

# Exploring the Effects of a Public Health Crisis on SMEs in Retail Trade Businesses in Lusaka: A Case Study of Kabwata Market in Lusaka District Zambia

By

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**Abstract:** The study aims to explore the effects of the COVID-19 pandemic on SMEs in retail trade businesses in Lusaka, focusing on Kabwata Market. The general objective is to assess the impact of COVID-19 on SMEs in Kabwata Market. The specific research objectives are to explore the state of growth in SMEs during COVID-19, identify internal factors affecting growth in SMEs due to COVID-19, and identify external factors affecting growth in SMEs due to COVID-19 in Kabwata Market, Lusaka. The study employed a mixed-method approach to assess the impact of COVID-19 on SMEs in the Kabwata market, Lusaka. It targeted 70 respondents, including 60 SMEs and 10 government ministry representatives. Data collection involved questionnaires, interviews, and focus group discussions, with thematic analysis for qualitative data and statistical analysis using SPSS for quantitative data. Findings: The study on SME growth in Lusaka, particularly in Kabwata Constituency, reveals significant challenges hindering their development. Only 47% of SMEs are registered, limiting their access to formal financing, while 68% employ few full-time workers, indicating low productivity. Sole proprietorship is prevalent (65%), hindering access to finance and business growth. Moreover, 60% rely on personal funds, with only 13% accessing formal financial institutions. Internally, factors like lack of security/collateral (60%), equity capital (63%), and management experience (49%) hamper growth, while external challenges such as high taxes (50%), interest rates (42%), and strict bank conditions (50%) exacerbate SMEs' struggles. Recommendations: include formalization, cooperative ownership, enhancing managerial skills, and easing access to finance to foster SME growth amidst these challenges.

Key words: Public health crisis, SMEs, retail trade businesses, Lusaka, Kabwata Market, and Zambia.

## 1.1 Background of the Study

Zambia recorded its first case of COVID-19 on March 18 and took early action to contain the spread. As of July 22, there were 3,583 confirmed cases, about half of whom had recovered, and 128 deaths. In response to the crisis, restrictions were imposed on public gatherings, schools and universities were closed including restaurants and bars, and there was a temporary lockdown of some towns. Even though many of the restrictions have been eased or lifted altogether, social distancing and operational guidelines remain (Abdel, 2020). As a result of the economic slowdown, disruptions to international trade and depreciation of the Kwacha and with all these linked to COVID-19 pandemic, the International Monetary Fund (IMF) has projected a GDP growth of -3.5% for Zambia in 2020, compared to between positive 2 and 3% in the last five years.

In fact, the last time Zambia experienced negative GDP growth was over 20 years ago

The 2019 novel coronavirus disease (Covid-19), was declared by the World Health Organization as a pandemic on 11th March 2020. The outbreak has taken a toll on people's safety and global economic development. As the impact of the pandemic becomes evident worldwide, global growth forecasts are constantly being adjusted downwards (Acs, 2019). The International Monetary Fund (IMF) projected annual global GDP growth to drop to 3% in 2020, while the Zambian economy is now projected to contract by 2.6% in 2020 from the earlier projection of 3.6%. With the continuous spreading of Covid-19 worldwide, the outbreak has greatly increased uncertainty and the risk of a global recession, broadly defined by the IMF as growth slipping below 2.5% a year. Supply chains have been disrupted, market confidence significantly damaged, consumer and investment demand are shrinking, while

global economic activity has weakened significantly. All these pose even greater challenges for the resilience and governance of impacted economies (Alasan, 2019).

The COVID-19 pandemic outbreak has forced many businesses to close, leading to an unprecedented disruption of commerce in most industry sectors. Retailers and brands face many short-term challenges, such as those related to health and safety, the supply chain, the workforce, cash flow, consumer demand, sales, and marketing. However, successfully navigating these challenges will not guarantee a promising future, or any future at all. This is because once we get through this pandemic, we will emerge in a very different world compared to the one before the outbreak (Babbie, 2019). Many markets, especially in the fields of tourism and hospitality, no longer exist. All organizational functions are intended to prioritize and optimize spending or postpone tasks that will not bring value in the current environment. Companies, especially startups, have implemented an indefinite hiring freeze. At the same time, online communication, online entertainment, and online shopping are seeing unprecedented growth

### **Zambian Perspective on SMEs**

In Zambia, small and medium-sized enterprises (SMEs) play a crucial role in driving economic growth, fostering innovation, and promoting job creation. Over the years, the SME sector has witnessed significant growth, contributing substantially to the country's gross domestic product (GDP) and employment opportunities (Mwiinga et al, 2020; Nuwagaba, 2015). According to a report by the ZDA, SMEs constitute a substantial portion of the country's business landscape, accounting for approximately 90% of all businesses and employing over 70% of the labor force (Ministry of Commerce, Trade and Industry, 2017).

The growth of SMEs in Zambia has been fueled by various factors, including government support through policies and initiatives aimed at promoting entrepreneurship and SME development (Zulu & Mweetwa, 2019). In recent years, the Zambian government has implemented measures to facilitate access to finance, streamline business registration processes, and provide training and capacity-building programs for aspiring entrepreneurs. Additionally, the advent of technology and the digital economy has created new opportunities for SMEs to expand their reach, improve efficiency, and compete in domestic and international markets (Aurick et al 2017; Nuwagaba, 2015). The impact of SMEs extends beyond economic contributions, as they also play a vital role in social development, particularly in rural areas where they serve as catalysts for poverty reduction and community empowerment. By providing employment opportunities, supporting local supply chains, and fostering entrepreneurship, SMEs contribute to inclusive growth and sustainable development across Zambia. However, SMEs in Zambia continue to face various challenges, including limited access to finance, inadequate infrastructure, regulatory barriers, and skills shortages (Fungwe, & Kabubi 2019; Mwamba, et al. 2022). Addressing these challenges is essential to unlocking the full potential of SMEs and maximizing their contribution to Zambia's socio-economic development.

Based on this background, the resilience and adaptability of SMEs are crucial determinants of Zambia's ability to weather the economic downturn caused by the pandemic and pave the way for recovery and growth. Given the significant role SMEs play in driving economic growth, employment generation, and poverty alleviation in Zambia, comprehending the specific challenges they face due to COVID-19 is vital for policymakers, stakeholders, and SME owners alike. This study aims to shed light on the nuanced impacts of the pandemic on SMEs in the retail trade businesses at Kabwata Market in Lusaka. By elucidating the challenges, coping mechanisms, and prospects for recovery, this research endeavors to provide actionable insights that can inform targeted interventions, policies, and support mechanisms tailored to bolster the resilience and sustainability of SMEs in Zambia's retail sector amidst the ongoing crisis. Thus, conducting this study is not only timely but also essential for fostering informed decision-making and strategic planning aimed at mitigating the adverse effects of COVID-19 on SMEs and fostering their long-term viability and growth.

### **1.2 Problem Statement**

Past statistics indicate that three out of five small and medium scale businesses fail within the first few months of operation (BOZ, 2016). Due to covid-19 there are various reasons for such failure, one central reason is lack of proactive, sustainable innovation. Further, as noted by Damanpour et al., (2009); when SMEs don't take advantage of technological, product and service quality, new marketing techniques and innovative organizational structures, such SMEs fail. Therefore, covid19 has brought about lack of innovativeness and seemingly created poor business performance. However, the state of businesses growth in Kabwata Constituency, Lusaka in relation to factors that influence such business growth has not been investigated. Further, numerous studies have dealt with innovativeness in SMEs. This study therefore will assess the impact of Covid-19 on the SMEs in retail trade businesses in Lusaka. A case of Kabwata Market.

### **1.3 General Objective**

Assessing the impact of Covid-19 on the SMEs in retail trade businesses in Lusaka. A case of Kabwata Market.

### **1.4 Research objectives**

RO1: To explore the state of growth in SMEs during covid-19 Kabwata Market, Lusaka.

RO2: To identify internal factors that affect growth in SMEs due to COVID-19 in Kabwata Market, Lusaka.

RO3: To identify the external factors that affect growth in SMEs due to covid-19 Kabwata Market, Lusaka.

### **1.5 Research Questions**

RQ1 What is the state of growth of SMEs due to covid-19 Kabwata Market, Lusaka?

RQ2 What are the internal factors that affect growth of SMEs due to covid-19 Kabwata Market, Lusaka?

RQ3 What are the external factors that affect growth of SMEs due to covid-19 Kabwata Market, Lusaka?

## **II. METHODOLOGY**

### **2.1 Overview**

The methodology section of this article provides a comprehensive overview of the research approach to assess the impact of the COVID-19 pandemic on small and medium enterprises (SMEs) operating in the retail sector, with a particular focus on the Kabwata market in Lusaka. The aim of this study is to examine the different dimensions of the impact of the pandemic and clarify its impact on the operational, financial and social aspects of SMEs in the specified location. By employing a robust methodology, this research aims to provide valuable insights into the challenges faced by SMEs in coping with the unprecedented disruptions caused by the pandemic and identify potential strategies for resilience and recovery.

### **2.2 Research method**

The study employed a mixed-method approach, drawing on the framework proposed by Creswell (2014) and other established research methodologies. Creswell advocates for the integration of quantitative and qualitative methods to comprehensively explore research questions, aligning with the multifaceted nature of understanding the impact of COVID-19 on SMEs. Quantitative data, gathered through surveys or other statistical means, will provide numerical insights into the extent and magnitude of the challenges faced by SMEs, such as changes in revenue, employment rates, and operational constraints. On the other hand, qualitative methods, including interviews, observations, and case studies, allow for a deeper exploration of the nuanced experiences, coping mechanisms, and contextual factors influencing SME resilience amidst the pandemic. By combining these approaches, the study aims to offer a holistic understanding of the complex dynamics at play and provide actionable insights for policymakers, stakeholders, and SME owners navigating the unprecedented challenges posed by the COVID-19 crisis in the retail trade sector.

### **3.2 Target Population**

Gall et al. (2013) defined a population as a universe of all members of a real or hypothetical set of people, events or objects to which an investigator wishes to generalize the results. The target population included traders in the Kabwata market with small and medium enterprises and key informants conversant with SME operations such as big banks, Ministry of Finance, PACRA, and microfinance organizations.

### **2.3 Sample Size and Technique**

According to Sekaran and Bougie (2015), sampling techniques include; the probability and the non-probability techniques. The study adopted purposive or judgmental non probability sampling. The purpose of purposive sampling as it is self-introductory is used to make sure that specific respondents will not left out in the study. Tromp and Kombo (2006) have authenticated the use of purposive sampling in that the method helps target a group suitable to bring out rich information related to the central issue being studied for in-depth analysis. The total number of respondents comprised 70 respondents. 60 respondents came from the SME sectors such as simple manufacturing, general trading, and welding and food business while 10 were from Government Ministries..

### **2.4 Data Collection Instruments**

Data was collected from both primary and secondary sources from the primary sources data was collected by some self-made questionnaires and interview schedules while the secondary data was collected by reviewing the already existing literature, Secondary data covered different sources and provided an essential preparation for the interviews. Secondary sources supported the exploration of particular responses during interviews

In this study, the researcher used the following research instruments to obtain the needed information from the respondents:

#### **2.4.1 Questionnaire**

The researcher used questionnaires, structured interview guide, observations and focus group discussions for data collection. Bless and Achola (1988) allude to the fact that a questionnaire is a research instrument consisting of a series of questions and other prompts for the purposes of gathering information from respondents. Questionnaires are cheaper to use, quick and easy to administer, they allow responses to be standardized and are also objective.

#### **2.4.2 Interviews**

Kvale (1996) delineates interviews as dynamic exchanges between individuals, wherein the resulting discourse is a collaborative creation shaped by both the interviewer and interviewee. Importantly, the ease of conducting interviews can be facilitated by shared interests between the two parties. Factors such as the formulation of questions by the interviewer, the rapport established between the participants, and the techniques employed by the interviewer to distill the essence of the dialogue play pivotal roles in this process. This methodological approach was chosen for its capacity to elicit authentic responses, as the nature of the questions posed by the researcher influences the depth and sincerity of the answers provided.

#### **2.4.1 Focus Group Discussion**

A focus group discussion (FGD) serves as an effective method for convening individuals with shared backgrounds or experiences to delve into a specific topic of interest. Under the guidance of a moderator or group facilitator, participants engage in lively and organic discussions, spurred by prompts introduced by the moderator. The rationale behind employing Focus Group Discussions lies in their capacity to gather qualitative data by involving a select group of individuals in an informal yet focused exchange centered around particular themes or issues (Wilkinson, 2004:177).

### **2.5 Data Collection Procedure**

Data was collected from both primary and secondary sources from the primary sources data was collected by some self-made questionnaires and interview schedules while the secondary data was collected by reviewing the already existing literature, Secondary data covered different sources and provided an essential preparation for the interviews. Secondary sources supported the exploration of particular responses during interviews.

### **2.6 Data Analysis**

This study adopted a mixed method, both qualitative and quantitative data were collected. Qualitative data was analysed through a thematic approach where data was tabulated; categorized. On the other hand, quantitative data was analyzed in three phases. Statistical Package for Social sciences (SPSS) was employed to analyze the quantitative data. Finally, data was presented in the form of bar charts, pie charts, and frequency and percentage tables. This type of analysis enables the researcher to generate conclusions about the phenomenon under study by critically examining the frequencies of numerical data percentages.

### **2.7 Ethical Considerations**

The study is committed to citing its sources while remaining mindful of the ethical considerations surrounding confidentiality. Ensuring informed consent is paramount whenever disclosure of information is necessary, particularly given the sensitive nature of the problem under investigation, the methods of data collection, and the status of respondents, such as directors and managers. As the study delves into potentially sensitive issues that may evoke hostility, insecurity, or a reluctance to disclose genuine data, participants will be fully briefed on the study's objectives and given the autonomy to decide whether to participate. Adhering to the widely accepted principle that research involving human participants should obtain informed consent, the researcher will continuously emphasize the voluntary nature of participation and provide comprehensive explanations regarding the benefits, rights, and potential risks involved. Upholding the right to privacy is paramount, allowing individuals the freedom to determine the extent and circumstances under which they engage with the research. To safeguard participants' privacy, discussions were conducted in a secluded environment, free from external interference or intrusion.

## **III. Findings**

This section presents the findings of the study which are in tables, pie charts, and graphs. This study was guided by three objectives: to explore the state of growth in SMEs during COVID-19 Kabwata Market, Lusaka, to identify internal factors that affect growth in SMEs due to COVID-19 in Kabwata Market, Lusaka, and to identify the external factors that affect growth in SMEs due to COVID-19 Kabwata Market, Lusaka.

This chapter is divided into two sections. The first section begins by giving background information of the respondents while the second part is a presentation of the research findings about the three research objectives of the study.

RO1: To explore the state of growth in SMEs during cov-19 Kabwata Market, Lusaka.

RO2: To identify internal factors that affect growth in SMEs due to covid-19 in Kabwata Market, Lusaka.

RO3: To identify the external factors that affect growth in SMEs due to covid-19 Kabwata Market, Lusaka.

### 3.1 Demography Characteristics of Respondents

The demographic characteristics of respondents included their gender, age and education level. These characteristics have a bearing in the financing of small and medium entrepreneurs.

#### Figure 1: Gender of the Respondents

The respondents were asked to state their gender. The following were the results on figure 2.

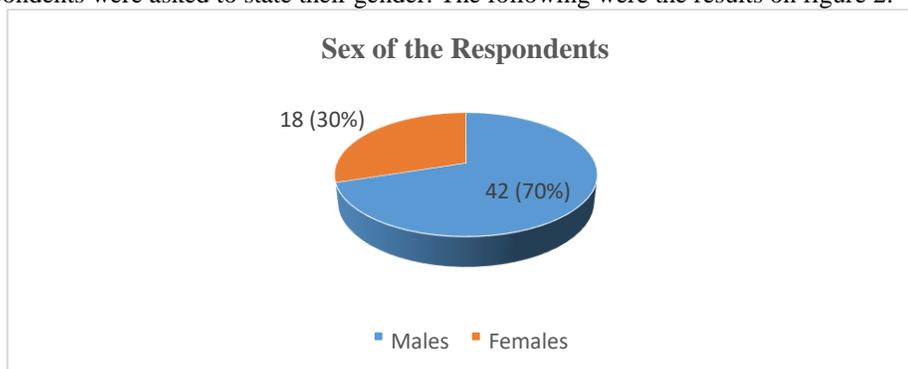


Figure 2 indicates the gender of the respondents in the study. Out of the 60 respondents targeted, 42 respondents representing 70% were males and 18 respondents representing 30% were females. The majority of the respondents were males and females were few.

## IV. Age

The respondents were asked to state their ages. The following results represent age distribution of the respondents as tabulated in Table 2.

**Table 2: Age distribution of the Respondents**

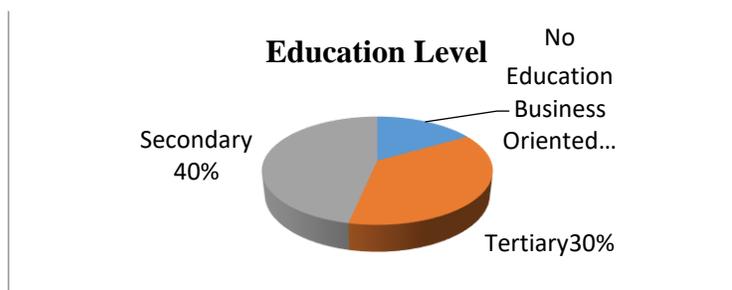
Age group (Years)			Total	Percent
	Males	Females		
20-35	10	4	14	(23%)
36-50	18	8	26	(43%)
51-60	11	4	15	(25%)
61-70	3	2	5	(8%)
Total	42	18	60	100

Table 2 shows age distribution of the respondents. 14 were in the age group of 20 -35 years representing 23%; 26 were in the age group of 36-50 years representing 43%; 15 were in the age group of 51-60 years representing 25% and 5 were in the age group of 61 to 70 years representing 8%.

#### 3.1.3 Educational Level of the Respondents

Education level is one of the demographic characteristic of the respondents. Level of education was measured according to the Zambia education system. The respondents had to indicate their highest level of

education; there was a distinguishing between primary school, secondary, college and any other higher level. Level of education and its distribution indicated below;



**Figure 3: Educational Level of Respondents**

From figure 3, 40% (24) of the respondents interviewed were from secondary school. 30% (18) of the respondents were from tertiary that is either from college or university while 30% (18) of the respondents interviewed did not have an education but were business oriented.

### 3.1.4 Marital Status

The respondents were asked to state their marital status. Table 3 represents marital status.

**Table 3: Marital Status of the Respondents**

Status	Frequency	Percent
Married	15	25
Single	20	33
Divorced	06	10
Widows & Widowers	19	32
<b>Total</b>	<b>60</b>	<b>100</b>

Table 3 shows that the 15 of the respondents representing 25% were married, 20 respondents representing 33% were singles, 6 representing 10% were divorcees and 19 representing 32% were Widows & Widowers.

## 4.2 The State of Growth in SMEs Financing in Lusaka

The respondents and the Key Informants were tasked to describe the state of growth in SMEs financing under COVID-19 through the use of questionnaires and in-depth interviews. In order to ascertain the state of growth of SMEs, certain proxy indicators were used in order to arrive at a conclusion. The findings were recorded either graphically or described according to themes.

### 3.2.1 Registered SMEs

The respondents were asked to state whether their enterprises were registered. The following results are shown on table 4.

**Table 4: Whether the enterprise was registered**

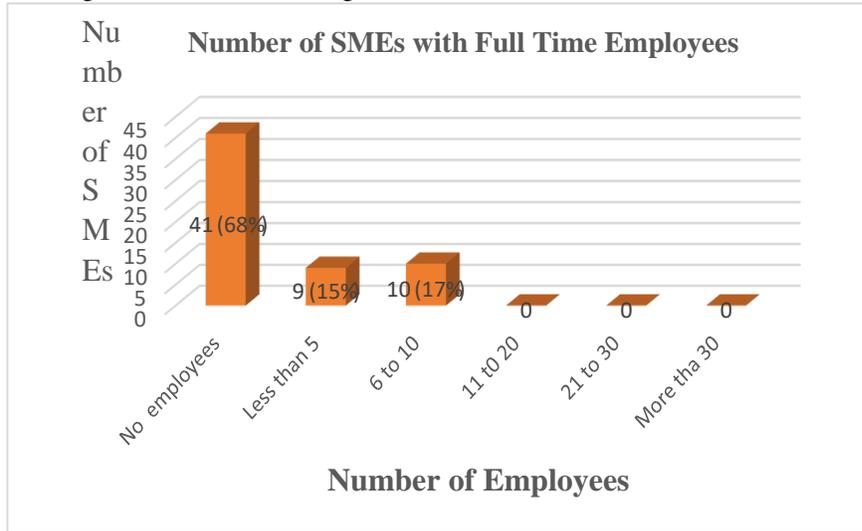
Response	Frequency	Percent
Yes	28	47
No	32	53

<b>Total</b>	<b>60</b>	100
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Table 4 shows that 28 of the respondents representing 47% registered their enterprises whilst the 32 (53%) did not registered their SMEs. It was observed that most of the SMEs were not legally registered.

**3.2.2 Number of full time Workers for the Enterprise**

The respondents were asked to state the number of full time workers for the enterprise under Covid-19. The following results are shown on figure 4.

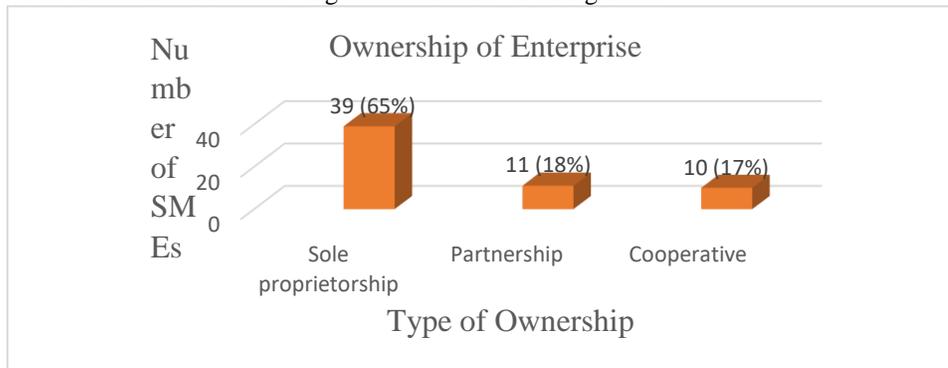


**Figure 4:** Number of SMEs with the number of full time workers

The figure shows the number of SMEs with the number of full time workers. The figure shows 41 SMEs representing 68% have not employed full time workers, 9 SMEs representing 15% have employed less than 5 full time workers and 10 SMEs representing 17% have employed 6 to 10 full time workers.

**3.2.3 Ownership of Enterprise**

The respondents were asked to state the kind of ownership in terms of sole proprietorship partnership and cooperative of the SMEs. The following results are shown on figure 5.



**Figure 5:** Type of Ownership

Figure 5 shows the type of Ownership of the SMEs. 39 SMEs representing 65% fall under the category of sole proprietorship, 11 SMEs representing 18% fall under the category of partnership and 10 SMEs representing 17% fall under the category of cooperative.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed all came up with one sub-theme saying summarized as, “SMEs a way to survive as a family”.

**3.2.4 Source of Business Finance of the Enterprise**

The respondents were asked to state the source of business finance of the enterprise. The following results are shown on table 5.

**Table 5: Source of business finance of the Enterprise**

Detail	Frequency	Percent
Family/friend	36	60
Savings	16	27
Financial Institutions	8	13
Total	60	100

Table 5 shows the source of business finance of the enterprises. 36 SMEs representing 60% depend on family/friend as the source of business finance of the enterprise, 16 SMEs representing 27% depend on savings as the source of business finance and 8 SMEs representing 13% depended on financial institutions as the source of business finance. The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed on this theme, all agreed that the source of business finance of the enterprise is solely from the owners of the SMEs this is due to the pandemic of covid-19. The finances come from family members, their own labour and very few get from Micro Finance Institutions as most of them can't manage to attain the conditions necessary from the banks. One Ministry of Finance official noted;

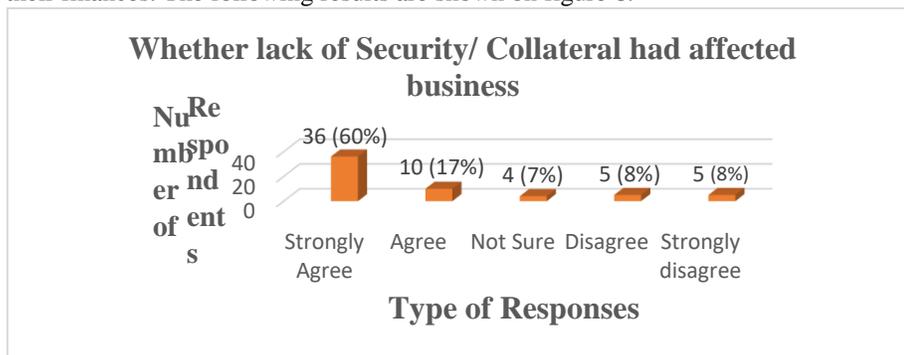
“Due to COVID-19 most of the SMEs depend on their families to start their businesses and very few get money from the banks. They expect to grow the money from the sales of their merchandises and which in most cases the profits are meant for the up keep of the family”.

**3.3 Internal Factors that affect Growth in SMEs due to Covid-19 in Kabwata Market, Lusaka**

The respondents and the Key Informants were tasked to state internal factors that affect growth in SMEs financing because of Covid-19 through the use of questionnaires and in depth interviews. In order to ascertain the above facts, certain major factors were measured in order to arrive at a conclusion. The findings were recorded either graphically or described according to themes.

**3.3.1 Lack of Security/ Collateral has affected their Business**

The respondents were asked to state whether lack of security/ collateral has affected their businesses in terms of growing their finances. The following results are shown on figure 6.



**Figure 6:** The State of lack of Security/ Collateral on business

The figure shows whether lack of security/ collateral has affected their businesses all because of covid-19. 36 SMEs representing 60% strongly agreed that lack of security/ collateral had affected their business; 10 SMEs representing 17% agreed that lack of security/ collateral had affected their business, 4 SMEs representing 7% were not sure, 5 SMEs representing 8% disagreed that lack of security/ collateral had affected their business and, 5 SMEs representing 8% strongly disagreed that lack of security/ collateral had affected their business.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed on this theme, all agreed that lack of collateral is the major factor preventing them from accessing loans from the financial institutions and the banks due to covid-19. One Micro Financial Institution noted:

*“Most SMEs owners do not own assets that have property rights. They mostly own household goods or properties such as televisions, beds, chairs, tables among others. Very few have assets that have property rights such as title deeds that banks require as collateral. As such it’s impossible for banks to let their money go without any sureties in case of eventualities, therefore, there are many risks from such owners”*

**3.3.2 How Lack of Equity Base has affected their Business**

The respondents were asked to state whether lack of equity base has affected their businesses. The following results are shown on table 6.

**Table 6:** Whether lack of equity base collateral had affected their business

Responses	Frequency	Percent
Strongly Agree	38	63
Agree	20	33
Not Sure	2	4
<b>Total</b>	<b>60</b>	<b>100</b>

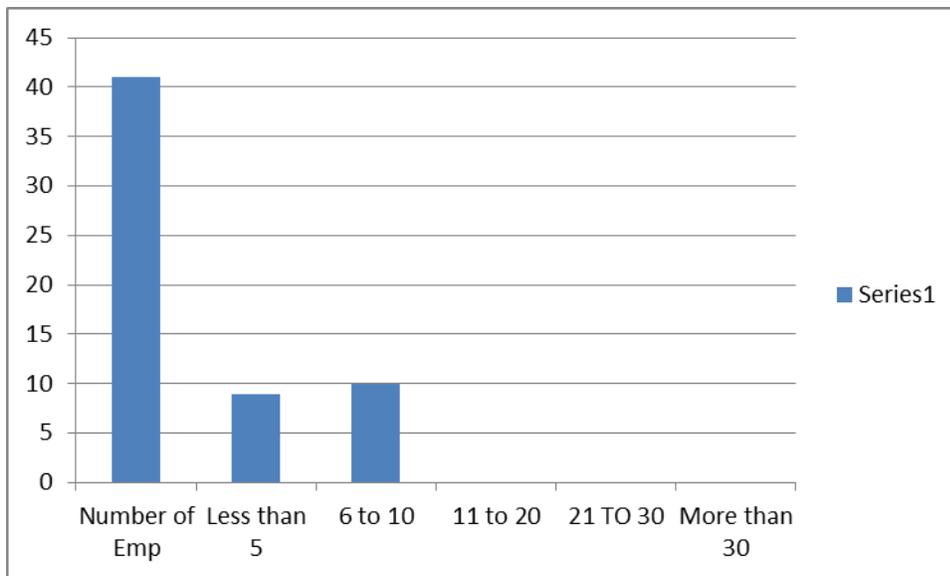


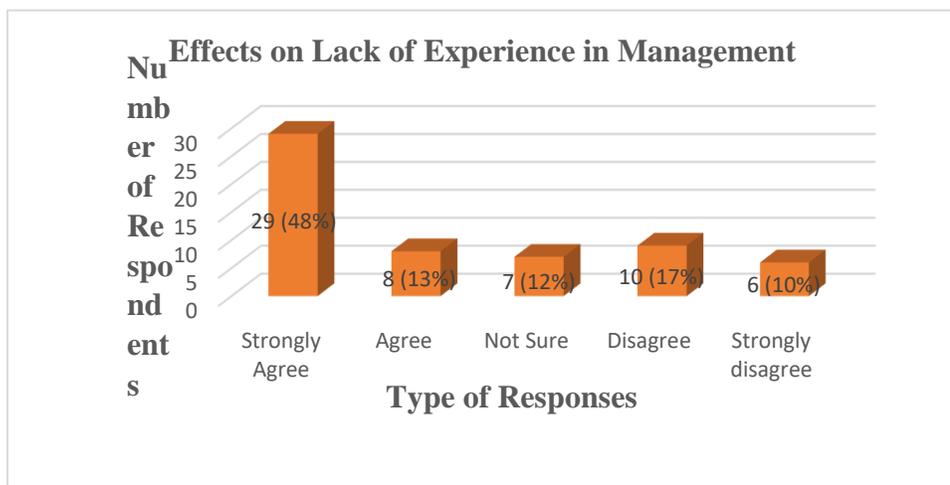
Table 6 shows whether lack of equity base has affected their businesses. 38 SMEs representing 63% strongly agreed that lack of equity base had affected their business; 20 SMEs representing 33% agreed that lack of equity base affected their businesses and 2 SMEs representing 4 % were not sure whether lack of equity base had affected their businesses.

The Micro Finance Institutions, Banks and Ministry of Finance officials who were interviewed on this theme all agreed that one of the reasons why even those SMEs that are registered fail to do is to contribute equity when they are asked to do so by lenders and financiers. Ministry of Finance official noted:

*“It becomes difficult for SMEs to contribute equity to any project as they lack enough resources for their businesses. If they contribute equity, it means that they stop carrying out their businesses and fail to feed their families. Their little money is tied up in their business and profit is mostly for home and family”*

**3.3.3 Lack of experience in management has affected their businesses**

The respondents were asked to state whether lack of experience in management has affected their businesses. The following results are shown on figure 7.



**Figure 7:** Whether lack of experience in management had affected their businesses. Figure 7 shows whether lack of experience in management had affected their businesses. 29 SMEs representing 48% strongly agreed that lack of experience in management had affected their businesses. 8 SMEs representing 13% agreed that lack of experience in management had affected their businesses, 7 SMEs representing 12% were not sure. 10 SMEs representing 17% disagreed that lack of experience in management had affected their businesses and 6 SMEs representing 10% strongly disagreed that lack of experience in management had affected their businesses. With regard to issue of SMEs management, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that, most of the SMEs were owned and operated by owners themselves compared to those managed and operated by workers. Moreover, most of them have gone into that business without training from formal institutions about entrepreneurship. The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that, nearly all SMEs were faced by lack of management in their daily operations that made them to get less income which in turn lowered their performance. One Micro Institution noted:

“It’s not surprising that most SMEs in Zambia are owned and managed by the entrepreneur and his/her family. What it means is that all the functions of management are carried out by the inexperienced manager himself and the children. In most cases accounting of resources becomes very difficult especially when it comes to record keeping. At the end of it, profit becomes difficult to ascertain without proper records. The manager becomes the jack of all trades”.

**3.3.4 Lack of Technology has affected their Businesses**

The respondents were asked to state whether lack of technology had affected their businesses. The following results are shown on table 7.

**Table 7: Whether lack of technology had affected their business**

Responses	Frequency	Percent
Strongly Agree	30	50
Agree	21	35
Not Sure	3	5
Disagreed	3	5
Strongly disagreed	3	5
<b>Total</b>	<b>60</b>	<b>100</b>

Table 7 shows whether lack of technology had affected their businesses. 30 SMEs representing 50% strongly agreed that lack of technology had affected their businesses. 21 SMEs representing 35% agreed that lack of technology had affected their businesses, 3 SMEs representing 5% were not sure. 3 SMEs representing 5% disagreed that lack of

technology had affected their businesses and 3 SMEs representing 5% strongly disagreed that lack of technology had affected their businesses.

Descriptive statistics of summary of internal factors affecting SMEs growth Table 7.1: Descriptive Statistics of factors affecting SMEs growth

	N	Mean	Std. Deviation	Skewness		Kurtosis	
				Statistic	Std. Error	Statistic	Std. Error
Lack of Security	60	4.59	.505	-.180	.398	-2.091	.787
Lack of Equity Base	60	4.22	.690	-.480	.398	-.845	.778
Lack of Experienced Management	60	3.69	.890	-.724	.388	.040	.749
Lack of Technology	60	2.36	1.150	.483	.388	-.776	.751
Valid N (listwise)							

The table above shows the number of respondents, mean, Std deviation, skewness and kurtosis of the above variables. Lack of security ( $M = 4.59$ ,  $SD = 0.505$ ) was the most agreed variable that affected access to finance, followed by lack of equity ( $M = 4.22$ ,  $SD = 0.69$ ), lack of experienced management ( $M = 3.69$ ,  $SD = 0.890$ ) and the least was lack of technology with ( $M = 2.36$ ,  $SD = 1.150$ ).

### 3.4 External Factors that Affect Growth in SMEs in Lusaka due to Covid-19

The respondents and the Key Informants were tasked to state whether there were some external factors that affected growth in SMEs financing because of covid-19 through the use of questionnaires and in depth interviews. In order to ascertain the above facts, certain proxy indicators were used in order to arrive at a conclusion. The findings were recorded either graphically or described according to themes.

### 3.4.1 How High Taxation had affected their Businesses

The respondents were asked to state whether high taxation had affected their businesses. The following results are shown on table 8.

**Table 8: Whether high taxation had affected their business**

Responses	Frequency	Percent
Strongly Agree	30	50
Agree	20	33
Not Sure	10	17
<b>Total</b>	<b>60</b>	<b>100</b>

Table 8 shows whether high taxation had affected their businesses. 30 SMEs representing 50% strongly agreed that high taxation had affected their businesses. 20 SMEs representing 33% agreed that high taxation had affected their businesses, 10 SMEs representing 17% were not sure.

With regard to issue of taxation, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that SMEs managers are always scared of the term taxation. One Ministry of Finance official interviewed observed that:

*“In most cases, when they hear about it, what comes into their mind is that profit is reduced and the SMEs are closed. It is one reason why most SMEs are not registered due to fear of taxation. In most cases, SMEs do not understand how tax is being implemented in Zambia.*

*Those who are registered are always scared of high taxation.” (Interview by the SMEs owner)*

### 3.4.2 High Interest Rates had affected their Businesses

The respondents were asked to state whether high interest rates had affected their businesses. The following results are shown on table 9.

**Table 9: Whether high interest rates had affected their business**

Responses	Frequency	Percent
Strongly Agree	25	42
Agree	30	50
Not Sure	5	8
<b>Total</b>	<b>60</b>	<b>100</b>

Table 9 shows whether high interest rates had affected their businesses. 25 SMEs representing 42% strongly agreed that high interest rates had affected their businesses. 30 SMEs representing 50% agreed that high interest rates had affected their businesses, 5 SMEs representing 8% were not sure.

With regard to issue of high interest rates, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that SMEs managers are always scared of high interest rates from banks who give loans to them. One bank official noted:

*“Because of high interest rates, SMEs owners are afraid to get loans because they feel they work for the banks not for themselves. This very reason has made SMEs owners to shun getting loans from banks”*

### 3.4.3 Tight conditions with Banks had affected their Businesses

The respondents were asked to state whether tight conditions with banks had affected their businesses. The following results are shown on table 10.

Table 10: **Whether tight conditions with banks had affected their business**

Responses	Frequency	Percent
Strongly Agree	40	67
Agree	15	25
Not Sure	5	8
<b>Total</b>	<b>60</b>	<b>100</b>

Table 10 shows whether lack of technology had affected their businesses. 30 SMEs representing 50% strongly agreed that lack of technology had affected their businesses. 21 SMEs representing 35% agreed that lack of technology had affected their businesses, 3 SMEs representing 5% were not sure. 3 SMEs representing 5% disagreed that lack of technology had affected their businesses and 3 SMEs representing 5% strongly disagreed that lack of technology had affected their businesses.

With regard to issue of tight conditions from banks, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that the conditions have made these SMEs managers to shun such loan services available to them. One banker notes:

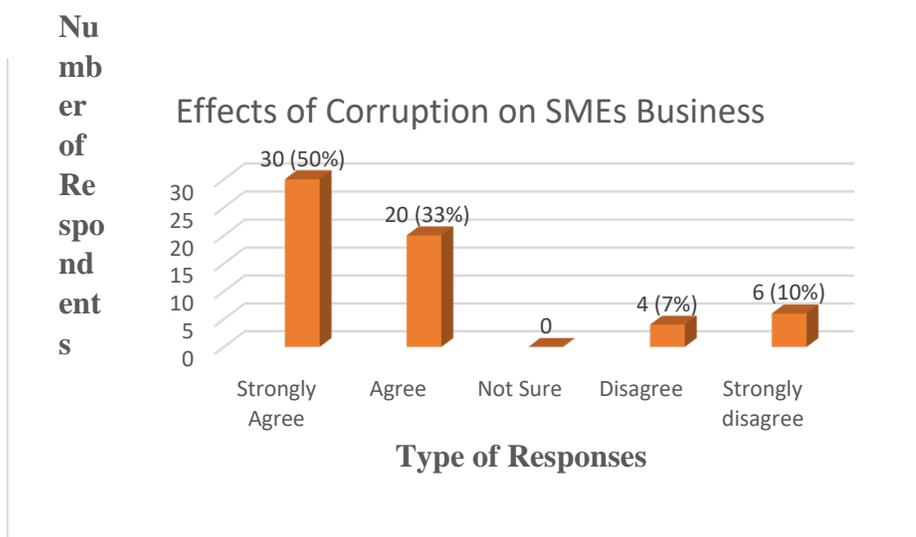
“The conditions that are required for one to get a loan are many on the side of SMEs’ owners. Medium and Large scale enterprises are able to get these loans because they have all what the banks require from them ranging from collaterals, better accounting and management of many resources”

The Ministry of Finance official observed that:

“There are few institutions which are providing loans and those that give loans provide loans with a lot of conditions such as high interest rates and short loans payback periods which made it difficult for entrepreneurs to access them”

#### 3.4.4 Effects of Corruption on SMEs Business

The respondents were asked to state whether corruption had affected their businesses. The following results are shown on Figure 8.



**Figure 8: effects of corruption on SMEs business**

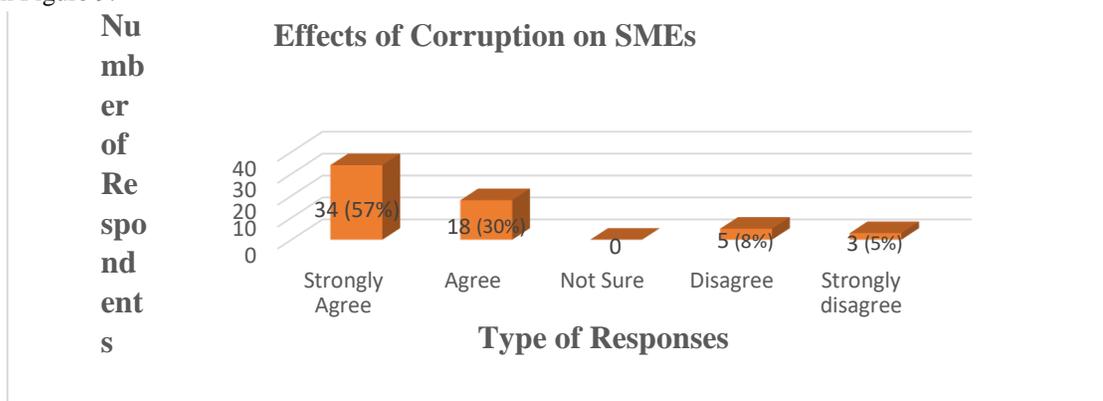
Figure 8 shows whether corruption had affected their businesses. 30 SMEs representing 50% strongly agreed that corruption had affected their businesses. 20 SMEs representing 33% agreed that corruption had affected their businesses, 4 SMEs representing 7% disagreed that corruption had affected their businesses and 6 SMEs representing 10% strongly disagreed that corruption had affected their businesses.

With regard to issue of corruption the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed acknowledged that corruption has affected many institutions in Zambia, hence forth has a spiral effect on the SMEs. One Ministry of Finance official acknowledged and observed that:

*“Corruption has affected all in Zambia, even where government wants to help SMEs through many institutions, you will find that those who are supposed to benefit lose out. Only those who are connected do get the services. Those who are not connected continue to suffer at the hands of the corrupted officials”*

### 3.4.5 Effects of Competition on SMEs

The respondents were asked to state whether competition had affected their businesses. The following results are shown on Figure 9.



**Figure 9:** effects of competition on SMEs

Figure 9 shows whether competition had affected their businesses. 34 SMEs representing 57% strongly agreed that competition affected their businesses. 18 SMEs representing 30% agreed that competition had affected their businesses, 5 SMEs representing 8% disagreed that competition had affected their businesses and 3 SMEs representing 5% strongly disagreed that competition had affected their businesses.

With regard to issue of competition, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed acknowledged that there is high competition in these SMEs because many of those go into the same enterprises such as retailing of the same materials.

### 3.4.6 Effects of Inflation on SMEs Businesses

The respondents were asked to state whether inflation had affected their businesses. The following results are shown on table 11.

**Table 11:** Effects of Inflation on SMEs businesses

Responses	Frequency	Percent
Strongly Agree	29	48
Agree	16	27
Not Sure	15	25
<b>Total</b>	<b>60</b>	<b>100</b>

Table 11 shows whether lack of technology had affected their businesses. 29 SMEs representing 48% strongly agreed that inflation had affected their businesses. 16 SMEs representing 27% agreed that inflation had affected their businesses, 15 SMEs representing 25% were not sure.

With regard to issue of inflation, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed acknowledged that inflation has been found to affect the SMEs negatively because those who borrow are affected as their money lose value.

### 3.5 Summary of the findings

A summary of the findings is provided. The data presented in this chapter was organized from their data collection tools that is results from the questionnaires and interviews. The findings from both the questionnaires and interviews were similar. That clearly showed that the majority of the respondents had a strongly feeling that there were factors affecting growth in a negative way in SMEs financing. Based on the findings, data analysis and discussions were provided, and lastly conclusions were made and later recommendations were proposed.

The findings on the State of Growth in SMEs financing in Lusaka, it was revealed that the majority of SMEs were not legally registered that is 53% did not register their SMEs, employ 1 to 10 full time workers, the majority fall under the sole proprietorship and the main source of finance or capital is from the family and friends.

The findings on whether there were internal factors that affect growth in finance, the study revealed that internal factors have been affecting growth in SMEs in Lusaka in that the majority 77% of SMES stated lack of collateral hampered their business operations resulting in unwillingness of banks to finance them; 63% lacked management experience in managing this type of business and 85% lacked technological advancement to enhance the overall performance.

The findings on whether there were external factors that affect growth in finance, the study revealed that external factors have been affecting growth in SMEs in Lusaka, results have revealed that 83% of the SME owners/managers stated that tax laws have added to the administrative burden of small businesses, 92% stated high interest rates affected businesses, 92% stated that financial institutions have tighter conditions on loans, 83% stated that corruption had hindered so much of their operations, 87% stated that competition had makes them fail to compete with many businesses and 75% stated that inflation had made them to lose the value of their capital.

## **DISCUSSION OF FINDINGS**

### **4.1 The State of Growth in SMEs in Lusaka**

The state of growth in SMEs was measured by certain observable characteristics that must show finance has brought certain observable phenomena. These were measured in terms of whether the enterprise was registered, the number of full-time workers for the enterprise, who owns the enterprise, and the source of business finance of the enterprise.

#### **4.1.1 Registered Enterprises**

The results revealed that 28 of the respondents representing 47% registered their enterprises whilst the 32 (53%) did not register their SMEs.

It was observed that most of the SMEs were not legally registered. Not legally registered means that business is not done in a formal way. When businesses are formally registered, there are many advantages that one gets from the business and outside business such as supplying goods to government departments among others. When businesses are not formally registered, there are many disadvantages. One such disadvantage is that SMEs cannot apply for a loan from the banks and micro finance institutions. This means that the capital for the business cannot grow. When there is no financial growth, it means the business is static.

The above finding agrees with the findings from the Ministry of Commerce, Trade and Industry, (2003-2004: 49) in a survey that was conducted and concluded as follows:

“...most of the MSMEs continue to operate as informal enterprises as only 2 percent are registered with the Patents and Companies Registration Agency (PACRA) which constitutes the main criteria for formality. Regulatory and administrative barriers, fees and financial requirements, corruption and criminality constitute the main reasons for low formality.”

Ministry of Commerce, Trade and Industry in a survey in 2008 on the micro, small and medium enterprise development policy again found that the existence of a large micro, small and medium enterprises sector, of which over 90% were informal, had serious implications on the functioning of the economy.

#### **4.1.2 Number of Full time Workers for the Enterprise**

The results revealed that 41 SMEs representing 68% had not employed full time, 9 SMEs representing 15% have employed less than 5 full time workers and 10 SMEs representing 17% have employed 6 to 10 full time workers. The findings mean that many of the SMEs do not employ full time workers. The full time workers in the range of 1 to 10 workers is extremely low. This means the owners do employ themselves together with their family, a sign that most SMEs have not grown up in terms of productivity. High productivity requires more employees. There are consequences of employing family members as compared to outsiders.

The research findings are concurred with the Ministry of Commerce, Trade and Industry (2003-2004) which revealed that the MSMEs sector employs 30 percent of the 4.9 million strong labourforce out of which 58 percent were entrepreneurs (self-employed). The study further revealed that the sector in Zambia was dominated by enterprises with a workforce of less than 10 employees. Among the studies that concur with this study is by Kumar and Yen (2006) who defined a small business as a business which is privately owned and operated, with a small number of employees and low volume of sales. Equally Muturi (2016) defined a Medium Industries Development Corporation which defined Small and Medium Enterprises according to two main factors, annual sales turnover and number of full time worker.

#### **4.1.3 Ownership of Enterprise**

39 SMEs representing 65% fall under the category of sole proprietorship, 11 SMEs representing 18% fall under the category of partnership and 10 SMEs representing 17% fall under the category of cooperative.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed all agreed with this sub-theme saying, “SMEs a way to survive as a family”. They looked at how these SMEs are owned by the owners

with their family, hence the ownership sole proprietorship fits them well. They all agreed that it is a way of survival by the owner and the family and as such the growth of SMEs in terms of finances was concluded to be difficult as it is from hand to mouth. The majority of the SMEs fall under the sole proprietorship. There are many advantages and disadvantages of such ownership. It does not create a difference between the entity and the owners in terms management. This means the owner of a sole proprietorship remains personally liable for all the business's debts. At the same time, he can do whatever pleases him/her. This means that finances in such a way cannot easily be accounted. Therefore, there is no difference between the owner and the business. There are advantages partnership as compared to sole proprietor because risks are diversified, consolidate business synergies, and form associations that can champion and lobby government for better business environment (ILO, 2005)

The above finding concurred with the Ministry of Commerce, Trade and Industry (2003-2004) which revealed that:

“The business profile factors like size of the firm and the firm structure influenced the level of SMEs listing. Since majority of the companies were family owned, there was fear of diluting ownership of the company and therefore most of the companies would shy away from listing to maintain the family ownership structure.”

The Ministry of Commerce, Trade and Industry (2003-2004) further revealed that most companies were not listing because they were family owned businesses and therefore had the fear of diluting ownership structure.

#### **4.1.4 Source of Business Finance of the Enterprise**

The results indicate that the majority of the respondents, constituting 60% of the total, reported relying on funds from family or friends as the primary source of business finance for their enterprise. This suggests a significant reliance on personal networks and informal channels for financial support. Additionally, 27% of the respondents indicated using their savings to finance their business, highlighting a considerable portion of entrepreneurs relying on their own resources. Conversely, a smaller proportion, accounting for 13%, reported accessing financial institutions such as banks or credit unions for business financing. The source of business finance of any enterprise is an important factor in business as it gives a relative standing in a way one uses the capital at his/her own discretion. Capital in the hands of the sole proprietorship, partnership and cooperative are differently handled and used in business. The source of business finance of the enterprise which is solely from the owners of the SMEs means she/he has control to use the finances without being questioned and as such, can disadvantage the business if the owner is careless in financial transactions.

Aligning these findings with other research conducted in similar contexts, studies have consistently shown a reliance on informal sources of finance by SMEs, especially in developing countries. Marjański, et al (2019); Gamage, et al (2020); Ramírez-Solís, et al (2023) all observed that, SMEs often turn to family and friends for financial support due to limited access to formal financing channels. Similarly, findings from a study by Smith et al. (2020) in emerging markets highlighted the significance of personal savings as a primary source of business finance among small business owners. Mwarari (2014) further adds that the main source of finance or capital in Zambia and other developing countries is from family and friends. This source of finance was found to be disadvantaged. Generally, this type of capital tends to be for lower financial value in terms of and is usually taken in the form of equity or part ownership rather than a debt due to the uncertainty of the growth of the business (Wolf, 2015). It can be concluded that the prevailing reliance on personal networks and informal channels for business financing, as shown by the findings and supported by relevant research, highlights the challenges faced by SMEs in accessing formal financing channels, particularly in developing countries

Furthermore, the observed lower proportion of SMEs gaining access to formal financial institutions reflects a range of research that highlights the enormous obstacles small businesses face in obtaining credit from banks or other financial institutions. Extensive studies by Ardic et al. (2012), Quartey et al. (2017), and Ussif&Salifu (2020) have addressed the various barriers hindering SMEs' access to finance in Africa, highlighting the daunting challenges posed by financial institutions' strict eligibility criteria. These studies highlight the complex situation of small businesses, where navigating the formal financing ecosystem remains an arduous task full of hurdles and obstacles. It is right to argue that, although Small and medium-sized enterprises (SMEs) play a central role in the socio-economic and political landscape of both developed and developing countries, their success and sustainability depend largely on having sufficient financial resources and managing them effectively. However, many SMEs face significant challenges in obtaining finance, which directly impacts their ability to innovate, expand, and compete in the market. Pephrah (2016) a comparative study between Finland and Ghana further highlighted the different challenges faced by SMEs in different contexts. Ghanaian banks impose strict collateral requirements due to increased risk of loan default, while Finnish SMEs struggle with low interest rates that deter euro area banks. Despite the crucial role of banks in facilitating SME financing, these companies often face obstacles when seeking credit.

Banks assume that SMEs carry higher credit risks than larger companies, leading to strict scrutiny of management capacity, environmental conditions and collateral guarantees, complicating loan approval processes.

#### **4.2 Internal Factors that Affect Growth in SMEs Financing in Lusaka due to COVID-19**

The study on internal factors affecting the growth of SME financing in Lusaka due to COVID-19 sheds light on various challenges inherent in the internal business environment of SMEs and reflects similar findings from previous research. These challenges include issues such as security/collateral, lack of capital base, insufficient management experience and inadequate technological infrastructure, all of which have been identified as significant barriers to SME growth. In particular, the lack of security/collateral was a major problem, with 60% of SMEs surveyed strongly agreeing that this had had a detrimental impact on their business, confirming previous observations by Govori (2013) in Kosovo. Govori noted that many SMEs, particularly new businesses, have had difficulty accessing external financing due to a similar lack of collateral and banks' reluctance to finance newly created small businesses. Additionally, findings from interviews with stakeholders, including microfinance institutions and banks, and Ministry of Finance officials supported these findings, emphasizing that lack of collateral and capital are the biggest barriers to accessing credit from financial institutions. The findings of the current study reaffirm what many researchers such as Zairani&Zaimah (2013); Zylfijaj, &Nikoloski, (2016); Nure (2021); Islam, Saha, & Rahman, M. (2023) in their studies found. The studies revealed lack of required collateral as a key reason for the challenges faced by SMEs in borrowing from banks. Their research highlighted that the inability to provide sufficient collateral hindered SMEs' access to finance, reflecting the sentiment expressed by SMEs in Lusaka. In addition, the problem of lack of property rights, such as: Such as title deeds to land, the lack of security challenges for SME owners and increases internal risks that hinder their operations. This multifaceted challenge highlights the complexity of the SME financing landscape and requires comprehensive solutions to address both internal and external barriers to growth.

##### **4.2.2 Lack of Equity base has affected their Business**

The impact of a lack of equity capital on SMEs' operations was highlighted in the study, with a significant proportion of SMEs surveyed agreeing to the detrimental impact. Specifically, 63% of SMEs strongly agreed, while another 33% agreed that the lack of an equity base had an impact on their businesses. Conversely, only a small percentage (4%) were unsure about these impacts. Findings from interviews with stakeholders, including microfinance institutions, banks and Ministry of Finance officials, further confirmed this finding and highlighted the reluctance of SMEs, even those that are registered, to contribute equity when required by lenders and financiers. The study revealed that SMEs often do not have sufficient capital and rely primarily on the owners' own investments. However, the challenge arises when additional investment is required as capital availability is often limited, resulting in lower returns due to minimal investment. This highlights the importance of capital infusion into SMEs, as significant investments enable the acquisition of modern means of production such as machinery and transport equipment, the hiring of skilled workers, the development of infrastructure and the conduct of market research, thereby leading to an increase in production. Consequently, SMEs with larger initial investments tend to perform better than those with limited capital, as capital size significantly influences growth and income generation for business owners.

The findings agree with many empirical researchers. Govori (2013) on access to finance in Kosovo observed that SMEs started their businesses with their internal or owners' equity. This was observed from almost all new enterprises which had difficulties in accessing external financing.

This was compounded by SMEs' lack of collateral and the unwillingness of banks to finance new established small enterprises. Pandula (2011) also concluded by saying that many new firms may not have accumulated adequate assets and may not meet the collateral requirements of financiers.

This made it difficult for them to access loans.

##### **4.2.3 Lack of Experience in Management has affected their Businesses**

The study found that a lack of management experience had a significant impact on SMEs' businesses, with a significant proportion of respondents acknowledging the negative impact. Specifically, 49% of SMEs strongly agreed, while another 14% agreed that the lack of management experience had affected their businesses. Conversely, 12% were unsure, while 15% disagreed and 10% strongly disagreed. Findings from interviews with stakeholders, including microfinance institutions, banks and Ministry of Finance officials, further highlighted the management challenges faced by SMEs. It was found that most SMEs are owned and operated by their owners, often without formal training in entrepreneurship through educational institutions. Consequently, a lack of management skills in day-to-day operations has been identified as a common problem among SMEs, leading to lower revenue and performance. The results highlight the crucial role of effective management in the success and survival of SMEs. Notably, 63% of SME owners/managers said that lack of management experience has hindered their business. Effective management includes planning, control, leadership, organization and staffing, all of which are essential to the success of SMEs. Failure to acquire the necessary management skills often leads to the downfall of SMEs.

These results are consistent with previous research. Hisrich&Drnovsek (2002) demonstrated the positive relationship between management skills and SME performance, while Martin &Staines (2008) supported the view that entrepreneurs often lack key elements of business management when starting new businesses. Similarly, Shepard, Douglas, and Shanley (2000) emphasized the importance of entrepreneurs' experience and knowledge in various functional areas of business for survival and success. In addition, studies by Lotz& Marais (2007) and Sola, Teruel& Solano (2014) emphasized the importance of experience and knowledge for entrepreneurial success.

#### **4.2.4 Lack of Technology Has Affected Their Businesses**

The study highlighted the significant impact of a lack of technology on SMEs' businesses, with a significant percentage of respondents acknowledging the negative impact. Specifically, 50% of SMEs strongly agreed, while another 35% agreed that the lack of technology had affected their businesses. Conversely, only a small percentage (5%) were unsure or disagreed with this claim. Findings from interviews with stakeholders, including microfinance institutions, banks and finance ministry officials, revealed widespread deficiencies in technology adoption among SMEs. The majority (85%) of SME owners/managers emphasized the importance of technological advancements in driving SME growth. They recognized that in today's modern business environment, technology plays a critical role in simplifying operations, facilitating communication, and enabling efficient information exchange. Without technology, companies face significant challenges in remaining competitive and achieving sustainable growth. These results are supported by previous research. Levey and Powell (2000) demonstrated the positive impact of technology adoption, particularly information technology, on SME performance. They highlighted its role in storing information, communicating with stakeholders and generally improving business transactions, resulting in improved operational efficiency and reduced costs. Similarly, Arinaitwe (2006) highlighted the critical importance of technological capabilities for SMEs in addressing growth challenges, particularly in developing countries where government support alone may not be sufficient to address technological deficiencies.

#### **4.3 External Factors that Affect Growth in SMEs in Lusaka due to COVID-19**

The study examined external factors to determine their impact on SME growth in Lusaka amid the COVID-19 pandemic. Several challenges have been identified in the external business environment of SMEs, including high taxes, high interest rates, strict banking conditions, corruption, competition and inflation. High taxes emerged as a significant problem, with 50% of SMEs strongly agreeing with this statement and a further 33% agreeing that it has had an impact on their business. 17% of SMEs expressed uncertainty in this regard. Findings from interviews with stakeholders, including microfinance institutions, banks and finance ministry officials, showed that SME managers often view taxes with concern. The survey results also showed that 83% of SME owners/managers believed that tax laws had a negative impact on their business growth. In many developing countries, inconsistent tax rules and burdensome tax regulations have reduced the profits of SMEs. These results are consistent with previous research indicating that tax compliance costs have a negative impact on SMEs. Studies by Chisumpa et al (2020); Thabani, & Richard (2020) showed that the burden of tax compliance has a negative impact on SMEs, particularly in areas such as income tax and value added tax (VAT). Furthermore, Mollentz (2002) identified income tax and VAT as the areas of greatest challenge to SME compliance. Tax requirements not only increase administrative burdens but also divert resources that could otherwise be used for more effective business management (Abrie and Doussy, 2006). External factors were equally studied in order to ascertain whether they had an effect on the growth of SMES. There are many challenges in that regard in the external environment of SMEs. The study collected data on such factors, which included high taxation, high interest rates, tight conditions with banks, corruption, competition and inflation.

##### **4.3.1 High Taxation's Impact on SMEs**

The impact of high taxation on SMEs High taxation is a major concern for SMEs, with a significant proportion of respondents supporting its adverse impact. Specifically, 50% of SMEs strongly agreed, while 33% agreed that high taxes had affected their businesses. Insights from stakeholder interviews showed that SME managers have concerns about taxation: 83% of SME owners/managers felt that tax laws had hindered business growth. Previous research supports these findings and suggests that tax compliance costs have a negative impact on SMEs, particularly in areas such as income tax and VAT (Venter and de Clercq, 2007; Mollentz, 2002; Abrie and Doussy, 2006 ).

##### **4.3.2 High Interest Rates' Impact on SMEs**

High interest rates emerged as another major concern, with 42% of SMEs strongly agreeing and 50% agreeing that it has had an impact on their business. Interviews with stakeholders showed that SMEs have widespread concerns about high interest rates from banks. 92% of SME owners/managers believe that high interest rates have a negative impact on their business. Previous studies confirm these results and highlight the negative impact of high lending rates on the economic development and growth of SMEs (Oaya and Mambula, 2004; Storey, 2014; Okezie et al., 2014; Obiajuru, 2012).

#### **4.3.3 Tight Conditions with Banks and Their Effect on SMEs**

Strict requirements from banks were also cited as a further challenge, with 50% of SMEs strongly agreeing that this has had an impact on their business. Stakeholder interviews revealed that strict conditions have deterred SMEs from accessing credit, with 92% of SME owners/managers having a negative perception of these conditions. Previous research supports these findings and suggests that stringent conditions hinder SMEs' access to credit and subsequently impact their growth (Oaya&Mambula, 2004).

#### **4.3.4 Corruption's Influence on SMEs**

Corruption was found to be a major problem among SMEs: 50% strongly agreed and 33% agreed that corruption had impacted their business. Stakeholder interviews revealed that the damaging effects of corruption are widely recognized: 83% of SME owners/managers felt that corruption had a negative impact on their business. Previous studies support these findings and indicate that corruption hinders the operations of SMEs and contributes to low formality (World Bank, 2005; Ministry of Trade, Commerce and Industry, 2003–2004).

#### **4.3.5 Competition's Impact on SMEs**

Competition was identified as a major challenge, with 57% of SMEs strongly agreeing and 30% agreeing that it has affected their business. High levels of competition were highlighted in stakeholder interviews, with 87% of SME owners/managers perceiving this negatively. Previous research suggests that competition poses a risk to the survival of SMEs and has a negative impact on investment (Govori, 2013; World Bank, 2010).

#### **4.3.6 Inflation's Effects on SMEs**

During the pandemic, inflation exacerbated challenges for SMEs in Zambia. With 48% of SMEs strongly agreeing and 27% agreeing that inflation has impacted their businesses, it became clear that rising prices and falling purchasing power were significant barriers. Stakeholder interviews further highlighted the damaging effects of inflation, with 75% of SME owners/managers expressing negative perceptions. This result is consistent with previous studies that highlight a weak currency and high inflation rates as characteristic of the Zambian economic environment (Ehlers & Lazenby, 2007). Additionally, SMEs reported difficulty maintaining the affordability of their goods and services, resulting in lower consumer demand and revenue. The economic downturn caused by the pandemic as highlighted by Mwiinga et al (2020), combined with inflationary pressures, strained SMEs' financial resources and reduced their profit margins. This scenario posed a particular challenge for SMEs operating on thin profit margins, exacerbating their financial burden and impacting their ability to maintain operations and growth amid the pandemic-related economic uncertainty.

### **4.4 Conclusion and Recommendations**

#### **4.4.1 Conclusion**

The growth of SMEs in Kabwata Constituency, Lusaka are closely associated with a number of factors. The present study revealed that some factors have adversely affected the growth of SMEs in Kabwata Constituency, Lusaka. Financial inadequacy is a factor which has significantly constrained the growth and expansion of the SME sector in Kabwata Constituency, Lusaka. The lack of access to new technology is another vital factor which has limited the growth and expansion of SMEs. However, access to new technology is directly linked to the availability of financial resources. Government regulations on imports and exports, particularly imposed duties and restrictions on certain raw materials also act as limitations on the growth and expansion of SMEs. This study also revealed that the level of education of the owner of the enterprise has a direct impact on the growth of SMEs. Moreover, this study revealed that the majority of Kabwata SMEs have little access to the international market and serve only the domestic market which in turn has hurt the expansion of SMEs.

#### **4.4.2 Recommendations**

The findings have revealed a number of issues which required the researcher to make specific recommendations at the following levels that were set out in chapter one under significance of the research. These are: SMEs owners, the-would be small investors in SMEs, the government or policy makers (Ministry of Finance). The following are specific recommendations that have been proposed by the researcher.

##### **1. At the Level of SMEs Owners**

In order for the SMEs owners to help themselves trying to resolve the problem of factors affecting growth in SMEs financing, the researcher proposed that SMEs owners/managers have to work hard to formalize their businesses such as registration in order to do business in a formal way and get advantages that go with formal registration. There are many benefits of registering a business such as applying for loans, supplying goods to other registered companies among others. Another recommendation is that SMEs must avoid proprietorship type of ownership as this will merge them with potential investors such as a cooperative that is SMEs should form cooperatives to guarantee them for credit facilities as this will boost their owners' equity. The co-operative model is the best for SMEs especially when most SMEs are at a micro level. The SME owners/managers are also recommended to take advantage of

government programmes to train them in many management issues that will help them to run their businesses and SME owners/managers to take advantage of technological advancement to improve their business.

## **2. Availability of Managerial Skills**

The government should start offering basic business and financial management skills as this will enable the SMEs to make informed investment decisions. This will enhance their entrepreneurial skills that will enable them to recognize and exploit the available business opportunities.

## **3. Access to Infrastructure**

Access to infrastructure affects the growth of SMEs only to a moderate extent. However, the study recommends renovations of public goods such roads, electricity power and water to weather changes.

## **4. Access to Finance**

The study found out that most SMEs prefer to use personal savings and contributions from relatives because they find it very difficult to access financing from commercial banks due to strict requirements such as collateral security and high repayment costs. The study there fore, recommends that banks and other credit giving financial institutions should come up with creative policies that make it easy for the SMEs to access financing.

## **5. Government Policy and Regulations**

The study found out that the government policy and regulations has a moderating effect on the growth of SMEs .The study therefore recommends that the government should move in quickly to create policies that favour the growth and expansion of SMEs. This will save the businesses from the challenges they face when trying to access financing from mainstream commercial banks.

## **6. At the level of the would be Small Investors in SMEs**

In order to help the would be SMEs, it is recommended that the would be SMEs are aware of what goes on in the sector before rushing into the sector. Awareness and understanding the problem of factors affecting growth in SMEs financing will help the would be SMEs to make a judicious decision before joining the sector.

## **7. At the level of the Government or Policy Makers (Ministry of Finance)**

Having looked at the contribution of SMEs in various literature reviewed and realized the importance of this sector in the economic development of this country, the Government should seriously regulate many external factors affecting finance such as tax laws, interest rates and tighter conditions by banks so that many would be and those already in the sector could help grow the economy, especially at a time when many white-collar jobs are scarcely available and make the SMEs to benefit more.

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