cost per transaction for small loans, regulatory or macro-economic constraints, and the “missing middle” financing gap. Globally and regionally these have been identified. Process/Procedural Barriers including cumbersome application processes, delays in loan processing, excessive paperwork, and sometimes lack of transparency or clarity about eligibility criteria; for example, in one micro-finance survey, over 55% of SMEs cited delays in loan processing. Demand-Side Issues and Human Capital Constraints including limited financial literacy among SME owners, inadequate business planning, lack of awareness of finance products, weak management skills or technical support, which reduces the SMEs’ capacity to meet lender criteria or to use funds effectively once accessed. Regional studies in Africa highlight this dimension (e.g., Namibia). Size and Fit of Financing Products SMEs may seek medium- or long-term funding for growth, investment or asset purchase, but many MFIs specialise in short-term micro-loans, leading to a mismatch between SME needs and available products; globally recognised in microfinance literature.

External Environment/Policy and Support Systems government policy, financial sector regulation, guarantor schemes, business support infrastructure, fintech adoption and digital finance all affect SME access; lack of these supportive policies or uneven roll-out reduces access. African research emphasises the need for harmonized policy and support frameworks (e.g., Lesotho). For the specific case of micro-financial institutions aimed at SMEs (rather than pure micro-credit for microenterprises), these challenges mean that many SMEs remain underserved and the scalability of MFIs into the SME segment is constrained by risk, cost and capacity. As a result, SME growth is impeded, firms remain constrained in their investment, innovation and expansion potential, and the broader economic contribution of SMEs in job creation and value-added is limited.

The literature suggests that for institutions like IZWE (in Zambia) to effectively enhance SME access to finance, these barrier clusters must be addressed: mechanisms to reduce collateral burden (e.g., movable asset registration, guarantee schemes), capacity-building to improve SME documentation and financial management, tailoring of financial products to the SME growth cycle (longer-term, flexible repayment), streamlining application and disbursement procedures, leveraging digital finance/fintech to reduce cost and improve reach, and policy support (credit guarantee schemes, tax incentives, financial literacy programmes). Without tackling these inter-linked barriers, SMEs will continue to face a “finance gap” even when micro-financial institutions are present. In summary, the challenge of SMEs accessing financial support from microfinance and similar institutions is a multi-dimensional problem encompassing borrower-side constraints (capacity, documentation, readiness), lender-side constraints (risk, cost, product fit), and systemic/structural constraints (regulation, infrastructure, information) and though the global literature provides a rich array of evidence, the regional context in Africa and specifically Zambia underscores that local institutional, infrastructural and policy environments intensify the access barrier and make the “last mile” delivery of finance to growth-oriented SMEs a particularly difficult task.

The most frequently cited challenge is the stringent lending requirements, particularly high collateral demands and proof of stable income, which many SMEs are unable to meet due to lack of fixed assets or formal credit records (Mwanaumo, Ngoy, & Kunda, 2025). Most Zambian SMEs operate informally and therefore lack proper financial statements, audited accounts, or business registration documents required by MFIs to assess creditworthiness (Paliwal, 2024). As a result, even though microfinance was originally designed to serve those excluded from traditional banking, the conditions imposed by many MFIs such as collateral, guarantors, and upfront fees effectively exclude a large portion of SMEs from accessing meaningful loans. Another pervasive challenge relates to the high interest rates charged by microfinance institutions, which often range from 25 % to over 35 %, making borrowing expensive and unsustainable for small businesses (Diggers News, 2025). The high cost of borrowing is partly attributed to operational inefficiencies, high default risks, and limited access to low-cost funding sources on the part of MFIs themselves (Nyirenda, Mulenga, & Mwanza, 2024). Consequently, SMEs that manage to obtain microfinance support often struggle with repayment, leading to increased indebtedness rather than productive investment. Loan size and tenure also pose difficulties; most microfinance products in Zambia offer short-term, small-value loans with rigid repayment schedules, which do not align with the long-term investment horizons or seasonal cash-flow patterns of many SMEs (Stalin, 2022). The mismatch between loan structures and SME financing needs often results in poor utilization of funds and limits their capacity to expand operations. In addition, limited financial literacy among entrepreneurs remains a major barrier to effective engagement with MFIs, as many SME owners lack understanding of loan terms, interest calculations, and financial management, which undermines their ability to make informed borrowing decisions or maintain positive credit histories (Abdallah, Harraf, Ghura, & Abrar, 2024). Studies in Zambia confirm that inadequate record-keeping, weak budgeting practices, and low awareness of credit obligations contribute to high default rates and reluctance by MFIs to extend further credit (Paliwal, 2024; Mwila, Mwanza, & Kalenga, 2025). Moreover, inadequate information sharing between MFIs and SMEs has been identified as a challenge limited transparency in loan processing, unclear eligibility criteria, and weak communication discourage SMEs from applying for loans (Msimuko, 2025).

From the institutional side, MFIs also struggle with limited capacity, high transaction costs, and lack of technological infrastructure to efficiently process SME loans, particularly in rural and peri-urban areas (Nyirenda et al., 2024). For instance, digital financial services (DFS) have shown potential to ease accessibility, but adoption remains slow due to poor network connectivity, high transaction costs, and low digital literacy among SMEs (Mwila et al., 2025). Furthermore, regulatory bottlenecks and inconsistent policy frameworks in Zambia have constrained the effectiveness of MFIs in serving SMEs; the absence of a comprehensive national credit-guarantee scheme or functional movable-asset registry has perpetuated credit rationing and risk aversion among lenders (Inclusive Business Network, n.d.; Diggers News, 2025). SMEs in rural areas face additional challenges such as long distances to financial institutions, limited awareness of available products, and cultural barriers that discourage borrowing, especially among women-owned enterprises. Even innovative institutions like Izwe, which provides unsecured working capital loans through digital platforms such as Izwe Float for mobile-money agents, face challenges in scaling outreach due to limited financial education among clients, small loan limits, and repayment rigidity that does not always accommodate SME cash-flow variability (Izwe Zambia, n.d.; Izwe Africa, n.d.). The lack of tailored financial products that match SMEs' diverse sectors and growth stages further exacerbates exclusion; most MFIs design standardized credit packages with uniform terms that overlook sectoral differences in business cycles and profitability (Nyirenda et al., 2024). These multifaceted barriers ranging from high collateral requirements, elevated interest rates, limited loan sizes, weak financial literacy, to institutional and regulatory inefficiencies collectively constrain SMEs' ability to access and effectively utilize microfinance for growth. Therefore, the literature emphasizes the need for policy and institutional reforms to lower borrowing costs, promote financial literacy, enhance digital inclusion, strengthen credit information systems, and expand guarantee mechanisms so that microfinance institutions like Izwe can more effectively fulfill their role in bridging the SME financing gap in Zambia (Paliwal, 2024; Stalin, 2022; Msimuko, 2025).

Across Africa, SMEs face compounded challenges including weak legal frameworks, currency volatility, and underdeveloped credit information systems. The African Union (2021) notes that despite the proliferation of MFIs, access remains limited due to high interest rates and short repayment periods. MFIs themselves struggle with high default rates, limited access to capital, and inadequate infrastructure. FSD Zambia (2020) Furthermore, reliance on donor funding exposes many MFIs to sustainability risks. There is a growing call for enhanced regulatory harmonization and digital transformation to increase sector resilience.

In Zambia, the challenges are reflective of broader Sub-Saharan trends but are uniquely influenced by local economic and regulatory factors. SMEs often lack formal registration, business plans, or adequate financial records, making them ineligible for many MFI services. Moreover, the Bank of Zambia (2023) highlights the limited penetration of credit information services, which hampers effective risk assessment. For MFIs like IZWE, operational costs, client monitoring, and regulatory compliance are persistent issues. Despite these, institutions continue to innovate, for instance by adopting biometric verification and digital platforms to streamline service delivery.

Kim (1995) study conducted on the access to credit, term of housing finance and affordability of housing stated that; given that the poorest people manage to mobilize resources to develop their enterprises and their households slowly over time, the financial services offered by MFIs could enable them to leverage their initiative, accelerating the process of building incomes, assets, and economic security. The study went on to reveal that the situation, however, was such that the conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households making the discussion of the level of interest rate and other terms of finance irrelevant. Therefore, the fundamental problem is not so much of unaffordable terms of loan as the lack of access to credit itself (Kim 1995). The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, large number of small loans are needed to serve the

poor hence lenders prefer dealing with large loans in small numbers to minimize administration costs and tend to consider low income households a bad risk imposing exceedingly high information monitoring costs on operation.

Mandiwa (2014) in a study on access to financial services in Malawi stated that the poor are usually placed at a disadvantage in accessing financial services due to the remote areas they reside in. The high level of poverty of these households is further exacerbated by insufficient government policy intervention especially regarding credit programs to increase poor household's income and enhance quality of life (Ibid, 2014). The study also revealed that Malawi lacks a proper National Identification System that poses a challenge as most financial institutions fail to identify their customers (Mandiwa, 2014). Furthermore, the lack of competition within the financial system may also be one possible explanation for the high level of financial exclusion in the country. Leach and Sitaram (2002) suggested points supporting why women should be provided with loans to fund their businesses.

They argued that women are disproportionately represented amongst the poorest in society and are in more need of help as compared to men, as far as securing sustainable livelihoods is concerned. Women are discriminated against in the formal labor market, so end up looking for other sources of income within the informal sector. Mayoux (1999) suggest that repayment rates on loans and contributions to family well-being are often higher among women than among men. Thus, implying there would be no basis to screen women borrowers along the lines of risk of repayment. Small Businesses face many challenges in undertaking their businesses operations in comparison to large organizations. The greatest among the difficulties is access to funds in financing start-up or for expansion of existing business.

Lending to small businesses or entrepreneurs stay restricted because formal financial institutions feel reluctant to offer credit to the sector due to their high-risk nature, small portfolios and high transaction cost of processing small loans (Schaffer and Weder 1991, Cuevas et al., 1993). Aryeetey et al (1993) also shares the view that lenders face information asymmetry problem on borrowers and this increases transaction cost and interest rates since the probability of default is presumed to be high and provisions had to be made to combat it. Research had again shown that to do loan screening, credit analysis, making decision, supervising, and enforcing loan contract with small businesses take longer days and cost higher than with larger businesses.

3. Methodology

The research methodology used to conduct the study, detail the design, data collection, and analysis methods employed.

3.1 Research design

The study adopted a descriptive research design. This design was selected because it allows for a comprehensive analysis of the current situation regarding micro-financial institutions' role in promoting access to finance for SMEs. Descriptive surveys are effective for obtaining information from a representative group and are particularly suitable for analyzing views, behaviors, perceptions, and challenges. Through both qualitative and quantitative approaches, this design enabled the study to examine variables and relationships as they exist in the natural setting without manipulation.

3.2 Target population

The target population for the study consisted of SMEs operating in Lusaka that have either sought or received financial services from IZWE Microfinance Zambia. The SMEs targeted ranged across sectors such as retail, services, manufacturing, and agriculture. Managers, owners, or financial officers of these SMEs formed the primary respondents, while IZWE loan officers and branch staff provided institutional perspectives. The estimated population is approximately 80 SMEs based in Lusaka District.

3.3 Sampling design

A purposive sampling was used to select SMEs that have benefited from IZWE MFI and key informants such as branch managers, and credit officers, as they possess in-depth knowledge of the institution's financing strategies and SME engagement.

3.4 Sample size determination

The sampling frame for this study is 80 SMEs in Lusaka, and the sample size for this study is 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 SMEs 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 will use of a sample size of eighty (80) research participants. These participants will be randomly selected and interviewed through questionnaire interviews in order to capture inferable data. Only established SMEs will be considered for this study.

3.5 Data collection methods

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). The data collection techniques that will be employed for the research includes the use of structured questionnaires. The questionnaires will be used for the collection of data from the entrepreneurs from SMEs in Lusaka. The questionnaire will contain both open and closed-ended questions for randomly selected members. A combination of structured and semi-structured questions will be used to

collect information from the target population. In a structured interview to predetermined set of questions, using the same wording and order of questions which are specified in the questionnaire.

3.6 Data analysis

Data collected from questionnaires was analyzed using Statistical Package for the Social Sciences (SPSS). Descriptive statistics such as frequencies, percentages, and mean scores will be used to summarize the responses. Inferential statistics, such as correlation analysis and chi-square tests, will be employed to establish relationships between variables, particularly the impact of financial accessibility on SME growth. Qualitative data from interviews will be analyzed using thematic content analysis, allowing for identification of patterns, themes, and perspectives from the responses of SMEs.

4. Findings of the Study

The study highlights the key findings on the impact of the loans to SMEs and the limitation SMEs face in accessing financial support from microfinance institution.

4.1 The impact of loans to the business growth

The findings revealed that most SMEs experienced noticeable growth in sales and revenue after receiving loans from the microfinance institution. A large proportion of respondents indicated that their businesses grew by between 1% and 10%, while only 2% of respondents reported growth of over 50%. This overall trend indicates that access to microfinance had a positive effect on business performance, as additional capital likely enabled SMEs to increase production, expand inventory, enhance marketing efforts, or improve service delivery.

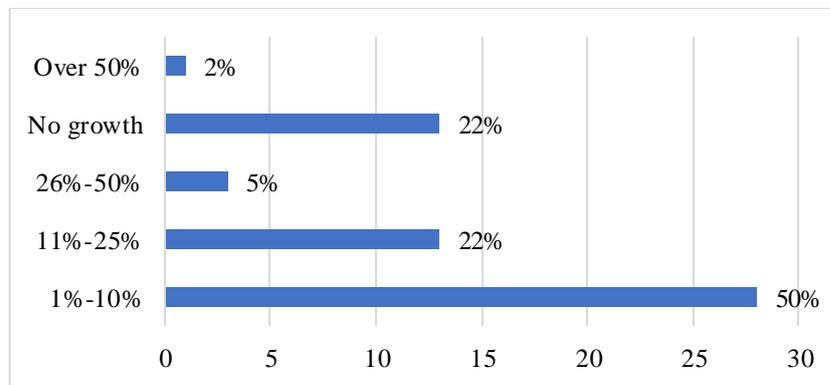


Figure 2. Percentage of business grown (in terms of sales/revenue)

Some businesses may have utilized the funds more effectively than others, depending on factors such as the loan amount, business management skills, market conditions, and sectoral characteristics. The data demonstrate that microfinance loans contributed meaningfully to the growth of SMEs in terms of sales and revenue, confirming the critical role of microfinance institutions like IZWE in promoting entrepreneurship, enhancing financial inclusion, and supporting small business development in Zambia.

The findings in Figure 3 indicate that most SMEs perceived the financial support received from the microfinance institution as having a positive impact on their business operations. A significant proportion of respondents (41%) reported that the loan slightly helped their business, while others indicated that about 36% were moderately helped by loan obtained from SMEs.

Only a few respondents suggested that the financial support had minimal or no impact on their business performance. These results suggest that access to credit from IZWE enabled SMEs to enhance working capital, invest in business expansion, purchase inventory, or improve service delivery, which translated into measurable benefits for their operations. The high proportion of respondents acknowledging the positive impact of financial support highlights the critical role of microfinance in strengthening SMEs' financial capacity and operational efficiency.

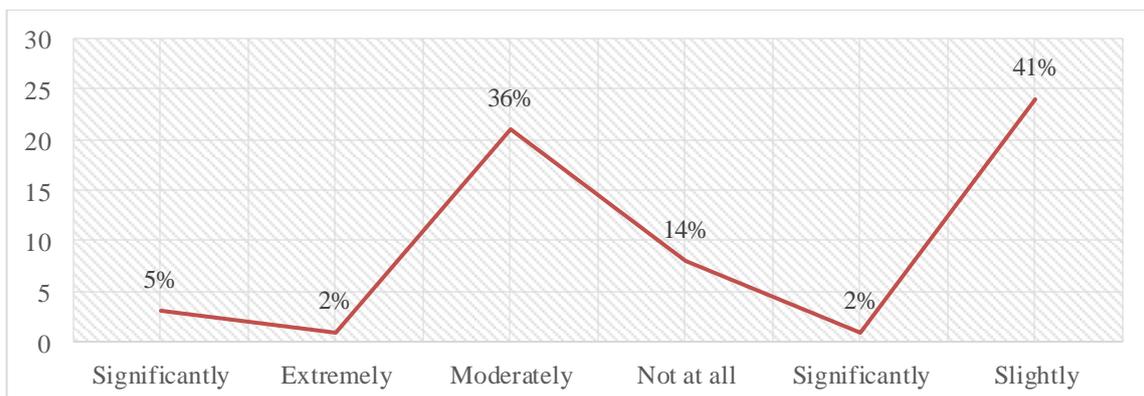


Figure 3: Effect of MFI Support on SMEs

Impact of the loans to MSEs was further revealed by the results in Figure 3 which indicated that after receiving financial support from the microfinance institution (IZWE), the monthly revenue levels of most SMEs increased, reflecting a positive impact of financing on business performance. Specifically, 35.4% of the respondents reported earning less than ZMW 5,000 per month, showing that some SMEs still operate at a small scale. However, a significant portion of businesses recorded higher earnings, with 26.2% reporting monthly revenues between ZMW 5,001 and ZMW 10,000, and 23.1% earning between ZMW 10,001 and ZMW 20,000. Furthermore, 10.8% of SMEs reported revenues ranging from ZMW 20,001 to ZMW 50,000, while a small but notable 4.6% had monthly revenues above ZMW 50,000.

Compared to the revenue levels before financing (Table 1), these results demonstrate a clear upward shift in business income among SMEs that accessed microfinance. This suggests that the loans provided by IZWE contributed to increased working capital, enabling SMEs to purchase more stock, expand operations, and improve production capacity ultimately leading to higher sales and profits. However, the persistence of a relatively large group (35.4%) earning below ZMW 5,000 indicates that not all SMEs experienced significant revenue growth. This variation could be due to factors such as business type, market competition, loan size, or management capacity. The findings show that access to microfinance positively influenced SME revenue growth, although the degree of improvement varied across enterprises. This underscores the importance of continued financial support, complemented by business development training and advisory services, to ensure sustained SME growth and profitability.

Table 1. Improvement in monthly revenue after receiving financing

Monthly revenue after receiving financing	Frequency	Percent (%)
Less than ZMW 5,000	23	35.4
Over ZMW 50,000	3	4.6
ZMW 10,001-20,000	15	23.1
ZMW 20,001-50,000	7	10.8
ZMW 5,001-10,000	17	26.2
Total	65	100.0

The findings in Figure 4 reveal that the majority of SMEs experienced positive outcomes after receiving loans from the microfinance institution. About 41% of respondents reported that the loan had led to increase sales/revenue while 34% of the respondent's indicated expansion of their businesses.

These results suggest that access to microfinance loans has directly contributed to enhancing SME performance by enabling businesses to invest in growth-oriented activities. The positive outcomes such as increased operational capacity, higher revenue, and improved business stability highlight the role of microfinance in supporting SMEs to overcome financial constraints and achieve developmental goals.

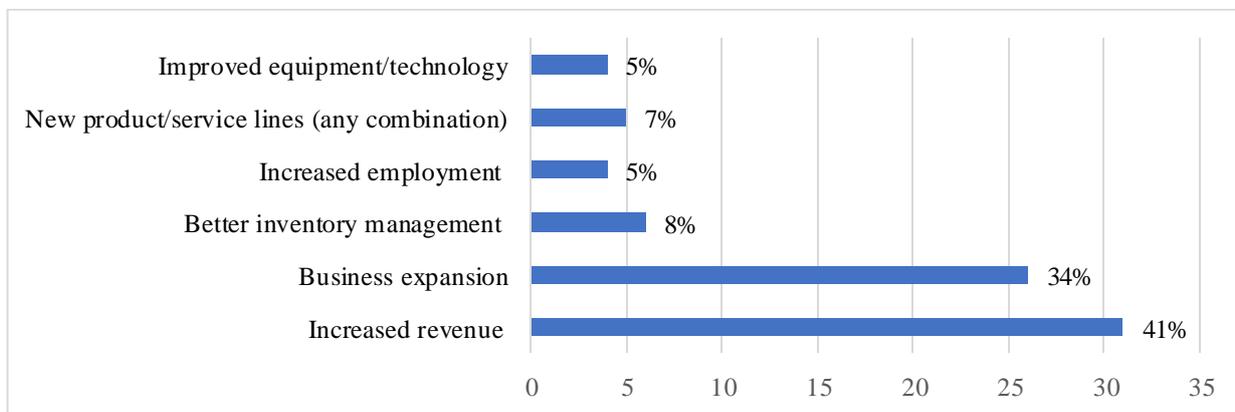


Figure 4. Effect of loans received

The findings presented in Figure 4 revealed that the number of employees in most SMEs increased after receiving financing from the microfinance institution. A substantial portion of respondents reported employing between 2 and 4 workers representing 67% compared to 40% before accessing loans, while few respondents indicated having employed between 5 to 10 workers representing 7%, while about 2% had employed more than 10 employees of the population sampled.

This pattern demonstrates that access to financial support from IZWE had a positive impact on employment levels and business expansion. With additional working capital, SMEs were likely to increase production, expand business operations, and hire more staff to meet growing operational demands. The increase in employment also reflects improved business stability and revenue growth, as previously noted in Figure 1. The findings suggest that microfinance institutions not only promote financial inclusion but also contribute to job creation and poverty reduction through SME growth. However, the fact that some SMEs still maintained a small workforce indicates that loan size, business sector, and managerial capacity may have influenced the extent of employment growth among different enterprises. In summary, the data reveal that after accessing microfinance, SMEs experienced an upward shift in their employment levels, confirming the important role of microfinance institutions like IZWE in enhancing business development, expanding productive capacity, and supporting local economic growth in Zambia.

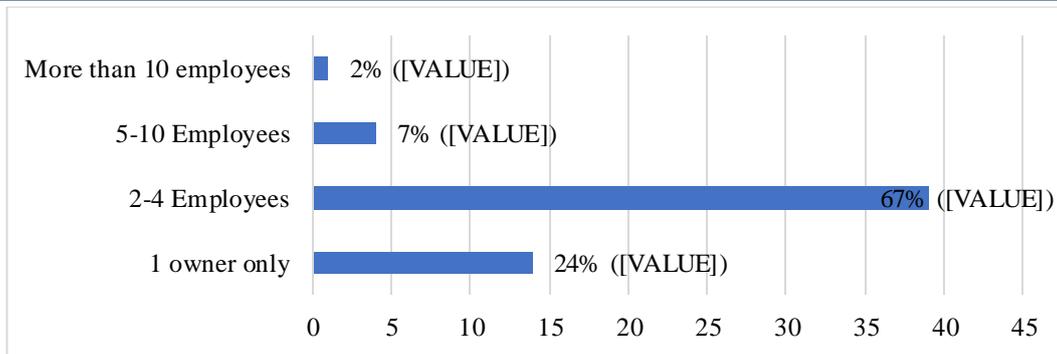


Figure 5. Increment on employees as a result of loans

4.2 Limitation of loans on SMEs growth

The most respondents (32.3%) highlighted that interest rates were too high and therefore advocated for reduced interest rates to figure below 30%. The current rates were too high and a result this made loan repayment a challenge as most business struggle to keep a business running and commitment to settle loan obligation.

Some SMEs about 13.8% were concerned with lack of collateral to back the level of business financing requirement. 9.2% emphasize the need for training and financial literacy, suggesting capacity building. The rest of the responses focus on simplifying procedures (7.7%), government support (6.2%), and better engagement and flexibility in lending terms.

The recommendations in Figure 4 highlight the key challenges SMEs face in accessing finance and their proposed solutions. The most common suggestion, cited by 32.3% of respondents, is to reduce interest rates and make loans more affordable, indicating that high borrowing costs are a major barrier.

Table 2. Recommendations to improve SME access to finance as

Recommendations	Count	Percent
1. Reduce interest rates / make loans affordable	21	32.3%
2. Relax collateral & documentation requirements	9	13.8%
3. Simplify and speed up loan processing	5	7.7%
4. Improve SME training & financial literacy	6	9.2%
5. Government policy & institutional support	4	6.2%
6. Engagement & awareness creation	3	4.6%
7. Flexible and suitable loan terms	3	4.6%
8. Miscellaneous	2	3.1%
9. Affordable repayment / less burden	2	3.1%
		100.0%

The chart shows the frequency of loan applications submitted by SMEs over the past three years. About 38% of SMEs submitted only one or two applications, this may indicate either limited financial needs or discouragement due to past rejections. If many SMEs submitted multiple applications, it reflects a high demand for financing and possibly repeated attempts to secure funds, suggesting that access to credit is challenging or competitive. Overall, the figure highlights SMEs' active pursuit of financial support and underscores the need for microfinance institutions to provide accessible, affordable, and efficient loan products to meet this demand.

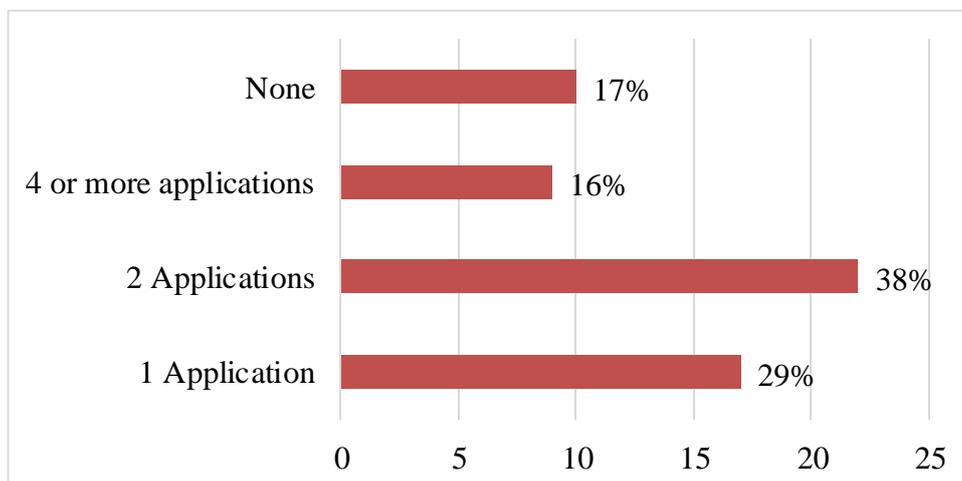


Figure 6. Number of loan applications submitted in the past 3 years?

5. Summary, Conclusion and Recommendations

5.1 Summary

Although SMEs have experienced improvements in income and increased activity levels particularly with revenue rising to 41% and business expansion to 34%, they still continue to face significant challenges. A major concern is lack of collateral to secure adequate financing for their operations. Additionally, SMEs expressed concern over high interest rates, which consume a substantial portion of their profits through loan repayments, making it difficult to sustain business operations.

5.2 Conclusion

Access to loans by SMEs has remained a challenge as most are unable to cover their financing requirement because of lack of collateral or inadequate security. The problem is further compounded by high interest demand required by micro financial institutions.

Another challenge is that some SMEs owners lacked financial literacy on management of businesses as some had no financial training on business management demand.

5.3 Recommendations

i. Diversify financial products and services: Microfinance institutions should expand beyond credit services to include savings, insurance, and other financial products.
 ii. Simplify loan application and processing procedures: Reducing bureaucracy, shortening response times, and improving communication with borrowers.
 iii. Review interest rates and collateral requirements: To make loans more accessible, microfinance institutions should consider lowering interest rates and relaxing collateral requirements.
 vi. Monitor and evaluate impact: Regular assessment of the effectiveness of microfinance interventions will help identify gaps, inform policy adjustments, and ensure that resources are used efficiently.
 Implementing these recommendations will strengthen the role of microfinance institutions in promoting inclusive financial access and driving sustainable SME development, thereby contributing to Zambia's economic growth and job creation.

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