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FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

THE ROLE OF MICROFINANCE INSTITUTION IN SMEs DEVELOPMENT IN ZIMBABWE (CASE STUDY: HIGHGLEN COMPLEX)

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THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING AND FINANCE OF BINDURA UNIVERSITY OF SCIENCE EDUCATION. FACULTY OF COMMERCE.

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APPROVAL FORM

We, the undersigned, affirm that we have provided supervision for dissertation titled "The role of microfinance institutions in SME development in Zimbabwe." This dissertation was submitted as a partial fulfilment of the requirements for the completion of a Bachelor of Commerce (Honours) Degree in Banking and Finance at Bindura University of Science Education.

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DEDICATION

This dissertation is dedicated to my family and friends. I would like to express my deep appreciation for their unconditional love and support during this academic journey. I recognize that my family and friends have been a source of motivation, inspiration, and emotional support, guiding me through the highs and lows of my research journey. Without their love and support, I would not have achieved my academic success. I want to express my gratitude to them for their continued love, support, and unconditional support throughout this process.

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ABBREVIATIONS

SME	Small and Medium Enterprises
SMME	Small Medium and Micro Enterprises
MFI	Microfinance Institutions
IFC	International Finance Corporation
APEC	Asian-Pacific Economic Cooperation
SMED	Small and Medium Enterprises Development
GL	Group loans
RFA	Received financial assistance
PS	Personal Savings
HIR	High Interest Rates

ABSTRACT

SMEs are an essential sector for both individual and national growth, however, financial constraints or limited access to finance can impede their development. For example, in a developing country such as Zimbabwe, many SMEs rely on their funds, family member's loans, bank loans and crowdfunding to launch and grow in their business. In other words, formal funding sources are not easily accessible to SMEs. Therefore, this study aimed to identify the difficulties SMEs face when accessing credit in microfinance institutions (MFIs), evaluate the strategies implemented to ensure access to credit for SMEs, and recommend alternative sources of funding for SMEs.

This study used a descriptive research design to collect primary data, targeted at 100 SMEs and randomly selected a sample of 50 participants using simple random sampling techniques to collect data. Subsequently, the data was aggregated through questionnaires, while the quantitative data was analysed using the Statistical Package of Social Sciences. The findings of the study revealed that loans can be beneficial for SMEs in terms of fundraising, asset accumulation, job creation, and quality of life, all of which are conducive to SME growth and development. As a result, the research outcomes suggest that microfinance institutions have a key role to play in supporting SME growth in Zimbabwe.

On the other hand, the study revealed that high interest rates, the lack of collateral, time taken to grant service and the lack of reliable source of repayment were some of the factors that impede the availability of credit to SMEs owners. In order to ensure that credit is accessible to SMEs owners, the study suggest that prices such as interest rates should be reduced, group loans should be prioritised. Microfinance institutions (MFIs) should provide training and support to SMEs, and, where feasible MFIs should be subsidised by the government in order to assist SME owners in obtaining affordable loans. Additionally, this study suggests that other financial sources such as personal savings, venture capital, crowdfunding, government assistance and support from friends and family.

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CHAPTER ONE

INTRODUCTION

1.1 Background of study

The concept of financial inclusion proved to be a basic factor in the expansion of the small and medium enterprises sector, which contributes to the resilience of the national economy in all countries, including Zimbabwe .This is due to its capability to generate domestic demand through creation of vast employment opportunities, technological advancement and competitive advantage (Economic and Social Commission for Asia and the Pacific, 2017).The small and medium enterprise (SME) sector has been long regarded as a pivotal pillar of global economic growth. The industry is distinguished by low capital requirements and operational flexibility. This sector is the backbone of any economy and key driver of economic development, change and adaptability in countries like Zimbabwe as well as other developed and emerging economies (Nichter & Goldman, 2019). Two thirds of all new jobs are created by small and medium-sized enterprises and the majority of new jobs around the world are created by SMEs. In developing economies, SMEs make up 90% on non-farm business, drive growth in employment, and contribute to both domestic and international income (Organization for Economic cooperation and Development report, 2015).

According to OECD (2010) the funding gap that affects the SMEs is often known as the growth capital gap. Vast of funds may be needed to finance projects which have the probability of high growth, and the profits associated with these projects are often difficult to predict. Financing restrictions can be particularly challenging for start-ups and small businesses that depend on intangible assets as a core component of their businesses, as these assets are very firm-specific and are difficult to employ as a form of collateral in debt arrangements. However, for the vast of companies, there are few alternatives options to traditional debt. This presents a major obstacle for policy makers aiming for a long-term economic growth and sustained recovery, as these companies are often pioneering in job creation, the implementation of novel technologies and the development of new business model.

In most countries, this is where microfinance institutions come into play. Microfinance offers financial services to small and medium enterprises that are not easily accessible to banks and other financial institutions. The main objective of micro-financing is to assist the poor in overcoming poverty, thus contributing to economic growth and serving the informal economy. Micro-financing encompasses a wide variety of services, including insurance, savings, remittances and non-finance services such as education and counselling.

Tanzania is one of the African developing countries with a large number of citizens who work in the private and informal sectors, which are SMEs, to make a living. A significant proportion have reported a lack of financial resources to operate their businesses, with the problem of capital being a major impediment to their operations. Furthermore, a majority of SMEs (49.1 %) believe that the government should provide them with financial support in the form of microfinances in order to facilitate the growth in their businesses (National Bureau of Statistics, 2012)

MFIs were fully developed in Cameroon in the 1980s, during a severe financial crisis that forced many banks to close. People were forced to open accounts with the microfinance institution due to bank problems at the time. Small and medium-sized businesses require production factors such as land, labour, and capital to grow. These are the factors that enable the effective growth of these small businesses. Small and medium-sized enterprises have significantly aided development and reduced unemployment in Cameroon (Abdulaziz, 2016)

1.2 Statement of problem

The economy of Zimbabwe is currently in a state of disarray as evidenced by the 125% inflation rate in Mangudya (2023). Zimbabwe is in dire need of significant economic growth. Zimbabwe is witnessing disinvestment as key economic stakeholders pull out due to high inflation and interest rate which makes investment expensive. These key economic stakeholders include multinational corporations and private investors. The unemployment rate is high due to the lack of much needed job creation efforts and current economic state of the country. Job creation and alleviating poverty are two of Zimbabwe’s most pressing issues. Zimbabwe’s ability to address high unemployment and poverty level is partly affected by the country’s deteriorating economic conditions due to enforcement measures and high inflation rate. Given the many economic challenges facing the country, encouraging and supporting small and medium-sized enterprises (SMEs) in Zimbabwe is crucial. High interest rates make it expensive to borrow capital. This leads to low levels of investment. The weaker currency makes it difficult and expensive to import raw materials. Zimbabwe's small and medium-sizes enterprise (SMEs) face a challenge when it comes to access to finance. Microfinance represent one of the largest development programs in terms of both the number of beneficiaries and the scope of the program. A conducive environment for SME growth is essential.

1.3 Research objective

1.3.1 Primary objective

- To investigate the role of microfinance institution in the development of SMEs in Zimbabwe

1.3.2 Secondary objectives

- To assess the challenges SMEs face in accessing credit in microfinance institutions.
- To assess the strategies put in place to ensure credit availability among SMEs
- To recommend alternative sources of funding that SMEs can resort to.

1.4 Research questions

1.4.1 Primary research questions

- What is the role of microfinance institutions in the development of SMEs in Zimbabwe?

1.4.2 Secondary research questions

- What are the challenges faced by SMEs in accessing credit from microfinance institutions?
- What strategies are in place to ensure credit availability for SMEs?
- What alternative funding sources are available for SMEs?

1.5 Significance of study

This study provides insight into the role of microfinance institutions in providing financial services to previously excluded groups at an affordable cost in order to facilitate inclusive growth. The successful development strategy will ensure a mutually beneficial relationship between the institution and the society, as the interest charged are an integral part of the growth strategy. In this context, the society will gain from this study by being able to access a wider range of financial services, thus expanding their businesses. In accordance with the level of Banking and Finance, this research will enable the student to have a thorough understanding of SMEs, clarify ambiguities, and establish a balance between collaboration and individual work. This study is beneficial to the researcher, as it provides them with skills that can be applied to further research in the future. The recommendations provided in this study will enable the SMEs and microfinance institutions to become better versions of themselves and adopt novel strategies in their development .

1.6 Limitations of study

There are several limitations that the researcher faced and these are;

- Time constraint -The researcher was conducting this researcher trying to balance the research and other school projects which led to biased results as there are other areas which the researcher was not exposed to due to limited time.
- Causation vs correlation -it may be difficult to establish a causal relationship between the role of microfinance and the development of SMEs. It is possible that other factors such as government policies or market conditions are driving the growth of SMEs.
- Data Availability-The availability of data on the performance of SMEs and microfinance institutions was limited, making it difficult to draw valid concussions.

1.7 Chapter Summary

This chapter provided an explanation of the reasons of conducting the study and outlined the objectives and issues that the study aims to address. It also outlines the limitations of the study in order to determine the contribution of microfinance institutions to the development of small and medium-sized enterprises (SMEs). A literature review will be discussed in the subsequent chapter.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

A literature review defines a systematic approach to finding and analysing relevant documents related to the topic that is currently under study . This current chapter will be structured based on the objectives and will focus on examining and evaluating existing literature that pertains to the use of microfinance for the development of SMEs . The aim of this chapter is to establish a theoretical framework for the study by synthesizing and analysing relevant literature.

2.1 Conceptual framework

2.1.1 Microfinance

Armendariz and Labie (2021) described microfinance as the provision of a broad range of services which are financial in nature including credit, savings, insurance, remittances, and payments to individuals who have limited access to formal financial institutions. It was emphasized that microfinance is not just about providing credit, but also includes other financial services that are essential for improving the lives of low-income individuals and promoting economic development. Microfinance, as defined by Blundell (2008), refers to the provision of financial services to individuals who are self-employed and have low incomes. These individuals are typically excluded from traditional financial systems due to a lack of collateral, consistent employment, and a verifiable credit history. However, microfinance goes beyond just providing loans to the poor, it also includes other financial services such as deposits, payment services, money transfers, and insurance products to help empower low-income households and microenterprises to improve their living standards and increase their income levels.

The ultimate goal of microfinance, as stated by Yunus (1997), is to provide permanent access to a wide range of financial services to low-income clients, thereby integrating them into mainstream financial systems. This can be achieved by creating an enabling environment that supports the provision of financial services to the poor, and by building the capacity of microfinance institutions to effectively deliver these services. In recent years, there has been a growing recognition of the importance of microfinance as a tool for poverty reduction and economic development. However, there have also been criticisms of the microfinance industry, particularly around issues of over-indebtedness and high interest rates. Microfinance has been recognized as an important tool for promoting the growth and development of small and medium-sized enterprises (SMEs) in low-income communities. Recent studies have shown that access to credit through microfinance institutions (MFIs) can increase the ability of SMEs to undertake profitable investments, leading to an increase in employment and income levels and ultimately contributing to poverty reduction (Khandker, Samad, & Khan, 2019; Morduch, 2019).

In particular, microcredit has been shown to be an effective way of providing credit to poor entrepreneurs who lack access to formal financial institutions. By providing small loans and other financial services, MFIs can help to overcome the liquidity constraints faced by these entrepreneurs and enable them to invest in their businesses (Armendáriz & Morduch, 2019). In addition, MFIs with high outreach and financial sustainability can have a positive impact on SME development by providing sustained access to credit (Cull, Demirguc-Kunt, & Morduch, 2019).

However, it should be noted that the relationship between microfinance and SME development is not always straightforward. Other factors such as managerial skills, market access, and infrastructure also play a crucial role in SME growth (Beck, Demirguc-Kunt, & Singer, 2019; Fafchamps & Woodruff, 2019). Overall, while microfinance is not a panacea for all the challenges faced by SMEs, it can be an important tool for promoting their growth and development, particularly in low-income communities. As such, policymakers and practitioners should continue to explore innovative ways of expanding access to microfinance for SMEs while also addressing other important factors such as skills development and infrastructure improvement (Mia, Rahman, & Islam, 2019).

2.1.2 Microfinance lending to Small and Medium Size Enterprises

Microfinance lending to SMEs is an important aspect of microfinance. SMEs are a vital engine of economic growth in many developing countries, but they often face difficulties in accessing finance from traditional sources due to a lack of collateral or a credit history. Microfinance institutions (MFIs) can play a crucial role in providing finance to SMEs, as they are often more willing to lend to these businesses than traditional banks. MFIs can also provide other services, such as business training and technical assistance, which can help SMEs to grow and become more successful.

However, lending to SMEs can also be risky for microfinance institutions, as these businesses often have less stable income streams than larger corporations. Therefore, it is important for MFIs to have effective risk management systems in place to ensure that they are lending responsibly and that their loan portfolios remain sustainable. However, it becomes extremely difficult for MFIs to grant credit, especially when they lack adequate collateral, thus in order to ensure that a loan is secured, the SME must provide acceptable collateral security. MFIs use a variety of lending strategies to provide credit to small businesses, including financial statement lending, asset-based lending, credit scoring lending, and relationship lending. Lending procedures include the combination of customer information, policy selection, loan contract form and observation techniques. The above classifications are broadly divided into two categories: hard data (quantitative data) and lending relationships (qualitative data), (Berger and Udell, 2004). Overall, microfinance lending to SMEs can be a powerful tool for promoting economic development and reducing poverty, but it requires careful planning and management to ensure that it is effective and sustainable over the long term.

2.1.3 Small and Medium Enterprises

Small and Medium Enterprises (SMEs) are a vital component of economies around the world. According to the International Finance Corporation (IFC), SMEs account for approximately 90% of businesses and 50% of employment worldwide. However, despite their importance, SMEs often face significant challenges in accessing finance, which can hinder their growth and development. SMEs are typically defined as businesses with fewer than 250 employees and an annual turnover of less than EUR 50 million or a balance sheet total of less than EUR 43 million (European Commission, 2003). These businesses play a crucial role in creating jobs, driving innovation, and promoting economic growth. However, SMEs often struggle to access finance from traditional sources such as banks, as they may lack collateral or a credit history.

One solution to this problem is microfinance, which refers to the provision of financial services, including credit, savings, insurance, and payments to low-income individuals and small businesses. Microfinance institutions (MFIs) have been successful in providing finance to SMEs in many developing countries, where traditional banks are often unable or unwilling to lend to these businesses.

Despite the success of microfinance in supporting SMEs, there are also challenges that need to be addressed. One of the biggest challenges is the high cost of lending, which can make it difficult for MFIs to provide finance at affordable rates. This is particularly true in countries with high levels of inflation or currency volatility. Another challenge is the risk of over-indebtedness, which can occur when borrowers take on too much debt and are unable to repay it. This can be a particular problem for SMEs, which may have less stable income streams than larger corporations. To address this issue, MFIs need to have effective risk management systems in place to ensure that they are lending responsibly and that their loan portfolios remain sustainable.

In conclusion, SMEs are a vital component of economies around the world, but they often struggle to access finance from traditional sources. Microfinance institutions have been successful in providing finance to these businesses, but there are also challenges that need to be addressed. By working together, governments, MFIs, and other stakeholders can help to ensure that SMEs have the finance and support they need to grow and thrive.

2.1.4 Roles of Microfinance Services on SMEs Development

Microfinance institutions (MFIs) play a crucial role in supporting the development of Small and Medium Enterprises (SMEs) by providing them with access to finance and other financial services. SMEs often face significant challenges in accessing finance from traditional sources such as banks, due to their limited collateral, credit history, or lack of formal documentation. In this response, we will discuss the role of MFIs in supporting SME development, with reference to recent literature.

MFIs can provide a range of financial services to support SME development, including microloans, savings accounts, insurance products, and payment services. These services can help SMEs to overcome financial constraints and grow their businesses. For example, microloans can provide SMEs with the necessary capital to purchase equipment, expand their operations or invest in new products or services. Savings accounts can help SMEs to build up reserves to cope with unexpected expenses or downturns in business. Insurance products can protect SMEs against risks such as natural disasters, illness, or theft, while payment services can help SMEs to manage their cash flow and improve their financial management.

Studies have shown that MFIs play a significant role in supporting SME development. For example, a study by Njeru and Kinyanjui (2020) in Kenya found that access to microfinance significantly increased the likelihood of SME survival and growth. The study also found that access to microfinance had a positive impact on SME profitability and employment creation. Another study by Adegbite et al. (2019) in Nigeria found that MFIs were more likely to lend to SMEs than traditional banks, especially those in rural areas or with limited collateral. The study also found that MFIs were more flexible in their lending criteria, allowing SMEs to access finance even if they lacked a credit history or formal documentation.

However, there are also challenges that need to be addressed to ensure that MFIs are effective in supporting SME development. One challenge is the high cost of lending, which can make it difficult for MFIs to provide finance at affordable rates. This is particularly true in countries with high levels of inflation or currency volatility. Another challenge is the risk of over-indebtedness, which can occur when borrowers take on too much debt and are unable to repay it.

To address these challenges, MFIs need to have effective risk management systems in place to ensure that they are lending responsibly and that their loan portfolios remain sustainable. They also need to work closely with SMEs to understand their needs and provide them with the necessary support and guidance to help them grow their businesses. The following are some ways in which MFIs contribute to SME development:

Access to finance: MFIs provide small loans, savings, insurance, and other financial services to entrepreneurs and small business owners who would otherwise have limited access to formal financial resources. By providing these services, MFIs empower entrepreneurs to start and grow their businesses, create jobs, and contribute to economic development.

Increased earnings and productivity or output: Microfinance is believed to have a long-term impact on small and medium-sized enterprises (SMEs) due to its capacity to increase earnings through productivity or output. Microfinance services are believed to gradually increase the productive capacities of SMEs, resulting in an increase in productivity and earnings. As a result, some of the profits are reinvested into the business, leading to an increase in output and, consequently, an increase in employee numbers. In order for a SME to grow sustainably, it is necessary to increase productivity and earnings, which can be achieved through the use of microfinance. Furthermore, SMEs can save in the Microfinance Institutions (MFI) from which they have obtained loan funds, thus providing loanable funds to other SMEs that require similar services.

Lower interest rates: MFIs typically offer loans at lower interest rates than traditional banks, making it easier for small business owners to access credit and expand their businesses. Their interest rates vary from the type of business making it easier for SMEs to develop their business from time to time.

Training and support: MFIs provide training and support to entrepreneurs to help them manage their businesses effectively. This includes financial management, business planning, and marketing skills. Microfinance even offers seminars and workshops to their client which will have a great impact on their business as they are taught different aspects in business.

Women and minority-owned businesses: MFIs often prioritize lending to women and minority-owned businesses, who may face greater barriers in accessing traditional financial services thereby contributing to the employment rate and giving a chance to different individuals to be independent.

Job creation: Small and medium-sized enterprises (SMEs) generate employment and contribute to the development of the economy. Microfinance institutions (MFI) can contribute to poverty alleviation and income inequality by aiding small and medium-sized businesses. It is widely accepted that when a particular type of business flourishes, there is a subsequent reinvestment in other business activities to diversify income sources and generate additional job opportunities. Keeping all other factors in mind, when microfinance boosts SMEs' income over time, it will be reinvested in other sectors of the economy, thereby stimulating economic development. This, in turn, has a multiplier effect on the entire economy, as it increases the amount of working capital, the acquisition of capital goods, and the creation of employment as the business expands.

Financial inclusion: MFIs promote financial inclusion by providing services to individuals who would otherwise be excluded from formal financial services. This includes low-income individuals, rural communities, and other marginalized groups.

In summary, MFIs play a crucial role in promoting SME development by providing access to financial resources and support services to small business owners and entrepreneurs who are often excluded from traditional financial services. Through these efforts, MFIs can help to reduce poverty, create jobs, and contribute to economic growth in the communities they serve.

2.2Theoretical Framework

This study will be informed by different theories namely Financial Exclusion theory, Resource mobilisation theory, Institutional theory, Pecking order theory and Social capital theory. These theories are discussed in the ensuing subsections.

2.2.1 Financial exclusion theory

The theory suggest that traditional financial institutions ,such as banks ,exclude low -income individuals and small business owners from accessing credit due to lack of collateral or credit history .Financial exclusion is the condition in which individuals ,households ,or groups are unable to access essential financial service in a suitable form (Lammermann, 2010) Microfinance institutions (MFI) seek to bridge this gap by offering financial services to individuals who are excluded from mainstream financial service. Examples of financial exclusions include lack of access to bank accounts, credit accounts, insurance policies, and, in particular, home insurance.

2.2.2 Resource mobilisation theory

The theory highlights the importance of resources, including financial capital, human capital, and social capital, in facilitating business growth and development. MFIs provide access to financial capital, but they also offer training and support services that help entrepreneurs build human and social capital, which can contribute to their long-term success.

2.2.3Institutional theory

This theory emphasizes the importance of social and institutional factors in shaping economic outcomes. It was formulised by John W Meyer and Brian Rowan in 1977. This theory was developed in order to understand how organizations functions and are shaped by the broader institutional environment in which they operate According to the institutional theory, organizations are not influenced by their internal characteristics and goals, but also by external social, cultural and regulatory forces that exist within the larger society. Microfinance institutions, through their unique operational models and proximity to local communities, establish trust, build social capital, and foster entrepreneurship. This, in turn, facilitates access to credit, skill development, and business support services to SMEs. Moreover, institutional framework provided by microfinance institutions often leads to increased transparency, accountability, and good governance practices within the SME sector.

2.2.4 Pecking order theory

This theory stems from uneven information between parties involved in transactions. It suggests that managers prioritize funding investments opportunities in a specific order first through retained earnings of the company, then through debt and finally through equity financing as the last resort. The theory gained prominence through the work of Myers and Nicholas in 1984 and emphasizes the hierarchical considerations of financing sources by managers. When external funds are required, firms tend to prefer debt over equity due to lower information costs associated with debt issues. Equity financing is used sparingly, as it possesses more significant adverse selection problems. Retained earnings, on the other hand, do not face adverse selection issues the pecking order theory suggest that costs related to funding increases asymmetric information. For small and medium-sized enterprises (SMEs), the pecking order theory can be particularly relevant as it prompts them to carefully consider the impact of microloans on their business growth. This theory highlights the importance of interest rates for SMEs, as they are more cautious in selecting financing options and place lower value on high interest rates that ay yield lower profits.

2.2.5 Social capital theory

Jean Bourdieu developed this theory in 1985, defining it as the total amount of tangible and intangible resources that come with having a well-established network of institutionalised relationship based on mutual understanding or respect. This theory emphasises the significance of social connections and relations in the development of the business. Microfinance Institutions (MFI) often offer group loans which necessitate borrowers to establish networks and support one another's business. Social support can have positive impact on the success and growth of the business.

Overall, the theoretical framework suggests that MFIs can promote SMEs development by providing financial services and support services that help entrepreneurs build human and social capital, form networks, and mitigate agency problems. Through these efforts, MFIs can contribute to economic development and poverty reduction

2.3 Empirical Review

In Yazan (2015) opinion, empirical review encompasses the literature or prior studies that are relevant to the present study. Yazan further emphasizes the importance empirical review as it provides relevant information and factual data. It also provides an overview of the existing knowledge on the subject.

In 2011, Onyango conducted a study on the contribution of microfinance institutions to the development of small and medium businesses in Kenya, using SMEs in Gikomba market as a case study. The research aimed to assess the effects of seed capital on SME growth, impact of financial skills training on growth and the influence of savings mobilization on the growth of SMEs. A descriptive research design was used to target a population of 1337 small business and sample size of 72 which was selected using stratified random sampling, and to collect data using questionnaires. Onyango found out that the majority of SMEs relied on family and friends to raise capital, a pattern that is also seen in this research. The majority of SMEs had been provided with financial training by MFI. The researcher encountered difficulties in collecting data due to lack of return of questionnaires due to the fact that many entrepreneurs are illiteracy, which would have made interviews a more effective option.

The primary goal of the study conducted by Ojawu (2018) was to explore the connection between microfinance and small and medium sized enterprises (SMEs) in Nigeria. The study aimed to understand the impact of microfinance (MFIs) on the management of SMEs and shed a light to the common challenges faced by SMEs. The researcher employed descriptive survey research design to study the responses of the respondents, selecting a target population of 250 and a sample size of 120 people through random sampling techniques. The result of this study suggests that there is a strong correlation between the relationship of MFI and SMEs and the performance of the latter. According to APEC (2003), two primary objectives of providing access to SMEs are to expand business activities of micro enterprises by providing working capital or capital, and to foster and nurture the entrepreneurial spirit of the latter. However, these objectives may not be achievable without collaboration from both sides which are the microfinances and the small medium sized enterprises.

In 2019, Muna D presented a dissertation on the influence of financial institution on the development of small and medium-sized enterprises (SMEs) in Dar es Salaam, Tanzania. The objective the study was to evaluate the effect of loans on the SME performance, to identify obstacles that SMEs face in obtaining credit from financial institutions, to identify difficulties SMEs face in obtaining credit from financial institutions, to identify difficulties financial institutions face in providing loans to SMEs, and to evaluate the strategies in place to guarantee the availability of credit to SMEs. The research design of the study was based on asking questions to SME owners and staff of financial institution. As the research was a non-probability study a judgemental sampling process was used to select participants. The sample size of 100 respondents was used. The researcher concluded that loans can be beneficial for SMEs in terms of raising capital, constructing assets and creation of employment. On the other hand, the study identified a number of obstacles that are low cash flow, inadequate accounting and management, lack of marketable collateral, a poor credit history and higher transaction cost. There are a number of factors that this study overlooked which raised a research gap, these include the challenges faced by MFI in granting credit to SMEs.

Glen Ngwa's (2019) thesis aimed to explore how microfinance institutions (MFI) contribute to the advancement of small and medium-sized enterprises (SMEs) in Cameroon. Ngwa employed a questionnaire to gather data from a sample of fifty SMEs seeking to understand the challenges encountered by entrepreneurs in expanding their business, essential resources required for growth, and different funding options accessible to SMEs in Cameroon. Additionally, Ngwa sought to identify the difficulties SMEs face when obtaining finance from MFI institutions, as well as the primary source of funding available to them. His research provides a clear indication of the significance of MFI in a developing nation such as Cameroon, as the services they offer are primarily focused on serving the poor and providing finance to SMEs. Microfinance Institutions (MFI) are not a solution to the difficulties faced by these entrepreneurs, but rather a result of a variety of factors such as lack of business knowledge, lack of financial intermediation, the use of technology to facilitate the development of the business sector, and the absence of a market to stimulate the sector. Microfinance institutions are not able to address all of the economic and financial issues faced by SMEs and poor people; however, they can assist them in meeting the needs of commercial banks, providing them with the necessary funds to set up and expand their businesses, increasing their income, and developing new markets. Although the interest rates charged by MFI are high, they still offer a range of highly beneficial products and services, which are still in high demand by small business owners. The results of this study appear to have contributed to the development of an in-depth understanding of bank funding for SMEs in Cameroon.

In support of Onyango research, Amanda et al (2020) conducted a study to explore the role of Islamic microfinances in the development of small medium sized enterprises in various locations. The sample consisted of 160 customers from four Islamic microfinance institution in the cities of Jakarta, Bogor, and Depok, as well as Tangerang. The data in the study was derived from primary data sources which were obtained directly by the researcher for the purpose of study. It was derived from field research conducted usingg a questionnaire, and regression results showed that the variables used in the study had a positive correlation with the growth of SMEs in the sample. The training and loan frequency of the participant were significant in terms of their growth. However, there is still much room for improvement, as the number and the scope of the samples used may not present a larger sample size. A better approach and methodology may improve the results.

Tau (2020) presented a dissertation on the impact of microfinance in the development of entrepreneurship: The Case of Urban Maseru. The aim of the research was to assess the challenges encountered small and medium-sized businesses (SMEs) when attempting to obtain various services offered by microfinance institutions, to determine the role of micro financial institutions, to identify the difficulties that microfinance institutions face in providing services to micro entrepreneurs and to evaluate the role of microfinancing in the growth of businesses .The study concluded that there are a number of obstacles to the development of entrepreneurs. One of the major challenges faced by small, medium and micro enterprises in the complex procedure involved in securing credit. This difficulty arises due to the high interest rates imposed and the need for collateral by microfinance institutions. Nevertheless, the research conducted indicates that microfinance has a beneficial impact on the growth and success nature of the SMEs in Urban Maseru, as evidenced by increased output. Therefore, this proved that it is essential for SMMEs to use the factors identified to promote growth in order to take full advantage of the contribution of microfinance to SMMEs' development. As such, MFI's should review their policies regarding credit extension and other financial services to SMMEs in order to facilitate their access to finance. Additionally, government support through appropriate policies and business expansion services is essential for the capacity development of SMMEs.

Kori (2022) conducted a research on that focused on examining how microfinance institutions contribute to the development of small and medium-sized enterprises (SMEs) in Kenya. The study emphasized on the importance of fostering diversity and promoting financial inclusion as ongoing endeavours for achieving meaningful results. The primary objective was to assess the influence of microfinance institutions on the overall performance of small and medium - sized businesses. The results of the study, which was conducted between 2012-2021, included a review of over 80 journal articles, Government printing and eBooks. The findings indicated that MFI institutions were a significant contributor to the growth of MFI, as well as to the needs of individual households. However, the advantages of MFI were not inclusive, as some stakeholders experienced discrimination, thus, the results of the study were mixed. The study recommended that regulatory frameworks should be more observant when registering MFI institutions in order to protect the interests of all consumers. However, the study overlooked additional factors that could influence the success of small and medium-sized enterprises (SMEs), including initiatives aimed at improving credit accessibility among SMEs. The researcher aims to address these strategies in order to provide a more comprehensive understanding of SMEs prosperity.

In order to gain a better understanding on the possible impact of microfinance on the progress and development of small and medium-sized enterprises (SMEs) situated in Taraba State, Yerima (2022) conducted a study. The primary objectives of the study were to assess the effects of microloans, interest rates, loan duration, and experience on SME growth in Taraba State. The survey was conducted using design and multiple regression analysis on a sample of 174 randomly chosen SMEs in the State. The results of the study showed that microfinance access in Taraba State has a positive effect on enterprise growth, however, other SME characteristics such as the loan duration and experience had a negative impact, but were not significant. Consequently, the study recommended that SME operators should take advantage of the benefits of Microfinance Institutions (MFI) to promote their business and in the long term, improve the economic performance. Additionally, MFI should extend the duration of loans, or spread repayment over a greater period of time, in order to enable clients to make greater use of the loan over a larger period of time.

2.4 Summary

The empirical evidence suggests that Microfinance Institutions (MFI) play a significant or essential role in fostering the growth of SMEs through a variety of objectives, including facilitating access to finance, providing training and assistance, fostering financial inclusion, and fostering social capital formation, resulting in enhanced business growth, increased profitability, job creation and poverty reduction. This chapter serves as a foundation for Chapter 3, the research methodology that follows.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

In this section, the researcher will explore the methods and techniques that will be employed for the research project. This encompasses the study's structure, participant selection, research instrument, ensuring reliable and valid data, ethical considerations, and a concise overview of the overall methodology.

3.1 Research design

A research design, as defined by Kirumbi (2018), is a collection and analysis of measures of variables specified in a problem statement. It is important to demonstrate the structure of the study, as well as to demonstrate how the different components of the research project work out together to fill the gaps in the study question. In Kerlinger's (1973), the research design provides insight into the structure of the plan and the method of analysis used to answer the questions and determine the control variance in the study. The researcher will typically adopt a descriptive study design for this study. The purpose of descriptive research design is to provide descriptive information about individuals, occurrences, or conditions by examining the subject on the basis of research conducted in the natural environment (Asio, 2021). The design was chosen for its capacity to allow the researcher to expand the sample size and generalize results. The purpose of selecting descriptive case studies was to obtain a numerical percentage of the microfinance institution contribution to the development of small and medium-sized enterprises (SMEs) that would easily comprehensive and useable to draw conclusions, as results are numerically unambiguous in demonstrating the strength of the microfinance institutions and development of SMEs (Walliman, 2014).

3.2 Population, sample size and Sampling technique

The targeted population refers to a specific group of individuals or objects that a researcher aims to generalize their study results to. In this case, the targeted population consists of 100

SMEs (Small and Medium Enterprises) from the Highglen Complex. Mugenda et al. (2003) emphasized that the targeted population should possess certain observable characteristics that allow the researcher to gain a comprehensive understanding of the study's findings. On the other hand, a sample refers to a subgroup of the larger population that is being studied. Sukumur (2014) defined sampling as the process of selecting a portion of the population to be included in the study. This selected portion is considered representative of the entire population. In simpler terms, sampling is a method used to choose a subset of individuals or objects that will be included in the research study and can provide insights into the characteristics of the whole population (Martelli, 2015). In summary, the targeted population represents the specific group under study, while a sample is a smaller portion of that population that is selected for research purposes, aiming to represent the larger population.

The researcher disregards the fact that the sample population to be examined is typically heterogeneous in terms of parameters for interpreting their perception of the role of microfinance institution in SMEs development. In such situation it may be considered using Slovin’s formula to determine an appropriate sample size, as was done in the study conducted by Cheladan (2018) to calculate sample size

The formula of Slovin’s is as follows;

$$n = \frac{N}{1+N(e)^2}$$

whereby "n," is actually referring to the ratio of the number of samples to the sample size. On the other hand, "N" denotes the entire population being studied. Lastly" stands for the acceptable level of error we can tolerate

In accordance with Hussey and Hussey (1997), no survey can be considered to be 100% error free or provide 100% assurance. Therefore, confidence levels less than 10% and 90% can be accepted as acceptable. The sampling error is set at 10%, as the smaller the sampling error, the higher the confidence level. Therefore;

$$n= \frac{100}{1+100(0.10^{2)}} \quad = 50 \text{ people}$$

A sample size of 50 individuals was used.

In the field of research, there are two main types of sampling techniques: probability and non-probability sampling. One commonly used method under probability sampling is simple random sampling. In this approach, every member of the population has an equal chance of being selected for the sample (Cresswell, 2012). To achieve this, each individual is assigned a random number, and the desired number of individuals is then randomly chosen using a random generator. Simple random sampling stands apart from other sampling methods because it avoids bias and prejudice. It is particularly useful when working with small sample sizes, as it is straightforward to implement (Britannica, 2020).

3.3Research instrument

Research Instrument can be defined as any tool used by researchers or scientist to obtain, measure and analyse data. These can be in form of interviews, questioners, online survey, focus and checklists (Muskat, 2012). In order to facilitate primary data collection, a questionnaire was created as a suitable data collection tool to assess the impact of microfinance on the development of small and medium-sized enterprises in Zimbabwe.

3.3.1 Questionnaire

Questionnaires are a type of research tool that consist of a set of questions either printed or written, with an option of selection answers, designed for a survey or statistical study (Oxford Dictionary, 2018). They can also be referred to as a collection of relevant questions that are collected in a digital or non-digital format. A questionnaire is a valuable tool used in research and data collection. Its primary purpose is to gather information from targeted individuals or respondents. Questionnaires can be designed to obtain data for various purposes, such as academic research, market research, or customer feedback. By using well-crafted questions, researchers can collect valuable data that can be analysed and used to gain insights, make informed decisions, or draw conclusions. Questionnaires provide a structured and standardized approach to data collection, ensuring consistency and facilitating the analysis process.

Questionnaires are used in a range of research settings, including academic, market, and social research. A variety of questionnaires are available for a variety of purposes. The most common are the structured questionnaires, which are designed to capture quantitative data, and semi structured questionnaires which combine closed-end and open-end questions to collect both quantitative and qualitative data (Couper,2017). Additionally, unstructured questionnaires are designed to provide respondents with more detailed and personalised responses and Likert Scale questioners which use a scale of agreement and disagreement to measure the level of agreement or disapproval of a statement. In this research, the researcher used the Likert scale questionnaire to conduct the research on the role played by microfinance institution in the

SMEs development in Zimbabwe because it offers the ability to collect data from a wide range of individuals, as well as the ability to administer the questionnaire to a large sample (Leeuw, 2015). Additionally, the standardized nature of the questionnaire allows for the same questions to be asked to all participants thus ensuring a consistent and comparable level of data collection, as a fewer resources are required administer the questionnaire can be beneficial in encouraging participants to provide more candid and open responses (Wang & Wang, 2020)

3.4. Validity and Reliability

3.4.1 Validity

Validity is a crucial aspect when it comes to data analysis and research. It refers to the extent to which data accurately represents the true meaning of the concept or issues being studied (Wilson & Joye, 2019). In the field of research, there are different types of validity that are commonly discussed. One type is content validity, which ensures that the measurement instrument adequately covers all the relevant aspects of the concept being studied. It focuses on whether the items or questions in a survey or test effectively capture the content domain of the topic. Criterion-related validity is another type, and it assesses the degree to which a measurement instrument can predict or correlate with an external criterion or outcome. This type of validity helps determine the effectiveness of a measurement in relation to a specific criterion or standard. Lastly, construct validity is concerned with the accuracy of a measure in measuring a theoretical construct. It examines whether the measurement accurately captures the underlying construct it intends to assess. This type of validity is crucial in establishing the reliability and accuracy of a measurement instrument.

The goal of a researcher by utilizing construct validity is to ascertain whether the data derived from an evaluation is appropriate and beneficial for the purpose for which it is being used. Construct validity refers to the overall acceptability of a measurement device. In particular, construct validity is more concerned with efficacy of a test to assist researchers in gaining knowledge in various topics. The questionnaires distributed were designed in a way that it identified and measured all components of the research. The result/conclusion must be relevant, dependable, and to meet the purpose of evaluation to enable construct validity to meet its objective, (Mcmillian & Schumacher, 2010).

3.4.2 Reliability

Reliability refers to the consistency of scores obtained from a test across different factors, such as time, raters, and items. It is an important aspect to consider when assessing the role of microfinance institutions in SMEs development. One commonly used measure of reliability is Cronbach's Alpha coefficient, which assesses the internal consistency of a scale or questionnaire. There are different types of reliability, including test-retest reliability and internal consistency. The Cronbach's Alpha was used assess the role played by microfinance institutions in SMEs development. In our case, the Cronbach's alpha coefficient was calculated to be 0.864, indicating a high level of internal consistency. This value falls within the range of 0 to 1, where higher values suggest greater reliability. Generally, an alpha value above 0.7 is considered acceptable, while values below 0.6 are deemed unacceptable. To interpret the Cronbach's alpha coefficient, different ranges are suggested. For example, a value below 0.60 is considered undesirable, 0.60-0.65 is seen as a minimum acceptable range, 0.65-0.70 is considered respectable, and 0.70-0.80 is regarded as very good. If the coefficient exceeds 0.90, it may indicate that the scale could be improved by reducing the number of entries. However, it's important to note that while reliability is necessary for a test to be considered valid, it alone does not guarantee the validity of the questionnaire. Validity refers to the extent to which a test measures what it is intended to measure. Therefore, it's essential to consider both reliability and validity when evaluating the effectiveness of a questionnaire or assessment

Table 3.1 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.861	.864	20

Source; Primary data,2023

3.5 Data Analysis

Seale et al (2014) observed that, in order for data to be meaningful, it must be organised into categories and presented to various readers using pie charts, tables and histograms. Data analysis is the practice of logically organizing data collected into a format that can provide unambiguous response to the research questions (Kumar ,2021). The quantitative analysis of data was conducted using the appropriate software. Quantitative data was analysed using the

Statistical Package for Social Sciences (SPSS) software. The questionnaires were randomly distributed, and participants were asked to rate their responses on a Likert scale ranging from strongly disagree (1) to strongly agree (5).

The raw data was examined for readability validity and consistency prior to being, coded for statistical analysis. The basic characteristics were further refined through the use of descriptive statistics including frequency tables.

3.6 Data Collection

This research study drew on primary and secondary data sources. A questionnaire was designed and distributed to SME operators and owners to collect primary data. The questionnaire is divided into two sections, Section A and Section B. Section A focuses on capturing the demographic information of the respondents, including age and gender, the nature of the firm, and the years of operation. This data is essential in determining the SME characteristics of the study, such as whether the SMEs are predominantly male, the age range within the sector, and the general character of the SME. Section B contains a set of questions designed to address the research objectives, such as the role of MFI's in the development of SMEs, the difficulties SMEs face when obtaining credit, strategies to improve credit availability, and the alternative financing options available to SMEs. In addition to primary data sources, secondary data was obtained by examining relevant journal and literature relevant to the subject matter of the study. Primary data sources were used to gain a better understanding of the SMEs' experiences and perspectives, while secondary data provided a wider context and support for the research by referencing existing literature and research. The primary data was used to obtain first hand and relevant responses to the research questions, and was supplemented with secondary data sources to ensure a comprehensive and well-informed analysis of the subject matter. The primary data sources were gathered by distributing a questionnaire to the SMEs, which provided both first-hand and second-hand responses to meet the objectives of the study.

3.7 Ethical Considerations

Ethical considerations refer to the moral that guide and inform research practices These principles include respect for human dignity, autonomy, privacy, confidentiality, informed consent, beneficence, non-maleficence, and justice (Israel et al, 2016). This study is designed to explore the role of humans and the implications of ethical issues that affect them. The research subjects who are chosen by the researcher will be protected from any physical or emotional harm caused by the research. The researcher will adhere to the rights of any informants who provide information that is used in the study. Additionally, plagiarism will be avoided during the research. All citations used in the study will be attributed to the research and all the authors of the ideas will be accredited. Permission from respondents was obtained first before conducting the research.

3.8 Summary

Chapter 3 focused on the research methods employed by the researcher as well as a discussion of other research methods and instruments. It also addressed the process of data collection, presentation and analysis. The subsequent chapter will focus on the presentation and evaluation of the data collected.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0Introduction

This chapter gives an account of the findings obtained from the questionnaire concerning the study's objectives. The fundamental goal of this research was to evaluate the part played by microfinance institutions (MFI) in the advancement of small and medium-sized enterprises (SMEs), to access the challenges SMEs face in accessing credit from microfinance institutions, to assess the strategies put in place to ensure credit availability among SMEs and recommend alternative sources of funding that SMEs can resort to. This chapter discuss the findings associated with this study in relation to previous studies.

4.1Response rate

The distribution of 50 questionnaires to 50 respondents resulted in only 42 of them being returned, with 8 not being filled due to lack of time, privacy concerns and also language barriers . This equates to 84% response rate, which is sufficient for the study to continue. According to Fincham (2008), researchers should aim for a response rate comparable to 60% for the majority of the research, as it only leaves 40% for non-response bias, making the research sufficiently generalizable to the target population. The response rate is shown on table 4.1 below.

Table 4.1 Response rate

Response rate	Frequency	Percentage (%)
Questionnaires filled and returned	42	84
Questionnaires not filled and returned	8	16
Total	50	100

Source: Primary data, (2023)

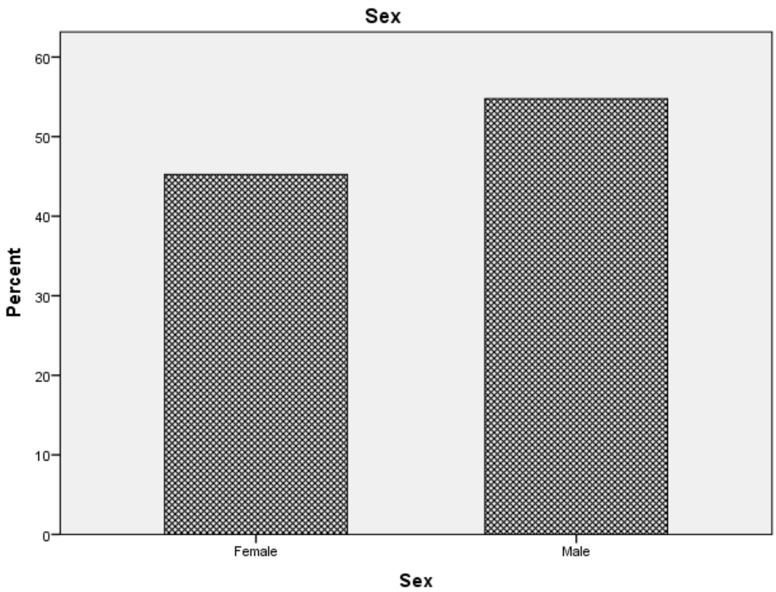
4.2 Characteristics of the respondents

This study included owners of the small and medium-sized enterprises (SMEs)and employees who were asked to provide information regarding their age and tenure. Additionally, gender was taken into account to analyse the characteristics of the respondents. Sample of SME owners and employees were also asked to reveal the primary business activities of their organization.

4.2.1 Response by gender

The survey also asked respondents to indicate their gender, and the results showed that the majority of the respondents were male (54.8%) with women being the minority (42.2%). This is illustrated on the figure 4.1 below. Despite the fact that women have been striving to be involved in entrepreneur activities in recent years, this result suggest that the male population is more likely to take on the role of breadwinner, and women are less likely to engage in entrepreneurial activities due to their responsibilities in the home. This pattern of male involvement in SME activities has been further confirmed by Muntean and Ozkazanc (2015) observation that cultural believes that men own property be one of the reasons why men are involved in business more than men.

Figure 4.1; Response by gender

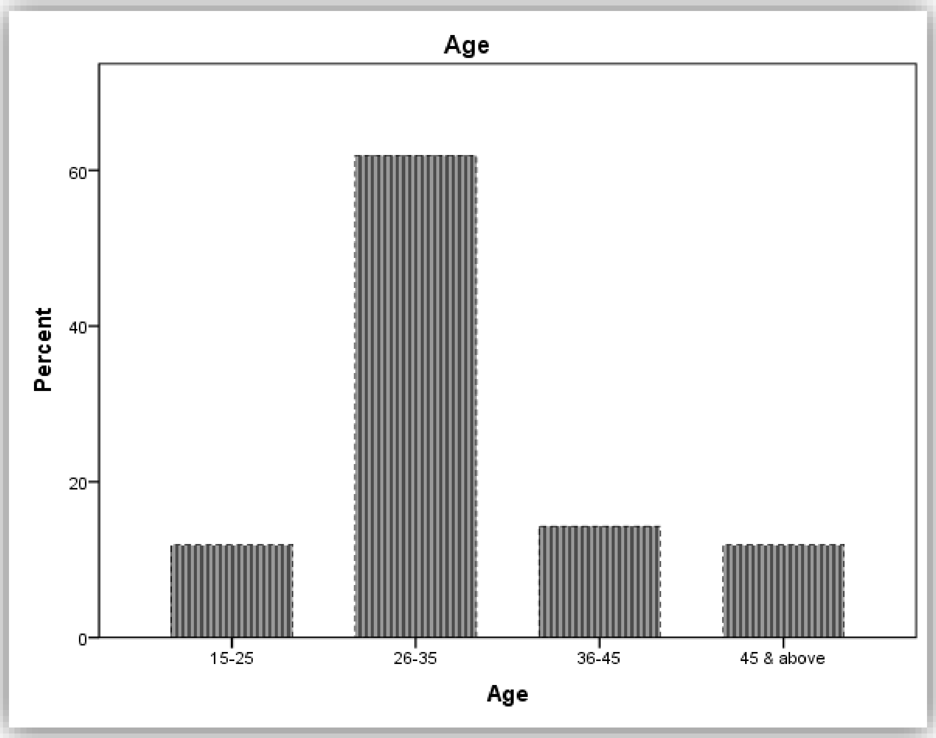


Source: Primary data, (2023)

4.2.2Distribution of respondents by age

The results of the study indicate that the majority of the entrepreneurs at Highglen complex are aged between 26 and 35 years. 11.9% of the participants were aged between 15 and 25 years, reflecting the fact that many people in Zimbabwe are engaged in educational activities and are not exposed to the outside world at this age. Furthermore, the majority of the participants at this stage are risk averse. The largest group was between 26 and 35 years, accounting for 61.9 percent of the participants. It is possible that the 26 to 35 age group had recent experience with the launching or running small businesses, as well as viable business opportunities, which would qualify them as entrepreneurs. Furthermore, 14.3 percent of the participants were aged between 36 and 45 years, and 11.9 percent were 46 years of age or older. This was also evident in Ojawo's study where the outcomes displayed that half of the respondents belonged to the age group of 20-35 years (50%), while only a small fraction were aged 46 years and above (20%). The remaining participants fell in the age range of 36-45 years, comprising 30% of the total sample size. This is the result of the fact that many individuals retire at an early age for various reasons such as illness, the need to rest, as well as the desire to leave a legacy for younger generations.

Figure 4.2; Response by age

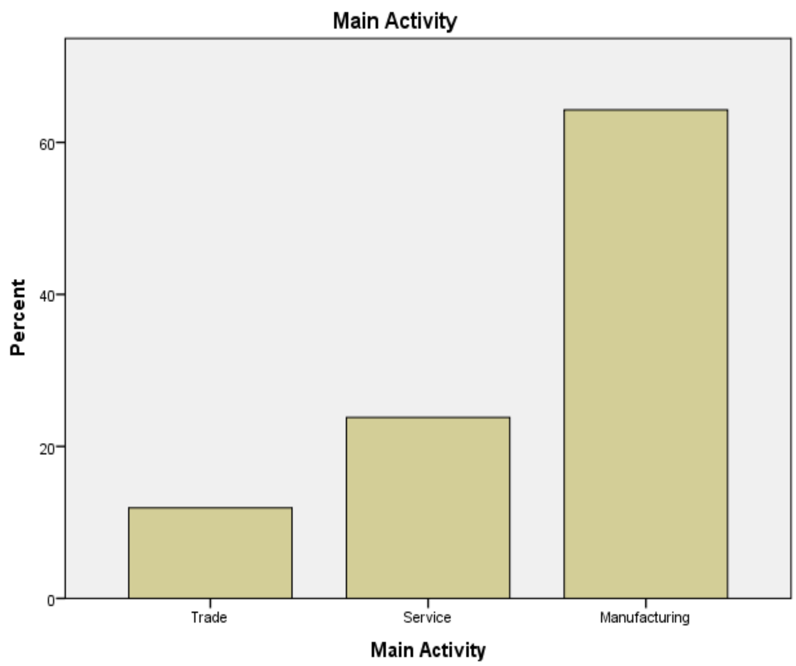


Source: Primary data, (2023)

4.2.3 Distribution by main activity

Zimbabwe is a developing economy where the majority of its economic activity is coming from manufacturing. According to the responses from 42 individuals, the manufacturing sector accounts for the largest portion of the total, comprising 64% of the economy. This indicates a higher level of activity in the region, which could be indicative of economic development. Manufacturing is an essential sector that helps to grow an economy by producing goods that are used by individuals and other business such as furniture and detergents that are manufactured by the majority of SMEs at Highglen complex. The service sector, which encompasses a broad range of industries, is responsible for providing a variety of service that are necessary for the economy to function optimally and to meet individual's needs, the sector consists of 23%. The trade sector accounts for a mere 13% of the economy, indicating that there are some level of activity in this sector. From the study done by Glen (2019), in which the main activity in Cameroon was trade, manufacturing being the lowest. It shows that in Zimbabwe many people are engaged in manufacturing activities.

Fig 4.3; Main activity



Source: Primary data,2023

4.2.4Distribution according to the years in operation

The responses to the questionnaires indicated that the majority of the business had been in operation for a period of between 0 to 5 years, with 22 respondents indicating a percentage of 52.4 as shown in the table 4.2 below. 26.2 percentage of respondents had been in operation from 5 to 10 years and 5 respondents indicated a percentage of 11.9 for companies between 11 and 15 years. Additionally, 4 respondents a percentage of 9.5 for companies over 16 years

Table 4.2; Years in operation

Years in operation

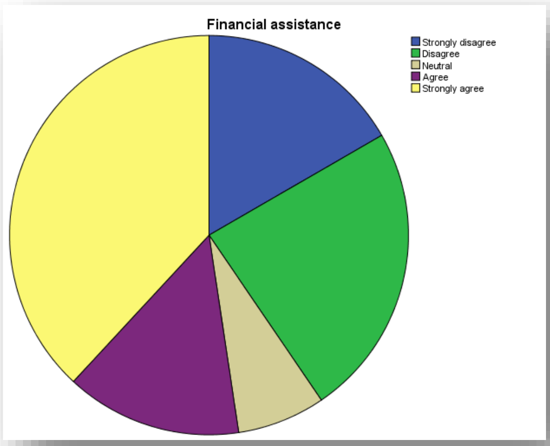
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0- 5 years	22	52.4	52.4	52.4
	5-10 years	11	26.2	26.2	78.6
	11-15 years	5	11.9	11.9	90.5
	16 years and above	4	9.5	9.5	100.0
	Total	42	100.0	100.0	

Source; Primary data ,2023

4.3 Financial Assistance from MFI

A majority of SMEs (51%) have received financial support from Microfinance institutions (MFI) with 51% agreeing or strongly agreeing to have received financial support from MFI and 42% disagreeing or strongly disagreeing .This is due to the fact that the majority of SMEs have a positive history of working with MFIs resulting to their willingness to accept financial support from them .According to Zins and Weill(2016) ,access to microfinance can facilitate the development and profitability of small and medium -sized enterprises (SMEs).

Fig 4.4; Financial assistance from MFI



Source; Primary data ,2023

4.4 Role of MFIs in SMEs development

The survey results presented in table 4.3 reveal that a considerable majority of the respondents (40.5%) held a strong belief that Microfinance institutions (MFI) have a crucial impact on the expansion and triumph of small and medium-sized enterprises (SMEs). Additionally, a smaller percentage, 9.5 %, agree with the statement, further reinforcing the notion that MFI benefit the SMEs. This is due to the fact that microfinance institutions offer access to finance, small loans and other forms of finance to SMEs that may not have access to traditional bank loans, particularly for those who are in early stages of their business journey and may not possess a strong credit profile or collateral to warrant a loan. Skwama microfinance which is located at Highglen complex offer loans from as low as $50 to small business. Apart from offering loans MFIs also offer business training and mentorship as well as networking opportunities, to enable SMEs to build skills, expertise, and networking. Furthermore by providing financial support ,microfinance institutions can help to encourage more individuals to enter business world and become entrepreneurs, which can have a positive economic impact in Zimbabwe Many MFI are mission-oriented organizations that are dedicated to promoting financial inclusion and having a positive social impact. However, a small percentage, 11.9%, disagreed with the statement or strongly disagreed with it (21.4%), indicating some scepticism or disagreement regarding the efficacy of MFI for SME development. This is in contrast to the to the 16.7% of respondents who were neutral about the statement suggesting that there is degree some degree of uncertainty or lack of understanding of the role MFI play in the development of small and medium-sized enterprises (SMEs). The combined outcomes from the survey indicate a widespread awareness of the significance of Microfinance institutions (MFI) in the progress of small and medium-sized enterprises (SMEs). This aligns with Kori's (2022) research, which established that entrepreneurs who had financial support from MFIs were able to plan for both short-term and long-term objectives and cope with emergencies. The study also found that MFIs were significant sources of funding for SMEs, contributing to their growth and stability. Moreover, MFIs facilitated the expansion and improvement of businesses, as well as investment in education and the enhancement of living standards.

Table 4.3: MFI in SMEs development

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	21.4	21.4	21.4
	Disagree	5	11.9	11.9	33.3
	Neutral	7	16.7	16.7	50.0
	Agree	4	9.5	9.5	59.5
	Strongly agree	17	40.5	40.5	100.0
	Total	42	100.0	100.0	

Source; Primary data ,2023

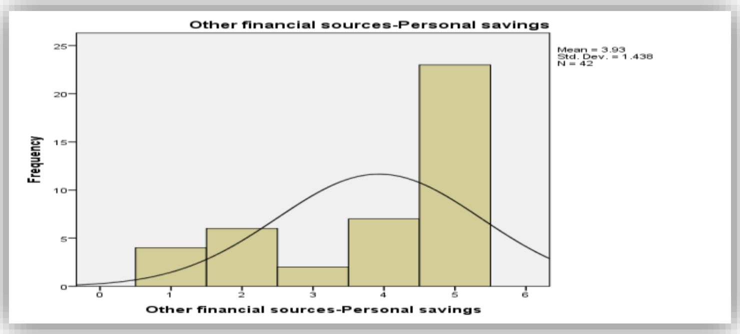
4.5 Financial sources

According to Ross, Westerfield & Jordan (2019), financial sources can be defined as the means by which a business or individual obtains funding or capital for their financial needs. Financial sources can be classified into two distinct categories, the internal and external. Internal sources refer to funds generated within an organisation. Apart from loans that provided by MFI at Highglen complex or surrounding areas which are Impact, Tottengram, Skwama, there are other sources of finance that SMEs can resort to. Most SMEs at Highglen complex use internal sources of finance such as personal savings, assistance from family and friends, retained earnings or reduction of working capital. Internal sources are typically preferred by business due to their lack of external involvement and debt financing. External sources refer to those funds that are obtained from outside the organization such as bank loans, venture capital, crowdfunding and government assistance, to finance their business. These sources are often used by business to finance their growth and expansion plans.

4.5.1 Personal savings

One of the most common internal source of finance that SMEs at Highglen complex use is personal savings. Hatten (2015) defines personal savings as the amount of money saved or invested by an individual for personal purpose or to cover for future financial requirements. There are a variety reasons that were provided by respondents, as to why they use personal savings to fund their operations. These include limited external financing, control over finance, ability to make decisions without consulting outside investors or lenders, lack of interest costs associated with external financing, and also potential to increase personal wealth through investment of personal savings into a business. Additionally, SME can access personal savings quickly to fund their business without the need for lengthy application process. On the diagram below, SMEs that use personal savings to fund their business have a moderately high success rate. The mean of 3.93, meaning on average, the SME using personal savings have the above rate. On the other hand, standard deviation is 1.438, meaning that there is a significant variability in responses, meaning SME have experienced higher level of success than others. There are other factors that affect the development of SMEs beyond their source of funding that are market conditions, competition in the industry and management expertise.

Fig 4.5; Personal savings

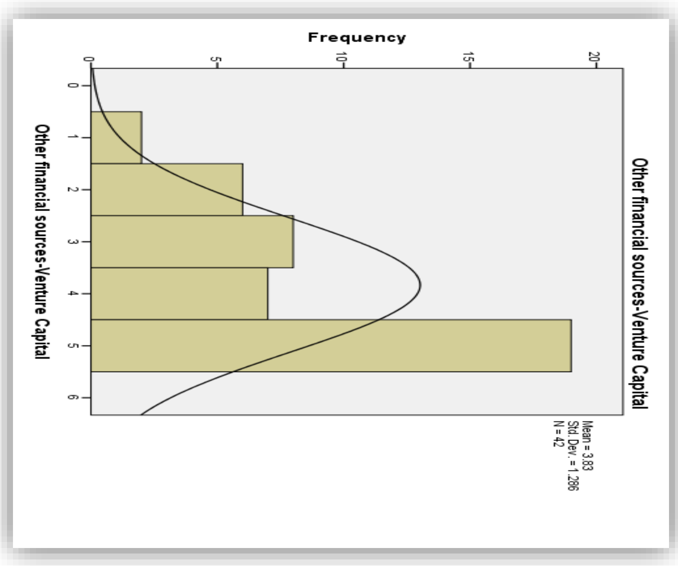


Source; Primary data,2023

4.5.2 Venture capital

During the course of the research, the researcher discovered that venture capital was also an option for small and medium-sized enterprises (SMEs) due to various benefit it provides. Venture capital can be used to finance growth and expansion and can also be used for a variety of purpose such as research and development, marketing, recruitment, technology acquisition and networking. In the findings, the average score obtained was 3.83, and standard deviation of 1.286. This indicates that the responses ranged from the average score to a greater or lesser extent. The higher the standard deviation, the more varied the respondents opinions are or perception of venture capital. This suggest that on average, respondents perceive venture capital as a beneficial and valuable financial resource

Fig 4.6; Venture capital



Source; Primary data ,2023

4.5.3 Crowdfunding

The research revealed that there are other sources of funding for small and medium-sized enterprises (SMEs) at Highglen complex, including crowdfunding. The majority of the respondents (21 people strongly supported crowdfunding, 6 agreeing that it is a viable source of finance). This is due to the fact crowdfunding's ability to provide SMEs with access to capital without the need for traditional financing channels. Furthermore, crowdfunding can assist SMEs in increasing their visibility and building a network of supporters that are invested in their business's success. However, a minority (8 respondents do not view crowdfunding as a viable source of financing for SMEs, with 7 respondents being neutral), due to concerns about the lack of regulatory oversight, the risk of scams, or a perception that crowdfunding is a unreliable source of funding in a long term. Cumming et al (2015) found that crowdfunding can help SMEs overcome information asymmetry and gain access to financing that they may not have able to access through other channels of finance .

4.5.4 Assistance from family

Apart from all other sources of finance, the result from Highglen complex indicate that 66% of the respondents agree or strongly agree that family members are the most common source of financial support for SMEs. This could be due to a variety of factors. Family member may be open in investing due to their trust and confidence in the business owner or due to family connections. Furthermore, family members are more likely to provide financial support without strict requirements that come with other forms of financing, including commercial loans. In fact, a study published in 2021, by the Journal of Small Business Management found that more than half of SME (50%) rely on family members as their primary source of funding. However, 34 % or respondents either disagree, are neutral or strongly disagreed with the statement. This suggest that some SMEs owners may prefer to avoid mixing family relationship with business venture or may have experienced negative experiences with family members providing financial support.

4.5.5 Government assistance

The data shows government assistance is also another viable financial source that SMEs consider in running their business. The majority (52.4%) were against government assistance, while a minority (47.6%) were in favour of government assistance. The 47.6% clarified that government assistance come in form of grants, loans and tax incentives. It might not be the best source of finance to SMEs but it helps in the development of SMEs. Government support proved to have a positive effect on the growth and development of SMEs (Lotti et al ,2015).

4.6 Constraints faced by SMEs in obtaining finance

This study sought to identify difficulties that small and medium-sized enterprises face in obtaining credit from microfinance institutions. The four variables that were taken into account were high interest rates, the time taken to grant credit, lack of collateral and lack of suitable source of repayment. It was found that SMEs face all difficulties due to the high interest rate charged by MFIs, which was supported by 45.2%, with 61.9% agreeing that they have problems with collateral. Additionally, 23.6% of respondents reported that the time it takes for a microfinance institution to provide credit is too long, and that many SMEs turn to microfinance institutions in times of need, with 61.8% reporting that most microfinance institutions judge them based on their source of repayment which is a common issue. Glen (2019) also explored similar variables in their research on the role of financial institutions in the progression of small and medium-sized enterprises (SMEs) in Cameroon. The study highlighted the role of financial institutions in providing funding for SMEs, which is crucial for their growth and sustainability. Additionally, the research emphasized the importance of financial literacy and business training provided by financial institutions, which enable SME owners to manage their businesses effectively and make informed financial decisions.

Table 4.4 Constraints faced by SMEs in obtaining finance

		High interest rate (valid %)	Time taken to grant (valid %)	Lack of collateral (valid %)	Inadequate source of repayment (valid %)
Valid	Strongly disagree	33.4	23.8	16.7	23.8

Disagree	19.0	14.3	14.3	7.1
Neutral	0	9.5	2.4	2.4
Agree	2.4	28.6	4.8	4.8
Strongly agree	45.2	23.8	61.9	61.8
Total	100.0	100.0	100.0	100.0

Source; Primary data ,2023

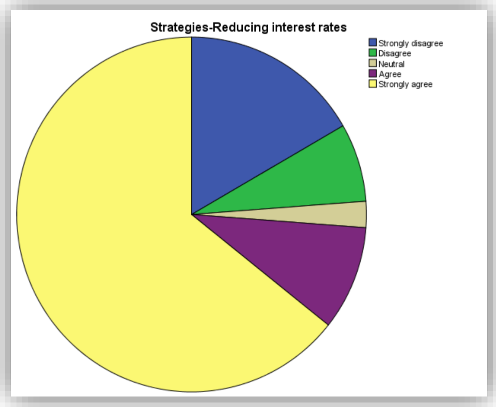
4.7Strategies in place to ensure credit availability to SMEs

This study further examined the strategies in place to facilitate the provision of credit to small and medium -sized enterprises in order to expedite their growth. The variables considered are interest rates reduction, group lending, government grants to financial institution and training and support. Muna (2019) submitted a paper that clearly highlights various strategies put in place which supported the strategies in this study.

4.7.1 Interest rate reduction

The role of loans in improving the performance of the business is valued when microfinance institutions reduce their prices, such as by reducing interest rate. This makes it easier for SMEs to access loans, thus improving their performance. This study took this strategy into considerations by asking respondents (SMEs owners) to share the opinion on whether they consider price reduction to be a successful strategy for financial institutions to increase their access to credit. According to the results obtained through the questionnaire, the majority, (55.5%) strongly agreed with the strategy, 14.3% agreed. Only 11 % expressed no opinion on this variable, while 16.2% expressed strong disagreement and 3% expressed neutral opinion. The findings can be seen in Fig 4.7 below.

Fig 4.7 Interest rate reduction

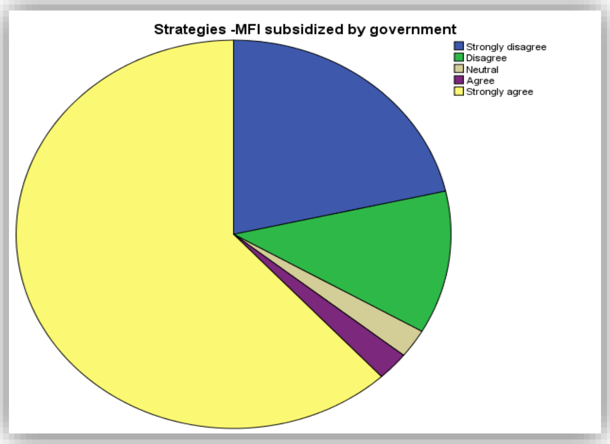


Source; Primary data;2023

4.7.2 MFI subsidized by government

Microfinance institutions (MFI) are widely recognized by governments in many countries including Zimbabwe as a means of promoting financial inclusion and economic growth. These financial institutions, both government and private owned, are monitored and regulated by the Reserve bank of Zimbabwe (RBZ). The RBZ's support to financial institutions may be more valuable if they are provided with subsidies to support their operations rather than waiting for an institution to face difficulties. Respondents were asked whether government subsidies to MFIs could improve the access of small and medium sized enterprises to credit. The results (shown on Fig 4.8) showed that more than half of the respondents agreed that the availability of credit among SME owners could be improved if financial institutions were subsidized by the government .The results of this study concur with the results of other studies ,such as Karim (2011), which examined the effect of government subsidies on the performance of MFI in Indonesia. The research findings demonstrated that government subsidies had a favourable impact on the outreach, continuity, and profitability of microfinance institutions (MFIs), leading to improved accessibility to credit for small and medium-sized enterprises (SMEs). The study revealed that government support contributed to the expansion of MFIs and their ability to reach more SMEs, resulting in increased financial inclusion and economic growth. Additionally, the subsidies enhanced the sustainability and profitability of MFIs, allowing them to provide more affordable and accessible credit to SMEs, ultimately leading to the development and success of these enterprises.

Fig 4.8; MFI subsidized by government



Source; Primary data ,2023

4.7.3 Training and assistance

It is essential for microfinance institutions to provide training and assistance in order to increase credit knowledge among small and medium-sized enterprises (SMEs). Based on the respondents of the sampled SMEs on the issue of training and assistance provided by microfinance institutions, it was revealed that 8% of respondents agreed, 32,1% of the respondents were strongly in agreement 23.3% were in disagreement, 22% of the respondents were neutral and 14.6% strongly disagreed (see Fig 4.9). The results of the survey of the sampled SMEs owners on whether or not microfinance institutions provide training and assistance for SMEs demonstrate that this is an important strategy that should be highlighted in order to improve credit accessibility among SME owners. This study is consistent with the results of other prior studies, such as the findings of Quartey at al, (2017) which indicated that technical support should be provided to small medium enterprises through training and assistance. Financial institutions are the most suitable stakeholders to provide such training and assistance as they are directly involved in the provision of loans to SMEs.

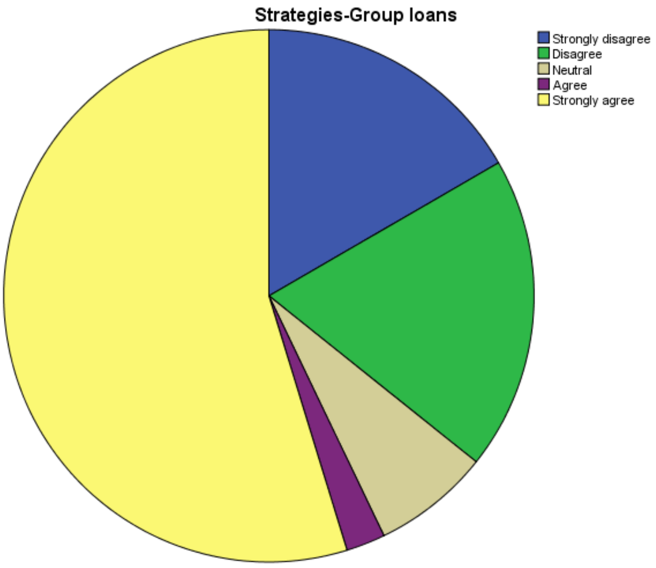
Fig 4.9; Training and assistance

Source; Primary data ,2023

4.7.4 Group loans

The value of group loans is higher when they allow all SMEs with varying capabilities to access credit relative to their capacity. The researcher quantified the impact of this strategy by directly asking respondents if group loans can improve loan availability among SMEs. The results, shown below, demonstrate that the majority of SMEs are in favour of group loans provided by SMEs. This suggest that proving group loans increase access to credit for SMEs owners.

Fig4.10; Group loans



Source; Primary data,2023

4.8 Correlation analysis

The relationship between the variables was determined by using Pearson Correlation(r) and the results are presented in Table 4.5. The table presented below showcases that the correlation between microfinance institutions (MFIs) and the growth of small and medium-sized enterprises (SMEs) is strong when considering five different factors. The variables of microfinance are SMED and GL, while the variables for small medium-sized enterprises are RFA, PS, OTHER and HIR. The results of the study shows that all five variables were statistically significant, with RFA ($p<0.05$ and $r = .970$), PS ($p<0.05$ and $r =.828$), OTHER ($p<0.05$ and $r =.828$), HIR ($p<0.05$ and $r =.908$) and GL ($p<0.05$ and $r =.975$ respectively. The findings show a positive and influential relationship between the role of microfinance and the development of small and medium-sized enterprises.

Table 4.5 Correlations

		RFA	SMED	PS	OTHER	HIR	GL
Received financial assistance	Pearson Correlation	1	.970**	.443*	.504*	.576**	1.000**
	Sig. (2-tailed)		.000	.039	.017	.005	.000
	N	22	22	22	22	22	22
MFI in SMEs Development	Pearson Correlation	.970**	1	.828**	.828**	.908**	.975**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	22	42	42	42	42	42
Other financial sources-Personal savings	Pearson Correlation	.443*	.828**	1	.746**	.907**	.816**
	Sig. (2-tailed)	.039	.000		.000	.000	.000
	N	22	42	42	42	42	42
Other financial sources-Others	Pearson Correlation	.504*	.828**	.746**	1	.864**	.842**
	Sig. (2-tailed)	.017	.000	.000		.000	.000
	N	22	42	42	42	42	42
Constraints -High interest rates	Pearson Correlation	.576**	.908**	.907**	.864**	1	.897**
	Sig. (2-tailed)	.005	.000	.000	.000		.000
	N	22	42	42	42	42	42
Strategies-Group loans	Pearson Correlation	1.000**	.975**	.816**	.842**	.897**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	22	42	42	42	42	42

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

*. Correlation is significant at the 0.05 level (2-tailed).

Source; Primary data,2023

4.9Summary

The results of the research were obtained from 42 participants who completed the questionnaires out of 50 questionnaires that were distributed to SMEs at Highglen complex. The methodology of the questionnaires was followed to present the findings. The data analysis was conducted based on the order of the questions. Descriptive statistics are also presented, and a comprehensive discussion of the primary data is provided. It is found that microfinance played a beneficial role in the development of SMEs. The conclusions drawn from the findings, as well as proposed recommendations, are presented in the following chapter.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This section presents a detailed summary of the research, encompassing its outcomes and suggestions. Moreover, it wraps up with proposals for potential research topics that could attract the attention of researchers in the upcoming time.

5.1 Summary

The study aimed to evaluate how microfinance institutions contribute to the development of small and medium-sized enterprises in Zimbabwe. The research discovered that loans provided by MFIs had a positive impact on SME owners by enabling them to increase their business capital, acquire assets, generate employment, and enhance their living conditions, thus promoting economic growth. Additionally, MFIs provided other supportive services such as training and assistance to SMEs, which also contributed to their progress.

The study's secondary aim was to gain insight into the difficulties encountered by small and medium-sized enterprises in obtaining credit from microfinance institutions. The findings from this study showed that the main obstacles to obtaining credit among SMEs are high interest rate, time required to provide service, lack of collateral and insufficient source of repayment.

The tertiary aim of the research was to assess the measures implemented to ensure the accessibility of credit to owners of small and medium-sized enterprises. The findings of the study highlighted the strategies that guarantee credit accessibility among SMEs owners such as price reduction (that is lowering interest rates), the provision of group loans, training and support from microfinance. Furthermore, respondents to the study indicated that government subsidies to microfinance are essential in improving credit accessibility among SMEs.

The fourth goal of the study was to propose alternative financing alternatives that small and medium-sized enterprises (SMEs) could leverage. Additionally ,some fundamental concepts related to SMEs development were examined, such as financial challenges they face .the growth and development of SMEs and various source of funding available to them .This highlights the equity and debt financing options available for SMEs ,which include personal savings, family assistance, bank loans, venture capital, crowdfunding and government assistance .Debt finance is the commonly used finance option by SMEs owners ,as it is supported by MFIs ,thereby contributing to the development of SMEs .

5.2 Conclusions

The study identified that the development of small and medium-sized enterprises is not solely depended on access to credit ,but also on the development of a favourable business environment and other factors .High interest rate, long time to provide credit and a lack of a reliable source of repayment are among the challenges SMEs face ,this highlights the need for strategies to better access of credit ,such as provision of loans ,price reductions ,training and support ,as well as government grants to microfinance institutions to promote the development of small and medium-sized enterprises .Additionally ,the provision of an appropriate legal framework to facilitate the enhancement of the services within MFI is also necessary. Therefore microfinance institutions have a critical responsibility to ensure the provision of loans ,which is essential tool for business development ,is properly facilitated .Failure to do so will result in SMEs turning to other financial sources of finance ,such as personal savings ,family assistance ,venture capital ,bank loans ,crowdfunding and government assistance .

5.3 Recommendations

The findings suggest that ,in order to enhance the development of small and medium sized enterprises ,Microfinance institutions should consider lowering prices and interest rate to facilitate the provision of credit to SMEs owners as well as demonstrating group loans .Additionally MFIs should focus on providing training and assistance to SMEs owners who have taken out a business loan ,allowing them to use loans for their desired purposes. Furthermore ,MFI policies should be reviewed to ensure that they are providing the maximum amount of the loans that are suitable for SMEs ,and set affordable interest rates to encourage and support SMEs in their development .

When it comes to the relationship between small and medium -sized enterprises and microfinance institutions ,it is essential to maintain a healthy dialogue between the two entities .At the same time SMEs should demonstrate an ethical conduct when managing their loans ,as it will help build the trust between the two entities in the long run .,which in turn will lead to business bondage .At the end of the relationship ,it will be a good business partnership .Therefore SMEs should ensure that the loan is used to meet business requirements ,such as to raise capital or carry out business operations , and not to misallocate loan for other private purposes ,such as paying for food ,school tuition and other minor expenses .This will help to reduce the likelihood of default among SMEs

5.4 Recommendations for further study

The future studies should encompass SMEs in the entire country rather than focusing on one region .A research should be conducted to address the difficulty that SMEs face in obtaining credit from microfinance institutions .Additionally ,a study should be conducted to identify the potential consequences of misusing loans for private purposes rather than for business purposes .Finally a survey should be conducted to assess the risks that MFIs may experience in the process of granting credit to SMEs.

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APPENDECES 1

QUESTIONNAIRE

I am a banking and finance student from Bindura University of Science Education conducting a study titled" The role of microfinance institution in SMEs development "The intention of this questionnaire is to achieve the study objectives and the responses will be valuable in accomplishment of research objectives. The information collected will be used solely for educational purposes, the information provided will be kept private and confidential. Your assistance will be greatly appreciated.

SECTION A: GENERAL INFORMATION (TICK IN THE BOX WHERE APPROPRIATE)

1. **Sex**

    Male ☐

    Female ☐

2. **Age group**

    15-25 years ☐

    26-35 years ☐

    36-45 ☐

    45 and above ☐

3. **Main activity of the company**

    Trade ☐

    Service ☐

    Manufacturing ☐

4. **How long has the organisation been operating**

    0-5 years ☐

6-10 years ☐

11-15years ☐

16 years &above ☐

SECTION B: THE ROLE OF MICROFINANCE TO SMEs DEVOLOPMENT

Answer using the scale for your response

5. Have you ever received any financial assistance from MFI?

Strongly disagree	
Disagree	
Neutral	
Agree	
Strongly Agree	

6. In your opinion ,did MFIs play any role in the development of small and medium-sized enterprises (SMEs)?

Strongly disagree	
Disagree	
Neutral	
Agree	
Strongly Agree	

7. Which of the following sources (excluding loans from MFIs) do you use in running your business?

Finance Sources	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Personal Savings					
Crowdfunding					
Venture capital					
Assistance from family and friends					

Loans from banks					
Government Assistance					
Others					

8.What are strategies put in place to ensure credit availability among SMEs ?

Purpose	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Reducing interest rates					
Group loans					
Training and assistance					
MFIs subsidized by government					

9.Constraints faced when obtaining finance in microfinances

Constraints	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
High interest rates					
Lack of collateral					
Inadequate source of repayment					
Time taken to grant services					
Too much paperwork					
Others					

10.Can you conclude if microfinance institution has helped you in developing your business?

Explain how? ……………………………………………………………………………………..

……………………………………………………………………………………………………

……………………………………………………………………………………………………

…………………………………………………………………………………………………….

THANK YOU!!!!!

APPENDECE 2

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BINDURA UNIVERSITY OF SCIENCE EDUCATION

19 April 2023

Highglen Complex
Harare

RE: REQUEST FOR DATA COLLECTION

Please may you assist our student **Ngandu Girlie B191543B** carry her research in your organization on her topic on **"The role of microfinance institutions on Small and Medium Enterprises development in Zimbabwe".** She is our final year student at Bindura University of Science Education in the Banking and Finance.

Your assistance to our student will be greatly appreciated.

Yours faithfully

……………..
Dr S. Mhazo
Chairperson - Department of Banking and Finance

[redacted]

Final bb

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