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AN ASSESSMENT OF THE IMPACT OF MICROFINANCE INSTITUTIONS ON GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES: A STUDY OF HARARE TOWN.

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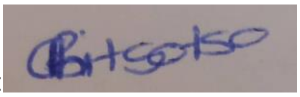
Signature of Student:  Date: 25/08/2025

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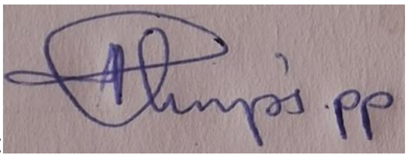
Signature of Chairperson:  Date:25/08/2025

DEDICATION

I dedicate this study to my family in appreciation of their encouragement and spiritual support while I was pursing my education.

ABSTRACT

The primary goal of this study was to evaluate how microfinance organisations affected the expansion and advancement of small and medium-sized businesses (SMEs) in Harare. The objectives were to assess how microfinance organisations help SMEs by offering business money, accumulating stocks and enhancing management abilities. The study demonstrates the important role microfinance organisations play in facilitating SMEs' access to financing, as they may not be able to obtain financing from major banks due to inadequate collateral security. The majority of SMEs are able to obtain funding from microfinance institutions, according to the research findings, which were gathered mostly through questionnaires and a study carried out in ten microfinance institutions. Tables illustrating the data analysis from the research findings demonstrated the beneficial effects of microfinance institutions on SMEs. The majority are raising money to grow their company's operations and capital base, which aids in raising the quality and range of their products, market share and their cashflow levels. However, this makes it simple for them to enter other lucrative industries, achieving their primary goal of reducing poverty and creating jobs. Even though these financial institutions deal with SMEs' ability to obtain financing, they may encounter a number of difficulties, including the inability to satisfy the needs of these businesses, high interest rates, short repayment terms for those who can obtain credit, and high default rates on loans. Microfinance institutions should continue providing non-financial services such as managerial training business development strategies to increase capacity and overall performance. In order to ensure that funds are used effectively, the study suggests that MFIs implement the Credit Reporting Act and provide financial management education to SMEs prior to granting them loans therefore the research should be carried out covering a wider range involving 2 or more cities.

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CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

One of the main forces behind the growth of small and medium-sized businesses is the microfinance institution. It is widely regarded as a key instrument for lowering low-income earners' poverty and boosting economic expansion. By giving entrepreneurs access to startup and expansion capital, the microfinance sector has contributed to the expansion and growth of small and medium-sized businesses across the globe. Compared to traditional commercial banks, microfinance institutions are more focused on the poor, who are considered risky but can repay loans more easily (Zeller and Sharma, 1998).

Small and medium-sized business expansion and development are critical to preserving economic stability, reducing poverty, and creating jobs. When they operate effectively in the market, they generate jobs for people, but the fact that the majority of them fail within a few years of starting also causes those who work for these companies to lose their jobs. Microfinance institutions are informal businesses, which offer savings and lending services to small and medium firms. The money is used to finance new ventures in underdeveloped nations, where it is well known that small enterprises have a higher risk of failing. Maloney (2003).

1.1 Background of the study

Due to modern government policies and laws that aim to develop SMEs as key drivers of economic growth and job creation, small to medium-sized businesses have grown significantly in importance in recent global economies. Through promoting export trade and boosting industrial production, they significantly contribute to Zimbabwe's economy. Through the mobilisation and deployment of financial resources, MFIs play a significant role in the expansion of the economy. Small businesses receive funding from microfinance banks to aid in the development and expansion of their operations. Improved access to financing for small and medium-sized businesses (SMEs) leads to entrepreneurship, competition, the launch of new goods, and business expansion in both developed and developing nations (Chipangura and Kaseke 2012). However, this remains a bigger obstacle to SMEs' growth and development since they are seen as high-risk businesses that are mostly linked to high transaction costs and low returns on investment. Even though they are crucial to the economy, the majority of them fail in the first few months of operation.

According to Ledgerwood (2007), large corporations may readily obtain money from financial institutions since they have easy access to banking facilities where they can obtain loans to fund their activities. Furthermore, the World Bank (2005) states that small businesses mostly rely on internal funds and retained earnings, whereas major organisations generally have access to bank loans and other financial services both domestically and globally. This demonstrates how beneficial microfinance organisations have been in helping small businesses with their financial needs. Giving small businesses the tools, they need to succeed, grow, and enter the big business world is why MFI development is so important (Khaled Shukram, 2012). The majority of microfinance clients are street sellers, traders, small farmers, and small manufacturers like blacksmiths. These individuals are typically regarded as the poorest, although in reality, they are not as their companies give them a steady income (often from multiple activities). Ledgerwood (2007).

Funding from microfinance banks helps small and medium-sized businesses (SMEs) grow and flourish, allowing them to grow from tiny businesses to massive conglomerates. Measures are being taken to address the reasons behind SMEs' poor performance, with a particular emphasis on the difficulties they face. According to numerous studies, the main causes of these difficulties have been SMEs' perceived inability to deliver standardised services, a lack of sufficient funding, and inadequate management abilities. Mcgrath (2002), Oketch (2000), and Amyx (2005). Because banks were too demanding and they lacked collateral security, they were unable to obtain funds from the majority of financial institutions. Due to traditional financial service providers' incapacity to facilitate the informal sector's access to capital (finance), microfinance has emerged as the most effective sector for giving members of the informal sector access to financing. The 2011 ZAMFI report.

1.2 Statement of the problem

Compared to large businesses, especially in Zimbabwe, small and medium-sized enterprises have been very helpful in boosting the economy because they are able to innovate, create more job opportunities, and adapt to economic conditions. However, they face financial challenges, marketing, and management restrictions that could lead to their failure or limited growth. Microfinance organisations have now made the decision to provide these SMEs with solutions in order to lessen the difficulties they face when attempting to obtain funding from financial institutions. According to research, SMEs still fail because of inadequate management abilities, subpar services, and improper use of borrowed funds. This has led to research on how MFIs affect the expansion and development of SMEs.

1.3 The research objectives

The aim of the study was:

- To assess how well microfinance organisations are able to educate SMEs about money
- To investigate how microfinance organisations help SMEs by offering business money, accumulating stocks, and enhancing management abilities.
- To investigate how microfinance organisations help SMEs network in the market
- To investigate the barriers that SMEs face while trying to receive microfinance services

1.4 Research questions

- What impact do Harare's microfinance institutions have on funding SMEs?
- What is the effect of MFI in provision of financial literacy among SMEs in Harare?
- What is the effect of MFIs in development of management skills among SMEs in Harare?
- What is the effect of MFIs in facilitating market networking among SMEs in Harare?
- What are the constraints that SMEs face in accessing microfinance services in Harare?

1.5 Significance of the study

To the Government

- This research is crucial because it will give the government the data it needs to create robust legislative and regulatory frameworks that will support the expansion and development of SMEs. Additionally, it would assist them in creating, reviewing, and draughting new legislation that would encourage SMEs to take use of microlending.

To the MFIs sector

- The study aimed to suggest different approaches that could enhance MFIs' influence on SMEs and the steps that must be taken to guarantee that SMEs produce the intended growth. The findings and conclusions of this study will help the microfinance industry develop methods that work for SMEs.

To the SMEs sector

- The study served as a means of promoting to SME owners and managers—who may not always be aware—the range of goods and services offered by microfinance organisations. It serves as a resource for understanding why the majority of SMEs fail and how to run their companies effectively to prevent failure.

To the Researcher

- The study will help the researcher understand the situation of the economy today. Additionally, the researcher benefits from earning an honours bachelor's degree in banking and finance.

To the University

- The research would act as a source of reference to other researchers who might want to carry out a study in the same area. Information obtained will also act as literature for to be used in the university library.

1.6 Assumptions of the study

- Microfinance institutions are constantly sought after by SMEs for financial support and other associated services.
- SMEs in Harare Town encounter comparable possibilities, difficulties, and dangers.
- The information that respondents supply for this survey will be accurate.

1.7 Delimitations of the study

- The research was conducted in Harare Town, which is home to microfinance institutions and small to medium-sized businesses. As a result, a greater number of respondents were readily available to supply the data needed for the research.
- The research was conducted in Harare Town, which is home to small and medium-sized enterprises as well as microfinance institutions. Consequently, more responders were accessible to provide the data required for the study.

1.8 Limitations of the study

- Notwithstanding the fact that there are other MFIs in Zimbabwe, the study was limited to Harare Town because of time and budgetary limitations. The results were restricted to the extent to which MFI procedures provided by microfinance institutions effect SMEs in Harare town since some managements of these institutions were unable to supply the information that was necessary to conduct the research.

1.9 Definition of terms

Microfinance institution: a licensed financial institution that offers small company owners financial services.

Small and Medium Enterprise: a business with smaller size, scope and revenues employing less than 50 people.

Financial Literacy: having the knowledge to make informed financial decisions to achieve financial stability and freedom.

Financial assistance: Is the provision of financial assistance to individuals, businesses and organisations to achieve financial goals and stability

Market networking: Creating a network of connections with other businesses and organisations within the same market.

Growth and development: is used to describe the growth of SMEs, which includes an increase in staff, annual revenue, and the number of subsidiary branches.

Marketing: The process of bringing goods and services to the market.

1.10 Summary

This chapter has addressed the role that Microfinance Institutions (MFIs) play in promoting the growth and development of SMEs by outlining the significance of SMEs in Zimbabwean's economy. It emphasised the potential for economic growth, job creation, and poverty reduction as well as the vital role microfinance institutions play in resolving the financial difficulties faced by SMEs in Zimbabwe, particularly in a nation where traditional banking services are scarce and credit availability is a major barrier. When mainstream banking systems started to fall short of meeting the demands of small enterprises and low-income populations in the early 1990s, the microfinance industry in Zimbabwe gained speed, according to its historical development. According to Moyo (2009), MFIs in Zimbabwe have given SMEs who have historically had little access to formal financial institutions vital financial instruments like savings accounts and microloans. According to the literature, microfinance helps SMEs grow by providing them with reasonably priced financial services that allow them to obtain the funds they need to grow, buy equipment, and recruit additional employees (Mutangadura, 2005). Additionally, microfinance organisations have been crucial in advancing entrepreneurship, poverty alleviation, and financial inclusion. The full potential of microfinance in Zimbabwe is, however, hampered by issues including excessive interest rates, a lack of financial knowledge, and inadequate infrastructure (Zhou, 2013).

CHAPTER II

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter concentrate on the aspects of microfinance in relation to the position that they hold in the growth of small to medium enterprises. It reviews the origins, the development and the challenges in the microfinance sector. The chapter also focuses on the characteristics, roles, contribution and constraints in relation to growth and development of SMEs. It finally reviews the link between microfinance and SME development as well as reasons why some small firms fail to access loans.

2.1 Theoretical Literature Review

2.1.1 The concept of microfinance

The delivery of financial services to low-income people, households, and small enterprises without access to conventional financial sources is known as microfinance. (Page of Ledgerwood, 1999). In order to help the very or exceptionally poor grow or start their enterprises, Robinson (2003) states that "microfinance is a development tool that provides or grants financial services and products such as very small loans, savings, micro-leasing, micro-insurance, and money transfer." In addition to providing financial literacy to people who require it to improve their enterprises, microfinances provide as a safety net for companies that are having financial difficulties. The fundamental principle behind micro financing is so that the poor have access to financial services. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998). Most MFIs offer financial services to self-employed entrepreneurs, street vendors, small farmers, hairdressers, rickshaw drivers, and artisans' blacksmith. (Ledgerwood, 1999). The financial inclusion theory suggests that MFIs can increase access to financial services for SMEs leading to improved business performance (Kipesha, 2013). The institutional theory, on the other hand, emphasizes the role of MFIs in strengthening institutional frameworks that support SME growth (Mersland, 2009).

Banks cannot provide loans to small business entrepreneurs because of lack of collateral security hence there was need for the evolution of the microfinance sector to offer those small loans to the low-income population. As a result, they are charged with high interest rates by local money lenders. Gungen (2002), illustrated that microfinance customers have low incomes in most cases, are working in informal jobs, have little or no assets to present as collateral and are running minor businesses. These aspects will differentiate the institutions based on the type of loans, their beliefs and how their organisation is structured. Hew (2004) also said that most poor people are ready to pay high interest as long as they have access to funds. Social trust on loan repayment is used in the event that a group borrows money and individual repayments are supposed to be made. Despite being granted to individuals, the entire organisation will be held accountable for repaying the loan. If a borrower does not satisfy their obligations, they will lose their savings or personal money.

A study by Banerjee et al. (2015) found that microfinance programs can increase business profits and revenues, but have limited impact on business growth and development. This is because of the high interest rates that they use to cover for administration costs of the loans they offer to small business owners which later creates tension between regulation and proper provision of financial services. In contast, a study by Karlan and Zinman (2010) found that microfinance programs can improve business outcomes, but may not necessarily lead to increased profits. This is because increase to financial accesss leads to improved business efficiency and reduce costs.

2.1.2 Techniques used by MFIs to provide financial services

Microfinance institutions interact with different kinds of entrepreneurs with different capacities hence there is needed to tailor different financial products to fit different customers. They are there to make sure that low-income earners are given access to loans just like any other macro businesses. According to Robinson (1998), microfinance institutions around the world follow a variety of different methodologies for the provision of financial services to low-income clients. The methods aim to encourage connected regular small loans and savings business agreements basing on the fact that financial services are related to how much small entrepreneurs have as cashflows. (Ronge, 2002). They lend money based on the credit worthiness of individuals, capacity of member or group savings and joint liability of loan repayment.

2.1.2.1 The Grameen Model

The Grameen Bank is a famous microfinance institution in the world. The bank was responsible for the formation of the model. It is mainly composed of groups of individuals who assume joint liability on the repayment of loan amounts. Loans are not given to independent individuals but to individuals who belong to a certain group. The group must then act as a collateral which is named social collateral. This is to avoid the challenges that come with adverse selection and also to minimise costs of regular evaluation and monitoring loans to those employees who must make sure that loans are paid or they become liable for them (Armendariz, 1994). In this model, the total creditworthiness of the group also determines each borrower's creditworthiness. Group members select each other and manage themselves as to which group members receive loans; they are given small amounts at first until they create a good repayment history. The model is of great importance to SMEs as it promotes economic growth and development. The social capital theory states emphasise that social relationships and market networking is very important in facilitating access to financial services and promoting economic development (Putnam, 1993).

2.1.2.2 Individual lending

Some MFIs provide individual loans to clients with collateral, often with a focus to entrepreneurial activities (Morduch, 1999). MFIs make loans available to individuals basing on personal credit worthiness therefore there is need to conduct regular visits to borrowers to make sure that loans are used for the reasons they borrowed them for. Kiiru (1991) argues that, "loan security and credit worthiness are a function of cooperative membership within which peer pressure and member savings are implicit to be a key factor." There is need to assess the borrower repayment history before granting a loan to avoid credit risk and default risk on both parties. According to Robinson (1998), Individual Banking Programmes entail the provision of financial services by MFIs to individual clients, though they may be organized into joint liability groups, savings cooperatives or even Self-Help Groups. The financial inclusion theory posits that increasing access to financial services can lead to improved economic outcomes for low-income individuals (Ledgerwood, 1999).

2.1.2.3 Group lending or Self-help groups

The technique is primarily employed by rural women who frequently engage in activities that bring in money in one way or another. Ajai (2005). This organisation offers loans to low-income customers who guarantee one another's loans. As a result, the ability of each borrower to borrow money is determined by their individual savings or by the collective savings of the group (Daniel, 1999). It is a widely utilised technique in Zimbabwe that seeks to ensure low-income earners have access to loans by using group members as collateral or by providing the group with a guarantee that it would repay the loan in the event that the borrower defaults. According to Robinson (1998), the foundation of self-help groups is the idea that members should rotate their personal savings. The loan officer evaluates the borrower's creditworthiness and the stability of the group's operations before making a loan to these people. In order to operate microfinance programs, some government or non-governmental organisations create societies of individual lending, which serve as MFIs and get substantial amounts of external loans that these lenders can use.

2.1.3 Microfinance operation in Zimbabwe

The Zimbabwe Association of Microfinance Institutions (ZAMFI) together with the Reserve Bank of Zimbabwe have worked together to ensure that microfinance institutions adopt best practices through bridging the gap between formal financial institutions by offering financial services to the underserved population and offer good standards to small and medium enterprises. Microfinance institutions in Zimbabwe have subjected to major developments, which have been helpful in making them expand into new operations such as deposit taking operations. The RBZ has played a crucial role in regulating the microfinance sector by offering financial literacy training to the informal sector to finance their operations, expand their businesses, and create employment. The central bank has issued guidelines and circulars to ensure that MFIs operate within a stable and sound framework (Kadhani & Mhaka, 2018) which has been necessitated by providing loans that require fewer collateral guarantees compared to commercial banks The Zimbabwe Association of Microfinance Institutions (ZAMFI) has also worked closely with the RBZ to promote best practices and standards in the industry (ZAMFI, 2020). Although they are growing and regulatory efforts are being made, MFIs in Zimbabwe continue to face challenges such as high operating costs, limited access to funding, and intense competition from other financial institutions. (Mukwada &

Mutepfa,(2019). However, in rural areas there are opportunities to innovate and expand the services of microfinance institutions since financial inclusion remains limited (Chitambara & 4Mago, 2019). The number of MFIs licensed by the Reserve Bank of Zimbabwe (RBZ) has increased since 2015, indicating growth in the sector (Mago & Chitambara, 2017). By 2020, the RBZ had issued licenses to 143 MFIs, which expanded their operations into various areas, including deposit-taking services (Reserve Bank of Zimbabwe, 2020). Additionally, the lack of a regulatory framework for microfinance operations has led to concerns about the sustainability of some MFIs and the protection of clients. Several MFIs in Zimbabwe have collapsed due to poor management and inadequate oversight, undermining the confidence of SMEs in microfinance services (Mudzonga & Mugomba, 2018). Many entrepreneurs lack the necessary skills to manage loans effectively, leading to high default rates (Mutangadura, 2005). To mitigate these challenges, some MFIs have incorporated capacity-building programs and provided training to SME owners, though the impact has been limited.

2.2 Empirical Literature

At the Glenview Furniture Complex in Harare, Zimbabwe, Chipangura A. and Kaseke N. (2012) conducted a survey on the growth constraints of small and medium-sized businesses. In both rich and developing countries, they discovered that expanding SMEs' access to funding is crucial for fostering entrepreneurship, competition, innovation and growth (Chipangura and Kaseke 2012). SMEs in both developed and developing countries struggle to obtain adequate funding to sustain their company's continued growth and development. Small businesses have a difficult time obtaining funding since many financial providers consider them to be high-risk businesses that are largely associated with low returns on income and high costs of transactions.

Ali et al. (2013), Microfinance's Accessibility for Small Businesses in Mogadishu, Somalia. examined how easily Mogadishu's small enterprises might obtain microfinance. The study's primary goal was to investigate the difficulties small businesses in Mogadishu were having obtaining microfinance services. The primary conclusions were that challenges. The researchers advised microfinance institutions to establish more accommodating, cost-effective, and alluring criteria when lending money to small firms; small businesses must be able to feel the impact of these institutions on their expansion and advancement. In their 2012 study, "Development of Small and Medium Aquaculture Enterprises (SMEs) in Ogun State, Nigeria," Olaye O.J. and Odebiyi O.C. examined how microfinance aided in the expansion of small and medium-sized aquaculture enterprises in Nigeria. According to the study's findings, microfinance bank loans increased farmers' earnings, reduced rural-urban migration, increased overall production, and even offered job opportunities, all of which benefited the expansion of small and medium-sized aquaculture.

A survey on the role of microfinance services in Kenya's entrepreneurial development was conducted by Maina (2012). The study concentrated on SMEs in Nairobi and used a case study design. According to Maina's (2012) research, Kenya's banking industry is comparatively thriving when compared to developing third-world nations. Nonetheless, the formal commercial banks firmly control 90% of the market. Banking institutions' credit policies mostly catered to large corporations, which suggests that small and medium-sized businesses do not have access to credit facilities. According to Maina's (2012) research, MFIs were established to fill the financial needs of small and medium-sized businesses (SMEs). The study's findings demonstrated that insufficient collateral and unsuitable legal and regulatory environment prevented MFIs from lending money to SMEs. The cost of borrowing went up since there was no institutional framework in place to help money move from banks to MFI and subsequently to SMEs. Lack of collateral, an inappropriate legal and regulatory environment that does not acknowledge creative lending practices, and limited access to credit and financial services were further contributing reasons.

Financial Literacy

For SMEs to develop into significant businesses, their owners and management must be financially literate. The Financial Sector Deepening 2009 report states that increasing SME lending requires SME's financial capacity. According to the research, certain MFIs were engaged in providing financial literacy training to SMEs in order to increase their capabilities. However, the FSD research pointed out that trying to increase this capability at the institutional level was probably going to be costly and not likely to be sustainable. As a result, even though MFIs want to give SMEs the ability to ability to manage their finances, most of them are constrained by the related costs, and the possibility that these charges would be passed on to the ultimate customer diminishes the initial idea of offering SMEs inexpensive financing.

2.2 Impact of microfinance organizations on SMEs' expansion and development

MFIs are designed to provide financial services and products, like insurance, savings accounts, and small loans, to those who are unable to obtain financial services from traditional banks. Since the majority of individuals lack collateral, microlending might rely on these unofficial connections to give them loans. Despite their significant contribution to the expansion and advancement of SMEs, they encounter difficulties in managing their companies on a daily basis. "The process of increasing access to financial services, such as credit, insurance, savings, and payments, for all segments of the population, especially the low-income and vulnerable groups, is known as financial inclusion." (2015) Burlamaqui. In order to ensure that everyone, including those without collateral security, has access to financial services, microfinance organisations have proved extremely beneficial.

MFIs have helped to reduce poverty and create jobs in Zimbabwe by assisting small businesses, which encourages small business expansion and entrepreneurship. "Social capital theory highlights how crucial social networks and relationships are to enabling access to financial services and fostering economic growth." Putnam (1993). SMEs can enter new markets to satisfy the various needs of their clients by having access to cash and connections to other markets through social connections. Because access to financial services lowers the overall degree of poverty, MFIs are contributing significantly to the expansion of the economy overall and the improvement of living standards.

Customers of MFIs in Zimbabwe pay exorbitant interest rates, which raises the possibility of bad debts and makes it more difficult to recoup the entire loan amount. "Because they may have limited access to other credit sources, MFIs may attract borrowers who are more likely to default." Akerlof (1970). Because they only operate in cities with poor risk management and no technological infrastructure, they are extremely constrained. Zimbabwe's policies and regulations are subject to change at any time, which could provide a problem for MFIs as it leaves their operations unclear. According to (Stigler, 1971), "Regulators may prioritise the interests of large financial institutions over those of MFIs, resulting in regulatory capture and regulatory challenges for MFIs." Not having enough money to cover loan demands can also be a problem, which can lower other customers' credit ratings.

2.3 Research gap

There are also a number of gaps in our knowledge of the entire scope of MFIs' influence in the Harare setting, despite research showing the potential advantages of these institutions in offering financial services to SMEs. The majority of current research provides cross-sectional analyses, which give an overview of the interaction between SMEs and MFIs at one particular moment in time. The long-term benefits of microfinance on the expansion and sustainability of SMEs are not captured by this method. To evaluate how ongoing access to microfinance affects SME development over time, longitudinal studies are required. Although MFIs are well-known for providing non-financial services like mentorship and business training, there is a dearth of empirical evidence assessing how well these services affect the success of SMEs in Harare. Given that SMEs in Harare come from a wide range of industries, the effects of microfinance may differ depending on the industry. However, existing research frequently ignores sector-specific potential and problems in favour of treating SMEs as a uniform entity. Research shows that although SMEs can obtain microfinance, problems including loan abuse and poor money management prevent them from using the money efficiently. For SMEs to successfully manage loans and experience sustained growth, MFIs must implement financial literacy initiatives. Both MFIs and SMEs face serious difficulties as a result of Zimbabwe's economic volatility, which is typified by inflation and currency swings. The impact of these macroeconomic conditions on the effectiveness of microfinance services is frequently not fully taken into consideration in research.

2.4 Summary

The literature analysis on how microfinance institutions (MFIs) affect SMEs in Zimbabwe shows that there is a complicated interaction between the advantages and difficulties of microfinance in supporting the expansion of SMEs. By giving SMEs access to financial resources that they otherwise couldn't get from traditional banks, MFIs have, on the one hand, made a substantial contribution to economic development (Mutangadura, 2005). This has made it possible for small firms to grow, become more productive, and create jobs. Nonetheless, a number of issues still exist, such as exorbitant interest rates, small loan amounts, and SME owners' inadequate financial literacy. Zhou (2013) claims that several SMEs have found it difficult to repay loans due to the high cost of borrowing, which has resulted in a rise in default rates. Furthermore, Zimbabwe's microfinance regulations are still lax, which allows for subpar administration and the failure of certain organisations. In order to assist SME owners in efficiently managing their loans, the literature also emphasises the significance of financial education and capacity-building initiatives. According to Chinomona and Mazadza (2017), financial management training can improve SMEs' sustainability by empowering owners to make wise business decisions. Notwithstanding these obstacles, microfinance has shown itself to be a crucial instrument for advancing financial inclusion, lowering poverty, and boosting Zimbabwe's economy.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

With the goal of accomplishing the research objectives, this methodical and structured approach to research focusses on the research procedures used for this study. It offers a framework that explains the research design in detail and gives information about the population, sample, sampling methods, and research tools that were utilised to gather data for this study. The data analysis plan and data gathering techniques are also covered.

3.1 Research design

The impact of microfinance organisations on small and medium-sized enterprises' growth and development in Harare were investigated for this study using a descriptive survey methodology. According to KIM (2009), a survey design explains how respondents answer questions about a topic in order to ascertain their perception, which is the basis for truism. This was helpful for the research study since it was utilised to collect data from participants regarding the impact of microfinance institutions on the expansion and development of small and medium-sized businesses in Harare.

3.2 Target population

This is used to describe individuals or things that can offer the data required to complete the study. Microfinance institutions, small and medium-sized businesses, RBZ, and SMEDCO in Harare town were the study's target audience. The expansion and development of SMEs in Harare have also been aided by microfinance organisations in addition to banks. These consist of Jhm Microfinance, Moneymart Finance, Jakana Microfinance, and Yambukai Microfinance.

3.4 Sampling design and sample size

In order to make inferences about a larger population, Babbie (2016) defines sampling as the process of selecting a subset of individuals or occurences from the community. Two demographic groups were sampled for this study, mostly small and medium-sized businesses and microfinance institutions in Harare.

3.4.1 Sampling of microfinance institutions

Since there are several microfinance organisations registered with the Reserve Bank of Zimbabwe, 10 randomly chosen organisations, mostly located in Harare, were used for the study. Participants in the study included a marketing manager as well as representatives from the top, middle, and lower levels. Everyone had an equal chance of being chosen, and the diverse perspectives from all management levels helped to ensure that the study's findings were accurate.

3.4.2 Sampling of SMEs

The target population for the study comprised 35 Small and Medium Scale Enterprises in Harare. Sampling of SMEs was mainly done with businesses that are based in Grocery selling, Clothing shops, Carpentry and Food outlets. These business entities are registered with the Harare City Council and have been in operation for over a year. A simple random sampling technique was used to carry out the research because it gave everyone the equal chance of being selected. The categories are represented in the table below:

The study's target demographic consisted of 35 Harare-based small and medium-sized businesses. Businesses that sell groceries, clothing stores, carpentry shops, and food outlets were the primary SMEs sampled. These business entities are registered with the Harare City

Council and have been in operation for over a year. Since everyone had an equal chance of being chosen, the research was conducted using a straightforward random sampling technique. The following table shows the categories:

Table 3.1

Business category	**Sample size**
Grocery	**17**
Clothing	**8**
Carpentry	**3**
Food outlets	**5**
Manufacturing	**2**
Total	**35**

3.5 Data collection instruments

Data on the impact of MFIs on the expansion and development of SMEs in Harare town was gathered through experiments and questionnaires. A questionnaire is a type of research tool made up of a list of enquiries intended to elicit data from participants. "An experiment is a research method wherein one or more independent variables are manipulated and their impact on one or more dependent variables is measured." (Kerlinger). To obtain information from people in a polite manner, they are incredibly quick and simple to utilise. Literature reviews, a technique for locating, assessing, and synthesising previous research on a certain topic or research issue, were used to collect secondary data. Cooper (1990). However, because some people might not provide correct information or might not take the research seriously, these data collection methods could be biassed. It is particularly difficult to make casual claims because the researcher has no control over the variables or awareness of which ones were controlled.

3.5.1 Description of data collection procedure

The questionnaires were completed over the course of two weekends because the majority of these business owners were quite busy with their jobs. The surveys were completed by the respondents and collected during the third week. Forty-five of the fifty completed forms were obtained from the specified districts surrounding Harare town.

3.6 Reliability of Research Instrument

A common metric for evaluating the suitability of any research tool is reliability. A pilot test was used to carry it out. One benefit of carrying out a pilot study is that it may provide early warning of potential failure points for the main research project, areas where research methods might not be followed, or whether suggested instruments are too complex or inappropriate, according to Baker (1994). Each of the chosen SMEs and one respondent in the microfinance sector received a questionnaire from the researcher. Prior to the start of actual data collecting, the primary questionnaire was modified based on the pilot test findings and problems raised by the survey. While a low alpha value suggests that the measuring instrument did not precisely collect the data it was designed to acquire, a high alpha score suggests more internal dependability (Saunders et al., 2019).

3.7 Validity of the Research Instrument

Finding any underlying problems with the survey's questions or methodology was also made possible via pilot testing. Pretesting is another technique for calculating how long it will take to administer the questionnaire and conduct the interview (Upadhyay, 2021). To determine if the questionnaire measures the things it is supposed to measure, the researcher employed content validity. Experts on the research panel from the university's research department provided their opinions on the validity of the instrument. The final questionnaire that would be used to gather data in the field then included the expert comments.

3.8 Data Analysis techniques

Qualitative methodologies were used to analyse the data. The data collected from the questionnaire was examined, summarized and interpreted using descriptive statistical techniques such as total score and simple percentage. Verbal data is the focus of qualitative data analysis, according to Best and Khan (1993). As part of the qualitative analysis method, open-ended questionnaire questions were used to explain data from the empirical literature.

3.9 Summary

The primary goal of the study was to learn more about how SMEs engage with and profit from microfinance. Since the majority of SMEs were able to launch their enterprises using loans from microfinance institutions, it was determined that MFIs offer both financial and non-financial items to them. The findings were genuine, dependable, and applicable to the larger SME sector in Harare because of the approach.

CHAPTER IV

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.0 Introduction

The results of the investigation into how microfinance institutions affect the expansion and development of small and medium-sized businesses in Harare town are presented in this chapter. Assessing the degree to which microfinance institutions have influenced SME performance in terms of financing availability, business growth, and profitability was the goal of this study. To enhance the interpretation of the results, the collected data are presented in a qualitative manner.

4.1 Response Rate

Table 4.1 Response Rate

	Frequency	**Percentage**
Responded	45	90
Did not respond	5	10

Total	**50**	**100**

Source: Primary Data (2025)

Only 45 of the 50 respondents who participated in the study answered the questionnaires. The 45 consisted of 35 small and medium-sized businesses and 10 microfinance organisations. The 90% response rate provided by the study tool is excellent for evaluating how microfinance institutions affect the expansion and development of small and medium-sized businesses in Harare.

4.2 Respondent's background

The background provides a summary of the respondents' gender, length of employment and type of work in their different companies.

4.2.1 Gender of the respondents

Table 4.2.1 Gender of the respondents

	Frequency	Percentage
MFIs		
Male	7	70
Female	3	30
Total	10	100
SMEs		
Male	7	20
Female	28	80
Total	35	100

Source: Primary Data (2025)

70% of microfinance institution respondent are male and the remaining 30% are female whereas on small to medium enterprises 80% of the respondents are female and the remaining 20% are male. The balance in gender representation enabled the research to be carried out well.

4.2.2 Working time

Table 4.2.2 Gender of the respondents

Category	Period of work	Frequency	Percentage
MFIs	0-2 years	1	10
	3-5 years	2	20
	6-10 years	4	40
	Above 10 years	3	30
	Total	**10**	**100**
SMEs	0-2 years	5	14.3
	3-5 years	15	42.9
	6-10 years	13	37.1
	Above 10 years	2	5.7
	Total	**35**	**100**

Source: Primary Data (2025)

Most financial institutions have been in operation for more than 6-10 years which means they have more market knowledge as compared to those that are still starting their operations. Most SMEs have been in operation for a period of 3-5 years as shown in the table above with 43% distribution rate. The number of years in the working period between microfinance institutions and small to medium enterprises shows the experiences of both in the finance sector.

4.2.3 Category of work

Table 4.2.3 Category of work

Category	Level	Frequency	Percentage
MFIs	Top level	2	20

	Middle level	3	30
	Lower level	3	30
	Marketing executive	2	20
	Total	**10**	**100**
SMEs	Owners	12	34.3
	Employees	16	45.7
	Managers	7	20
	Total	**35**	**100**

Source: Primary Data (2025)

Respondents in the microfinance sector shows that 20% are working in top level management and marketing executive levels whereas 30% are in both middle and lower levels of management. Majority of respondents in SMEs are employees and another 34% shows that respondents are owners with a few managers represented by 20%. The balance in the level and category of work brought a major balance in assessing the impact of MFIs on SMEs.

4.3 Microfinance Institutions' effects on small and medium businesses

4.3.1 Obstacles that prevent small and medium-sized businesses from growing and expanding.

Table 4.3.1 Obstacles that prevent small and medium-sized businesses from growing and expanding

	Frequency	Percentage
Yes	35	100

Source: Primary Data (2025)

According to all respondents, they face a variety of obstacles that impede the expansion and advancement of small and medium-sized businesses. These obstacles can take many different forms, as the table below illustrates.

4.3.2 Challenges hindering growth and expansion of enterprises

Table 4.3.2 Challenges hindering growth and expansion of enterprises

Challenge	**Frequency**	**Percentage**
Lack of finance	10	28.6
Lack of management skills	15	42.9
Poor financial literacy	5	14.3
Lack of markets for products	5	14.3
Total	**35**	**100**

Source: Primary Data (2025)

The table shows major challenges that are being faced by SMEs with lack of management skills and finance being the major factors hindering growth and development as represented by 42.9% and 28.6% respectively. 14.3% shows that respondents have poor financial literacy and lack of markets to sell their products which also becomes a challenge for them to expand their businesses. Therefore, microfinance should offer training programs, market opportunities and financial training to SMEs before lending them money to prevent business failure in early stages of operation.

4.3.3 Products and services tailored to SMEs

Table 4.3.3 Products and services tailored to SMEs

Products and services tailored to SMEs	**Frequency**	**Percentage**
Small and micro business loans	15	42.9

Small scale business accounts	8	22.9
Management of business trainings	5	14.3
Provision of marketing services	3	8.6
Provision of financial literacy	4	11.4
Total	**35**	**100**

Source: Primary Data (2025)

Microfinance institutions mostly offer small business loans as shown by 42.9% followed by small business accounts with 22.9% to help in the management of flow of funds in and out of their businesses. They also offer management of business trainings with 14.3% and financial literacy with 11.4% to those willing and are in need of the services to be able to manage their businesses effectively. The products have varying importance according to individual enterprises and the benefit they bring to microfinance institutions.

4.3.4 Impact of good and services on SMEs' expansion and development

Table 4.3.4 Impact of good and services on SMEs' expansion and development

	Frequency	**Percentage**
No	7	20
Yes	28	80
Total	**35**	**100**

Source: Primary Data (2025)

80% of the respondents agreed that the products and services offered by microfinance institutions have positively impacted on growth and development of small to medium enterprises against the 20% that disagreed. The greater percentage who said yes are those who have been operating for more 5 years with more experience than those few who are just starting and are facing a lot of challenges already.

4.3.5 Financing of SMEs as well as their expansion and development

Table 4.3.5 Financing of SMEs as well as their expansion and development

Parameter	**Level of agreement**	**Frequency**	**Percentage**
Financial difficulties among	Strongly agree	2	20
SMEs have diminished as a	Agree	3	30
result of offering appropriate	Neutral	4	40
credit options	Disagree	1	10
	Strongly disagree	0	0
	Total	**10**	**100**
Most SMEs can sufficiently	Strongly agree	1	10
pay the loan facilities we	Agree	5	50
provide them	Neutral	4	40
	Disagree	0	0
	Strongly disagree	0	0
	Total	**10**	**100**
Many MFIs favorable interest	Strongly agree	1	10
Rates have made it easier for	Agree	3	30
SMEs to repay their loans	Neutral	4	40
	Disagree	2	20
	Strongly disagree	0	0
	Total	**10**	**100**
Provision of unsecured	Strongly agree	1	10

Loans has increased	Agree	4	40
Accessibility for finance	Neutral	4	40
Among SMEs	Disagree	1	10
	Strongly disagree	0	0
	Total	**10**	**100**
Programs for loan follow-up	Strongly agree	2	20
have made sure that SMEs	Agree	4	40
utilize the funds for the	Neutral	3	30
services they have been given	Disagree	1	10
	Strongly disagree	0	0
	Total	**10**	**100**

Source: Primary Data (2025)

Fatoki (2012) stipulated that access to loan is not enough as it should the SME demands, this is shown by the 40% who remained neutral on the fact that access to finance helped to solve financial challenges. 20% agreed and the other 10% disagreed to the fact. The results above shows that not everyone is fully convinced that provision of loans is enough for SME growth.

40% of respondents were neutral about SMEs' ability to repay loans, while 50% of respondents agreed. In order to improve sustainability and increase confidence in SMEs' ability to repay, microfinance banks frequently provide fair repayment terms.

Respondents had mixed views on the view that favorable interest rates facilitate repayment ,40% were neutral, 30% agreed and 10% disagreed. The views vary maybe because of affordability and sometimes high interest rates may limit the positive impact of MFIs to SME growth, Ledgerwood (2013).

40% agreed that unsecured loans have improved access to loans whereas 40% remained neutral. Some may not see the importance of these loans hence they are indecisive however a greater part appreciates and show interest I receiving these unsecured loans as it promotes financial inclusion through group lending and self-help groups.

Microfinance institutions must continually monitor borrowed funds to see if they are being used for the intended purposes to increase the effectiveness of loans, this points to gap in non-financial support such as mentoring or loan mentoring critical for SME success (Mashenene, 2015). A greater part of the respondents agreed that loans must be monitored to ensure improvement in service delivery between MFIs and SMEs.

4.3.6 SMEs' expansion and development as well as the provision of financial literacy skills

Table 4.3.6 SMEs' expansion and development as well as the provision of financial literacy skills

Parameter	**Level of agreement**	**Frequency**	**Percentage**
Most SME owners/managers are	Strongly agree	3	30
able to do basic accounting for	Agree	2	20
their businesses	Neutral	4	40
	Disagree	1	10
	Strongly disagree	0	0
	Total	**10**	**100**
SMEs have a high degree of business	Strongly agree	1	10
Activity documentation	Agree	3	30
	Neutral	2	20
	Disagree	3	30
	Strongly disagree	1	10

	Total	**10**	**100**
Most SMEs have changed their view	Strongly agree	1	10
on adoption of financial	Agree	2	20
innovations among banks	Neutral	2	20
	Disagree	3	30
	Strongly disagree	2	20
	Total	**10**	**100**
Inadequate financial management	Strongly agree	2	20
capabilities has been the biggest	Agree	5	50
Obstacle	Neutral	2	20
	Disagree	1	10
	Strongly disagree	0	0
	Total	**10**	**100**
Majority of SMEs are able to	Strongly agree	2	20
manage business and personal	Agree	1	10
finances and grow	Neutral	2	20
	Disagree	5	50
	Strongly disagree	0	0
	Total	**10**	**100**

Source: Primary Data (2025)

50% of the respondents agreed that they are now able to do basic accounting for their businesses. 40% remained neutral and the remaining 10% disagreed, this maybe because of lack of financial literacy on how these books are prepared. Basic accounting is foundational and limited confidence in this area could hinder financial decision making and access to credit (Lusardi & Mitchell, 2014).

Poor record keeping among SME owners is another major constraint to business growth which leads to poor performance of businesses. The table above showed that only 30% of the respondents agreed that there is high level of business documentation this applies to those who are financial literate are able to do basic accounting. 10% remained neutral and 30% disagreed indicating that there is poor record keeping in SMEs which limits credibility and hinders tracking performance when securing loans (Fatoki & Asah, 2011).

20% agreed that most SMEs have changed their views on adoption of financial innovations because of access to unsecured loans that require little or no collateral. 20% remained neutral and 30% disagreed since they are unaware of the new financial tools and lack exposure to financial innovations like mobile banking and digital accounting platforms.

20% strongly agreed with 50% who agreed that poor financial management has been a major barrier in growth and development of SMEs. High level of financial literacy leads to poor financial decision making, SMEs without proper budgeting, planning and financial tracking struggle to sustain or expand their businesses (Nkundabanyanga et al.,2014).

Most SME owners are not able to separate business from personal finances which therefore undermines growth and management of the businesses. 10% agreed to the view with 50% disagreeing because this has been a major weakness for most SMEs, although some have the capacity to separate the two some are still struggling.

4.3.7 Development of SMEs' financial management abilities

Table 4.3.7 Development of SMEs' financial management abilities

Parameter	**Level of agreement**	Frequency	Percentage
It is unlikely that we would offer	Strongly agree	2	20
Financial services to SMEs without	Agree	4	40
First educating them on management	Neutral	4	40
Techniques	Disagree	2	20
	Strongly disagree	0	0

	Total	10	100
Training helps them expand their	Strongly agree	1	10
Companies more effectively	Agree	4	40
	Neutral	3	30
	Disagree	1	10
	Strongly disagree	1	10
	Total	10	100
Among the management skills that	Strongly agree	1	10
We provide SMEs strategies on	Agree	4	40
Improving business sustainability	Neutral	4	40
	Disagree	1	10
	Strongly disagree	0	0
	Total	10	100
We provide SME owners with	Strongly agree	1	10
Training on staff engagement	Agree	3	30
	Neutral	5	50
	Disagree	1	10
	Strongly disagree	0	0
	Total	10	100
We periodically consult with	Strongly agree	0	0
Specialists on ICT use for SMEs	Agree	1	10
	Neutral	8	80
	Disagree	1	10
	Strongly disagree	0	0
	Total	10	100

Source: Primary Data (2025)

20% agreed and 40% strongly agreed that MFIs offer training to SMEs before providing them with access to credit facilities. Although 40% disagreed to this view, 20% remained neutral with mixed response based on the type of services provided to them.

The majority of the respondents concurred that SME managers are capable of expanding their companies and possess managerial abilities. 20% disagreed with this viewpoint, while 30%

stayed neutral. MFIs should strengthen and clarify their non-financial support in management skills to enhance SME growth and development.

The majority (50%) agreed that MFIs provide strategies to SMEs to improve their businesses by offering advice and support services. The other 40% that remained neutral reflected a neutral and 10% disagreed indicating limited access to practical business training, Chimucheka (2013).

According to Mwangi & Bwisa (2013), lack of soft skills training is a major barrier to long term SME development. Only 40% of the respondents agreed that MFIs provide training on talent retention and motivation with 50% neutral, and 10% disagreeing shows that there is limited focus on human resource management support from MFIs.

4.3.8 MFIs' assistance with marketing and SMEs' expansion and development

Table 4.3.8 MFIs' assistance with marketing and SMEs' expansion and development

Parameter	Level of agreement	Frequency	Percentage
We have successfully made it	Strongly agree	2	20
Easier for SMEs to register	Agree	3	30
With business associations	Neutral	4	40
	Disagree	1	10
	Strongly disagree	0	0
	Total	10	100
Numerous people have	Strongly agree	1	10
Registered with organizations	Agree	3	30
That deal with their goods	Neutral	4	40
	Disagree	2	20
	Strongly disagree	0	0
	Total	10	100
We actively facilitate use of	Strongly agree	0	0
ICT among SMEs	Agree	4	40
	Neutral	4	40
	Disagree	2	20
	Strongly disagree	0	0
	Total	10	100

Our database on SMEs in row	Strongly agree	2	20
And their corresponding	Agree	3	30
Business is up to date	Neutral	4	40
	Disagree	1	10
	Strongly disagree	0	0
	Total	10	100
We have business club	Strongly agree	2	20
Formation facilitators for SMEs	Agree	3	30
	Neutral	2	20
	Disagree	2	20
	Strongly disagree	1	10
	Total	10	100

Source: Primary Data (2025)

50% agreed, 40% were neutral and 10% disagreed that MFIs facilitated SME registration in business associations, this shows that they play a moderate role in linking small to medium enterprises productive markets. 40% were neutral indicating that they had limited awareness which reduces their impact. Chiliya & Roberts (2010) argued that marketing and network access are crucial for SME competitiveness.

10% showed a gap in MFI driven marketing support in promoting SME through public platforms and other related platforms. Only 30% agreed while 40% remained neutral and 20 % disagreed indicating limited integration of SMEs into marketing channels via business associations.

Facilitation of ICT use is still at a lower level as most respondents are unsure of its impact in their businesses. 405 agreed, 40% were neutral and 20% disagreed showing there is still low digital transformation between the MFL and SME industry which is very crucial for growth and development.

50% agreed that there have some level of record keeping and data support used to monitor progress and offer support. 40% were neutral and 10% disagreed so there is need for MFLs to be more transparent and to improve data sharing techniques.

4.3.9 Rare and development rate of business operations

Table 4.3.9 Rare and development rate of business operations

Parameter	Rate of expansion	Frequency	Percentage
Rate of expansion in terms of asset	Increasing	12	34.3
Capital	Constant	15	42.9
	Unpredictable	8	22.9
	Total	35	100
Rate of expansion in terms of	Increasing	15	42.9
Recruitment of new employees	Constant	18	51.4
	Unpredictable	2	5.7
	Total	35	100
Rate of expansion in terms of opening	Increasing	10	28.6
up branches in new regions	Constant	15	42.9
	Unpredictable	5	14.3
	Total	35	100

Source: Primary Data (2025)

To ascertain the impact of microfinance on the expansion and development of SMEs, the researcher employed the parameters listed in the table above. The growth was measured using metrics like constant, growing and unpredictable. In terms of measuring assets 42.9% remained constant with 34.3% increasing and 22.9% had an unpredictable growth rate. 51.4% recruited new employees, 42.9% remain constant with old employees and 5.7% remains unpredictable as to whether they will employee new staff or not. A greater portion of the respondents remained constant without opening new branches which explains the reason for not employing new staff. The overall results show major challenges that are being faced by microfinance institutions that are hindering growth in terms of opening new branches, adding more staff and acquiring new assets for the business.

4.4 The connection between MFIs' goods and services and growth rate

Table 4.4 The connection between MFIs' goods and services and growth rate

Parameter	**Response**	**Frequency**	**Percentage**
SME business accounts	Yes	22	62.9
	No	13	37.1
	Total	**35**	**100**

SME credit facilities	Yes	25	71.4
	No	10	28.6
	Total	**35**	**100**
Increased network facilities	Yes	18	51.4
	No	17	48.6
	Total	**35**	**100**
Provided training of financial	Yes	24	68.6
Management	No	11	31.4
	Total	**35**	**100**
Business management skills	Yes	26	74.3
	No	9	25.7
	Total	**35**	**100**
Low interest rates on loan facilities	Yes	19	54.3
	No	16	45.7
	Total	**35**	**100**
Adequate grace period to settle	Yes	20	57.1
Loans	No	15	42.9
	Total	**35**	**100**

Source: Primary Data (2025)

A majority of the participants concur that MFIs' financial services and products have helped SMEs expand and thrive. The three main components that microfinance organizations have provided that have been linked to their expansion are training, management expertise and financial accessibility.

4.5 Extent of expansion of SMEs due to intervention by MFIs

Table 4.5 Extent of expansion of SMEs due to intervention by MFIs

Parameter	**Level of agreement**	**Frequency**	**Percentage**
Customized loans from MFIs have	Strongly agree	4	11.4
Lessened the degree of financial	Agree	10	28.6
Difficulties that SMEs encounter	Neutral	13	37.1
	Disagree	7	20

	Strongly disagree	1	2.9
	Total	**35**	**100**
Business groups facilitated by MFIs has	Strongly agree	2	5.7
Increased marketing of our products	Agree	10	28.6
	Neutral	16	45.7
	Disagree	6	17.1
	Strongly disagree	1	2.9
	Total	**35**	**100**
We are now able to sustain our business	Strongly agree	4	11.4
Better owing to management skills	Agree	10	28.6
Provided by MFI	Neutral	16	45.7
	Disagree	4	11.4
	Strongly disagree	1	2.9
	Total	**35**	**100**
MFI have increased the level of financial	Strongly agree	3	8.6
Literacy among SME owners	Agree	12	34.3
	Neutral	15	42.9
	Disagree	3	8.6
	Strongly disagree	2	5.7
	Total	**35**	**100**
We managed to open new branches as a	Strongly agree	2	5.7
Result of financing from MFIs	Agree	15	42.9
	Neutral	10	28.6
	Disagree	4	11.4
	Strongly disagree	1	2.9
	Total	**35**	**100**

Source: Primary Data (2025)

To evaluate the extent to which SMEs have expanded as a result of utilising services offered by microfinance institutions, the study employed a Likert scale with five benchmark factors. Only 22.9% of respondents disagreed with the statement that microfinance institutions have benefited small businesses, while 37.1% were unsure with 40% strongly agreeing and supporting the claim. In addition, 45.7% of respondents disagreed with the claim that MFI-facilitated business groups have expanded markets for SMEs' goods compared to 28.6% who agreed and 17% who disagreed. Regarding whether SMEs can sustain their businesses more effectively after gaining the management skills that MFIs offer, 45.7% of the respondents were unsure. 11.4% of respondents disagreed that their degree of financial literacy had risen, compared to 40% who strongly disagreed and agreed that SMEs have increased their level of financial literacy, 42.9% were undecided and 14% disagreed. 42.9% of respondents agreed with the statement that MFI products and services had helped SMEs create new branches while 14.3% disagreed. Of those surveyed, 28.6% were unsure. MFIs encountered numerous financial difficulties, although some these difficulties were lessened by their access to branchless banking and tailored loans. The study helped to clarify a situation in which the majority of the issues faced by SMEs have not been addressed by the supply of financial literacy, management skills and market facilitation among other things.

4.6 Effects of services provided by MFI in facilitating business growth

Table 4.6 Effects of services provided by MFI in facilitating business growth

	Frequency	Percentage
No impact	5	14.3
Contribution in a positive way	28	80
Contribution in a negative way	2	5.7
Total	**35**	**100**

Source: Primary Data (2025)

Regarding the impact of MFIs' products and services on the expansion of SMEs' businesses, the majority of respondents (80%) reported positive effects, 14.3% said there was no effect, and 5.7% said that MFIs had a negative impact on their companies' growth and development. Consequently, considering that the majority of respondents have indicated that MFIs' goods and services have a beneficial effect on the expansion and advancement of SMEs.

4.7 Regression analysis on how MFI products and services affect SMEs' growth

To investigate the effects various microfinance institutions' products and services on the expansion of small and medium-sized enterprises in Harare Town, the researcher created a regression model. The dependant variable was the overall score on the growth of SMEs, while the independent variable was the goods and services provided by MFIs. Analysing the average score of various MFI services in relation to the necessary SME growth was made easier by the results gathered. The relative importance of the various goods and services provided by the beta (β) coefficient. While the better coefficient that ranked second in terms of relative relevance was also rated in order of importance, the largest beta coefficient for MFIs' products and services was thought to be the most significant component in the growth and development of SMEs. With r^2=0.4 and $p<0.001$, the entire model was statistically significant. The calculated adjusted value of r squared was 0.374, meaning that this study accounts for 37,4% of the variation in the microfinance goods and services. The regression analysis's findings are as follows:

Table 4.7 summary of the regression analysis model

Model	R	R squared	Standard error of the estimate
1	0.61	0.4	0.05

Source: Primary Data (2025)

α. Constant variable: Financing, Development of management skills, provision of financial literacy, facilitation of marketing

β. Dependent variable: Growth of SMEs

Coefficients $Y=\alpha+\beta 1(Xi) +\beta 2(Xii)+\beta 3(Xiii)+\beta 4(Xiv)+€$

Therefore Y (Growth of SMEs) = 0.522+0.19(Xi)+ 0.26(Xii)+0.136(Xiii)+0.124(Xiv)

Dependent variable

The researcher carried out a correlation analysis to further test the results as shown in table below.

The table shows the level of significance with correlation analysis

Table 4.8 The level of significance with correlation analysis

Model	Unstandardised co-efficient	Standardised co-efficient	t	Significance	
1	B	Standard error	beta		
constant	0.522	0.324	2.0	0.39	
Financing	0.19	0.54	0.785	3.36	0.002
Management skills	0.26	0.57	0.349	6.3	0.000

Financial literacy	0.136	0.49	0.126	2.38	0.16
Marketing services	0.124	0.52	0.1	2.076	0.047

Source: Primary Data (2025)

Table 4.9 Correlation ship analysis

MFI services to SMEs	**Correlation coefficient**	**P**
Financing	0.484	0.00
Management skills	0.59	0.00
Financial literacy	0.39	0.00
Facilitation of marketing	0.44	0.00

According to the data above, the growth of SMEs is positively correlated with the availability of financing, the improvement of management abilities, the provision of financial literacy and market liberalisation.

CHAPTER V

SUMMARY OF FINDINGS, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The research study on the interaction between microfinance institutions and small to medium-sized businesses is summarised in this chapter. It highlights key discoveries and makes inferences from the data presented in the earlier chapters. Based on the goals of evaluating the influence of microfinance institutions on the expansion and development of SMEs in Harare town, this chapter also offers recommendations for MFIs, SMEs, and policymakers.

5.2 Summary

The context and issue statement were presented in Chapter 1, which emphasised that SMEs are essential to Zimbabwe's economy but that they encounter many obstacles when trying to obtain financing. Microfinance institutions, however, have developed as a means of bridging this gap. Different results were found in the literature; Ledgerwood (2013) emphasised the high interest rates and repayment difficulties on SMEs, whereas Fatoki and Garwe (2010) highlighted the beneficial benefits of microfinance institutions on growth. In order to facilitate quick access to both statistical data and individual perspectives, the technique used a hybrid approach to data collecting through the use of questionnaires. In Chapter 4, data findings were presented and analysed using both quantitative and qualitative methods. Microfinance support was connected to moderate SME growth along with other operational problems such high loan fees and a lack of training.

5.2.1 Effects of Microfinance Institutions in financing SMEs

By giving small and medium-sized businesses access to loans, microfinance institutions help them finance their operations and overcome financial obstacles (Ledgerwood, 1999). Their effect on the growth and development of SMEs has shown that loan products, which offer attractive interest rates to make loan repayment simple, have lessened financial difficulties. Access to unsecured loans has aided in the expansion of SMEs, and loans are regularly monitored and assessed to make sure they are being utilised for the intended reasons. Additionally, studies have demonstrated that MFIs have made financing more accessible, especially in rural areas with restricted access to traditional banking services (Brau & Woller, 2004).

5.2.2 Impact of Microfinance Institutions in providing financial literacy among SMEs.

Another significant issue that is impeding the expansion of SMEs is a lack of financial literacy. By offering its clients financial literacy training programs, MFIs assist SMEs in effectively managing their finances. By encouraging budgeting, savings, and investments, these programs help SMEs manage their finances properly (Bruhn & Love, 2014). Due to the fact that business owners may now properly utilise their cash, the knowledge that these trainings impart helps SMEs expand and thrive.

5.2.3 Impact of Microfinance Institutions in improving management skills

According to research, effective management training lowers the risk of business failure and greatly enhances SMEs' performance (Bloom et al., 2013). In addition to financial literacy, MFIs help SMEs grow and develop by offering training and support to enhance management abilities like marketing, operations management, and company planning. For entrepreneurs, management abilities are crucial since they improve the likelihood of making sound plans and accumulating sufficient funds, both of which support the growth of enterprises. Gained information about how to handle finances makes it easier to grow a business to new heights when managerial skills are improved.

5.2.4 Impact of Microfinance Institutions in facilitating market networking among SMEs

In order to expand into new markets, become more competitive, and raise sales revenue, business owners can interact with other business owners in the same or different industry through market networking. Because there is a wider market base for conducting business, market networking boosts the number of customers and encourages the growth and expansion of SMEs, according to earlier studies. According to a South African study, MFIs' networking initiatives enhanced their operational efficiency (SBP, 2013).

5.3 Conclusions

Microfinance institutions have played a significant role in the growth and development of small to medium enterprises. They offer financial facilities such as affordable loan facilities, management trainings and financial literacy programs to reduce the financial challenges being faced by small to medium enterprises as well as give them a chance to develop and expand their businesses. They have been able to bridge the gap created in modern banking where individuals without collateral cannot access funds in major banks unless they have collateral security. They have been able to promote business expansion of many small to medium enterprises by providing access to loans, market facilities, financial literacy and management skills.

The research has shown that a greater percentage confirmed that MFIs have been of importance in the promoting growth and development of SMEs by offering different financial facilities. Research has shown that provision of loan facilities and education has a positive impact however there is also need to improve in service provision of these financial services to increase customer satisfaction and improve their operations generally. However, a large number of SMEs need to have access to finance and necessary skills to improve their skill in business operations and promote growth.

5.4 Recommendations

- MFIs should continue providing non-financial services such as managerial training business development strategies to increase SME capacity and overall performance.
- MFIs should adopt a microfinance group model that fosters a sense of shared responsibility among groups thereby facilitating faster repayment of loans and increased business performance.
- MFIs should make loans affordable for everyone by reducing interests' rates which may be a burden to most small enterprises.
- MFIs should provide targeted support to SMEs at different levels of growth by tailor making financial services and products to suit specific needs of businesses in various stages.

5.5 Suggestions for further study

The research mainly focused on the impact of microfinance institutions on growth and development of small to medium enterprises in Harare town only so I recommend that the study be carried out covering a wider range involving 2 or more cities.

- Conduct a related study on the effect of debt financing on small to medium entities in commercial banks.
- Conduct research on challenges faced by MFIs in providing financial facilities to SMEs.

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Brau and Woller (2004): Highlight the need for MFIs to adopt innovative and flexible approaches to meet the diverse needs of SMEs

Khandker (2005): Finds that microfinance programs can have a positive impact on SME growth and development, particularly when combined with other support services

Banerjee et al. (2015): Suggest that MFIs should focus on providing financial services that are tailored to the specific needs of SMEs, such as flexible loan terms and savings products

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APPENDIX QUESTIONNAIRE

A: Sample Questionnaire

FACULT OF COMMERCE

Department of Banking and Finance

Bindura University of Science Education

Research Topic

An assessment of the impact of Micro Finance Institutions on growth and development of SMEs. A case study of Harare Town.

This questionnaire is part of a research project being conducted in partial fulfillment of the Bachelor of Commerce (Honors) Degree in Banking and Finance.

Please honestly answer the following questions about the causes of decline in turnover in the aviation industry in Zimbabwe. The information sought is purely for academic purposes. Both the researcher and the University will maintain high levels of confidentiality and Anonymity.

Section A: Background Information

1. Business Name: ____
2. Type of Business:
   - ☐ Agriculture
   - ☐ Manufacturing
   - ☐ Retail
   - ☐ Services
3. Number of Employees:
   - ☐ 1–10
   - ☐ 11–50

- ☐ 51–100
- ☐ 101+

4. Years in Operation:
    - ☐ 0–2 years
    - ☐ 3–5 years
    - ☐ 6–10 years
    - ☐ Over 10 years

Section B: Role of Microfinance Institutions in Financing SMEs

Please indicate your level of agreement with the following statements:

Statement	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1. My business has received funding from a microfinance institution.	☐	☐	☐	☐	☐
2. Microfinance funding helped me expand my business.	☐	☐	☐	☐	☐
3. Access to microfinance loans has improved our working capital.	☐	☐	☐	☐	☐
4. Loan repayment terms are favorable to my business.	☐	☐	☐	☐	☐
5. The amount of loan received was sufficient for our needs.	☐	☐	☐	☐	☐

Section C: Financial Literacy Support by MFIs

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
6. Microfinance institutions have provided us with financial literacy training.	☐	☐	☐	☐	☐
7. The training helped improve our budgeting and planning skills.	☐	☐	☐	☐	☐
8. We better manage our cash flow because of the financial training received.	☐	☐	☐	☐	☐
9. The training covered record keeping and accounting practices.	☐	☐	☐	☐	☐
10. The financial literacy sessions were practical and easy to understand.	☐	☐	☐	☐	☐

Section D: Role of MFIs in Management Skills Development

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
11. Microfinance institutions have helped enhance our management capacity.	☐	☐	☐	☐	☐
12. We have improved our financial management skills due to MFI support.	☐	☐	☐	☐	☐

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
13. MFI training has improved our human resource and staff supervision capabilities.	☐	☐	☐	☐	☐
14. Our operations and supply chain management have improved through MFI guidance.	☐	☐	☐	☐	☐
15. MFIs provided mentorship that helped refine our marketing and sales strategies.	☐	☐	☐	☐	☐

Section E: MFIs and Market Networking Support

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
16. Microfinance institutions have facilitated networking opportunities for our business.	☐	☐	☐	☐	☐
17. MFI networking activities have connected us to new customers.	☐	☐	☐	☐	☐
18. We have formed business partnerships due to MFI-led events.	☐	☐	☐	☐	☐
19. MFIs helped us gain access to wider markets beyond Harare Town.	☐	☐	☐	☐	☐
20. Networking through MFIs has improved our business visibility.	☐	☐	☐	☐	☐